

Treasury Report: 2007 Budget Bilateral Briefing: Votes Foreign Affairs and Trade, ODA and Racing

Date:	9 March 2007	Treasury Priority:	Medium
Security Level:		Report No:	T2007/289

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Dr Michael Cullen)	Read the attached briefing and use it as the basis for making decisions in your bilateral with Rt Hon Winston Peters at 7.30pm on Tuesday 13 March	7.30pm Tuesday 13 March
Associate Minister of Finance (Hon Trevor Mallard)	Read the attached briefing and use it as the basis for making decisions in your bilateral with Rt Hon Winston Peters at 7.30pm on Tuesday 13 March	7.30pm Tuesday 13 March

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: 2007 Budget Bilateral Briefing for Votes Foreign Affairs and Trade, ODA and Racing

Attached is a briefing for the bilateral between the Minister of Finance and the Minister of Foreign Affairs at 7:30 p.m. on 13 March 2007 to discuss the budget initiatives for Votes Foreign Affairs and Trade, Official Development Assistance, and Racing. In addition the 'NZ Development Scholarships' initiative (submitted by the Minister for Tertiary Education) will be considered as part of this bilateral.

The bilateral briefing is structured as follows:

Recommendations	pp. 4-18
Analysis by Vote	pp.19-34
One-page initiative summaries	pp. 35-59

We expect the key issues for discussion will be:

- The level of funding recommended for the two most significant bids (in terms of quantum of funding and priority rankings) requested by the Minister of Foreign Affairs; and
- The relative priorities of the suite of initiatives which have been submitted by the Minister of Foreign Affairs compared to other initiatives submitted in Budget 2007.

Treasury's recommendation is that, in light of significant overall pressures against the 'Other' allocation and against this year's Budget allocations more generally, funding should not be appropriated for:

- the "Response to Foreign and Trade Policy Changes" or "step-change" bid;
- any funding over and above the \$30 million p.a. precommitment for ODA; and
- any other initiatives that are discretionary and/or deferrable in nature.

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for making decisions in your bilateral with Rt Hon Winston Peters at 7:30 p.m. on 13 March 2007.

[information deleted in order to protect the privacy of natural persons, including deceased people]
for Secretary to the Treasury

Hon Dr Michael Cullen
Minister of Finance

Recommendations

VOTE FOREIGN AFFAIRS AND TRADE

Initiatives supported by Treasury and the Ministry of Foreign Affairs and Trade

a Dili: Upgrading to Embassy Status analysis p. 19

- The Ministry seeks funding to supplement the capital funding and one year of operating funding agreed as part of Budget 2005 for the purpose of upgrading the Dili Consulate-General to Embassy status. Due to the fact that operating costs can now be forecast with some precision, ongoing operating funding is sought and, due to increased capital requirements, additional capital funding is also being sought.
- Treasury recommends you support this bid. We note that funding is required to give effect to earlier Cabinet and Ministerial decisions and there are likely to be significant risks associated with this bid not being progressed in Budget 2007 as the Ministry will have to consider seeking Ministerial approval to close the post in Dili. There will also be losses associated with the investment which has already been undertaken by the Ministry on infrastructure as part of the first phase of the project should the bid not be progressed.

	\$million - increase/(decrease)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
<i>Operating (GST excl)</i>					
Ministry/Treasury	-	1.176	1.394	1.411	1.428
<i>Capital (GST excl)</i>					
Ministry/Treasury	-	3.169	-	-	-

b Antarctic NZ: Maintaining Antarctic Logistics Capability

analysis p. 19

- Funding is sought to increase New Zealand's contribution toward the joint New Zealand/U.S. Antarctic logistics pool to *[information withheld that would prejudice the international relations of the NZ Government]*
- Treasury recommends you support this initiative *[information withheld that would prejudice the international relations of the NZ Government]*

	\$million - increase/(decrease)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
<i>Operating (GST excl)</i>					
Ministry/Treasury	-	1.100	1.600	1.600	1.600

c Asia New Zealand Foundation: Increased Funding for Strategy Implementation analysis p. 20

- Funding is sought to further progress the agenda identified by the *Seriously Asia* project and to take forward various programmes that have been implemented since then. The budget bid only requests funding for one year (2007/08) as it is envisaged that the review scheduled for completion in 2007/08 will assess the longer term funding requirements of the Foundation.
- Treasury recommends you support this initiative as we consider the proposal to be well aligned to Asia New Zealand's core objectives. We further note that this will allow sufficient funding to maintain the base level of the Foundation's funding at a similar level to previous years whilst we await the outcomes of the Cabinet mandated review.

	<i>\$million - increase/(decrease)</i>				
	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11 & Outyears</i>
<i>Operating (GST excl)</i>					
Ministry/Treasury	-	1.804	-	-	-

Contested Initiatives

d Response to Foreign and Trade Policy Changes (“step-change”) analysis pp. 20-22

Initiative

- The Ministry proposes a “step-change” in its baseline resources over the next 6 years to enable it to deepen its capacity (through additional staff, increases in supporting infrastructure, five new embassies, and increases in contributions to various Funds and multilateral initiatives). The Ministry is also seeking capability funding.

Treasury

- Treasury recommends you do not support either the capacity or the capability components of the bid. Regarding the capacity component, we consider this to be discretionary in nature and we are not convinced that extra capacity will increase the outputs delivered by the Ministry to a level sufficient to warrant the magnitude of the investment proposed. We also consider that there are higher priority initiatives submitted for other Votes.
- We do not consider MFAT has any capability issues sufficient to warrant funding increases. We note that there does not appear to be any evidence of significant numbers of staff vacancies and staff turnover is relatively low. We also do not consider it is appropriate for the Ministry to seek further remuneration funding for the year 2007/08 in light of the fact that (i) the five year capability package to which Cabinet have agreed does not reach the end point where funding is baselined until 2007/08 and (ii) the Ministry received funding for remuneration as part of Budget 2006 to supplement the capability package funding.

SSC

- In SSC's view the bid is likely to present a significant risk in achieving the benefit of past increased investment in capability which has been expected to produce productivity gains in future years. If it is decided that the Ministry will have a rapid expansion it is likely that the current priorities focussed on improving performance will be swamped by the need to handle rapid growth with as little damage as possible.

MFAT

- The Ministry is facing increased demands to advance and defend New Zealand's economic and security interests in a rapidly changing global environment.
- Standing still is, in reality, to move backwards because of the increasing complexity and competitiveness of the international issues and relations involved.
- New Zealand has no choice but to invest more into promoting and protecting its national interests if it is to avoid marginalisation and to prosper in a more uncertain and contentious world.
- The potential costs of not doing so, and the value of opportunities that would be forgone, are high.
- Managing a significant increase in resources is a challenge. In order to ensure there is no diversion of effort from delivery of agreed outputs, MFAT would establish a small experienced task force to manage implementation issues.

<i>\$million - increase/(decrease)</i>							
	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>							
Ministry	-	14.922	54.046	88.435	119.892	151.902	174.842
Treasury	-	-	-	-	-	-	-
<i>Capital (GST excl)</i>							
Ministry	-	-	15.500	13.500	13.000	12.500	8.000
Treasury	-	-	-	-	-	-	-

e Physical Security and Agency Accommodation analysis p. 22

Initiative

- Capital funding is sought for increasing chancery accommodation demands from other agencies, principally. Additional funding is also being sought to refurbish Ministry space in New Zealand House and for changes to construction plans at Suva, and Pretoria that were approved during the 2005 Budget round. In addition, the Ministry is proposing to return some of the capital and operating funding appropriated for the purpose of a chancery construction in Ankara.

Treasury

- In view of significant pressures on Budget 2007 capital allocations, and with limited evidence of significant associated delivery risks, Treasury considers there to exist significant scope in scaling this bid. Consequently, we recommend you support only what we consider to be the most pressing element, the Funding requested to meet the space requirements of NZ Immigration in Apia.

MFAT

- The Ministry's long term capital planning has identified insufficient accommodation to meet growing NZ Inc demands. Given the long lead times required for planning and building construction, funding certainty is required early to ensure that facilities are available when required.
- Delivery risks are: Beijing no space for additional NZ Inc staff to harvest FTA gains, extend connections, and support increased NZTE/NZ Inc agenda in China (agencies need MFAT backup to operate in China), New Delhi, no space for additional NZ Inc staff in a key priority country for economic growth, political influence *[information withheld that would prejudice the international relations of the NZ Government and to protect the free and frank opinions by departmental officials]*, Suva, unable to move buildings so no space for additional NZ Inc staff, Pretoria, new building will have to be met from existing resources thereby forcing capital funds into deficit in out-years.
- NZ House in London: *[information withheld to enable Government to carry out, without prejudice or disadvantage, negotiations]*.

	<i>\$million - increase/(decrease)</i>				
	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11 & Outyears</i>
<i>Operating (GST excl)</i>					
Ministry	-	0.609	1.103	1.419	1.419
Treasury	-	(0.024)*	(0.021)*	0.007	0.007
<i>Capital (GST excl)</i>					
Ministry	-	5.800	3.050	4.000	-
Treasury	-	(1.550)*	-	-	-

* Negative due to the offsetting effect of the \$1 million operating and \$2.3 million capital the Ministry proposes to return as part of this budget bid.

f Pacific Cooperation Foundation: Increase in Baseline Funding analysis p. 23

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

g Completion of Continental Shelf Submission and preparing a submission for the Ross Dependency analysis p. 24

Initiative

- The Ministry seeks funding to complete the inter-sessional work by scientists from the National Institute of Water and Atmospheric Research (NIWA) and the Institute of Geological and Nuclear Sciences (GNS) in preparing responses to questions asked by the UN Sub-Commission of the Commission on the Limits of the Continental Shelf (UNCLOS) regarding the New Zealand Continental Shelf Submission, and to complete the preparation of a submission on the outer limits of the continental shelf of the Ross Dependency.

Treasury

- Whilst Treasury acknowledges that there are merits associated with the bid, given significant and higher priority pressures on Budget 2007 allocations, we recommend you do not support the bid unless it is to be progressed from funding sourced from within Ministry baselines.

MFAT

- The longer the delay between undertaking the physical work (done) and completing the analysis and submission, the greater the risk that the scientists with the expertise (ten years) are lost and the work will be done less cost effectively. This work is a long-term investment that could deliver large dividends to New Zealand.

	<i>\$million - increase/(decrease)</i>				
	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11 & Outyears</i>
<i>Operating (GST excl)</i>					
Ministry	-	0.600	-	-	-
Treasury	-	-	-	-	-

h Australia/NZ Leadership Forum analysis p. 24

Initiative

- Funding is sought by the Ministry for conference, entertainment, airfares/accommodation, publications, and miscellaneous costs associated with New Zealand's hosting of the 2008 Australia and New Zealand Leadership Forum. The Forum provides a fora where senior Australian and New Zealand Ministers, business people, and community leaders can engage in an annual dialogue on issues of concern to both countries.

Treasury

- Whilst we acknowledge there are merits associated with the bid, due to the existence of significant and higher priority pressures, we recommend you do not support the initiative unless it is to be progressed from funding sourced from within Ministry baselines.

MFAT

- The Australia/New Zealand relationship is New Zealand's most important and extensive. To support the Government's objectives for the relationship, including in respect of economic transformation, a process is needed that engages significant stakeholders from business, politics, media and the community and allows for high level networking and consideration of the strategic challenges confronted by both countries.

	<i>\$million - increase/(decrease)</i>				
	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11 & Outyears</i>
<i>Operating (GST excl)</i>					
Ministry	-	0.110	-	-	-
Treasury	-	-	-	-	-

VOTE OFFICIAL DEVELOPMENT ASSISTANCE

i Increase to take NZ's Reported ODA to 0.35% of GNI in 2007/08 analysis pp. 26-27

Initiative

- Funding is sought to take New Zealand's reported Official Development Assistance (ODA) to 0.35% of GNI in 2007/08. Of the total funding sought, \$30 million p.a. represents funding to which Cabinet have agreed to enable New Zealand to achieve an ODA:GNI ratio of 0.28% in 2007/08 [POL Min (05) 2/4 refers]. This \$30 million p.a. is considered to be a precommitment and hence will not count against the \$20 million p.a. which has been allocated to 'Other'.

Treasury

- Given the existence of significant higher priority competing pressures and the discretionary nature of the expenditure proposed, Treasury recommends you do not support any funding over and above the \$30 million p.a. precommitment. Treasury considers that priority attached to this bid needs to be evaluated against other funding bids in other Votes, particularly under the Families Young and Old theme.
- Should Ministers wish to progress the initiative in Budget 2007, there is a wide range of options for scaling the proposal that officials have identified which are outlined below in more detail.
- In view of pressures on current departmental resourcing as a result of the growth and trends of the New Zealand ODA programme in recent years, NZAID and Treasury officials recommend that joint Ministers consider allocating an additional \$2.1 million to NZAID departmental expenditure in 2007/08 to be funded from within the overall amount of Crown funding appropriated for Vote ODA (assuming there that no funding is agreed for Vote ODA over and above the \$30 million p.a. precommitment). If there is additional funding agreed for ODA over and above the \$30m p.a. precommitment then officials agree that there will be a need to reconsider the level of departmental funding for NZAID as there will be a number of capacity constraints, such as physical accommodation, that could lead to a requirement for additional departmental funding.

SSC

- SSC consider that the proposed expenditure will have significant implications for NZAID's current operations in terms of logistical functions including staffing and recruitment, and accommodation. It is noted that an assessment is still being made by the Ministry and NZAID on implementation issues of both the "step-change" and 0.35% ODA:GNI bids but it is probable that new staff numbers in both MFAT and NZAID, should both bids be agreed, will result in reviews of the organisational structure to accommodate the increased numbers.

NZAID

- NZAID: With New Zealand's reported ODA at 0.27% of GNI in 2006/07, New Zealand's aid levels are projected to rank 20th of 22 OECD donor nations during a period when there are real and urgent development needs across the Pacific and near-Asia regions and at a time when our ability to influence the development of our region is directly affected by the extent to which we are able to engage in it.
- The Agency is well positioned to further scale up a number of programmes quickly. Within current ODA programmes NZAID has identified significant additional development needs across the Pacific and Asia regions that could, in combination, use more than \$400m of new funding (enough to take reported ODA to 0.55% of GNI).
- An increase of \$145m will take New Zealand's reported ODA direct to 0.35% of GNI and will permit expanded programmes in several countries in the Pacific and near-Asia regions most at risk of not meeting the Millennium Development Goals,

in priority areas such as governance, health, policing, economic growth and livelihoods. It will also augment New Zealand's ability to support humanitarian and disaster responses.

- NZAID would also strongly recommend that Ministers agree to a funding profile for ODA for the two or three years after 2007/08. When Ministers agreed to a three year funding profile for ODA in 2005, NZAID was able to offer Ministers a more strategic set of options for new funding than had been the case previously when increases were agreed on a year by year basis. NZAID would strongly recommend that Ministers continue to plan ODA increases at least three years ahead. For example, if ODA increases to 0.35% in 2007/08, New Zealand could continue to report this level in 2008/09 with an increase of a further \$40m and 2009/10 with another increase of \$40m.

	\$million - increase/(decrease)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
<i>Operating (GST excl)</i>					
NZAID (0.35% by 2007/08)	-	145.000	145.000	145.000	145.000
Treasury (0.28% by 2007/08)	-	30.000	30.000	30.000	30.000

Treasury

1. **note** that, should Ministers wish to progress the initiative in Budget 2007, indicative costs of other alternative options which have been identified by officials to the preferred Treasury option are presented in the table below;

	\$million - increase/(decrease)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
<i>Operating (GST excl)*</i>					
0.28% in 2007/08 and maintain until 2010/11	-	30.000	64.000	98.000	132.000
0.29% by 2008/09 and maintain until 2010/11	-	30.000	81.000	121.000	151.000
0.30% by 2010		30.000	75.000	120.000	165.000
0.35% by 2010		30.000	102.000	174.000	246.000

* Note: all indicative costs in this table are inclusive of the \$30 million p.a. precommitment

2. **note** that, should Minister's wish to proceed with the lower end of the NZAID recommendation that a funding path of two years out from 2007/08 be agreed, indicative costs can be flatlined from 2009/10 onwards in order to take this into account and the order in which the above options are listed (in conjunction with a funding path of two years) represents the order of Treasury preference;

3. **note** that there are linkages between the above bid and the 'Development Scholarships Bid' (that is discussed later in this briefing) given that the expenditure proposed for the 'Development Scholarships Bid' will also count towards our ODA:GNI percentage achieved and that this should be taken into account when decisions are made regarding both of these bids; and
4. **note** that officials will undertake an assessment of an appropriate ongoing level of NZAID departmental funding relative to Crown funding past 2007/08 following the outcomes of the 2007 Budget and will report back to joint Ministers with their recommendation ahead of Budget 2008.

Either (Treasury)

5. **agree** to a level of funding sufficient to enable the achievement of an ODA:GNI ratio of 0.28% in 2007/08 as per the previous Cabinet commitment [POL Min (05) 2/4 refers]; and

Agree/disagree

6. **agree** that an additional \$2.1 million be allocated for departmental expenditure in 2007/08 to be funded from within the overall amount of Crown funding appropriated for Vote ODA.

Agree/disagree

Or (NZAID)

7. **agree** to a level of funding sufficient to enable the achievement of an ODA:GNI ratio of 0.35% by 2007/08 at a cost of \$145 million p.a.;

Agree/disagree

8. **agree** to a series of ongoing ODA increases from 2007/08 to hold at 0.35% or to move to a higher ODA level; and

Agree/disagree

9. **direct** officials to assess an appropriate level of departmental expenditure for 2007/08 and report back to joint Ministers with their recommendation as part of OBU 2007.

Agree/disagree

Or

10. **agree** to a level of funding sufficient to achieve a particular ODA:GNI target within the range of 0.28% and 0.35% encompassed by the alternative options identified by officials; and

Agree/disagree

11. **direct** officials to assess an appropriate level of departmental expenditure for 2007/08 and report back to joint Ministers with their recommendation as part of OBU 2007.

Agree/disagree

VOTE EDUCATION (TERTIARY)

j NZ Development Scholarships analysis pp. 29-30

Initiative

- The Minister for Tertiary Education seeks up to \$48 million p.a. in operating funding to expand three NZAID scholarship programmes.

Treasury

- The Treasury considers this initiative to be highly discretionary and low priority. Given the pressures on this year's budget allocations, we recommend that you do not support the initiative.
- Should Ministers wish to progress the initiative in Budget 2007, there is a wide range of options for scaling, given the discretionary nature of the proposal.

Education

- The initiative has been submitted in Vote Education. If Ministers decide to progress the initiative, officials recommend that the Minister of Foreign Affairs submit this initiative through Vote Official Development Assistance instead.

NZAID

- NZAID: NZAID does not support MoE's budget bid. Disproportionately high scholarship numbers relative to NZ's assistance for other types of education in developing countries contributed to the criticism of New Zealand's ODA in 2000. In establishing NZAID, in part as a result of this criticism, Cabinet directed that there should be a rebalancing of New Zealand's ODA to basic education and Cabinet endorsed this principle again in 2004 when they approved New Zealand's education policy. Numbers of ODA scholarships and priorities around them were agreed with the Prime Minister in February 2005.
- An increase of the scale proposed would seriously distort ODA priorities. The amount of spending on ODA scholarships would double. Whereas nearly half all of our ODA spend is now on basic education, this would fall back to 25%.
- NZAID is of the view that current scholarship numbers strike a good balance between development priorities and demand across the Pacific and Asian regions.
- NZAID would advise that increases to ODA will achieve longer-term and more systemic results if prioritised to areas such as basic education, healthcare, governance and livelihoods.

	<i>\$million - increase/(decrease)</i>				
	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	8.011	24.266	39.494	47.356
Treasury	-	-	-	-	-
Treasury (second best)	-	1.800	1.800	1.800	1.800

12. **note** that the expenditure proposed in the 'NZ Development Scholarships Bid' qualifies under the internationally accepted definition of Official Development Assistance and hence should be considered in tandem with the bid submitted by the Minister of Foreign Affairs for ODA funding sufficient to achieve an ODA:GNI target of 0.35% in 2007/08.

Either (Ministry of Education)

13. **agree** to withdraw the initiative in Vote Education and re-submit the initiative in Vote Official Development Assistance.

Agree/disagree

Or (Treasury/NZAID)

14. **decline** the initiative 'NZ Development Scholarships'.

Agree/disagree

Or

15. **invite** Ministers, should they wish to progress the 'Development Scholarships Bid' in Budget 2007, to determine the degree to which funding for the 'Development Scholarships Bid' will be separate to, or part of, any funding which may be agreed for ODA over and above the \$30 million p.a. precommitment.

Or

16. **agree** to fund, in part or in full, the 'Development Scholarships Bid' from new Crown funding separate to any funding which may be agreed as part of Budget 2007 for ODA funding.

Agree/disagree

VOTE RACING

k Bloodstock Write-down

analysis p. 31

- In 2006, new depreciation rules were implemented for stallions not previously used for breeding in New Zealand, reducing the write-down period from five to two years. The Department is now seeking \$1.0 million in each of 2007/08 and 2008/09 and \$0.3 million in 2009/10 to extend the new rules to 'shuttle stallions' previously used in New Zealand.
- Treasury does not support funding for this initiative, as it is low priority and represents low value for money. The depreciation rate for shuttle stallions is already concessionary relative to their economic life, and approving the request would represent an even greater concession. Furthermore, the depreciation rate for shuttle stallions should be lower than that for stallions not previously used in New Zealand, as the latter have a higher risk profile. Approving the request may also increase the risk of tax avoidance and set a precedent for wider extensions.

	\$million - increase/(decrease)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
<i>Operating (GST excl)</i>					
Ministry	-	1.000	1.000	0.300	-
Treasury	-	-	-	-	-

I Racing Safety Initiatives Scheme

analysis p. 32

- The Department seeks ongoing funding of \$1.0 million per annum from 2007/08 to establish a contestable fund that would match the racing industry's own contributions towards initiatives aimed at improving facilities and amenities.
- Treasury does not support funding for this initiative, as it is low priority and represents questionable value for money. In particular, it is unclear as to the extent of under-maintenance of racing facilities and why clubs cannot raise sufficient revenue for improvements on their own, e.g. through increased entry fees, sponsorship and community fund-raising.

	\$million - increase/(decrease)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
<i>Operating (GST excl)</i>					
Ministry	-	1.000	1.000	1.000	1.000
Treasury	-	-	-	-	-

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Vote Foreign Affairs and Trade – Analysis

Analysis of Initiatives

- The funding being sought for Vote Foreign Affairs and Trade through this bilateral is summarised in the table below:

	<i>\$million - increase/(decrease)</i>						
<i>Funding sought for Vote Foreign Affairs and Trade in Budget 2007</i>	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
Total Operating (GST excl)	-	21.571	59.393	94.215	125.689	151.902	174.842
Total Capital (GST excl)	-	8.969	18.550	17.500	13.000	12.500	8.000

Initiatives supported by Treasury and the Ministry of Foreign Affairs and Trade

Dili: Upgrading to Embassy Status (recommendation a)

- The Ministry seeks funding to supplement the capital funding and one year of operating funding agreed as part of Budget 2005 for the purpose of upgrading the Dili Consulate-General to Embassy status. Due to the fact that operating costs can now be forecast with some precision, ongoing operating funding is sought and, due to increased capital requirements, additional capital is also being sought.
- Treasury recommends you support this bid. We note that funding is required to give effect to previous Cabinet and Ministerial decisions. Moreover, we note that there are likely to be significant risks associated with not progressing this initiative in Budget 2007, namely that the Ministry would have to consider seeking Ministerial approval to close the post in Dili due to insufficient funding. There will also be losses associated with the investment which has already been undertaken by the Ministry on infrastructure as part of the first phase of the project should the bid not be progressed.

Antarctica NZ: Maintaining Antarctic Logistics Support Capability (recommendation b)

- The Ministry seeks funding to increase New Zealand's contribution toward the joint New Zealand/US Antarctic logistics pool *[information withheld that would prejudice the international relations of the NZ Government]*
- Treasury consider our linkages with the U.S. over Antarctica to be arguably one of our most significant in the U.S./New Zealand relationship. *[information withheld that would prejudice the international relations of the NZ Government]*
We also consider that the benefits to the Christchurch economy from having a U.S. presence adds significantly more than the cost of our entire Antarctica programme. For these reasons, we recommend you support the bid.

Asia New Zealand Foundation: Increased Funding for Strategy Implementation
(recommendation c)

6. Funding is sought to further progress the agenda identified by the Government's *Seriously Asia* initiative and to take forward the various programmes which have been implemented since then. The budget request only seeks funding for one year (2007/08) as it is envisaged that the review of Asia:NZ scheduled for completion in 2007/08 will assess longer term funding requirements.
7. Treasury recommends you support this initiative as we consider the proposal to be well aligned with Asia New Zealand's core objectives. We further note that, should funding of \$0.900 million in 2007/08 be agreed, this will allow sufficient funding to maintain the base level of the Foundation's funding at a similar level to previous years whilst we await the outcomes of the Cabinet mandated review.

Contested Initiatives

Response to Foreign and Trade Policy Changes ("Step-change") (recommendation d)

8. The proposal comprises two parts; increased capacity and capability. Included in the former are an additional 300 staff over the period 2007/08 – 2012/13 which represents a 43% increase on current staff numbers; enhancements to technology, networks, and systems; an increase in the amount available to various funds and multilateral initiatives; and five new posts in *[information withheld that would prejudice the international relations of the NZ Government and to protect the free and frank opinions by departmental officials]*,
. The second element seeks funding for remuneration, increased costs associated with property rentals, diplomatic tools, and training.

Treasury Assessment

9. Treasury recommends you do not support funding for either of the two parts of the bid. Regarding the capacity component, we consider this to be discretionary in nature and we are not convinced that extra capacity will increase the outputs delivered by the Ministry to a level sufficient to warrant the magnitude of the investment proposed. *[information withheld that would prejudice the international relations of the NZ Government and to protect the free and frank opinions by departmental officials]*,

raises questions as to whether the marginal spend on these proposed new Embassies will deliver as high a return as spending directed toward other areas. We also have concerns regarding the pressures that increases of this magnitude place upon the Ministry in terms of implementation and potential risks to its ability to deliver effectively and efficiently on its outputs. We further note that both NZAID and MFAT are currently facing significant accommodation pressures with existing staff levels. Should Ministers agree to significant increases to either or both Votes this is likely to lead to a requirement for both or one agency to shift buildings. Infrastructure overseas will also have to be scaled to accommodate increases.

10. We do not consider MFAT has any capability issues sufficient to warrant funding increases. We note that there does not appear to be any evidence of significant numbers of staff vacancies and staff turnover is relatively low. We acknowledge there may be some residual pressures around offshore property lease costs but we consider these should be managed from within baselines. Moreover, we note that two consecutive baseline reviews have delivered the Ministry with a 10 year profile of rising baselines. We do not consider it is appropriate for the Ministry to seek further remuneration funding for the year 2007/08 in light of the fact that the five year Ministry capability package to which Cabinet have agreed does not reach the end point where

funding is baselined until 2007/08 and in view of the fact that the Ministry received funding for remuneration as part of Budget 2006 to supplement the capability package funding.

SSC Assessment

11. SSC notes the proposed expenditure for the “step-change” and the 0.35% ODA:GNI bid will have significant implications for the Ministry's current operations if approved. An assessment is still being made on implementation issues, however, there will be implications for many logistical functions including staffing and recruitment, accommodation, property management. For this reason the initiative will be a major challenge for the Ministry to implement. It is probable that the new staff numbers in both MFAT and NZAID will result in reviews of the organisational structure to accommodate the increased numbers.
12. In SSC's view both the NZAID and ‘step-change’ bids are likely to present a significant risk in achieving the benefit of the increased investment over the last few years in capability improvements which have been expected to produce productivity gains in future years. The quality enhancements that have been made could be seriously put at risk if the Ministry is required to grow rapidly. If it is decided that the Ministry will have a rapid expansion it is likely that the current priorities focussed on improving performance will be swamped by the need to handle rapid growth with as little damage as possible.

MFAT Position

13. The Ministry is struggling to grapple with significantly increased demands to advance and defend New Zealand's economic and security interests in the rapidly changing global environment. These fall into six key inter-linked areas:
 - the rise of regional powers and growing number of regional trading, political and security arrangements which impact on national decision-making;
 - the need to accelerate transformation of the economy through a deepening of New Zealand's strategic economic positioning and global connections;
 - the heightened need for collective responses to terrorist and other trans-boundary threats and a systemic deterioration in the ability of near neighbours in the South Pacific to cope governmentally, with economic and political stress;
 - the increasing number of international initiatives to conserve or regulate the use of natural resources (e.g. oceans, fisheries, biodiversity, climate change);
 - the growing number of overseas crises or incidents involving New Zealanders which require management;
 - the flow-on effects of the increased international tempo on our missions in New York, Geneva, and Vienna; the UN remains an important vehicle for small countries like New Zealand to meet the challenges outlined above.
14. Standing still on any of these areas is, in reality, to move backwards because of the increasing complexity and competitiveness of the international issues and relations involved. New Zealand has no choice but to invest more into promoting and protecting its national interests if it is to avoid marginalisation and to prosper in a more uncertain and contentious world.
15. The potential costs of not doing so are high. Our response will require a deeper reservoir of policy analysis and negotiating expertise backed up by specialist and

technical knowledge including that of New Zealand Inc partner agencies with which the Ministry coordinates offshore. In the South Pacific the necessity to secure and retain consent for New Zealand's engagement in confronting negative security and economic trends has major diplomatic capability ramifications. Tradecraft expertise cannot be turned on overnight nor hired at short notice. It can only be developed over several years. Given the lead time required to build the foundation of capabilities and skills, the Ministry needs to start now to be ready to keep up with competitor nations which are already putting more resource into meeting the greater demands.

16. The Posts identified for opening have as much to do with influencing the global agenda on issues of stated importance to the Government such as sustainability, climate change and disarmament as they do with trade prospects.
17. Managing a significant increase in resources is a challenge. In order to ensure there is no diversion of effort from delivery of agreed outputs, MFAT would establish a small experienced task force to manage implementation issues.

Physical Security and Agency Accommodation (recommendation e)

18. Capital funding is sought for increasing chancery accommodation demands from other agencies, principally. Additional funding is also being sought to refurbish Ministry space in New Zealand House and for changes to construction plans at Suva, Pretoria, and Ankara that were approved during the 2005 Budget round.
19. In view of significant pressures on Budget 2007 capital allocations, and with limited evidence of significant associated delivery risks, Treasury considers there to exist significant scope in scaling this bid. Given the agreements that have been entered into with NZIS we are supportive of funding for the Apia component of the bid. Given a lack of evidence as to significant associated service delivery risks we are not supportive of funding for the Beijing, New Delhi, Ankara, Suva, Pretoria, or Moscow components as we do not see funding as a priority for Budget 2007.
[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

MFAT Position

20. The Ministry's long term capital planning has identified insufficient accommodation to meet growing NZ Inc demands. Given the long lead times required for planning and building construction, funding certainty is required early to ensure that facilities are available when required.
21. Delivery risks are: Beijing no space for additional NZ Inc staff to harvest FTA gains, extend connections, and support increased NZTE/NZ Inc agenda in China (agencies need MFAT backup to operate in China), New Delhi, no space for additional NZ Inc staff in this staff in a key priority country for economic growth, political influence *[information withheld to protect the free and frank opinions by departmental officials]*, Suva, unable to move buildings so no space for additional NZ Inc staff, Pretoria, new building will have to be met from existing resources thereby forcing capital funds into deficit in out-years.
22. NZ House in London: *[information withheld to enable Government to carry out, without prejudice or disadvantage, negotiations]*.

Pacific Cooperation Foundation: Increase in Baseline Funding (recommendation f)

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

Completion of Continental Shelf Submission and preparing a submission for the Ross Dependency (recommendation g)

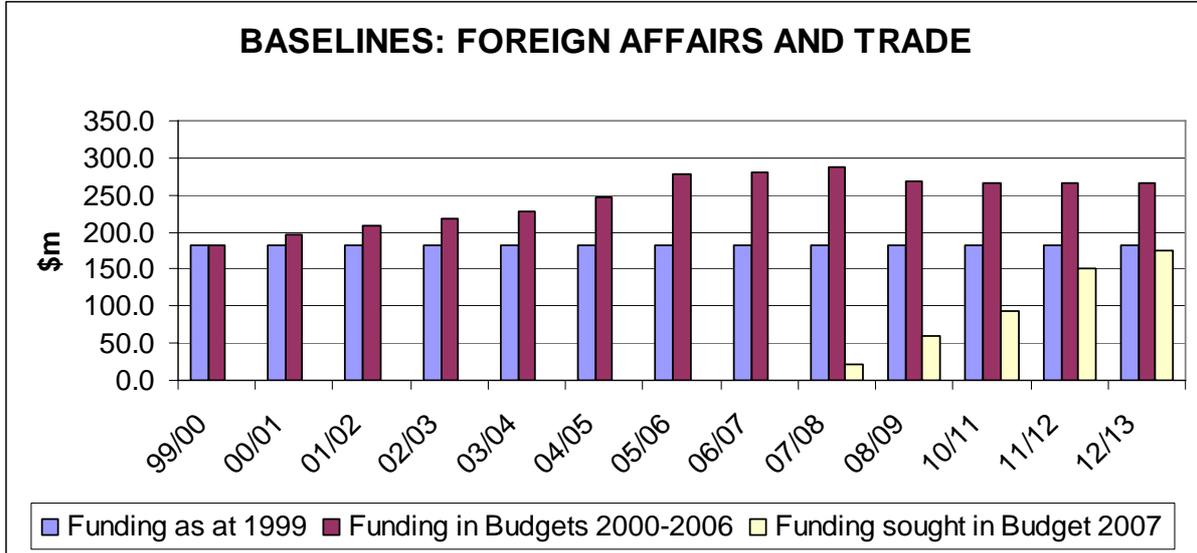
32. The Ministry seeks funding to complete the inter-sessional work by scientists from the National Institute of Water and Atmospheric Research (NIWA) and the Institute of Geological and Nuclear Sciences (GNS) in preparing responses to questions asked by the UN Sub-commission of the Commission on the Limits of the Continental Shelf (UNCLOS) regarding the New Zealand Continental Shelf Submission, and to complete the preparation of a submission on the outer limits of the continental shelf of the Ross Dependency.
33. Whilst Treasury acknowledges that there are merits of the bid, given significant and higher priority competing pressures, we recommend you do not support the initiative unless it is to be progressed from funding sourced from within Ministry baselines.
34. MFAT: the Ministry and Land Information New Zealand are very strongly of the view that this work should be completed as soon as possible. Its reasons are:
 - The longer the delay between undertaking the physical work and completing the analysis and synthesis, the greater the risk that the value of the work will be lost;
 - There is within NIWA and GNS a cadre of scientists with expertise built up over the past 10 years who could complete the work more efficiently and cost effectively than any scientists who came new to the exercise;
 - The longer the delay, the greater the risk that those scientists would leave NIWA/GNS/ New Zealand or become engaged in other projects that would prevent or delay completion of the submission.

Hosting of the Australia and New Zealand Leadership Forum: 2008 Meeting (recommendation h)

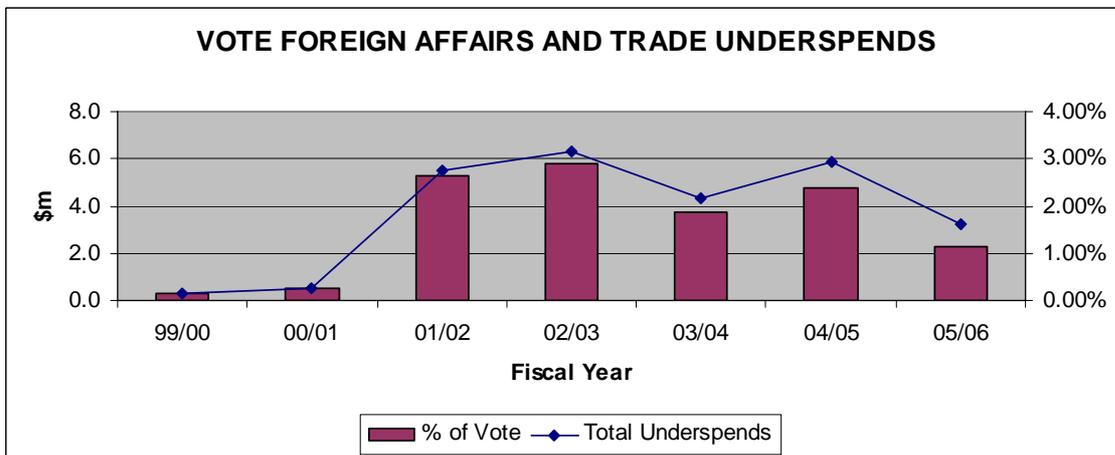
35. Funding is sought by the Ministry for conference, entertainment, airfares/accommodation, publications, and miscellaneous costs associated with New Zealand's hosting of the 2008 Australia and New Zealand Leadership Forum. The Forum provides a fora where senior Australian and New Zealand Ministers, business people, and community leaders can engage in an annual dialogue on issues of concern to both countries.
36. Whilst we acknowledge there are merits associated with the bid, due to the existence of significant and higher priority competing pressures, we recommend you do not support the initiative unless it is to be progressed from funding sourced from within Ministry baselines.
37. MFAT: the A/NZ relationship is New Zealand's most important and extensive. To support the Government's objectives for the relationship, including in respect of economic transformation, a process is needed that engages significant stakeholders from business, politics, media and the community and allows for high-level networking and consideration of the strategic challenges confronted by both countries.

Analysis of Vote

38. Vote Foreign Affairs and Trade departmental baselines are currently \$247.605 million. The following graph depicts movements in the Ministry's baselines since 1999 and shows the amount sought in Budget 2007. Note the graph has been adjusted for such items as foreign exchange rate movements and funding of a "one-off" nature.



39. The Ministry's financial management of both capital and operating funding is very good. There have been no large Fiscally Neutral Adjustments or Expense and Capital Transfers in recent years. There have been no large underspends or overspends in any particular area. There have been no large delays in capital projects.



40. A majority of underspends occurs in Subscriptions to International Organisations, particularly United Nations peacekeeping assessments, which are largely uncontrollable.

Vote Official Development Assistance – Analysis

Analysis of Initiatives

41. The funding being sought for Vote Official Development Assistance through this bilateral is summarised in the table below:

	<i>\$million - increase/(decrease)</i>				
	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11 & Outyears</i>
<i>Funding sought for Vote ODA in Budget 2007</i>					
<i>Operating (GST excl)</i>	-	145.000	145.000	145.000	145.000

Increase to take New Zealand's Reported ODA to 0.35% of GNI in 2007/08 (recommendation i)

Initiative

42. Funding is sought to take New Zealand's reported Official Development Assistance (ODA) to 0.35% of GNI in 2007/08. Of the total funding sought, \$30 million p.a. represents funding to which Cabinet have agreed to enable New Zealand to achieve an ODA:GNI ratio of 0.28% in 2007/08 [POL Min (05) 2/4 refers]. This \$30 million p.a. is considered to be a precommitment and hence will not count against the \$20 million p.a. which has been allocated to 'Other'.

Treasury

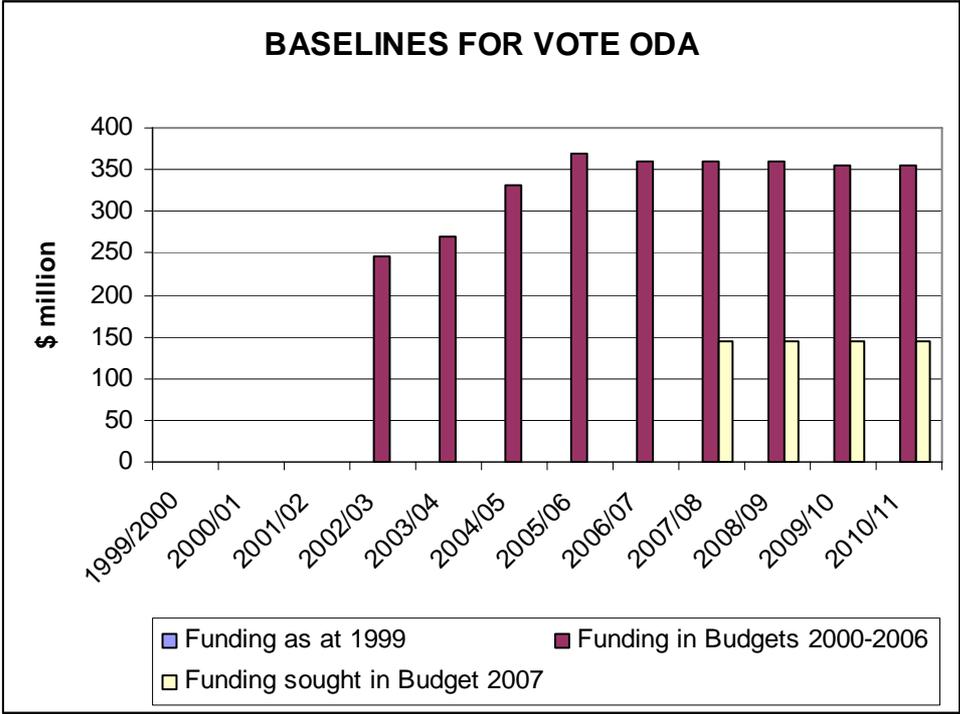
43. Given the existence of significant competing pressures and the discretionary nature of the expenditure proposed, Treasury recommends that you do not support any funding over and above the \$30 million p.a. precommitment. We also consider that there are likely to be risks associated with the significant increases proposed in terms of the pressures implementation will place upon the department, its human resources, its organisational structures, and its existing accommodation. Given that much of New Zealand aid is concentrated in the Pacific, we consider there are risks around the degree to which any further aid can be absorbed and utilised to best effect.
44. In view of pressures on current departmental resourcing, NZAID and Treasury officials recommend that joint Ministers consider allocating an additional \$2.1 million to NZAID departmental expenditure in 2007/08 (such that it reaches a total of \$28 million) to be funded from with the overall Crown funding appropriated for Vote ODA (assuming there that no funding is agreed for Vote ODA as part of Budget 2007 over and above the precommitment). Should further increases over and above the precommitment be agreed, officials recommend that joint Ministers direct officials to undertake an assessment as to an appropriate level of departmental funding and to report back by OBU 2007. We note that officials will undertake a further assessment as to an appropriate level of departmental funding going forward once the outcomes of Budget 2007 are known and will provide a recommendation to joint Minister's ahead of Budget 2008.
45. Should Ministers wish to progress the initiative in Budget 2007, there is a wide range of options for scaling the proposal that officials have identified which are outlined in more detail in the recommendations section of this report.

SSC

46. Refer to paragraphs 11 and 12 for SSC's view on the 0.35 ODA:GNI bid.
47. NZAID: With New Zealand's reported ODA at 0.27% of GNI in 2006/07, New Zealand's aid levels are projected to rank 20th of 22 OECD donor nations during a period when there are real and urgent development needs across the Pacific and near-Asia regions and at a time when our ability to influence the development of our region is directly affected by the extent to which we are able to engage in it.
48. The Agency is well positioned to further scale up a number of programmes quickly. Within current ODA programmes NZAID has identified significant additional development needs across the Pacific and Asia regions that could, in combination, use more than \$400m of new funding (enough to take reported ODA to 0.55% of GNI).
49. Ministers will have choices as to exactly where ODA increases will be prioritised, but NZAID would recommend a continuation of growth in areas agreed with Ministers in 2005 – specifically:
 - a. Significantly increasing our efforts to improve governance, leadership and the human resource capability of the Pacific,
 - b. Growing existing programmes in countries like Solomon Islands, Papua New Guinea, Vanuatu, and Indonesia to the point where New Zealand's programmes are large enough for us to lead developments in key sectors such as education and health.
 - c. Strengthening our engagement with key multilateral and regional agencies and NGOs in areas aligned with other programme priorities.
 - d. Continuing to grow the self-sufficiency and resilience of Niue, Tokelau and the Cook Islands where we have particular constitutional obligations and countries like Samoa where we have particularly strong relationships.
50. NZAID would also strongly recommend that Ministers agree to a funding profile for ODA for the two or three years after 2007/08. When Ministers agreed to a three year funding profile for ODA in 2005, NZAID was able to offer Ministers a more strategic set of options for new funding than had been the case previously when increases were agreed on a year by year basis. NZAID would strongly recommend that Ministers continue to plan ODA increases at least three years ahead. For example, if ODA increases to 0.35% in 2007/08, New Zealand could continue to report this level for in 2008/09 with an increase of a further \$40m and 2009/10 with another increase of \$40m.

Analysis of Vote

51. Vote ODA baselines are currently \$374 million. The following graph depicts movements in NZAID baselines and shows the amount sought in Budget 2007.



52. NZAID’s financial management is very good. The only large fiscally neutral transfer within Vote ODA since NZAID was established in 2002 took place in 2006/07, when Ministers agreed to disestablish the \$20m Emergency Management Disaster Response (EMDR) appropriation within Vote ODA and transfer funding to the Pacific Bilateral appropriation (\$2.5m) and the Global Bilateral appropriation (\$17.5m). This change took place to address practical Vote management issues arising from emergencies (such as the 2004 Boxing Day Tsunami) where emergency response was routinely required in regions or countries where NZAID had bilateral programmes.

53. As Vote ODA is largely funded via multiyear appropriations officials have considered it unnecessary to present an analysis of underspends.

Vote Education (Tertiary) – Analysis

Analysis of Initiatives

54. Funding is being sought by the Minister for Tertiary Education for Vote Education (Tertiary) through this bilateral. The Minister is also seeking separate funding for Vote Education (Tertiary) through theme Economic Transformation. The funding being sought for Vote Education (Tertiary) in this bilateral is summarised in the table below:

	<i>\$million - increase/(decrease)</i>				
<i>Funding sought for Vote Education (Tertiary) in this Budget 2007 bilateral</i>	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11 & Outyears</i>
<i>Operating (GST excl)</i>	-	8.011	24.266	39.494	47.356

NZ Development Scholarships (recommendation j)

55. The Minister for Tertiary Education seeks up to \$48 million p.a. to expand three NZAID scholarship programmes – the New Zealand Development Scholarship programme, Commonwealth Scholarships, and the New Zealand Regional Development Scholarships.
56. The initiative has been submitted in Vote Education. If Ministers decide to progress the proposal, officials recommend that the Minister for Tertiary Education withdraw the initiative from Vote Education and that the Minister of Foreign Affairs submit the initiative in Vote Official Development Assistance.
57. The Treasury considers the NZ Development Scholarships initiative to be discretionary and low priority. We recommend that you do not support this initiative, especially as there is considerable pressure on this year's budget allocations. There is no pressing need to progress the proposal in Budget 2007, and it could be deferred to Budget 2008.
58. Should you wish to progress the NZ Development Scholarships initiative in Budget 2007, there are a wide range of options available for scaling the proposal:

No. of scholarships	Level of scholarship	Cost per annum by 2010/11 (\$m)
10 (single country)	Masters	1.8
10 (single country)	Doctorate	2.0
20 (several countries)	Masters	3.6
20 (several countries)	Doctorate	4.2
60 (many countries)	Masters	10.8
60 (many countries)	Doctorate	11.7
200 (many countries)	120 Undergraduate	32.4
	80 Postgraduate	14.7

59. Treasury's preferred option among these would be to provide 10 Masters level scholarships to students from a single developing country. This minimum option would be more manageable within the current fiscal constraints, while still signalling the government's commitment to deepening its relationships with developing countries.

MoE View

60. Enlargement of the scholarship programmes would deliver medium to long-term benefits to New Zealand's trade and international relations goals. The programme proposed in this bid would lift New Zealand's profile in regions where the government is already boosting its foreign policy activity such as in South Asia, and Latin America. It would help to show New Zealand's commitment to building more solid educational partnerships with South East Asian partners such as Indonesia and Viet Nam. Contributing to the international community's efforts to accelerate development in Africa by offering more scholarships to selected countries would also be in keeping with the UN Millennium Development goals for education.
61. The expansion of Development Scholarships will contribute to raising the numbers of international students who complete studies with NZ universities, and so support the greater internationalisation of New Zealand's domestic education system. The research output of these students at post-graduate level would contribute to the goal of creating and applying knowledge to drive innovation, and increase the pool of people with skills to aid the development of their home countries.

NZAID Position

61. NZAID does not support MoE's budget bid. NZAID has identified and agreed with their Minister a set of priorities for Bid ODA allocations and there is no provision within these priorities for further significant increases in scholarship spending. NZAID programme priorities are regularly reviewed with recipient countries, none of whom currently see significant growth in scholarships as a priority - relative to other areas such as basic education, healthcare, and economic growth. Additionally, scholarship growth is not a priority within NZAID's Cabinet-endorsed education policy.
62. The impact of this allocation would be seriously distortionary, increasing NZAID's scholarships spending by 200%. NZAID has an agreement with the Minister of Foreign Affairs (ODA) and the Prime Minister on scholarship numbers linked to the Cabinet-approved education policy. This agreement is based on the Government's policy to move towards a more balanced level of ODA investment in basic education and tertiary education. NZAID is now close to achieving this, however the high number of scholarships suggested in this bid would reverse this and shift the ratio of basic education spending to 25%.
63. This would be regarded as poor practice for an international development agency, and could expose New Zealand to the same set of criticisms from the OECD Development Assistance Committee and other development agencies (including the United Nations) that was levelled in 2001 in the Ministerial review of ODA, which resulted in the creation of NZAID. New Zealand, along with all other OECD countries, has committed internationally to untying aid. Such a significant increase in scholarships would be seen as a retrograde step in our untying efforts, as they are tied to New Zealand suppliers.
64. The proposed increase in scholarships would divert energy, attention, administrative efforts and resources from other more important priorities including New Zealand's contribution to the Millennium Development Goals, which focus on achieving universal primary education.

Vote Racing – Analysis

Analysis of Initiatives

65. The funding being sought for Racing through this bilateral is summarised in the table below:

<i>Funding sought for Racing initiatives in Budget 2007</i>	<i>\$million - increase/(decrease)</i>				
	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11 & Outyears</i>
<i>Operating (GST excl)</i>	-	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>			

66. Note that this comprises one bid that would impact on Vote Revenue and three that would impact on Vote Racing.

Contested Initiatives

Bloodstock Write-down (recommendation k)

67. Funding of \$1.0 million in each of 2007/08 and 2008/09 and \$0.3 million in 2009/10 is sought to extend new depreciation rules agreed last Budget relating to acquisition by New Zealand taxpayers of stallions not previously used for breeding in New Zealand, to 'shuttle stallions'¹ previously used for such purpose. Under such an extension these shuttle stallions would be depreciated over a two-year period as opposed to the current five.
68. The Department claims that this initiative will encourage horse breeders to purchase successful shuttle stallions, thus strengthening the quality of New Zealand-owned bloodstock. However, the depreciation rate is already concessionary in respect of shuttle stallions, which can be depreciated over five years even though their economic life is considerably longer. It is unclear why there would be any need to accelerate the depreciation rate and so increase the concession.
69. Also, the higher depreciation rates applying to stallions not previously used in New Zealand reflect their increased risk relative to shuttle stallions. That is, an untried stallion may have only a short breeding life (e.g. because it is infertile or produces poor-quality offspring), whereas a shuttle stallion has already-proven breeding qualities and a likely economic life in excess of ten years.
70. Further, there is also a risk that approving the request could increase the risk of these assets being used in tax avoidance schemes. In the 1980s there were significant tax avoidance schemes incorporating inflated values for bloodstock, which took advantage of the accelerated write-down rates available. In addition, approving the request may set a precedent for further extensions to the new depreciation rules.
71. As the operating impact of this bid would represent reduced Crown current revenue, it would be reflected in Vote Revenue baselines (i.e. not Vote Racing). The costings are

¹ Shuttle stallions are northern hemisphere-based stallions that visit New Zealand each breeding season.

estimates only, reflecting uncertainty around New Zealand breeders' decisions to purchase shuttle stallions.

72. This bid is low priority compared to others that have been submitted for consideration within the Other allocation and is not associated with any risk of potential service delivery failure. Treasury recommends that you **not support** this bid.

Racing Safety Initiatives Scheme (recommendation l)

73. Ongoing funding of \$1.0 million per annum from 2007/08 is sought to establish a contestable fund that would match the racing industry's own contributions towards initiatives aimed at improving facilities and amenities.
74. There is little information provided beyond the anecdotal about the extent of under-maintenance of racing facilities and why racing clubs cannot raise sufficient revenue for improvements on their own, e.g. through increased entry fees, sponsorship or community fund-raising. This makes it difficult to gauge the potential value for money of the proposed contestable fund.
75. This bid is low priority compared to others that have been submitted for consideration within the 'Other' allocation and is not associated with any risk of potential service delivery failure. Treasury recommends that you **not support** this bid.

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

76.
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(recommendation n)

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Analysis of Vote

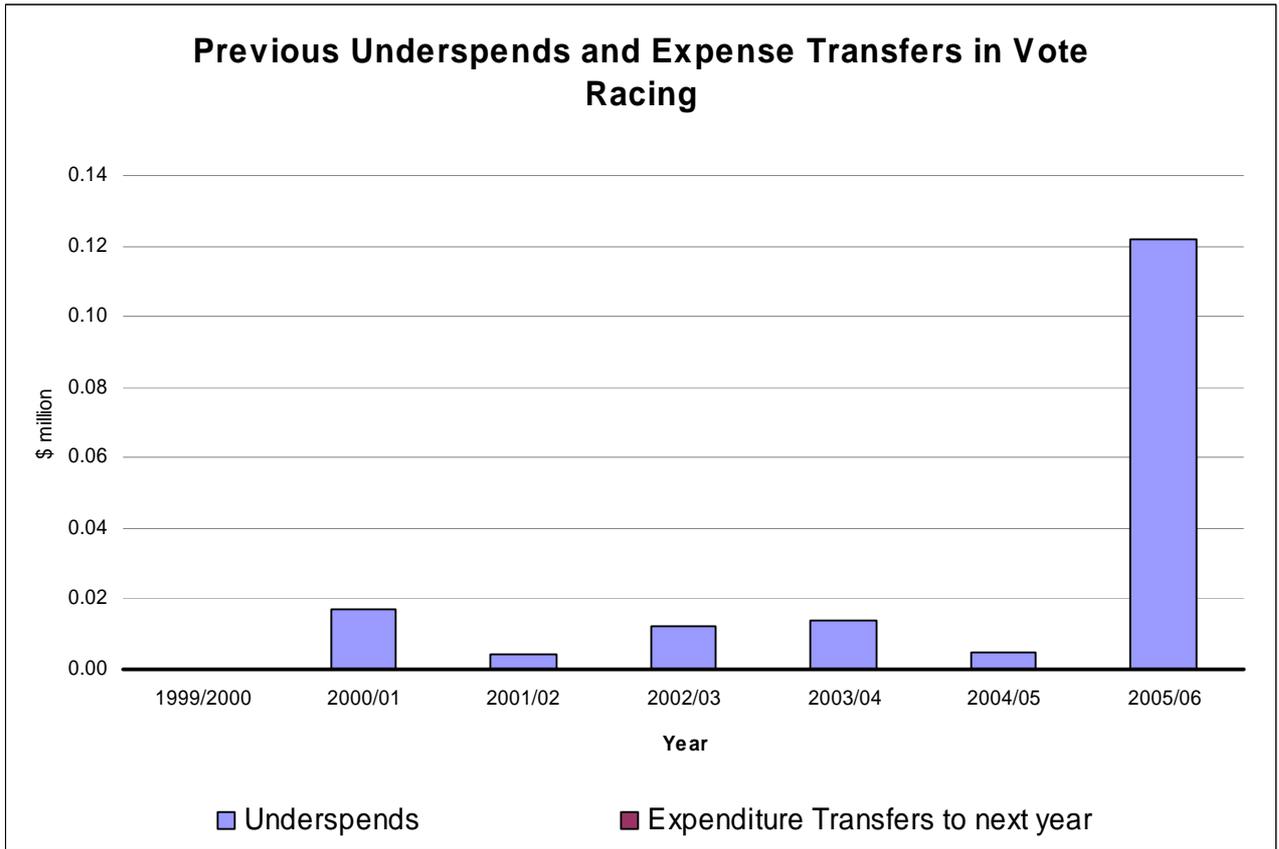
83. Vote Racing is the smallest vote. Its baseline comprises a single departmental output expense currently totalling \$0.217 million in 2006/07 and increasing slightly to \$0.226 million in 2010/11.

84. As the graph below illustrates, appropriations were increased from 2000/01. The increases in 2000/01 and 2001/02 related mainly to new funding for a review of racing industry structures, which culminated in the enactment of the Racing Act 2003, and, from 2001/02, to strengthen the department's capability to deliver policy advice. The increase in 2005/06 related mainly to new funding to provide for analysis of an industry submission on lifting NZ racing's economic performance and, to a lesser extent, from 2005/06, to maintain and enhance departmental capability.

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

85. In addition, the government agreed last Budget to two racing-related initiatives that reduced tax revenue and so impacted negatively on the operating balance. These were: aligning the rate of duty paid by the New Zealand Racing Board with the rate paid by casinos (at a cost of up to \$33.6 million per annum); and accelerating write-down periods for bloodstock (at a cost of up to \$1.5 million per annum).

86. As the following graph illustrates, previous underspends in the vote have generally been relatively small, with the exception of 2005/06 where not all the one-off funding for analysing the industry submission was ultimately required.



87. There was no baseline analysis undertaken as part of TOBA exercise for Vote Racing.

One-page Initiative Summaries

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

Vote: Foreign Affairs and Trade **Portfolio Minister:** Rt Hon Winston Peters

Title: Antarctica NZ: Maintaining Antarctic Logistics Support Capability

Description: Increase New Zealand's contribution to the joint New Zealand/US Antarctic logistics pool to
[information withheld that would prejudice the international relations of the NZ Government]

Purpose: Current Policy - Increase in Price **Ranking:** 4

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	365	1100	1600	1600	1600
	Saving	365	0	0	0	0
	Net	0	1100	1600	1600	1600
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	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

This initiative is for maintaining existing capability to deliver all the outputs in Antarctica New Zealand's Statement of Intent.

Problem Definition (provide evidence)

[information withheld that would prejudice the international relations of the NZ Government],

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

[information withheld that would prejudice the international relations of the NZ Government],

Evaluation of Initiative's contribution to Outcome

The most significant outcome in our Statement of Intent is to maintain an effective presence in Antarctica. Results to be monitored include the number of person-days supported in Antarctica; client satisfaction levels and the delivery in full of Scott Base capital development plans.

How could the initiative be scaled?

[information withheld that would prejudice the international relations of the NZ Government],.

Vote: Foreign Affairs and Trade **Portfolio Minister:** Rt Hon Winston Peters

Title: Asia New Zealand Foundation: Increased Funding for Strategy Implementation

Description: New strategic direction for Asia:NZ that is more ambitious and effective in stimulating widespread, urgent change to meet the challenges which Asia's increasing economic influence presents to New Zealand's national well-being and to respond to recommendations of review of the organisation.

Purpose: Current Policy - Increase in Quality **Ranking:** 6

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	1804	0	0	0
	Saving	0	0	0	0	0
	Net	0	1804	0	0	0
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	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

Three strategic priorities have been identified (increasing knowledge of Asia, committing to Asian communities, and engaging with Asia). Taking the results of the Asia:NZ review and government White Paper on Relations with Asia, an evaluation framework will be developed to monitor a range of outputs as diverse as tracking attitudinal change, stimulating action to fill identified gaps in knowledge, research, enabling Asian communities and increasing Track II and other engagement with Asia.

Problem Definition (provide evidence)

Over the next decades many Asian countries will rapidly emerge as global economic power houses with significant world influence in trade, social, political, environmental and security areas. These changes will have profound implications for New Zealand at both a national and individual level. New Zealand needs to adapt to these new realities or get left behind. This situation has been recognised by the commissioning of a government White Paper on Relations with Asia.

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

Following the Seriously Asia Initiative in 2003, Asia:NZ has undertaken an increased research agenda across business, education and social issues, brought together the Asia Knowledge Working Group resulting in the Preparing for a Future with Asia Report and related summit and evaluated past delivery of programmes in advance of the

review of the organisation. Forward strategic planning has taken unique strengths of the organisation and partnership delivery models into account.

Evaluation of Initiative's contribution to Outcome

Delivery of more focussed strategy to be monitored by established framework and new measures following review of Asia:NZ. A mix of market research, public survey and partner opinion will measure a range of qualitative and quantitative outcomes against increased economic integration with Asia.

How could the initiative be scaled?

We recommend that any scaling of the programme should be considered with the benefit of the results of the review of Asia:NZ due to be available in April 2007.

Vote:	Foreign Affairs and Trade	Portfolio Minister:	Rt Hon Winston Peters
Title:	Australia/NZ Leadership Forum		
Description:	The Australia/NZ Leadership Forum (ANZLF) engages senior Australia/NZ Ministers, business people and community leaders in an annual dialogue on issues of concern to both countries.		
Purpose:	Current Policy - Increase in Quantity	Ranking:	8
Theme:	Other	Theme Objective:	Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	110	0	0	0
	Saving	0	0	0	0	0
	Net	0	110	0	0	0
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	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

The aim behind the ANZLF is an enhanced trans-Tasman relationship. The Government wants the Forum to provide a basis for relationship-building between senior figures on either side of the Tasman; for enhanced dialogue on the strategic issues faced by both countries; for the development of 'champions' for the relationship - and its trade and economic components in particular - in both countries; and for a higher quality of commentary on and analysis of the relationship.

Problem Definition (provide evidence)

The Australia/NZ relationship is New Zealand's most important and extensive. To support the Government's objectives for the relationship, including in respect of economic transformation, a process is needed that engages significant stakeholders from business, politics, media and the community and allows for high-level networking and consideration of the strategic challenges confronted by both countries. There was a gap in this respect until the Forum was founded in 2004.

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

The Forum provides a high-level platform for interaction between senior stakeholders in the relationship, enabling Governments to communicate their objectives directly to those stakeholders, and vice versa. It also, through its working group structure, provides a basis for rich dialogue among stakeholders in relation to areas such as border processes, competition policy, securities regulation, banking and financial services, and accounting standards.

Evaluation of Initiative's contribution to Outcome

The Forum provides major opportunities for high-level engagement and has strong support from Ministers and business figures. It draws senior Australian business figures into dialogue with their NZ counterparts. It provides a basis for extensive cooperative work across a range of policy areas.

How could the initiative be scaled?

The format and scale of this event is now well-established. It is not possible to reduce its scale.

Vote: Foreign Affairs and Trade

Portfolio Minister: Rt Hon Winston Peters

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Vote: Foreign Affairs and Trade **Portfolio Minister:** Rt Hon Winston Peters

Title: Response to Foreign and Trade Policy Changes

Description: "Step Change" in resources to anchor NZ firmly into Asia-Pacific regional arrangements, secure high-yield economic partnerships, step up efforts to improve regional security, strengthen natural resource and energy diplomacy, and upgrade capability for dealing with consular crises.

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

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	14922	54758	90610	123042
	Saving	0	0	712	2175	3150
	Net	0	14922	54046	88435	119892
Capital	Gross	0	0	15500	13500	13000
	Saving	0	0	0	0	0
	Net	0	0	15500	13500	13000

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

The major output will be more pro-active policy analysis. Strategic policy development and management of NZ Inc activities to ensure NZ is included in evolving regional, political and trade architectures, increases influence with those that count, safeguards and improves economic interests, has access to specialist advice on complex legal, environmental and resource issues, meets counter-terrorism and security demands and has capability to respond to and manage consular emergencies.

Problem Definition (provide evidence)

The Ministry is struggling to grapple with significantly increased demands to advance and defend NZ's economic and security interests in a rapidly changing world. Standing still (cost \$50.5m by 2012/13) is, in reality, a move backwards because of the complexity and competitiveness of the issues involved. NZ has no choice but to invest more into promoting and protecting its national interests to avoid marginalisation and to prosper in a more uncertain and contentious world.

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

With few exceptions, whenever the Ministry has dedicated resources to a priority or trade goal, it almost invariably achieves a favourable outcome for New Zealand. A "step change" in the Ministry's baseline resources is an investment not an ex-gratia payment.

Evaluation of Initiative's contribution to Outcome

This initiative's contribution to desired outcomes will be monitored at six monthly intervals and reported to Ministers. Adjustment to interventions will be made as required, and overall strategy and intervention modalities reviewed in the context of the preparation of the SOI and operational plans.

How could the initiative be scaled?

Standing still, which is in effect moving backwards, will cost up to \$50.5m over the next six years. Any scaling options above that reduces the impact and, as deepening offshore resources leverages of fixed infrastructure costs, reduces the overall return on investment.

Vote:	Foreign Affairs and Trade	Portfolio Minister:	Rt Hon Winston Peters
Title:	Dili: Upgrade to Embassy Status		
Description:	In the 2005 Budget Round, capital funding and one-year of operating funding was approved to upgrade the Dili Consulate-General to embassy status. Operating costs can now be forecast with some precision, but capital requirements have increased.		
Purpose:	Current Policy - Increase in Quality	Ranking:	2
Theme:	Other	Theme Objective:	Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	1464	1929	1946	1963
	Saving	0	288	535	535	535
	Net	0	1176	1394	1411	1428
Capital	Gross	0	3169	0	0	0
	Saving	0	0	0	0	0
	Net	0	3169	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

The performance specification is integrated within the Ministry's overall performance measurement framework. The mid-year and year-end unit evaluation and review exercise ensures performance data is sourced from individual and unit level achievements. Criteria and professional judgement are applied to determine where the ministry has had the most impact. These assessments are reflected in the Ministry's Annual Report.

Problem Definition (provide evidence)

Ministers agreed in April 2004 to a proposal to upgrade the New Zealand Consulate-General in Dili to an Embassy, and to formally establish the post on an on-going basis to Ministry standards. Capital funding and operating funding for the 2006/07 year only was approved in the 2005 Budget Round. Treasury recommended that operating costs for the out-years should be funded when costs are more certain.

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

It is clear from recent events in Timor-Leste that solid New Zealand presence there, as part of the international community's support for that country, will be crucial for the longer term. Alternative forms of representation by cross-accreditation from Jakarta, or resident Charge d'Affaires would not be satisfactory. The former would be inferior to an on the ground presence, and it would be difficult to deliver the ODA programme, and the latter would be inferior and cost savings negligible.

Evaluation of Initiative's contribution to Outcome

There are broad foreign policy reasons for NZ's presence - Timor-Leste's troubled history, its location between Australia and Indonesia and the relative indifference of ASEAN members to its claim to membership. Timor-Leste as one of the world's poorest nations has an ongoing need for aid.

How could the initiative be scaled?

This initiative cannot be scaled. It is the minimum effective foot-print to providing accommodation to a normal Ministry standard in a difficult and challenging environment.

Vote: Foreign Affairs and Trade **Portfolio Minister:** Rt Hon Winston Peters

Title: Physical Security & Agency Accommodation

Description: Capital funding for increasing chancery accommodation demands from other agencies, principally. Additional funding is also required to refurbish MFAT space in New Zealand House, London and for changes to construction plans at Ankara, Pretoria and Suva that were approved in the 2006 Budget Round.

Purpose: Current Policy - Increase in Price **Ranking:** 3

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	798	1617	2233	2383
	Saving	0	189	514	814	964
	Net	0	609	1103	1419	1419
Capital	Gross	0	5800	3050	4000	0
	Saving	0	0	0	0	0
	Net	0	5800	3050	4000	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

The capital and flow-on operating costs are required to meet MFAT and agency accommodation demands offshore and to meet overall NZ Inc offshore objectives.

Problem Definition (provide evidence)

Recent agency expansion has filled any surplus capacity in a number of chanceries. High priority locations of Beijing and New Delhi require chancery extensions to meet demand over the next ten years. Agency demand in the Apia and Nuku'alofa also require extensions. Pending decisions on New Zealand House MFAT's space urgently requires refurbishment, replacing a 1989/90 fit out. Changes to accommodation plans in Ankara, Pretoria and Suva result in a small change to funding approved in 2006.

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

Provision of staff accommodation offshore in the key markets of China and India is consistent with NZ's long-term Economic Transformation and National Identity objectives. Refurbishment of NZ House, London is long overdue and will increase staff productivity and overall operational efficiency.

Evaluation of Initiative's contribution to Outcome

MFAT undertakes post completion product reviews for all projects, including analysis of product quality and effectiveness, lessons learned and recommendations for

improvement. An ongoing programme of security visits is maintained according to threat level and to review and audit security measures.

How could the initiative be scaled?

It would not be possible to scale this initiative as it reflects the minimum requirements.

Vote: Foreign Affairs and Trade **Portfolio Minister:** Rt Hon Winston Peters

Title: Continental Shelf: Ross Sea

Description: Funding to complete the inter-sessional work by scientists in preparing responses to questions from the United Nations Sub-Commission on the Limits of the Continental Shelf (UNCLOS), and to complete the preparation of a submission on the Ross Dependency Continental Shelf.

Purpose: Current Policy - Increase in Quantity **Ranking:** 7

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	600	0	0	0
	Saving	0	0	0	0	0
	Net	0	600	0	0	0
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	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

This process will establish the final and binding outer limits of NZ's extended continental shelf under the United Nations Convention on the Law of the Sea. It is also prudent to protect NZ's sovereignty over the extended shelf of the Ross Dependency.

Problem Definition (provide evidence)

NZ's submission was lodged in early 2006. The next step will be to respond to CLCS questions. By deliberate decision, the submission did not include the Ross Sea. However, it would be prudent, given the survey investment already made, to prepare a submission should the Government in the future decide it is in NZ's strategic interests to include the Ross Sea.

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

It is expected that the Sub-Commission will largely have completed its work on the NZ submission by June 2008. In respect of the Ross Dependency submission, LINZ is of the view that this work should be completed as soon as possible to; protect the value of the survey work already undertaken; utilise the expertise that has already been built up over the past ten years, and the longer the delay the greater the risk the expertise will be lost to other projects.

Evaluation of Initiative's contribution to Outcome

The proposed work is essential if NZ is to complete the CLCS process in respect of the extended shelf of metropolitan NZ and to protect the value of the investment made already in mapping the extended shelf of the Ross Dependency.

How could the initiative be scaled?

The cost of this initiative is the best estimate at this time. There are not any opportunities for this work to be scaled.

Vote: Education **Portfolio Minister:** Hon Dr Michael Cullen

Title: NZ Development Scholarships

Description: This proposal would involve the expansion of three NZAID programmes – the New Zealand Development Scholarship programme, Commonwealth Scholarships and the New Zealand Regional Development Scholarships

Purpose: Current Policy - Increase in Quantity **Ranking:** 18

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	8011	24266	39494	47356
	Saving	0	0	0	0	0
	Net	0	8011	24266	39494	47356
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	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

Enlargement of the NZAID scholarship programmes could deliver some medium to long-term benefits of NZ's trade and international relations goals. A larger programme could lift NZ's profile in regions where the government is already boosting its foreign policy activity, such as in South Asia and Latin America. An enlargement could help to show NZ's commitment to building more solid educational partnerships with some SE Asian partners, together with developing Pacific and Melanesian nations.

Problem Definition (provide evidence)

The small scale of the current Development Scholarships programmes limit the extent to which international students from developing countries can study in NZ, and so gain the benefits of a university education to improve the public administration and commercial development of their home countries.

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

The expansion of ODA-funded Development Scholarships will contribute to raising the numbers of international students who complete studies with NZ universities, and so increase the pool of people with skills to aid the commercial and public development of their home countries.

Evaluation of Initiative's contribution to Outcome

The evaluation of expanded Development Scholarships programmes will be undertaken as part of a broader assessment of the impact of NZ's Official Development Assistance programmes.

How could the initiative be scaled?

This bid is scalable (i.e. the maximum proposal is for 120 undergraduate scholarships, 60 Masters scholarships, and 20 PhD scholarships each year). Reducing the costs could be achieved by reducing the numbers of additional Development Scholarships (i.e. to 20 Masters and 20 PhD scholarships).

Vote:	Racing	Portfolio Minister:	Rt Hon Winston Peters
Title:	Bloodstock write down		
Description:	This initiative applies the new bloodstock write down rules to bloodstock that were in foreign ownership but had been in production in New Zealand prior to 1 August 2006.		
Purpose:	Current Policy - Increase in Quality	Ranking:	1
Theme:	Other	Theme Objective:	Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	1000	1000	300	0
	Saving	0	0	0	0	0
	Net	0	1000	1000	300	0
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	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

There are approximately 24 foreign-owned stallions that have been in production in New Zealand prior to 1 August 2006. The initiative will encourage New Zealand businesses to bring some of the successful stallions into New Zealand ownership. It is conceivable that 6 of the 24 horses in question would be brought into New Zealand ownership.

Problem Definition (provide evidence)

The new bloodstock write down rules apply from 1 August 2006. However, horse breeders are not able to take advantage of the new bloodstock write down rules if they wish to purchase foreign-owned bloodstock that were in production in New Zealand prior to 1 August 2006. This discourages bringing shuttle stallions into New Zealand ownership and was an unintended consequence of the law change.

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

Applying the new write down rates to bloodstock that were foreign-owned but in production in New Zealand, will encourage horse breeders to purchase successful shuttle stallions. This will strengthen the quality of New Zealand-owned bloodstock.

Evaluation of Initiative's contribution to Outcome

The initiative will lead to increased New Zealand ownership of bloodstock, thereby strengthening the base of the breeding industry.

How could the initiative be scaled?

The scale depends on taxpayers' response to extending the new write down rules to foreign-owned bloodstock in production in NZ prior to 1 August 2006.

Vote:	Racing	Portfolio Minister:	Rt Hon Winston Peters
Title:	Racing Safety Initiatives Scheme		
Description:	A contestable fund will be established with the aim of enhancing workplace safety and raising the quality of facilities at racecourses. The fund will match dollar for dollar contributions from the racing industry.		
Purpose:	New Policy	Ranking:	2
Theme:	Other	Theme Objective:	Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	1000	1000	1000	1000
	Saving	0	0	0	0	0
	Net	0	1000	1000	1000	1000
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	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

Improved facilities and amenities will bolster the industry's economic performance. There will be a reduction in the number of abandonments due to unsafe tracks. Safer racetracks will reduce the incidence of track-related accidents. There will be greater use of improved amenities.

Problem Definition (provide evidence)

Many racecourse facilities are in a state of disrepair. This raises health and safety issues for many industry participants and the general public, who use racecourse facilities on non-race days for community events. It is necessary to bring these facilities to an acceptable state of repair so that they can support the surrounding racing industry economic activity, and provide facilities for the local community.

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

Racing clubs would be encouraged to make improvements to substandard and/or unsafe facilities. They would prioritise improvements, identify available funding to make the improvements, and apply to the contestable fund for matching funding.

Evaluation of Initiative's contribution to Outcome

The initiative will lead to a reduction in racing workplace accidents. Racing clubs with improved facilities will successfully support the allied racing industry as racing and training venues. They will also provide valuable community assets.

How could the initiative be scaled?

The initiative could be scaled by reducing the contestable fund.

Vote: Racing

Portfolio Minister: Rt Hon Winston Peters

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

Vote: Racing

Portfolio Minister: Rt Hon Winston Peters

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