

Treasury has received the MFAT budget bid and are currently in discussion with MFAT on the details of their requested package. We are working on the basis that there will be a bilateral to be held in mid-December.

Bid Details

The MFAT bid seeks funding for a five year growth package that seeks funding for:

- building/restoring capability (five years of forecasted domestic and offshore cost increases mainly in wages and property);
- deepening capacity (increasing staff numbers by 46%); and
- establishing new posts (Brisbane, Melbourne, Stockholm, [*Information deleted in order not to prejudice the international relations of the Government of New Zealand*]).

This breaks down as:

Operating

Capability	\$216 million
Deepening Capacity	\$265 million
Capital flow on costs	\$89,882 million
Less 2007 funding	\$-75 million
New Posts	\$27 million
Total	\$523 million over five years

Capital

I.T	\$ 16 million
Property	\$ 67 million
New posts	\$ 15 million
Total	\$ 98 million over five years

Process

- Treasury and MFAT are currently working towards a December bilateral that will include all associated Crown Entities and NZAID.
- Treasury and MFAT will be developing **options for the total cost of the package** at around \$220m, \$390m, \$440m and \$550m [\$550 million is what MFAT have submitted, and \$440 million is the current specific fiscal risk]. At this point we are assuming that the most likely outcome is going to be in the range \$390m - \$440m. These options will be inclusive of Crown Entity costs.
- A large part of the package involves an ambitious growth plan for the Ministry. There is significant flexibility in the overall size of funding depending on Ministers' priorities.

- Treasury will be developing options regarding the timing of appropriations. For example, putting only so much into baselines now and agreeing a funding envelope. The aim will be to avoid additional pressures appearing in future budgets and to allow flexibility in future years should circumstances change. MFAT are building ongoing inflation into their projections. We are thinking how to manage this.
- We have asked MFAT to disaggregate the costs into outputs/outcomes as a basis of assessing value for money and fit with priorities
- Treasury are looking at detailed costings and proposed cost pressures to ensure that they are reasonable.

Key Messages

At your meeting with Mr Peters, it would be useful to give Mr Peters the following messages:

- You are currently working towards a December bilateral.
- The importance of having a broad range of options as to total cost.
- As the bid goes forward to 2012/13, we will need to find a way to retain some flexibility and scope for managing any future cost pressures. This may mean not putting everything into baselines in Budget 2008.
- In particular, it will be inappropriate to provide for inflation pressures as far forward as 2012/13 into baselines in Budget 2008. We will be looking for efficiency gains.
- The need to be clear about the costs of the various components of the package, so decisions can be made on priorities.
- The importance of consolidating existing investments before making new ones.

[Information deleted in order not to prejudice the international relations of the Government of New Zealand]