

# The Treasury and Office of the Minister of Finance

## Budget 2019 Information Release August 2019

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## Treasury Report: Bilateral Discussion: Minister of Finance and Minister of Conservation and Land Information

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<b>Date:</b>	29 October 2018	<b>Report No:</b>	T2018/3076
		<b>File Number:</b>	DH-32-1-1

### Action Sought

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	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<b>Note</b> the contents of this report <b>Refer</b> to Associate Minister of Finance Hon Dr Clark	Before 3.00pm, Thursday 1 November 2018

### Contact for Telephone Discussion (if required)

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Name	Position	Telephone		1st Contact
Alasdair Gardiner	Analyst	[39]	N/A (mob)	✓ (Lands)
Natalie Pepper	Analyst	[39]	N/A (mob)	✓ (Conservation)
Gwen Rashbrooke	Manager, Natural Resources	[39]	N/A (mob)	

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

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**Return** the signed report to the Treasury.  
**Refer** the report to Associate Minister of Finance Hon Dr Clark  
**Forward** the attached letter to Minister Sage (Conservation)

Note any feedback on the quality of the report

**Enclosure:** Yes (attached)

## Treasury Report: Bilateral Discussion: Minister of Finance and Minister of Conservation and Land Information

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### Executive Summary

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Minister Sage's portfolios include \$1,816 million in scope for prioritisation making the one percent prioritisation a target of \$18.2 million. Minister Sage has indicated she will identify one percent of low value spend in the Conservation portfolio but reprioritise it within the Department and not return it to the centre. Therefore, you may want to reiterate that identifying one percent of savings, for consideration of being returned to the centre, is a prerequisite for any new funding sought in Budget 2019.

Minister Sage has identified four areas for potential savings from Land Information New Zealand's non-departmental operating expenditure. We are working through the risks associated with the areas Minister Sage has identified for prioritisation.

Minister Sage may seek up to <sup>[38]</sup> in operating expenditure and <sup>[38]</sup> capital expenditure through Budget 2019 for new initiatives in Conservation and Land Information. We have limited information on the Conservation initiatives <sup>[33]</sup> and cannot comment on the extent of the collaboration so far. We have seen evidence of strong collaboration on the Land Information initiatives <sup>[38]</sup>.

In addition, in her role as Associate Minister of the Environment, Minister Sage may seek <sup>[33]</sup> for two initiatives in the Environment portfolio, one of which is expected to generate about \$114 million in revenue over the forecast period.

The majority of initiatives have been signalled as aligning to the Budget priorities. This is accurate based on our early understanding of initiatives.

Portfolio-specific talking points are included at the end of this report, and general Budget talking points are in Annex One.

## Recommended Action

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We recommend that you:

- a **note** that this paper provides information for the initiatives likely to be submitted for Budget 2019 by Minister Sage across her two portfolios of Conservation and Land Information.
- b **note** that this paper also includes information related to bids Minister Sage is leading as Associate Minister for the Environment.
- c **note** the portfolio-specific talking points at the end of this report, and the general Budget messages attached in Annex One.
- d **refer** the report to the Associate Minister of Finance Hon Dr David Clark.

*Referred/not referred*

- e **Agree** to sign the attached letter to the Minister of Conservation, in response to her prioritisation letter of 24 October.

*Agreed/not agreed*

Gwen Rashbrooke  
**Manager, Natural Resources**

Hon Grant Robertson  
**Minister of Finance**

## Treasury Report: Bilateral Discussion: Minister of Finance and Minister of Conservation and Land Information

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### Purpose of Report

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1. The purpose of this report is to provide background information and advice for your bilateral discussion with Minister Sage on Thursday 1 November between 3pm and 3:15pm.
2. This report has been prepared based on information submitted by agencies for the October check-in and the Vote Team's knowledge of the portfolios.
3. The report covers:
  - An indication of the baseline prioritisation for these portfolios.
  - New initiatives for which funding is likely to be sought in Budget 2019.
  - Cross-agency collaboration efforts.
  - Further contextual information for these portfolios.
  - Talking points for your discussion with Minister Sage.

### Baseline prioritisation

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4. Following the prioritisation guidelines agreed to by Cabinet, there is a total of \$1,816 million in scope for prioritisation in Minister Sage's portfolios over the period 2019/20 to 2022/23. This means that the one percent prioritisation target is \$18.2 million. Annex Two provides a breakdown of possible prioritisation initiatives by portfolio. Note that these figures may change following the completion of the October Baseline Update exercise.

*Table 1: Baselines in scope for reprioritisation by portfolio*

Portfolio	Total in scope for reprioritisation (\$m)	1% Target (\$m)
Conservation	\$1,566	\$15.7
Land Information	\$250	\$2.5
<b>Total</b>	<b>\$1,816</b>	<b>\$18.2</b>

### Conservation

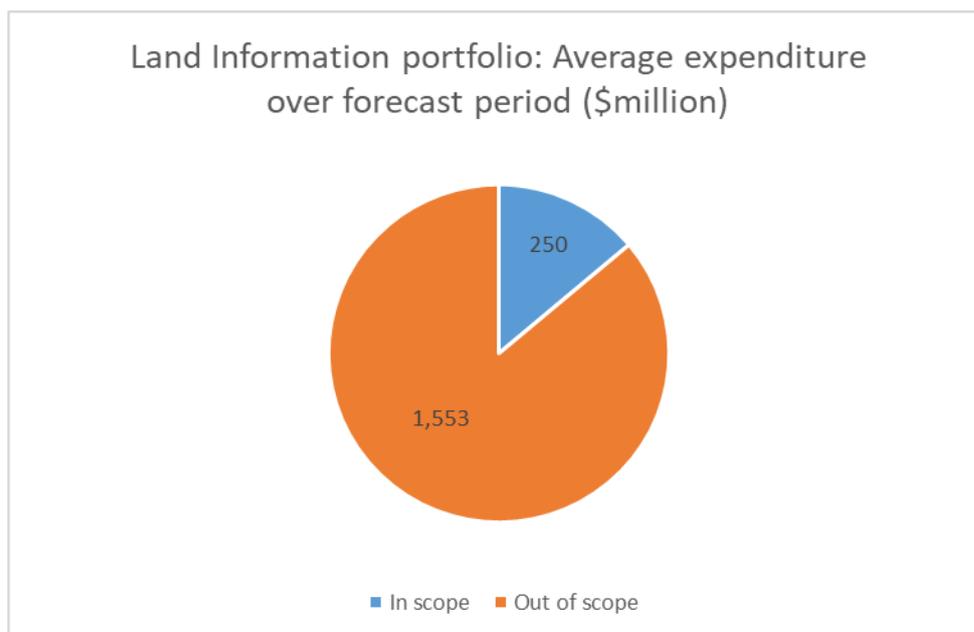
5. The Treasury and the Department of Conservation agree on the scope and target for prioritisation as set out in Table 1.
6. On 24 October 2018, Minister Sage wrote to you indicating she will identify one percent of low value spend in the Conservation portfolio but reprioritise it within the Department and not return it to the centre. The Treasury has reminded the Department that identifying one percent of savings, for consideration of being returned to the centre, is a prerequisite for any new funding sought in Budget 2019.

7. In her 24 October letter, the Minister also said she and the Department would welcome a re-evaluation of the Government's capital charge regime. We recommend you send the attached letter to Minister Sage advising that Treasury officials will work with Conservation officials to understand concerns raised in the letter regarding the capital charge regime. You may also wish to mention this to Minister Sage in your bilateral discussion.

## Land Information

8. The Treasury and Land Information New Zealand (LINZ) agree on the scope and target for prioritisation as set out in Table 1.
9. LINZ has identified four non-departmental appropriations with year-on-year underspends from which to source the required \$2.5 million of savings. LINZ has not identified any potential savings from its departmental operating expenditure. As context, LINZ internally reprioritised over \$1.6 million departmental operating expenses in 2017.
10. Vote Lands includes two appropriations for which other Ministers are appropriation Ministers. The Minister for Greater Christchurch Regeneration and the Minister for Treaty of Waitangi Negotiations are responsible for one appropriation each. These appropriations are excluded from the Land Information figure above as they are instead included in the total for respective Ministers' portfolios.

*Figure 1: Land Information portfolio – average expenditure over forecast period*



11. A high proportion of expenditure in the Land Information portfolio (84%) is out of scope of the prioritisation exercise, as shown in the graph above. This is because LINZ obtains the majority of its funding from third party sources, such as fee revenue and funding from other departments, which are out of scope

## New initiatives that may be submitted for Budget 2019

12. We understand that Minister Sage will be seeking funding for six initiatives in the Conservation and Land Information portfolios, amounting to up to [33] in operating expenses over the forecast period, and [33] in capital expenditure over ten years (see Table 2). She will also be seeking [33] for Environment initiatives led in her role as Associate Minister of Environment. The costings are estimates. Annex Two provides a breakdown of possible initiatives by initiative type.

Table 2: Overview of funding sought by Minister Sage for Budget 2019

Portfolio	Operating (Total over forecast period - \$m)	Capital (10 year total - \$m)
Conservation	[33]	-
Land Information	[38]	[38]
Environment (Associate Minister)	[33]	-
<b>Total</b>	[38]	[38]

### Conservation

13. The Department of Conservation has indicated that the Minister of Conservation is likely to submit two bids for the Conservation portfolio totalling [33]. The initiatives are:

[33]

14. We understand the Department will also be seeking funding through other agencies' initiatives, specifically:

- a. [33]
- b. An amount still to be determined from the Ministry for the Environment's Sustainable Land Use Bid.
- c. [33]  
[33]

### Land Information

15. LINZ has indicated that Minister Sage is likely to submit six bids for the Land Information portfolio totalling [38]. The initiatives are:

#### **Priority aligning**

- a. *Improved stewardship of Crown pastoral land:* This initiative seeks [33] operating to improve LINZ's information, monitoring, and transparency of approximately 1.2 million hectares of South Island Crown pastoral leases.

- b. *Satellite Based Augmentation System*: This initiative, which is part of the Enabling Innovation Package, seeks <sup>[38]</sup> operating and <sup>[38]</sup> capital to deliver a national service to improve satellite-based positioning (such as GPS).
- c. *Two Treaty Landbank initiatives*: These initiatives seek <sup>[33]</sup> operating to:
  - i. Demolish two Landbank properties (Tokanui and Old Masterton Hospitals) to meet the Crown's obligations prior to transferring the properties to Iwi through the Treaty settlement process (<sup>[33]</sup> operating).
  - ii. Support Stewardship of the Treaty Landbank to ensure the Landbank properties are maintained to the standard required to meet regulatory requirements, <sup>[33]</sup> and LINZ's agreed responsibilities in managing the Landbank Estate (<sup>[33]</sup> operating).

**Non-discretionary cost pressure**

- d. *LINZ Biosecurity Programme*: This initiative seeks <sup>[33]</sup> operating to accelerate LINZ's existing biosecurity programmes and prioritise key sites to minimise the risk of major outbreaks and mitigate long-term fiscal impacts. In particular, the funding would enable LINZ to mitigate the risk of rapid spread of aquatic weed in light of the financial, economic and ecological damage that would result.

**Out of scope**

- e. *Watts Peninsula*: This initiative seeks \$1.3 million operating and \$2.0 million capital for a Crown contribution to create a reserve at Watts Peninsula in Miramar, Wellington.

**Environment**

- 16. In addition, Minister Sage (as Associate Minister for the Environment) is also leading development of the following two initiatives in the Environment portfolio:
  - a <sup>[33]</sup>
  - b Improving New Zealand's resource efficiency through a circular economy approach.
- 17. <sup>[33]</sup>
- 18. There is also likely to be a revenue-raising aspect to the resource efficiency initiative in the Environment portfolio. The increase in the Waste Disposal Levy <sup>[33]</sup> As required by legislation, the revenue will add to the Waste Minimisation Fund to be used for projects promoting or achieving waste minimisation. <sup>[34]</sup>  
<sup>[34]</sup>  
<sup>[34]</sup>

## Cross-agency collaboration efforts

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19. You have indicated that collaboration will be a central feature of Budget 2019. The initiatives in Minister Sage's portfolios require a high level of collaboration across agencies. Our comments on agency collaboration are below.

### Conservation

20. We have limited information on the two bids Minister Sage is submitting for the Department of Conservation.
21. [33]

### Land Information

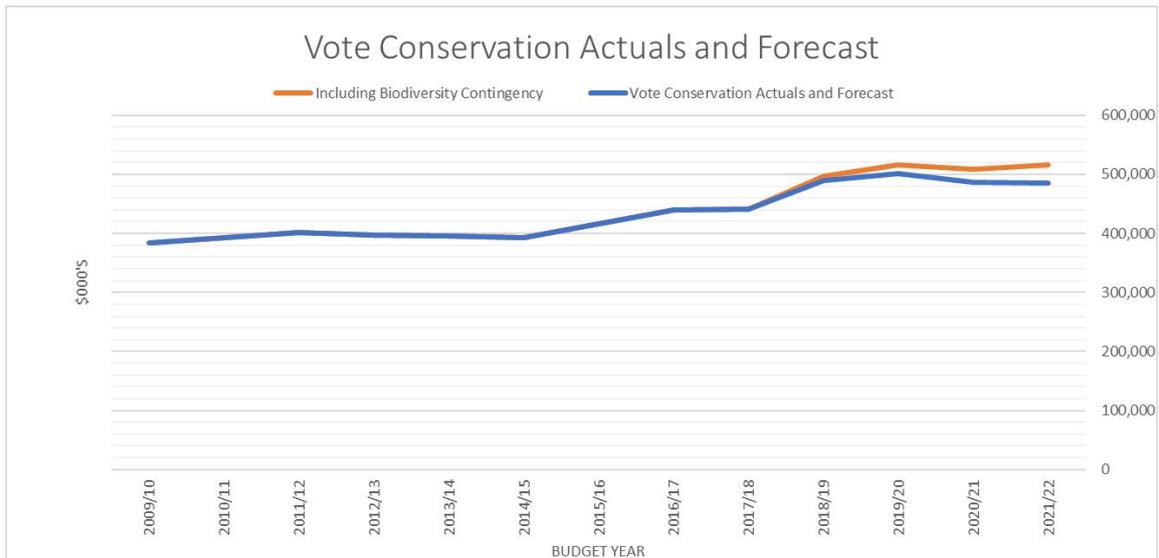
22. LINZ has been (or will be) collaborating with a range of agencies, including the Ministry of Transport, the Office of Treaty Settlements, the Department of Conservation, the Ministry for Primary Industries and the Ministry for the Environment. Collaboration has also extended beyond the Public Service, including to the Civil Aviation Authority and local government.

## Further contextual information for these portfolios

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### Conservation

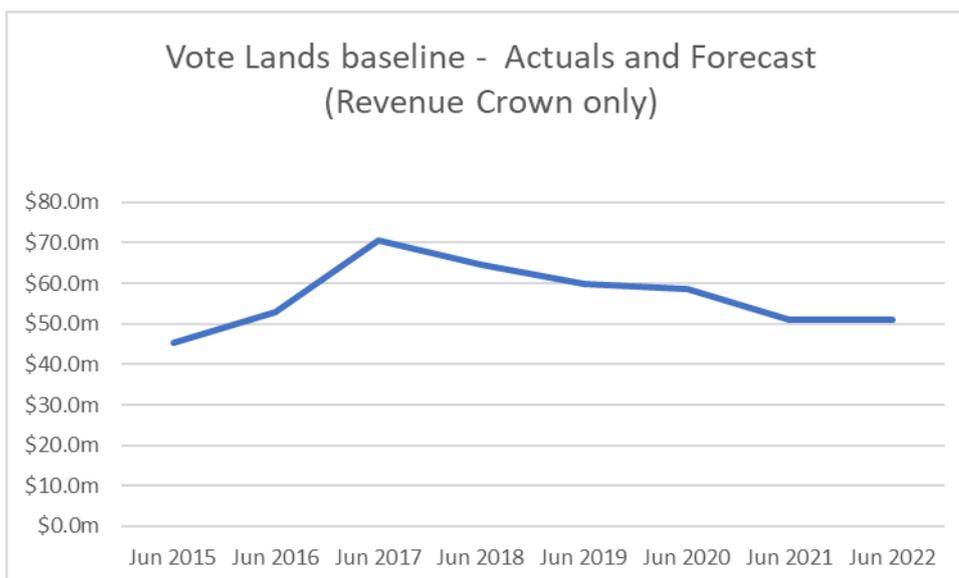
23. The Vote Conservation baseline is forecast to increase from \$441 million in 2017/18 to \$516 million in 2021/22. This is a 17 per cent increase in funding over the five year period, as shown in the graph below.
24. This increase in funding is driven by initiatives funded in Budget 2018:
- a \$81 million for predator control between 2018/19 and 2021/22, and \$23 million of ongoing funding per annum in the out years.
  - b \$22 million for organisational capability between 2018/19 and 2021/22, and \$6 million of ongoing funding per annum in the out years.
  - c \$76 million from the biodiversity tagged contingency between 2018/19 and 2021/22, and \$31 million of ongoing funding per annum in the out years.
25. The Department is currently preparing a business case to access the biodiversity tagged contingency funding. It is expected that this business case will be submitted to you and Minister Sage for approval in early November.



26. The Department of Conservation is also expecting increased funding through the establishment of the International Visitor Levy (IVL). While governance and expenditure decisions for the levy are still being finalised, it is estimated conservation initiatives could see an additional \$30 - \$40 million per annum when the levy is implemented in mid-2019.
27. The Department is undertaking a first principles review of pricing. Minister Sage did not offer any reprioritisation during the 2017-18 budget process, but indicated the Department is completing this review, which could lift the revenue that the Department generates from users of public conservation land.
28. The Department currently has excess medium term capital funding. Between 2018/19 and 2021/22, the Department has access to \$140 million in capital injections. <sup>[34]</sup>  
[34]
29. Finally, the Department is currently developing a refreshed New Zealand Biodiversity Strategy. This piece of work should outline New Zealand's biodiversity goals, and the resources required to get there.
30. In summary, any additional funding requests need to be considered in light of these increases to Vote Conservation and work already underway to refine outcomes that are being sought.

## Land Information

31. The funding requested for the Land Information portfolio represents a significant increase in funding for LINZ. The Treasury will engage with LINZ and central agencies to understand the feasibility of such a significant increase.
32. The chart below shows the Crown-funded aspects of LINZ's departmental operating baseline.



33. The forecast decrease in funding is driven by the winding down of LINZ's Canterbury recovery functions and time-limited Crown funding for the Overseas Investment Office's monitoring and enforcement functions. However, Crown funding for other activities remains largely flat over the forecast period.

### Talking points for your discussion with Minister Sage

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34. In addition to the general messages regarding the Budget process outlined in Annex One, you may want to use the following prompts to guide your conversation with Minister Sage.

#### Conservation

- Remind Minister Sage that identifying one percent of prioritisation is a prerequisite before any new funding will be considered through Budget 2019.
- Advise Minister Sage you have asked officials from the Treasury to work with the Department of Conservation to understand concerns relating to the capital charge regime (as raised in her letter of 24 October 2018).
- Seek an update on the Department's pricing review.

#### Environment

- Ask Minister Sage whether there is an opportunity to expand the use of the Waste Levy Fund <sup>[34]</sup>  
[34]

## Annex One: Talking points for Budget 2019 bilateral meetings

### Purpose

#### *The purpose of each bilateral meeting is to:*

- Go over some of the key requirements for Budget 2019.
- Understand your priorities, what initiatives you are planning on submitting for Budget 2019, how these relate to Budget priorities, and how you are working across portfolios and agencies on the initiatives.
- Understand how you are approaching the prioritisation exercise for Budget 2019.

### Expectations and Requirements for Budget 2019

#### ***Budget 2019 is our first Wellbeing Budget. For it to be successful, there are a number of changes for us as Ministers and for our agencies.***

- Budget 2019 will be anchored around five priorities, which were established based on analysis from the Living Standards Framework, sector understanding and engagement across the public sector. These will drive the development of initiatives and decision making, and ensure a wellbeing focus is embedded at the heart of the Budget.
- While priority-aligned initiatives will be the main focus, non-aligned cost pressures where the Government has little discretion will also be within scope. A high bar will be set for any initiatives outside of these two areas. This high bar means that initiatives will need to achieve a strong assessment from the Treasury in the following areas:
  - Government direction and priority-alignment
  - Wellbeing analysis and intervention logic
  - Cost understanding
  - Collaboration
- We can't achieve any of the priorities without working across portfolios and agencies. As a result, collaboration between Ministers and across agencies is expected and will be a component of how Finance Ministers and the Treasury will look at and assess initiatives and Budget packages.
- All initiatives will also be required to present a wellbeing analysis – something your agencies will be working on. This involves identifying the impacts of initiatives on the 12 wellbeing domains, the four capitals and whether the initiative adapts to or absorbs risk and builds resilience. This wellbeing analysis will also play a role in how we consider packages and make decisions through the Budget process.

### ***Budget 2019 allowances are tight.***

- It is important that we continue to stick to the Budget Responsibility Rules. But doing so, while also achieving our objectives for the Wellbeing Budget, will require considerable effort.
- After pre-commitments, we have under \$2 billion operating per annum available for Budget 2019 (as at 15 October). On the capital side, our shift to a multi-year capital allowance will provide greater flexibility, but it won't increase the total amount of funding available. There have already been significant calls on the capital allowance as well.
- The tight allowances are another reason why the prioritisation exercise of identifying low-value and non-priority aligning expenditure is important. We want to ensure that our focus is not just on marginal expenditure but also on ensuring existing expenditure supports this Government's direction and priorities.
- I also want to reinforce that pre-commitments against these allowances only further reduce the amount that we have to spend for the Wellbeing Budget. These should only be considered where there is an urgent need for funding in 2018/19 and the BBC has been exhausted.

### **Understanding each Minister's approach to their initiatives for Budget 2019**

- The rest of this meeting is about you and your portfolios.
- I'm keen to understand your priorities, what is most important to you, and what initiatives you're developing with your agencies and other Ministers for Budget 2019.
- I'm also interested in how you're approaching the prioritisation exercise, and any high level areas you're considering with this.
- Finally, I'd like to understand how you have found the Budget process so far, and confirm that you have the information and support you need.

## Annex Two: Funding sought and prioritisation review by Minister Sage by portfolio

### Conservation portfolio funding sought

Initiative type	Initiative	\$ millions		Initial comment on initiative.
		Operating funding (total over forecast period)	Capital funding (10 year total)	
<i>Priority-aligning</i> Creating opportunities for productive business, regions, iwi and others to transition to a sustainable and low-emissions economy	[33]			
<i>Priority-aligning</i> Creating opportunities for productive business, regions, iwi and others to transition to a sustainable and low-emissions economy.	[33]			
<b>Total for Conservation</b>		[33]		

### Prioritisation for Conservation portfolio

- On 24 October 2018, Minister Sage has indicated she will identify one percent of low value spend in the Conservation portfolio but reprioritise it within the Department and not return it to the centre. The Treasury has reminded the Department that identifying one percent of savings, for consideration of being returned to the centre, is a prerequisite before considering any funding for new initiatives.

### Land Information portfolio funding sought

Initiative type	Initiative	\$ millions		Initial comment on initiative.
		Operating funding (total over forecast period)	Capital funding (10 year total)	
<i>Priority-aligning</i> Opportunities for businesses, regions & iwi to transition to a sustainable and low-emissions economy	Delivering improved stewardship of Crown pastoral land in the South Island High Country	[33]	-	DoC has been consulted at a high level on this initiative.

		\$ millions		
Initiative type	Initiative	Operating funding (total over forecast period)	Capital funding (10 year total)	Initial comment on initiative.
<i>Priority-aligning</i> Supporting a thriving nation in the digital age through innovation, social & economic opportunities	Enabling Innovation Package: Improved satellite based positioning to grow an innovative, safe and efficient New Zealand (Satellite Based Augmentation System)	[38]	[38]	Extensive and ongoing collaboration between relevant agencies is occurring. The timing of this bid is driven by the potential cost saving opportunities of procuring SBAS with Australia in 2019/20.
<i>Priority-aligning</i> Lifting Maori and Pacific incomes, skills and opportunities	Treaty Landbank (stewardship)	[33]	-	The Office of Treaty Settlements is well engaged with this bid. Te Puni Kokiri still needs to be consulted. These costings are the upper limit of LINZ's estimates.
<i>Priority-aligning</i> Lifting Maori and Pacific incomes, skills and opportunities	Treaty Landbank (complex properties)	[33]	-	Collaboration is occurring between LINZ and OTS. This funding is time limited, ending in 2023/24.
<b>Total for priority-aligning initiatives</b>		[38]		
Non-discretionary cost pressure	Protecting lakes, rivers and lands from invasive weeds and pests: The LINZ Biosecurity Programme	[33]	-	LINZ has engaged with DoC, MPI and regional councils, and has their support.
<b>Total for non-discretionary cost pressures</b>		[33]	-	
Out-of-scope	Watts Peninsula	1.3	2.0	
<b>Total out-of-scope</b>		<b>1.3</b>	<b>2.0</b>	
<b>Total for Land Information</b>		[38]		

## Prioritisation for Land Information portfolio

Initiative	Funding per annum (\$ millions)	Treasury comment
Non-departmental appropriations with year on year underspends: <ul style="list-style-type: none"> <li>Land Liabilities</li> <li>Contaminated Sites</li> <li>Crown Forest Management</li> <li>Depreciation and Amortisation</li> </ul>	0.625	Amber-rated by LINZ for feasibility and risk. We are engaging with LINZ on the risks and opportunities relating to the areas that LINZ has identified for reprioritisation.
<b>Total Prioritisation</b>	<b>0.625</b>	

## Environment portfolio funding sought

Initiative type	Initiative	Operating funding (total over forecast period) (\$million)	Initial comment on initiative
<b>Minister Sage-led</b>			
<i>Priority-aligning</i> Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy	[33]	[33]	
<i>Priority-aligning</i> Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy	Improving New Zealand's resource efficiency through a circular economy	[33]	
<b>Total for Environment (led by Minister Sage)</b>		[33]	

[40]