The Treasury

Budget 2018 Information Release

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: Budget 2018: Bilateral with Minister Peters

Date:	9 February 2018	**Report No:**	T2018/20
		File Number:	DH-10-0-9

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Discuss** with Minister Peters his top priorities for Budget 2018 and emphasize the key messages suggested in this report.	Monday 12 February

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Laura Browne	Analyst, International	[39] (wk)	N/A (mob)	✓
Erin King	Acting Team Leader, International	[39] (wk)	N/A (mob)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Budget 2018: Bilateral with Minister Peters

Executive Summary

You are meeting Minister Peters on Monday 12 February to discuss Budget initiatives for Vote Foreign Affairs and Trade, Vote Official Development Assistance, and Vote Racing.

Over the next four years, Minister Peters is seeking [33] **operating per annum** and [33] **capital expenditure**. Minister Peters' initiatives are across five areas.

	Avg. Opex	Capex	Treasury assessment
A. APEC21 Programme	**49.925**	-	**Support in full.**
B. MFAT Departmental Funding	[33]	279.781	**Defer** cost pressure elements which have merit. **Do not support** elements which are not cost pressures.
C. Official Development Assistance	**300.150**	-	**Defer** not a cost pressure.
D. Asia New Zealand Foundation	[33]	-	**Defer** not a cost pressure.
[33]			
Total	[33]		

Given the significant operating and capital spending pressures that need to be managed this Budget, **we recommend you do not make any decisions about Minister Peters' Budget initiatives at this stage.** This will provide space for you and the other Budget Ministers to consider the relative priority of Minister Peters' initiatives against other Budget pressures.

We recommend you use your meeting on Monday 12 February to **ask Minister Peters what his top priorities are for Budget 2018, and to make the following points**:

- There are significant pressures on the operating and capital allowances across government.
- Our focus for Budget 2018 is delivering on manifesto commitments and funding the most immediate cost pressures.
- Funding for the APEC21 programme is supported by the Treasury, since this is an unfunded commitment that the Government has already made, it has been through a rigorous process, and there will be further opportunities to ensure costs are managed.
- You will need to consider options for deferring and/or phasing your other initiatives.
- A large number of departments are facing cost pressures, and we need to consider how we manage these collectively.

We also note that your meeting with Minister Peters may get into details and/or discussion around options. As such, this report provides you with detailed analysis of Minister Peters' Budget initiatives, and advice on how you could think about putting together a package which includes components of MFAT's departmental funding and the Official Development Assistance initiative.

A summary of different package options can be found on page 15.

Recommended Action

We recommend that you:

a **note** that you are meeting Minister Peters on Monday 12 February to discuss Budget initiatives in his portfolios;

b **note** that Minister Peters has submitted initiatives totalling [33] operating per annum and [33] capital expenditure.

c **note** that the Treasury recommends you do not make any decisions about Minister Peters' Budget initiatives at this stage

d **agree** to use your meeting on Monday 12 February to ask Minister Peters what his top priorities are for Budget and to make the following points:

   i. There are significant pressures on the operating and capital allowances across government.

   ii. Our focus for Budget 2018 is delivering on manifesto commitments and funding the most immediate cost pressures.

   iii. Funding for the APEC21 programme is supported by the Treasury, since this is an unfunded commitment that the Government has already made, it has been through a rigorous process, and there will be further opportunities to ensure costs are managed.

   iv. You will need to consider options for deferring and/or phasing your other initiatives.

   v. A large number of departments are facing cost pressures, and we need to consider how we manage these collectively.

   Agree/disagree

e **note** that this report provides you with detailed analysis of Minister Peters' Budget initiatives, and advice on how you could think about putting together a package.

Erin King
Acting Team Leader

Hon Grant Robertson
Minister of Finance

Treasury Report: Budget 2018: Bilateral with Minister Peters

Purpose of Report

1. You are meeting Minister Peters on Monday 12 February to discuss Budget initiatives for Vote Foreign Affairs and Trade, Vote Official Development Assistance, and Vote Racing. This report outlines our assessment of the initiatives and sets out some options that you could consider as you create the overall Budget 2018 package.

2. We recommend you have an initial discussion with Minister Peters about his top priorities for Budget 2018, setting out the challenges you as Budget Ministers will face in managing Budget pressures, and share some key messages that will inform how you choose to manage the Foreign Affairs and Trade, Official Development Assistance, and Racing pressures.

Overview of Budget 2018 Initiatives

3. Over the next four years, Minister Peters is seeking [33] **operating per annum** and [33] **capital expenditure**. A summary of the funding being sought is provided in the table below and addressed in turn in the following sections.

	2018/19	2019/20	2020/21	2021/22	Avg.	Capex
A. APEC21 Programme	15.000	32.700	55.200	96.800	**49.925**	-
B. MFAT Departmental Funding	[33]					[33]
C. Official Development Assistance	152.200	248.000	347.200	453.200	**300.150**	-
D. Asia New Zealand Foundation	[33]					-
[33]						
Total	[33]					

Budget context

4. Budget Ministers will need to weigh up the competing priorities of addressing cost pressures and meeting manifesto commitments within the fiscal parameters that have been set. This Budget, Ministers will need to manage significant competing pressures amongst the $4.3 billion per annum operating initiatives and $9.4 billion of capital initiatives.

5. Treasury Vote teams have completed their assessments of the Vote Foreign Affairs and Trade, Vote Official Development Assistance, and Vote Racing initiatives received. We recommend funding only the **$199.7 million** over four years that has been sought for APEC21.

6. Given the extent to which initiatives will need to be prioritised in this year's Budget, we recommend you do not make final decisions about the Budget initiatives discussed in this report at this stage. The priority accorded these initiatives is likely to depend on a more in depth comparison by Budget Ministers of all of the initiatives that have been submitted.

7. The first Budget Ministers meeting is scheduled for Tuesday 13 February, the day after you are scheduled to meet with Minister Peters. For this meeting, you have been provided with a slide pack that provides an overview of the initiatives that have been submitted through the process, sets out the key fiscal parameters that will guide decision-making and outlines the process to help manage expenditure within allowances [*T2018/183 refers*].

8. We recommend you use your meeting on Monday 12 February to ask Minister Peters what his top priorities are for Budget 2018. We also recommend you take the opportunity to share some key messages with Minister Peters:

> **i.** There are significant pressures on the operating and capital allowances across government.
>
> **ii.** Our focus for Budget 2018 is delivering on manifesto commitments and funding the most immediate cost pressures.
>
> **iii.** Funding for the APEC21 programme is supported by the Treasury, since this is an unfunded commitment that the Government has already made, it has been through a rigorous process, and there will be further opportunities to ensure costs are managed.
>
> **iv.** You will need to consider options for deferring and/or phasing your other initiatives.
>
> **v.** A large number of departments are facing cost pressures, and we need to consider how we manage these collectively.

Assessment of Budget 2018 Initiatives

9. This section provides an overview of the five Budget initiatives that have been submitted by Minister Peters across his portfolios. For each, we provide a brief description of the initiatives, Treasury's recommendation, and some alternative options.

A. APEC 2021 Programme

Recommendation: **Support in full**

10. This initiative is for the operations and hosting costs of APEC21 and seeks **$199.7 million** over four years. A more detailed discussion of this initiative is provided in Annex A.

11. While the overall cost of this initiative appears large, it is not inconsistent with other economies' experience of hosting APEC, and MFAT has sought external assurances around the uncertainties and risk in the project through an Independent Quality Assurance (IQA) review and a Quantitative Risk Assessment (QRA). Key findings of these reviews include:

    - **IQA:** indicative budget requirements had been prepared in a logical manner and the assumptions reflect the information available to the project team at this time.
    - [33]

12. We <u>recommend supporting this initiative</u>. It is a cost pressure initiative insofar as New Zealand has committed to host APEC in 2021 but no funding has been allocated since the commitment was made in 2012. MFAT has undertaken comprehensive planning and options analysis to recommend a 'credible minimum' approach to APEC21.

13. Robust governance mechanisms for this funding will be established to maintain a strong focus on cost management, balancing flexibility at the operational level with sufficient oversight at the Ministerial level.

Option: **Reduce contingency funding**

14. An option to reduce the fiscal impact of APEC21 in Budget 2018 would be to reduce the amount of funding set aside in the general contingency, currently set at 25%, by up to $10 million. By reducing the level of funding set aside in the project's general contingency, there is an increased likelihood that costs will overrun the allocated funding. However, if you do decide to use the contingency as a lever to reduce the overall fiscal impact in Budget 2018, there will be an opportunity to reassess requirements as part of the Budget 2019.

B. MFAT Departmental Funding

Recommendation: **Defer cost pressures; do not support other components**

15. On 8 December 2017, you received a letter from Minister Peters seeking significant funding for MFAT's capacity and capability which he believes has been eroded by underinvestment. We have not received formal Budget templates accompanying these proposals, but have been in discussion with officials. More detail on the context to Minister Peters' letter and detail on the individual initiatives is provided in Annex B.

16. There are multiple aspects to these initiatives, which combined are seeking [33] **operating per annum** and **$279.8 million in capital.** This funding request seeks to address a range of pressures as well as increase the capacity and capability of MFAT [33] These fall into two broad categories:

- The **capital initiatives** aim to bring the offshore network into compliance with the new Health & Safety legislation and protective security requirements (PSR); upgrade key offshore properties; modernise the Ministry's information management and communication system; and [33]
- The **operating initiatives** seek to address inflationary cost pressures; fund an additional 60 staff over four years; address incentives in key locations; and establish an Embassy in Stockholm, Sweden.

Context

17. In your meeting, Minister Peters may raise a number of issues that he also addressed in his Budget letters to you. Below we summarise some of the key points he may make and provide you with some facts and context that you could refer to in your discussion with him.

18. ***MFAT has not had any budget increases to meet inflationary cost pressures since 2008.***

- While this has some basis, it is not a unique challenge for MFAT. Many other departments have faced similar pressures over this period.
- Over the past decade, the Ministry has been through a significant restructure which has enabled it to expand outputs, including opening at least seven new posts,[1] from within baselines. This was achieved through cost management and a deliberate realignment of resources.
- For a period, there was a trend of sizeable underspends and the rolling forward of significant amounts of funding. Between 2010 and 2017, $190.5 million was rolled forward. Some of this funding will have been rolled forward for specific purposes and some from underspends. In line with other departments at the time, the Ministry returned an ongoing 'efficiency dividend' and one-off funding of $70 million. Annex B includes an overview of key vote movements since 2007.
- New funding was approved in Budget 2017, some of which was to increase frontline FTE. Funding to open posts in Ireland and Sri Lanka was also agreed.

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[1] Abu Dhabi, Addis Ababa, Bridgetown, Chengdu, Guangzhou, Honolulu and Yangon were opened from within baselines. New posts in Bogota, Colombo and Dublin received crown funding.

19. ***The legacy of unfunded capital investment in property and information and communications technology needs to be addressed***

- Slowing the programme of capital investment was a deliberate cost saving measure adopted which provided MFAT with short-term headroom, necessitating a certain amount of 'catch-up' in capital investment. MFAT holds $88 million of accumulated depreciation which is allocated through a robust planning process for specific replacement projects and therefore we would not encourage this is redirected to other purposes. MFAT has also not been adequately funded for some properties which has led to this funding shortfall.

- MFAT does not currently have a clear idea of the full cost of their capital needs or the strategic choices that need to be made. They are currently preparing a Long Term Investment Plan which will provide the necessary information to provide the Ministry and Ministers with the information necessary to ensure the right strategic choices are made regarding their capital investment.

20. ***Legislative and regulatory compliance costs have been imposed on the Ministry***

- Health & Safety legislation changes and requirements for protective security (PSR) have created some obligations for the Ministry to make some costly changes to the offshore network. These changes also apply to other government departments to varying degrees.

21. ***Opening new posts is a strategic priority that may differ between governments***

- We encourage decisions to open new posts to be taken in the context of a broad view of the offshore network. In support of Budget 2017, the Ministry developed a 'footprint plan' which used a combination of data driven analysis and expert judgement to identify the next highest priorities for investment. We agree that there are '*relatively high diplomatic costs of divestment*' and therefore we were encouraged by this approach. [1]

- There is a weak strategic case for opening an Embassy in Stockholm, and as such, it was not included on the 'footprint plan' short list. Existing trade links are relatively low and the relationship is easily managed from within the existing network. Given the recent establishment (2008) and subsequent closure of this post (2012), careful consideration of the long-term relative priority of re-opening is needed given the potential reputational impacts.

Treasury Assessment

22. The Treasury vote team does not recommend funding any of these initiatives in Budget 2018.

- **The Ministry can manage cost pressures for at least a year.** We were aware that MFAT was facing pressures in a number of these areas, but had not expected to see any funding requests prior to Budget 2019. Even the components that are investment ready and driven by legislative compliance can be managed within baselines for another year.

- **Some elements require some policy choices.** The capital initiatives may deliver value but strategic policy decisions are needed before any funding is sought. MFAT is currently working on its Long Term Investment Plan.

- **Funding MFAT's pressures will be potentially inconsistent with other departments.** Most agencies have had flat departmental baselines for a number of years and fully funding the Ministry's cost pressures on limited information would introduce inconsistencies with the way such pressures are addressed in other agencies. A number of departments have submitted initiatives with similar drivers (i.e. inflationary pressures, Health & Safety legislation).

Options: **Signal future priorities by partially funding or commissioning further work**

23. If you do wish to provide some funding to address MFAT departmental pressures in Budget 2018, we have identified three options to partially fund:

[33], [38]

24. If you choose to fund all of these initiatives in full, this will involve funding elements that are not investment ready, or are entirely discretionary. If funding is allocated prior to the initiative being ready, there is a high chance that it will be rolled forward.

C. Official Development Assistance

Recommendation: **Defer**

25. This initiative is seeking an increase of **$300.2 million per annum** to lift New Zealand's Official Development Assistance (ODA) to 0.35% of Gross National Income (GNI) by 2021/22. This would see total reportable ODA[2] increase from **$2.0 billion** for the current triennium to **$2.8 billion** for the 2018/19 to 2020/21 triennium, rising to **$3.4 billion** for the 2021/22 to 2023/24 triennium (an increase of approximately 70% by the end of 2023/24).

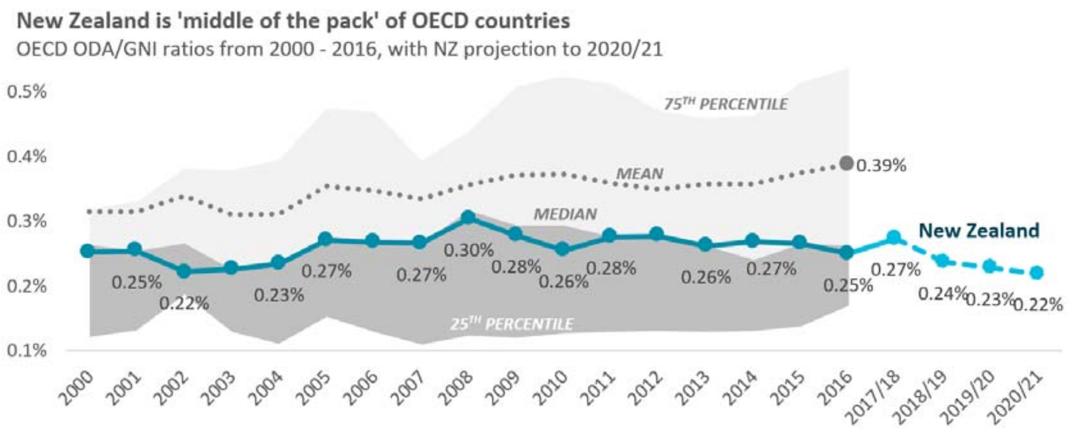
26. The initiative identified the following four major areas for new money to be invested:
    - *i Delivering on our international climate change commitments*
    - *ii Addressing growing needs and maintaining influence in the Pacific*
    - *iii Increasing contributions to humanitarian needs and conflict prevention*
    - *iv Increasing our contributions to multilateral organisations and other partners.*

Context

27. In contrast to most other types of public funding in New Zealand, ODA is evaluated internationally in terms of the level of inputs rather than outputs or outcomes. The international target, agreed originally at the United Nations in 1970, is for countries to commit 0.7% of their GNI as ODA. There are questions around the ongoing utility of this as a measure of the adequacy of aid flows given it doesn't measure impact.

28. Nevertheless, the OECD continues to compare countries' contributions against the 0.7% of GNI benchmark on an annual basis and they assess the performance of ODA spending every four to five years. In 2015, the OECD's Development Assistance Committee found that New Zealand delivers aid effectively and they praised New Zealand's clear strategy and strong results framework. It did however note that New Zealand is not meeting the 0.7% target.

29. Minister Peters noted that New Zealand's current level of ODA falls "*well below*" the average within the OECD of 0.39% (2016). The median is a more useful measure to assess New Zealand's relative position (*see diagram below*), as the mean is skewed by a small group of countries which meet or exceed the 0.7% target.[3] Since 2000, New Zealand has been sitting at, or close to, the median rate of ODA spend amongst OECD countries alongside the likes of Australia, Canada, Iceland and Italy.



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[2] ODA includes both expenditure controlled directly by the New Zealand Aid Programme and expenditure made by other government departments which falls within the OECD DAC definition of ODA such as some contributions to multilateral organisations made by various government departments and humanitarian activities undertaken by the Ministry of Defence.

[3] Currently Sweden, Norway, Luxembourg, Denmark and United Kingdom meet or exceed the 0.7% target.

30. As noted above, ODA is currently funded through three-yearly multi-year appropriations and an annual departmental appropriation. 2018/19 is the first year of the next funding triennium. The nature of New Zealand's flat nominal baselines and the fact that the GNI is growing means that ODA will always be reducing as a proportion of GNI in outyears, as can be seen on the chart above. Regular increases to ODA will be necessary in order to maintain a constant level of ODA as a proportion of GNI.

Treasury Assessment

31. We <u>recommend deferring this initiative</u> because it is discretionary for Budget 2018 and does not fit with the intentions of this Budget of funding immediate cost pressures and meeting manifesto commitments. Our assessment is informed by a number of considerations:

- The initiative is informed by a top-down view of ODA inputs rather than a bottom-up view of the most appropriate level and type of assistance that New Zealand should provide. Given the significant fiscal impact of lifting the ODA/GNI ratio, decisions should be well informed by a strategic assessment of the right level and type of investment for New Zealand to maximize impact and improve outcomes.
- [34]
- The initiative includes an increase of funding used to administer ODA from $63.3 million per annum to $107.5 million per annum by 2021/22. This increase of funds used to administer ODA is an increase in departmental funding and should be assessed in a manner consistent with other capability increases.
- [34]
- [33]

32. We recommend you ask the Ministry to do a strategic assessment of current and future ODA spending so any significant increase in ODA can be made based on an informed assessment of opportunities and outcomes and ensure MFAT capability and capacity will be able to keep pace with growing ODA.

Options: Signal priority by partial funding or commissioning a review

33. In line with the concerns outlined above, we have developed a number of options which would help manage fiscal pressure in Budget 2018, provide a smoother pathway to increase ODA, and would also allow time for a strategic review to inform any further increases. Without additional funding, New Zealand's ODA will drop to 0.21% of GNI by 2021/22. Options for Budget 2018 include:

Option 1:	Interim boost to ODA of $50 million per annum **$50 million p.a.**	0.23% of GNI in 21/22
Option 2:	Maintain ODA at 0.27% of GNI in 2018/19 only **$94.6 million p.a.**	0.24% of GNI in 21/22
Option 3:	Maintain ODA at 0.27% of GNI over the forecast period **$143.4 million p.a.**	0.27% of GNI in 21/22
[33]		

[33], [38]

D. Asia New Zealand Foundation

Recommendation: **Defer**

37. This initiative titled '*Equipping New Zealanders to thrive in the Asian Century'* is seeking [33] **per annum**. The initiative proposes to increase funding for the Asia New Zealand Foundation. The current baseline for the foundation is **$4 million** per annum.

38. The aim of this initiative is to 'shift the dial' on New Zealanders' knowledge and awareness of Asia. Asia's proximity to New Zealand and the significance of the Asia-NZ trading relationship suggests there could be relatively high returns from investing in building New Zealanders knowledge and awareness of Asia. This Budget initiative was informed by a strategic refresh of Asia NZ's activities and the foundation has been operating on flat baselines for the past eight years.

39. The Treasury recommends deferring any funding increase for the Asia New Zealand Foundation. This is not a cost pressure initiative as it largely comprises additional activities so there is a strong case to defer consideration of this initiative until a later Budget. Without further funding, the Foundation's outputs will slowly decline over time.

[33]

Putting it all together

44. The Treasury recommends only supporting the APEC21 Programme costs. In line with the objectives of this budget to fund manifesto commitments and meet only immediate cost pressures, we recommend no further initiatives are funded at this stage.

45. Given the number and complexity of the initiatives, we have ranked all initiatives and options discussed in this report in order of priority and importance into packages in the table below. We have taken investment readiness, value for money, and fit with government priorities into account when ranking these initiatives.

[33], [38]

Annex A: APEC21 Programme

46. We have previously provided advice to you on the APEC21 initiative (*T2017/2543, T2017/2798, and T2017/2954*). For reference, the chart below provides an overview of APEC21 cost components.

[38]

External Assurances

47. The Ministry has sought external assurances around the uncertainties and degree of risk in the project. This analysis can help provide confidence in the costings and inform the size of an appropriate contingency. Assurances include:

- The *Independent Quality Assurance* (IQA) review undertaken by [26] determined that indicative budget requirements had been prepared in a logical manner and given the event is four years away the information available to cost the event is limited and assumptions have been made. The assumptions reflect the information available to the project team at this time.

[33]

48. [33], [38]

49.

50.

Annex B: MFAT Departmental Funding

Additional Context

51. On 8 December 2017, you received a letter from Minister Peters titled *'The Ministry of Foreign Affairs and Trade's capacity and capability – eroded by underinvestment.'* In this letter, Minister Peters outlined a number of challenges he saw within the Ministry:

- ***"…the Ministry has not had any budget increases to meet inflationary cost pressures since 2008… "***
- New funding is needed to ***"avoid the need for more cost cutting measures that would further erode the Ministry's ability to protect our international interests…"***
- ***"…the Ministry is not resourced to support achievement of these commitments or indeed its continuing baseline role of protecting and advancing our interests in the world…"***
- ***"… significant legislative and regulatory compliance costs have been imposed on the Ministry…"***
- ***"…address the legacy of unfunded capital investment in both property and information and communications technology…"***

52. As context:

   - The Ministry has had relatively flat baselines for the majority of the past decade. The Ministry had been signalling for a number of years that it has limited capacity to continue reducing costs and had been clear that it was struggling to sustain the quality and scope of service delivery without additional funding.
   - In recognition of these challenges, the Ministry secured additional funding through Budget 2017, allowing it to hire additional FTEs across the network. This additional resource will enable the Ministry to address specific short-to-medium term priorities, as well as giving them the flexibility to respond to emerging priorities or challenges.
   - Prior to the funding secured in Budget 2017, the last significant increase to the Ministry's baseline saw a 37% net increase to the Vote Foreign Affairs and Trade baseline from 2006 to 2010. Following the subsequent change in Government, the overall increase in funding was reduced, with further returns of one-off funding returned to the centre totalling $70 million.
   - Significant changes to the Ministry's business model were also made during this time, which saw an increasing use of locally engaged staff; centralization of the use of technology; changes to remuneration and allowances; changes to performance management; and the creation of a Visits and Events Logistics Unit.
   - The net effect of this transformation process was to allow the Ministry to expand its footprint and increase outputs to support Government objectives (e.g. UN Security Council). MFAT has managed this within baselines through cost management and a deliberate realignment of resources.

53. This *"extensive period of restructuring and cost-cutting"* was also addressed by Minister Peters in his letter responding to your request to identify any low value spending across the organization. Minister Peters concludes that the current funding is aligned to your policies and priorities and therefore it would not be appropriate to make any divestments at this time.

Key movements across Votes Foreign Affairs & Trade and Official Development Assistance (2007/08 – 2017/18)	
2007/08 ↑ $42 million p.a. ongoing new funding **2008/09** ↑ $120 million p.a. ongoing new funding	MFAT received significant injections of new funding in **Budgets 2007 and 2008**. In 2007, $30 million per annum was provided to respond to 'Foreign and Trade policy changes' and $12 million was provided to increase official development assistance. In 2008 new funding reaching a total of $113 million per annum was provided for the 'Step Change' programme and $7 million was provided to increase official development assistance. Collectively the increases to Vote Foreign Affairs and Trade represented a 55% increase on the 2006 baseline of $262 million.
2009/10 ↓ $51 million p.a. ongoing savings returned **2010/11** → $23 million one-off rolled forward	Budget 2009 saw a removal of $46 million per annum of the 'Step Change' funding and $5 million from official development assistance as a result of the line by line reviews required of all agencies under the newly elected Government. **The net result of these three budget rounds was a $111 million total increase for both Votes, or 37% increase on the Vote Foreign Affairs and Trade 2006 baseline.** There were no changes of significance to the baseline through the 2010 Budget, although significant reprioritization within baselines did occur. The October baseline update in 2010 included in principle expense transfers of $23 million.
2011/12 ↓ $30 million one-off savings returned → $15 million one-off rolled forward ↓ $6 million one-off transfer to Vote ED	In Budget 2011, one off savings of $30 million were provided to the centre, and a $15 million expense transfer occurred. The October baseline update in 2011 included the utilization of one-off funding for purposes such as the rugby world cup (via a vote transfer to Vote Economic Development).
2012/13 ↓ $24 million p.a. ongoing efficiency dividend → $64 million one-off funding rolled forward	The March baseline update in 2012 processed the government-wide 'efficiency dividend', removing $17 million from Vote Foreign Affairs and Trade, and $7 million from Vote Official Development Assistance.
2013/14 ↓ $40 million one-off savings returned ↓ $11 million one-off transfers to other Votes → $31 million one-off rolled forward **2014/15** → $26 million one-off rolled forward ↑ $8 million p.a. ongoing new funding **2015/16** → $19 million one-off rolled forward	By this stage the size of expense transfers built up over time had created a 'bow wave' of one-off funding. A one-off return of $40 million to the centre in 2013 reduced the 'bow wave' of one-off funding. Significant transfers were made to support Antarctica New Zealand and a Saudi Arabia Food Partnership. Rolling forward one-off funding continued in both 2013 and 2014, although the quantum had reduced from the peak in 2012 as the level of fiscal headroom began to decline. Vote Official Development Assistance received additional funding in Budget 2014 for NZAID Programme Strategic Investment.
2016/17 → $3 million one-off transferred to another vote → 5 million one-off rolled forward ↑ $4 million p.a. ongoing new funding ↑ $7 million one-off new funding **2017/18** → $13 million one-off rolled forward ↑ $15 million p.a. ongoing new funding ↑ $53 million one off new funding for Expo 2020	Funding was secured through **Budget 2016** to open a post in Colombia. Additional time-limited funding was secured for the China Capable Public Service initiative and to support trade priorities Funding was secured through **Budget 2017** to open new posts in Sri Lanka and Ireland, and increase frontline staff. Time-limited funding for Dubai Expo 2020 was also approved.

Overview of initiatives

Capital Cost Pressures

To meet cost pressures including Health and Safety, Protected Security Requirements, modernising information management and communication systems and aged infrastructure offshore.

i. **Health & Safety:** *to bring the offshore network into compliance with the new Health & Safety legislation.*

2018/19	2019/20	2020/21	2021/22	Avg.	Capex
4.291	4.774	4.774	4.774	**4.653**	**16.500**

Defer – To meet strengthened Health & Safety obligations, the Ministry must undertake remediation work to address property-related risks offshore. A combination of top-down and bottom-up assessment identified the breadth of investment likely needed. Recommend deferring until investment required is finalized, however the cost pressure will persist and the investment needed is unlikely to materially reduce. In the interim, the Ministry may begin addressing highest risk issues through reprioritization of accumulated depreciation.

ii. **Protective Security Requirements:** *to bring the offshore network into compliance with the updated protective security requirements.*

2018/19	2019/20	2020/21	2021/22	Avg.	Capex
6.351	5.078	5.115	5.115	**5.415**	**19.000**

Defer – [1]

iii. **Unfunded property costs: Pacific, Washington, Riyadh:** *to make necessary upgrades to key properties in the portfolio where the cost of the upgrade exceeds the accumulated depreciation.*

2018/19	2019/20	2020/21	2021/22	Avg.	Capex
[33]					

Defer – [33]

Note: there is a high degree of uncertainty, capital funding required could range from [33]

iv. **Modernising information management and communications**: *to invest in modernizing the Ministry's information management and communication system.*

2018/19	2019/20	2020/21	2021/22	Avg.	Capex
[33]					

Proposals for improvements to the Ministry's information management and communication systems may deliver value, however this is not a cost pressure is not investment ready. Decisions around proposed future-state are needed to narrow scope and determine overall cost prior to any funding decisions.

Note: there is a high degree of uncertainty, capital funding required could range from [33]

[33]

2018/19	2019/20	2020/21	2021/22	Avg.	Capex
[33]					

[33]

Cost Pressures

To address the forecast deficit arising from inflationary cost pressures.

2018/19	2019/20	2020/21	2021/22	Avg.	Capex
10.595	16.435	25.432	35.908	**22.093**	-

Defer – The Ministry's forecast deficits are driven by inflationary pressures. Opportunities for 'quick wins' have likely been exhausted following restructures of the Ministry's cost model. However, recommend deferring as pressures are manageable in 2018/19 and opportunities for reprioritization have not yet been explored.

Capability – additional resourcing

To sustain a career Foreign Service onshore and offshore.

i. Additional 60 FTEs (15 p.a.)

2018/19	2019/20	2020/21	2021/22	Avg.	Capex
[33]					

Not a cost pressure, do not support – Do not support this component as it is not a cost pressure. Moreover, the strategic case for an increase in FTE has not been made, especially given MFAT received $27 million in Budget 2017 to strengthen frontline resource. We recommend meeting any emerging priorities through reprioritization.

[38]

New Embassy in Stockholm

2018/19	2019/20	2020/21	2021/22	Avg.	Capex
1.432	3.191	3.361	3.361	**2.836**	4.781

Not a cost pressure, do not support – There is a weak strategic case for opening an Embassy in Sweden. Existing trade links are relatively low and the relationship is easily managed from within the existing network. Given the recent establishment (2008) and subsequent closure of this post (2012), careful consideration of the long-term relative priority of re-opening is needed.