

Treasury Report: Bilateral Briefing for Votes Foreign Affairs and Trade, Official Development Assistance, Racing, and Social Development

Date:	28 February 2008	Report No:	T2008/272
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Dr Michael Cullen)	Agree the recommendations in your bilateral with the Rt Hon Peters	6 March 2007

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>			
Colin Hall	Manager International		<i>[Information deleted in order to protect the privacy of natural persons, including deceased people]</i>

Minister of Finance's Office Actions (if required)

None.

Enclosure: **Yes**

Treasury Report: Bilateral Briefing for Votes Foreign Affairs and Trade, Official Development Assistance, Racing, and Social Development

Attached is a briefing for your bilateral meeting with the Rt Hon Winston Peters at 3.45 p.m. on 6 March 2008 to discuss the budget initiatives for Votes Foreign Affairs and Trade, Official Development Assistance (ODA), and Racing. The briefing also contains details of one initiative in Vote Social Development.

The bilateral briefing is structured as follows:

Recommendations	p. 4
Analysis by Vote	p. 10
One-page initiative summaries	p. 22

You have agreed a growth package with the Minister of Foreign Affairs that will provide an extra \$523 million of operating funding and \$98 million of capital funding to Vote Foreign Affairs and Trade over a five year period from 2008-2012. The Ministry proposes that this funding be used to:

- safeguard New Zealand's security interests;
- advance the economic transformation agenda and support sustainable economic growth;
- promote improved trans-boundary solutions and effective international rules; and
- further protect the rights of New Zealanders abroad.

To achieve this, the Ministry will use the additional funding to offset cost pressures; increase both offshore and onshore staff by 47%; and open three new MFAT posts in Melbourne, Brisbane, and Stockholm in the short term. MFAT also intends to open posts in *[Information deleted in order not to prejudice the international relations of the Government of New Zealand]*

Treasury and the MFAT have agreed that it is important that some flexibility is built into the package to both manage implementation risks and provide the ability to respond to an evolving international environment.

Both agencies have agreed that 13% of the total annual operating funding be allocated as a pre-commitment against future budgets. This funding would be allocated year-by-year throughout the five year package and would be able to be rolled over into subsequent years.

Growth in the size of New Zealand's representation offshore provides an opportunity to examine the contribution that the government's international linkages are making to enhancing New Zealand's economic wellbeing. MFAT, Treasury, and other relevant agencies will report back to Ministers on how an increased New Zealand offshore presence can further leverage our international linkages and provide support for the economic transformation agenda. This work is expected to draw on and support other ongoing work currently being undertaken and we will report back to Ministers before the next Budget round.

This briefing also includes information on bids submitted by: Vote ODA that requests funding to adjust for changes in GNI forecasts; Vote Racing seeking the establishment of a contestable fund; and Vote Social Development for an enhanced SuperGold card.

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for making decisions in your bilateral with the Minister of Foreign Affairs at 3.45 p.m. on 6 March 2008.

Colin Hall
Manager, International
for Secretary to the Treasury

Hon Dr Michael Cullen
Minister of Finance

Recommendations

VOTE FOREIGN AFFAIRS AND TRADE-GROWTH PACKAGE 10

analysis p.

- The department seeks a “step change” in resources to maintain and build capacity and capability in order to respond to challenges in key areas by lifting the “tempo” of New Zealand’s diplomatic engagement.
- You have agreed with the Minister of Foreign Affairs to provide \$523 million in operating funding and \$98 million in capital funding over five years for growth in the Ministry of Foreign Affairs and Trade and have requested advice on how this growth package could be structured.
- Funding will be allocated to: offset current cost pressures; increase staff by 272 full time equivalent staff over five years (180 of which are New Zealand policy staff); and open three new MFAT posts in Melbourne, Brisbane, and Stockholm in the short term. MFAT also intends to open posts in *[Information deleted in order not to prejudice the international relations of the Government of New Zealand]*
- This package offsets cost pressures and is mainly structured around the Ministry’s four main outcomes:
 - *safeguarding New Zealand’s security interests;*
 - *advancement of Economic Transformation and sustainable economic growth;*
 - *promotion of trans-Boundary solutions and effective international rules;*
 - *protecting the rights of New Zealander abroad;*
- Three associated Crown Entity bids also fall within the package:
 - *Antarctica New Zealand: Implementing Wind Technology at Scott Base;*
 - *Pacific Cooperation Foundation: Increase in Baseline Funding;*
 - *Asia-New Zealand Foundation: Increase Funding for Strategy Implementation;*
- The package is structured to include a \$153 million element (13 percent per annum) of operating funding that will be pre-committed against subsequent budgets. A small component of this will be allocated as tagged contingency to fund between budget spending.
- Treasury and MFAT have agreed that this level of pre-commitment would provide MFAT with enough certainty to progress growth plans while also providing the Government and the Ministry with the flexibility to work together to respond to ongoing changes in the international environment. There are three key benefits in adopting

this flexible funding approach:

- **first**, it will help mitigate any implementation risks by allowing associated expenditure to be deferred for use later in the five year period should implementational risk crystallise, e.g. should the recruitment and placement of staff be slower than programmed;
- **second**, it will allow resources to be deployed to meet emerging priorities as part of the increasingly complex and fast moving international environment; and
- **third**, it will allow further investigation as to how New Zealand's wider international linkages can be further leveraged to support economic transformation and economic growth.

- a. **confirm** your previous agreement to provide a funding package for the Ministry of Foreign Affairs and Trade valued at \$523 million in operating funding and \$98 million in capital funding over a five year period from 2008-2012;

agree/disagree

- b. **note** that both agencies recommend that the package should include a level of “pre-committed” funding in order to allow the government to respond flexibly to evolving challenges;

- c. **note** that pre-committed funding for Vote Foreign Affairs and Trade will be allocated against and reduce future budget allocations available for other votes;

- d. **agree** that pre-committed funding that is not utilised in the year to which it is allocated be rolled over as a pre-commitment against the following year;

agree/disagree

- e. **note** that the pre-committed funds will be allocated through the annual budget process following discussion between the Minister of Finance and the Minister of Foreign Affairs;

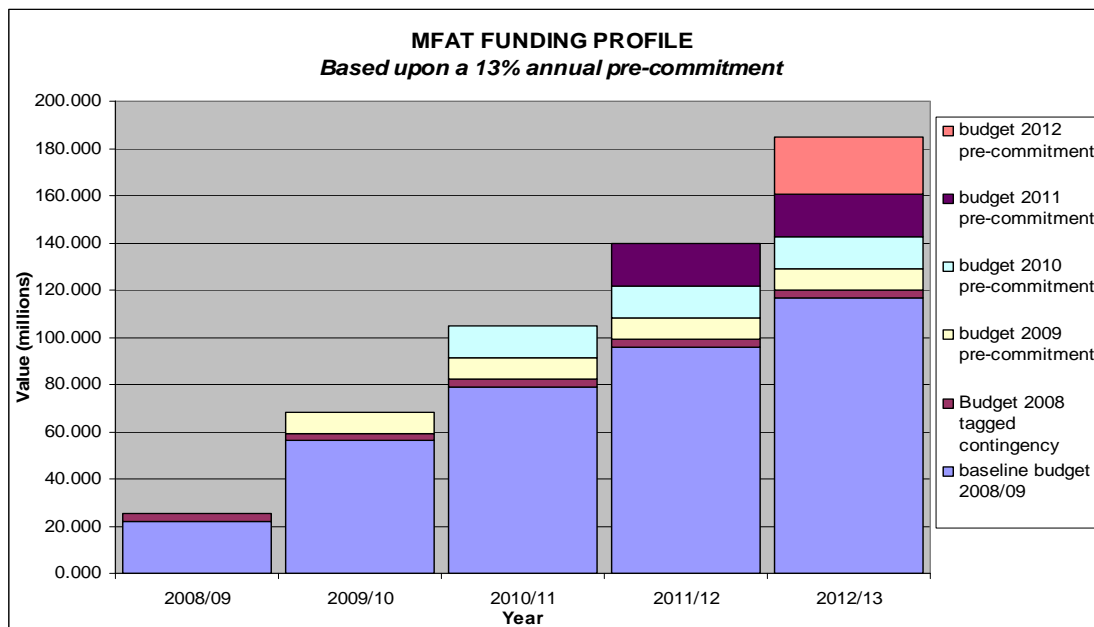
- f. **agree** that 13% percent of annual operating funding (\$153 million over five years) should be allocated as a pre-commitment against subsequent budgets rather than appropriated in 2008;

agree/disagree

- g. **agree** that the funding profile for the operating package (including capital charge) should be:

agree/disagree

<i>Budget to be Charged (\$m)</i>	08/09	09/10	10/11	11/12	12/13	Total
<i>Baselined Budget 2008</i>	22.235	56.080	78.842	95.941	116.594	369.692
<i>Tagged contingency 2008</i>	3.322	3.322	3.322	3.322	3.322	16.610
<i>Budget 2009</i>		8.876	8.876	8.876	8.876	35.504
<i>Budget 2010</i>			13.604	13.604	13.604	40.812
<i>Budget 2011</i>				18.192	18.192	36.384
<i>Budget 2012</i>					23.998	23.998
Total	25.557	68.278	104.644	139.935	184.586	523.000



- h. **agree** that \$3 million of pre-committed operating funding in 2008 and \$2 million per year in budgets 2009-2012 be allocated as a tagged contingency for between budget spending;

agree/disagree

- i. **agree** that unused tagged contingency be rolled over into pre-commitment at the end of the year;

agree/disagree

- j. **agree** that the funding profile for the capital package should be:

agree/disagree

	2008/09	2009/10	2010/11	2011/12	2012/13	Total
Annual Appropriation (Operating)	15.500	30.000	20.000	-	-	65.500
Pre-Commitment	-	5.531	3.507	14.155	9.307	32.500
Total	15.5	35.531	23.507	14.155	9.307	98.000

- k. **note** that MFAT, Treasury, and other relevant agencies will report back before the next budget on potential opportunities to further leverage New Zealand's international connections in order to support ongoing economic growth and facilitate economic transformation;

- l. **note** this report back will draw on and support ongoing work by considering how New Zealand could optimise its "whole-of-government" response to current and emerging economic risks and opportunities;

- m. **note** that the merits of private sector ownership of Antarctica New Zealand's wind energy bid are still currently being considered by Cabinet's External Relations and Defence Committee;
- n. **agree** that the final funding structure for the Antarctica New Zealand wind energy bid be finalised following ERD consideration;

agree/disagree

OTHER VOTES

VOTE OFFICIAL DEVELOPMENT ASSISTANCE
14

analysis p.

Adjustments to Vote ODA to Achieve Previously Agreed ODA:GNI Ratios

- The department proposes adjustments to the previously agreed ODA funding increases for 2008/09 and 2010/11 to maintain ODA:GNI at the ratios agreed by Ministers. This adjustment is necessary as a result of revisions to forecast GNI growth.
- Treasury's view is that this bid should be supported. While there is no imperative to fund this initiative the public announcement of the percentage targets provides a tacit commitment to reaching them. Funding at the level recommended reaches the target percentages, based on current GNI forecasts.

	<i>\$million - increase/(decrease)</i>				
	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 & Outyears</i>
<i>Operating (GST excl)</i>					
NZAID/ Treasury	-	[deleted - confidenti ality of advice]	-	[deleted - confidenti ality of advice]	-

- o. **agree** to the proposed funding adjustment for Vote ODA for 2008/09 and 2010/11;

Agree/disagree

- p. **direct** officials to assess an appropriate level of departmental expenditure for 2008/09 from Vote ODA and report back to Joint Ministers with their recommendations as part of OBU 2008;

Agree/disagree

- q. **agree** that adjustments to Vote ODA baseline funding will take place only once per year, during the Budget process, will be based on the HYEPU GNI forecasts, and will be set at the exact ODA:GNI ratio targeted to be achieved;

Agree/disagree

VOTE RACING

Increasing the Racing Stakes

analysis p.17

- The department seeks funding of \$5.135 million in each of 2008/09, 2009/10 and 2010/11 to establish and administer a contestable fund that would match additional funds raised by racing clubs to promote horse racing carnivals and bolster stake money in feature races.
- Treasury does not support funding for this initiative, as it is low-priority and represents questionable value for money. In particular, there is insufficient supporting information around why and to what extent racing clubs are unable to generate sufficient revenue through traditional sources, or the extent to which feature race stakes need to be bolstered to increase the racing industry's profile and encourage greater investment. There would also be potential precedent implications across other industries from creating such a fund.

	<i>\$million - increase/(decrease)</i>				
	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	5.135	5.135	5.135	-
Treasury	-	-	-	-	-

VOTE SOCIAL DEVELOPMENT

Enhancing the SuperGold Card

analysis p. 20

- The Rt. Hon Winston Peters proposes to enhance the services and subsidies available to older people through the Ministry of Social Development-administered SuperGold Card.
- There are four separate subsidy enhancements proposed in the bid, which are for *[deleted – confidentiality of advice]*, public transport, *[deleted – confidentiality of advice]* and hearing aids.
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

\$million – increase/(decrease)

2007/08 2008/09 2009/10 2010/11 2011/12 &

	outyears				
Operating (GST excl)					
	<i>[deleted – confidentiality of advice]</i>				
Public Transport	-	10.000	10.000	10.000	10.000
	<i>[deleted – confidentiality of advice]</i>				
Hearing Aids	-	2.500	2.500	2.500	2.500
Rt Hon Winston Peters		<i>[deleted – confidentiality of advice]</i>			
Total	-				
Treasury	-	-	-	-	-

- r. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- s. if any funding is approved please **indicate** Ministers' level of support per annum (please circle):

	\$million funding per annum				
	<i>[deleted – confidentiality of advice]</i>				
Public Transport	0	2.500	5.000	7.500	10.000
	<i>[deleted – confidentiality of advice]</i>				
Hearing Aids	0	.625	1.250	1.875	2.500

- t. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- u. **note** that the \$10 million dollars requested for public transport can pay for *either* free off-peak bus travel only for SuperGold card-holders, *or* subsidies for off-peak travel on buses, trains and ferries (but not both);
- v. **note** that the Ministry of Health is currently developing options for the purchase of hearing aids and has not been consulted on the current subsidy proposal;
- w. **agree** that, given the timing and implementation risks, officials report to joint Ministers on fast and cost-effective options to deliver the desired subsidies to SuperGold Card holders;

Vote Foreign Affairs and Trade – Analysis

Analysis of Initiatives

1. 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 MFAT in Budget 2008</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 <i>(GST excl)</i>	-	21.894	54.072	74.621	90.308	110.043
TOTAL CAPITAL <i>(GST excl)</i>	-	15.500	30.000	20.000	-	-

** excludes capital charge

2. Of the operating funding sought through theme “other”, \$27.178 million relates to the operating implications of capital initiatives being discussed in this bilateral.

MFAT Capability and Growth Package: Overview

3. Treasury recognise that an increase in the complexity and speed with which emerging issues evolve may justify the provision of well-targeted extra resources to implement a NZ Inc offshore strategy. A number of forces such as globalisation of business, and rapid economic and political integration are increasingly affecting how New Zealand interacts with the outside world. The role that effective international connections play in driving New Zealand’s economic growth has become increasingly apparent.
4. The Ministry of Foreign Affairs and Trade remains the primary channel through which the government promotes its international agenda, although a number of agencies lead work offshore in their specialist fields. In this context, an effective whole-of-government approach to current and emerging economic risks and opportunities is important. Officials from MFAT, Treasury, and other relevant agencies will report back before budget 2009 on ways to optimise New Zealand’s wider offshore presence in order to capitalise on opportunities to further support the economic transformation agenda. This work will support and/or draw upon several pieces of work that are currently ongoing.
5. The Ministry plans to expand and build depth across the entire breadth of the current network of posts. Seconding staff in national posts requires a significant level of investment, which acts to reduce the ability to reconfigure the network at short notice. Some flexibility will however be required to ensure the Ministry and New Zealand can continue to respond quickly to emerging issues and new challenges.
6. MFAT and Treasury have agreed a breakdown of the funding package that includes a level of flexible “pre-committed” funding. Thirteen percent of annual

operating funding — roughly \$153 million — will be included as a pre-commitment against future budgets. Pre-committed funding separates the question of how much to fund from the decision of what this should be spent on. Thus while funding levels will be set in advance, the question of what marginal increases in funding will be spent on will be considered year by year. The pre-commitment will reduce the annual budget allocation for general spending on other votes for the next five years. If the pre-commitment is not used in one year, it will be rolled over into subsequent years for use in Vote Foreign Affairs and Trade.

7. A flexible funding approach will help address many of the key risks associated with the package. In an increasingly dynamic and fluid environment pre-commitment provides flexibility over the five-year period to ensure that resources are available to fund any necessary 'course corrections' required to meet emerging international issues.

Risks associated with strong growth

8. The proposed growth in the Ministry comes with implementation risk. This will present some major management challenges for the Ministry. A key risk from the Ministry's perspective is that it may not be able to source recruits of the desired quality. From a public sector management perspective there is also a risk that efforts to source experienced recruits in the current tight labour market could put further pressure on public sector wages.
9. There is also a possibility that strong recruitment could lead to a build up in head office of inexperienced staff with no offshore experience as experienced staff move offshore into new postings. We estimate that by 2010 over sixty percent of staff in Wellington could have less than three years experience in MFAT and no experience offshore. This represents a worst case scenario as MFAT may be able to send some new recruits offshore at an earlier date. MFAT is looking to appropriately support new staff to ensure that the quality of advice tendered to Ministers is not compromised.
10. MFAT have formed a new implementation oversight committee resourced with senior staff. While good management will help to ensure that risks do not crystallise, we note that it is important to provide as much management flexibility as possible. Allocating a proportion of annual funding as pre-committed funding will mitigate much of the risk by allowing funding to be deferred should implementation risks crystallise.

Summary of bids within the MFAT package

11. Funding will be allocated to: offset current cost pressures; increase staff by 272 full time equivalent staff over five years – a 47% increase (including 180 additional New Zealand based policy staff); and open three new MFAT posts in Melbourne, Brisbane, and Stockholm in the short term. MFAT also intends to open _____ posts in [Information deleted in order not to prejudice the international relations of the Government of New Zealand].
12. Forty percent of the package will offset cost pressures and the remainder is structured around the Ministry's four key outcomes:
 - *Safeguarding New Zealand's security interests*
 - *Advancement of economic transformation and sustainable economic growth*
 - *Promotion of trans-boundary solutions and effective international rules; and*
 - *Protecting the rights of New Zealanders abroad.*
13. There is also provision for bids from the three associated Crown Entities;
 - *Pacific Cooperation Foundation: Increase in baseline funding*
 - *Asia-Pacific Cooperation: Increase funding for strategy implementation*
 - *Antarctica New Zealand: Implementing wind technology at Scott Base.*

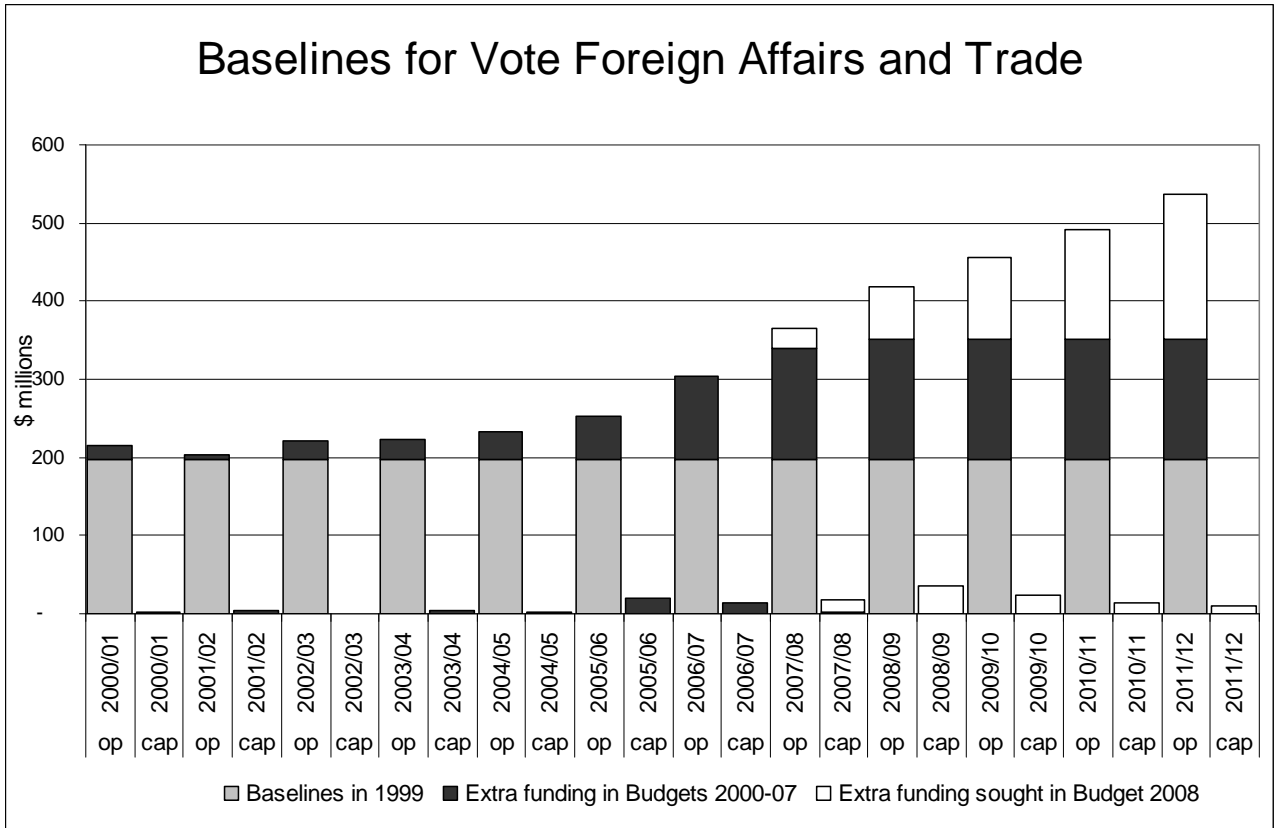
Summary of bids within the MFAT package

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13 & out years
"Response to Foreign and Trade Policy Changes: Capability"	-	7.712	20.040	29.477	37.923	47.574
"Safeguarding New Zealand's Security Interests"	-	4.961	11.577	15.596	18.494	20.834
"Advancing Economic Transformation and Sustainable Economic Development through New Zealand's International Connections"	-	3.971	18.806	25.009	28.942	35.720
"Promoting Trans-Boundary Solutions and Effective International Rules"	-	.883	1.205	2.175	2.740	3.755
"Protecting the Rights of New Zealanders abroad"	-	.567	1.245	1.364	1.209	1.160
"Antarctica New Zealand: Implementing Wind Energy Technology at Scott Base"	-	-	(.200)	(.400)	(.400)	(.400)
"Pacific Cooperation Foundation: Increase in Baseline Funding"	-	1.347	1.400	1.400	1.400	1.400
"Asia New Zealand Foundation: Increased Funding for Strategy Implementation"	-	2.453	-	-	-	-

***Note table excludes capital charge

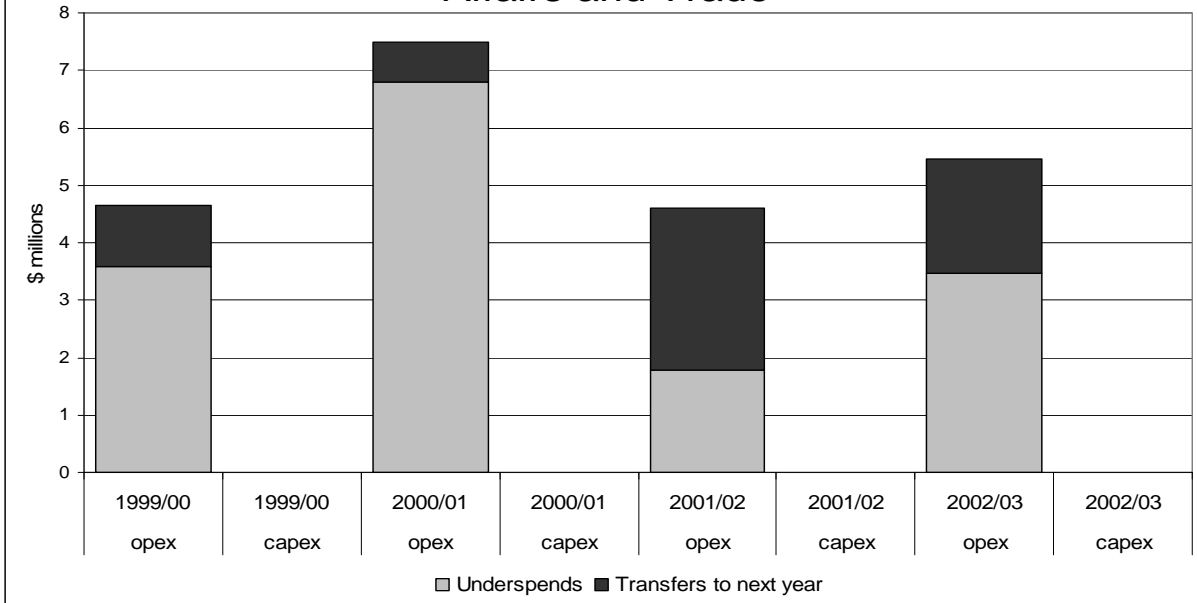
Analysis of Vote

14. The Vote Foreign Affairs and Trade baselines are currently \$303.868 million. The following graph depicts movements in the Ministry's baselines since 1999 and shows the amount sought in budget 2008 including the element of proposed pre-commitment. Note the graph has been adjusted to remove ODA and Trade NZ appropriations, which were in Vote FAT until 2001/02 and 2002/03 respectively.



15. The Ministry's financial management of both capital and operating has been very good. There have been no large Fiscally Neutral Adjustments or Expense and Capital Transfers in recent years. Under spends, as a percentage of baselines, have been small and normally under 1-2% of baselines.

Underspends and Transfers in Vote Foreign Affairs and Trade



Vote Official Development Assistance – Analysis

Analysis of Initiatives

16. Funding that is being sought for Vote Official Development Assistance (ODA) through this bilateral is summarised in the table below:

	<i>\$million - increase/(decrease)</i>				
<i>Funding sought for Vote ODA in Budget 2007</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 & Outyears</i>
<i>Operating (GST excl)</i>					
At this bilateral	-	[deleted – confidenti ality of advice]	-	[deleted – confidenti ality of advice]	-
TOTAL OPERATING	-	[deleted – confidenti ality of advice]	-	[deleted – confidenti ality of advice]	-

Adjustments to Vote ODA to Achieve Previously Agreed ODA:GNI Ratios (recommendations o-q)

NZAID

17. The department seeks adjustments to the previously agreed ODA funding increases for 2008/09 and 2010/11 to maintain ODA:GNI at the ratios agreed by Ministers as a part of Budget 2007. This adjustment is necessary as a result of revisions to forecast GNI growth.
18. The 2007 bilateral minute reflects that Ministers agreed to the specific set of dollar increases - \$70 million in 2007/08, \$32 million in 2008/09, \$72 million in 2009/10 and \$72 million in 2010/11.
19. However, it was the understanding of the Minister of Foreign Affairs that the meeting had agreed to the four successive ODA:GNI ratios that would see New Zealand report ODA as 0.30% of GNI in 2007/08 and 2008/09, rising to 0.33% in 2009/10 and then 0.35% in 2010/11. He also understood that the dollar amounts would be revised upwards or downwards from year to year as economic growth forecasts were revised.

20. The rationale for ODA increases and linking them to particular ODA:GNI ratios was detailed and accepted by Ministers as a part of the initiative bid put forward in Budget 2007. The ratios were announced by Ministers and have been extensively publicised both domestically and internationally. Failure to achieve these targets may result in some loss of face for New Zealand internationally.
21. Treasury's GNI projections (released as part of the 2007 HYEPU) show that the economy is growing faster than was projected a year ago, with the implication that ODA increases will need to be adjusted if previously agreed ODA:GNI ratios are to be achieved.

Treasury

22. Treasury considers that this initiative should be supported. While there is no imperative for Ministers to fund this initiative, the public announcement of the target percentages provides a tacit commitment to reaching them.
23. The level of funding recommended by both NZAID and Treasury represents funding to the percentages publicised by Ministers following the last Budget (0.30% in 08/09, 0.33% in 09/10 and 0.35% in 10/11). The recommended adjustments to funding should be sufficient to allow for future adjustments to GNI forecasts, and changes to the level of funding for the Vote will only be necessary if there are relatively significant adjustments to future GNI forecasts.

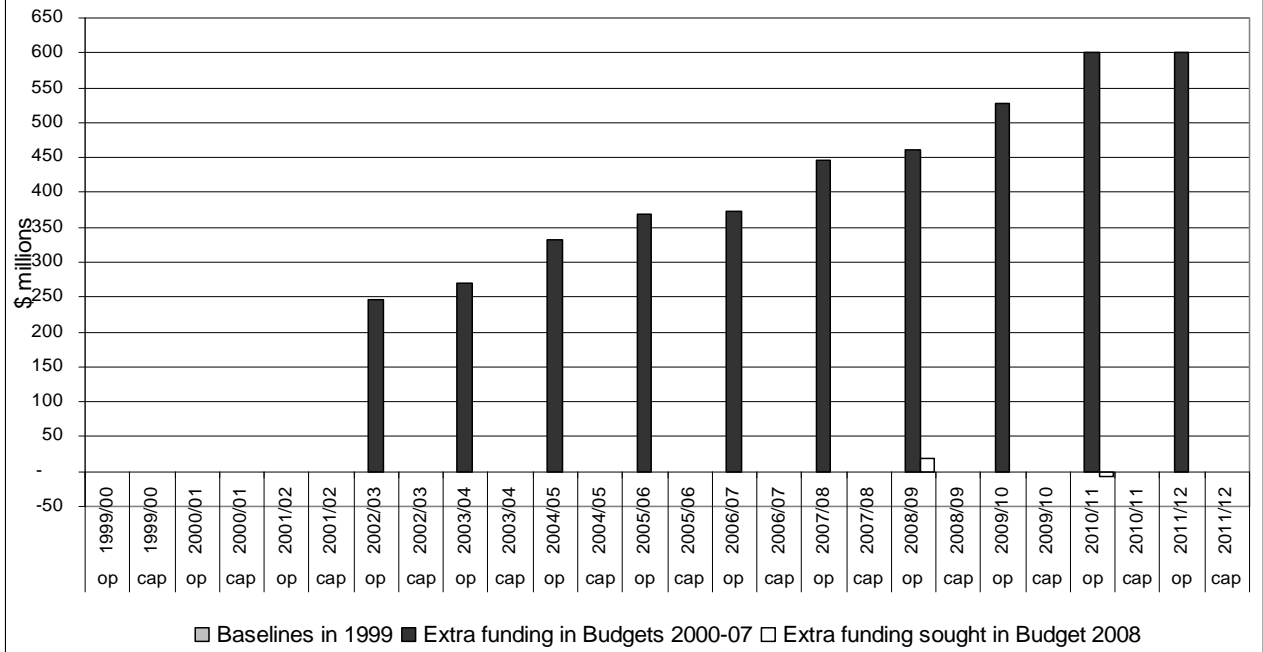
NZAID/Treasury

24. Discussions between Treasury and NZAID are ongoing as to the appropriate level of departmental funding within the Vote. NZAID considers the percentage of departmental funding within the Vote needs to increase to support the growth in overall funding. Any increase in departmental funding will reduce the level of funding available for aid activities. We propose that officials report back to Ministers on this matter as a part of the October Baseline Update (OBU) process.
25. Officials also recommend that Ministers agree how they wish to manage the impact of revisions to GNI projections between and within years. GNI figures continue to be revised for up to a decade after each year concludes and, even when ODA expenditure is on budget, faster than expected economic growth can result in the reported ODA:GNI ratio falling below the target level.
26. It is recommended that that future adjustments to Vote ODA baseline funding take place once per year only, during the Budget process; be based on the HYEFU GNI forecasts produced in November each year; and be set at the exact ODA:GNI ratio targeted to be achieved. If revisions to GNI take place subsequently throughout the year meaning that reported ODA falls outside the ratio agreed for that year, then it is proposed that no further adjustments take place until the next budget round. This approach generally conforms to the practice of other donor countries.

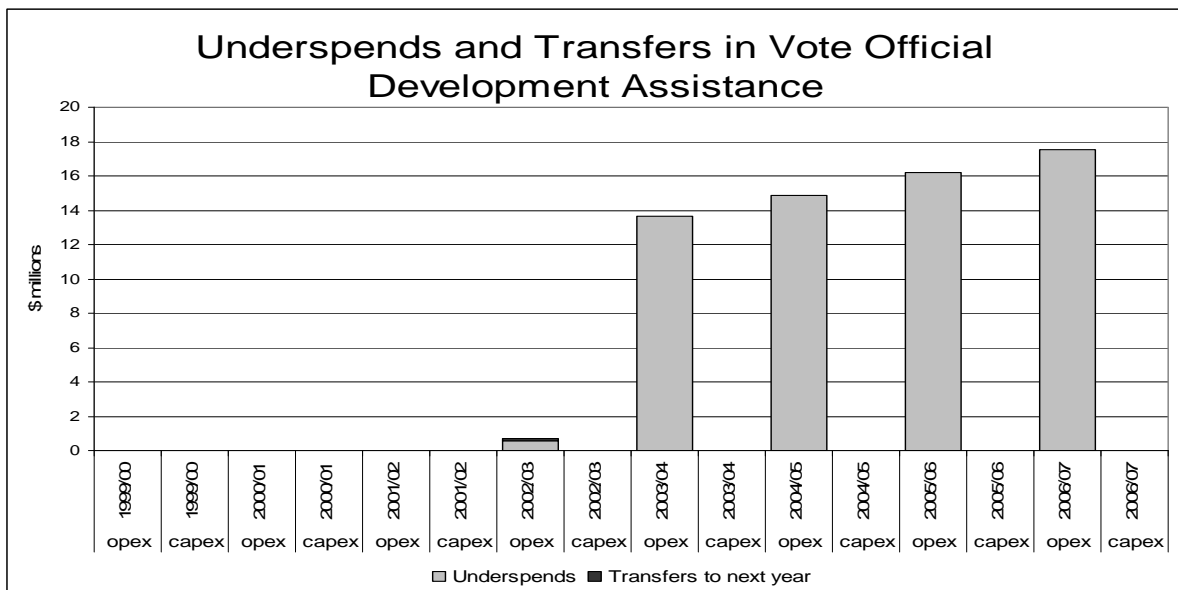
Analysis of Vote

27. Current Vote ODA baselines are shown in the graph below. 2007/08 saw the first of four significant increases in funding agreed by Ministers in Budget 2007.

Baselines for Vote ODA



28. During 2007, NZAID underwent two audits – a review of the contracting environment by Audit New Zealand, and a Special Audit of Performance by the Office of the Auditor General. These Audits identified a number of deficiencies in NZAID’s contracting management, monitoring and evaluation, internal audit functions, and management approaches.
29. NZAID and MFAT have acted quickly to put in place, where appropriate, departmental strengthening programmes approved by OAG and Audit New Zealand. Treasury and SSC are monitoring the progress of these programmes monthly and are satisfied with the implementation to this point.



30. Overall, NZAID has good financial management. Over 69% of the total expenditure of Vote ODA is incurred through multi-year appropriations (MYA) and the majority of underspending occurs as a result of the development activities undertaken through these appropriations. In these circumstances, MYAs allow funds underspent in one year to be rolled into the next. The underspends indicated in the above graph are from a period before the MYAs were established.

Vote Racing – Analysis

Analysis of Initiatives

31. Funding for Vote Racing being sought through this bilateral is summarised in the table below:

	<i>\$million - increase/(decrease)</i>				
<i>Funding sought for Vote Racing in Budget 2008</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 & Outyears</i>
<i>Operating (GST excl)</i>					
At this bilateral	-	5.135	5.135	5.135	-
TOTAL OPERATING	-	5.135	5.135	5.135	-

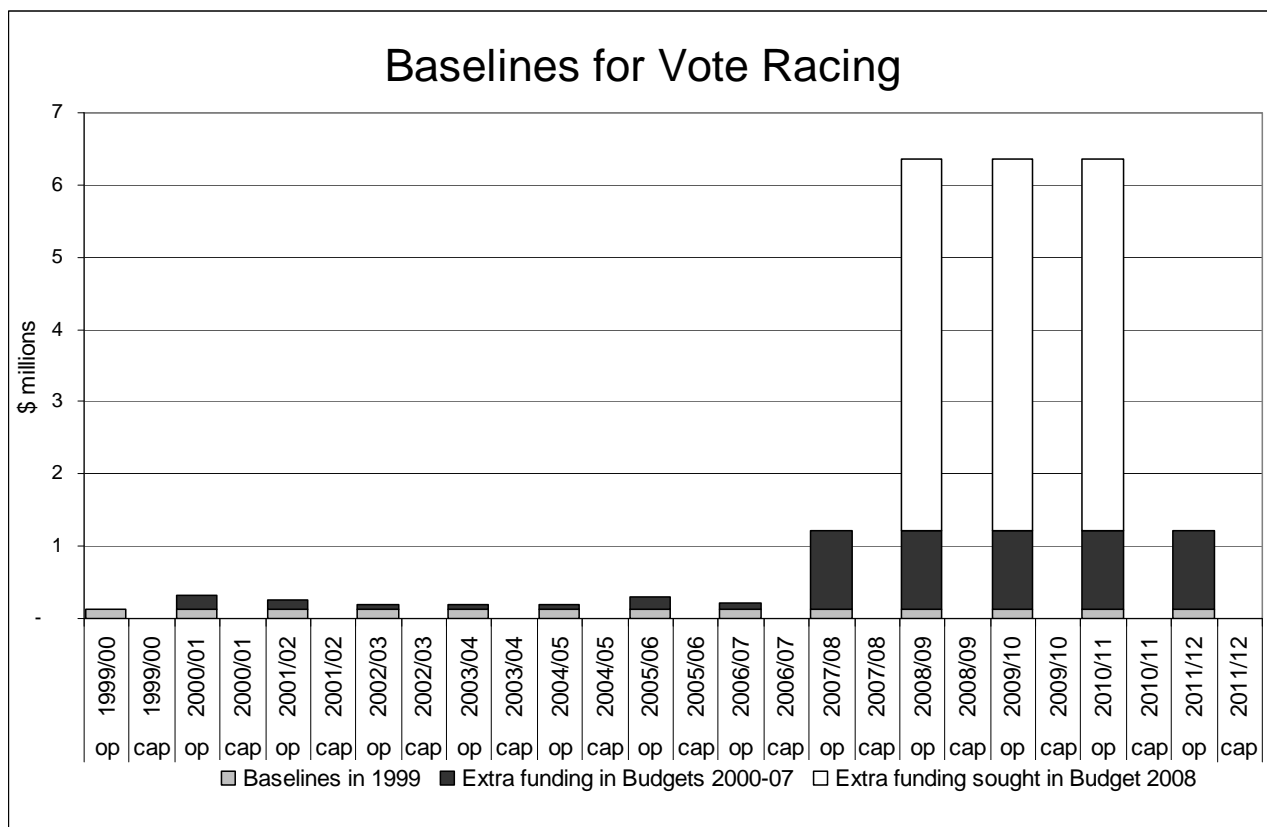
Increasing the Racing Stakes (recommendation x)

32. Funding of \$5.135 million in each of 2008/09, 2009/10 and 2010/11 is sought to establish and administer a contestable fund that would match additional sponsorship funds raised by racing clubs to promote feature horse racing carnivals and bolster stake money in feature races.
33. It is unclear why and to what extent racing clubs cannot generate sufficient revenue to increase stakes through traditional sources, e.g. increased sponsorship, entry fees and general fund-raising activities. Nor is it certain to what extent feature race stakes would need to be bolstered to increase the industry's profile and encourage greater investment. This lack of information makes it difficult to gauge the potential value for money of the proposed contestable fund.
34. There is also a risk that such a fund would create a precedent and encourage other industries to seek direct Crown funding.
35. This bid appears 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.

Analysis of Vote

36. Vote Racing baselines comprise one non-departmental output expense for policy advice (\$0.226 million p.a.) and, since Budget 07, one non-departmental other expense for enhancing facilities and increasing safety at racecourses (\$1.0 million p.a.). These are illustrated in the graph below.

37. Baseline 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, for strengthening the department's capability to deliver policy advice. The increase in 2005/06 mainly reflected 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. The large increases from 2007/08 reflect the new contestable fund for enhancing facilities and increasing safety at racecourses.

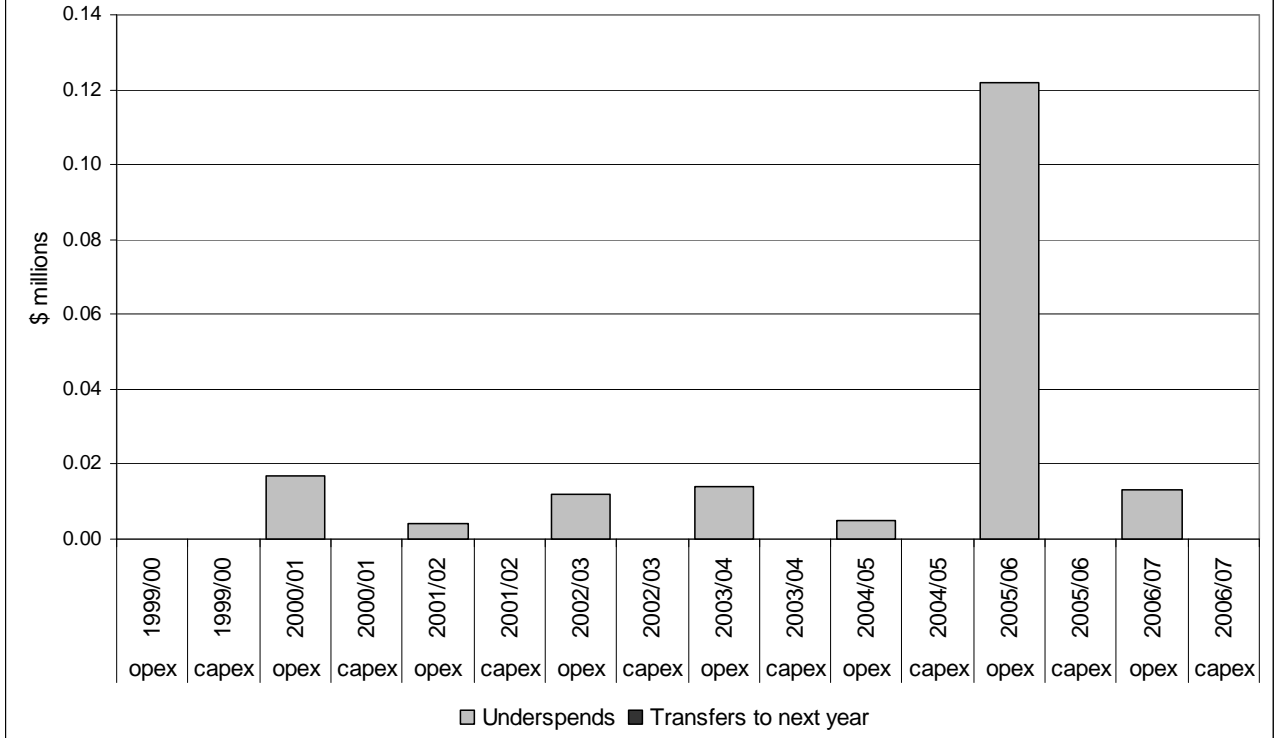


38. In addition, the government has over the last two budgets introduced a number of new racing-related initiatives that have the effect of reducing tax revenue and so impact negatively on the operating balance:

- in Budget 06, 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 p.a.) and accelerating the depreciation period for purchases by New Zealand taxpayers of stallions that have not previously been used for breeding in New Zealand (at a cost of up to \$1.5 million p.a.);
- in Budget 07, extending the accelerated depreciation period to 'shuttle stallions' previously used for breeding in New Zealand (at a cost of up to \$1.0 million in each of 2007/08 and 2008/09 and \$0.3 million in 2009/10).

39. As the following graph illustrates, previous underspends in Vote Racing 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.

Underspends and Transfers in Vote Racing



Vote Social Development- Analysis

Analysis of Initiatives Enhancing the SuperGold Card (Vote Social Development)

	<i>\$million - increase/(decrease)</i>				
<i>Funding sought for Vote Social Development in Budget 2008 <u>in this bilateral</u></i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 & Outyears</i>
<i>Operating (GST excl)</i>					
<i>At this bilateral</i>	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
TOTAL OPERATING					

Initiative

40. The bid is designed to enhance the services and subsidies available to older people through the Ministry of Social Development-administered SuperGold Card. There are four proposed elements to the bid:
- *[deleted – confidentiality of advice]*
 - Providing discounted or free public transport (\$10m per annum)
 - *[deleted – confidentiality of advice]*
 - Subsidising hearing aids (\$2.5m per annum).

Treasury Analysis

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

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

44. The \$10 million New Zealand First proposes for this initiative would cover free off-peak bus transport only. Alternatively, \$10 million could be used to subsidise off-peak transport on buses, ferries and trains. Should Ministers support the public transport enhancement, the most direct way to offer it is to make a pool of money available to Territorial Local Authorities responsible for public transport (usually regional councils). This option would enable those local bodies most well-equipped to offer the service to negotiate with local bus services in a timely manner.

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

Hearing Aids

46. Treasury considers that policy governing a subsidy for hearing aids needs to be developed in conjunction the Ministry of Health, which is investigating options for the purchase of hearing aids. If funding is supported, it can be placed in contingency pending completion of this policy work.

	\$million – increase/(decrease)				
	2007/08	2008/09	2009/10	2010/11	2011/12 & outyears
Operating (GST excl)					
	<i>[deleted – confidentiality of advice]</i>				
Public Transport	-	10.000	10.000	10.000	10.000
	<i>[deleted – confidentiality of advice]</i>				
Hearing Aids	-	2.500	2.500	2.500	2.500
Rt Hon Winston Peters		<i>[deleted – confidentiality of advice]</i>			
Total	-				
Treasury	-	0.000	0.000	0.000	0.000

One-page Initiative Summaries

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