

# The Treasury

## Budget 2020 Information Release

### July 2020

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- [5] 6(d) - to prevent endangerment of the safety of any person
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- [29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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**Treasury Report:** Budget 2020 Bilateral with Minister of Foreign Affairs,  
State-owned Enterprises and Racing

<b>Date:</b>	11 November 2019	<b>Report No:</b>	T2019/3596
		<b>File Number:</b>	DH-10-0-11 (FY 2019 - 2020)

**Action sought**

	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance (Hon Grant Robertson)	<b>Discuss</b> the contents of this report with Minister Peters at your bilateral on 18 November 2019.	11 November 2019

**Contact for telephone discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Hugo Van Dyke	Analyst, International	[39]	N/A (mob) ✓
Mary Llewellyn-Fowler	Senior Analyst, International		N/A (mob)

**Minister's Office actions (if required)**

<b>Return</b> the signed report to Treasury.
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Note any feedback on the quality of the report

**Enclosure:** No

# Treasury Report: Budget 2020 Bilateral with Minister of Foreign Affairs, State-owned Enterprises and Racing

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## Executive Summary

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At 3pm on Monday 18 November you will be meeting with Minister Peters to discuss his Foreign Affairs and Trade, State-owned Enterprises and Racing priorities for Budget 2020.

Minister Peters has submitted no cost pressure initiatives for Budget 2020. Therefore, we recommend you use this time to discuss the new initiatives for which he is seeking funding in Budget 2020:

- *Foreign Affairs and Trade*: improving staff accommodation and chanceries in the Pacific; increasing Official Development Assistance.
- *Racing*: [33]

We also understand that Minister Peters *may* submit bids for:

- *Foreign Affairs and Trade*: supporting policy and leveraging opportunities for New Zealand's hosting of APEC 2021; [1,33]  
responding to the forthcoming recommendations of the Trade for All Advisory Board.
- *State-owned Enterprises*: [33]

## **Recommended Action**

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We recommend that you:

- a **note** that Minister Peters has not submitted any cost pressure initiatives;
- b **note** that Minister Peters will be seeking funding for new initiatives in the Foreign Affairs and Racing portfolios, and possibly in the State-owned Enterprises portfolio;
- c **use** the talking points in Annex A to guide your discussion with Minister Peters.

Mary Llewellyn-Fowler

**Senior Analyst**

Hon Grant Robertson

**Minister of Finance**

# Treasury Report: Budget 2020 Bilateral with Minister of Foreign Affairs, State-owned Enterprises and Racing

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## Purpose of Report

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1. This report provides information and advice for your Budget 2020 bilateral discussion with Minister Peters, which is taking place at 3pm on 18 November 2019.
2. There have been no cost pressure bids from any of Minister Peters' portfolios.<sup>1</sup> Therefore, we recommend you use this time to discuss the new initiatives for which he is seeking funding in Budget 2020.
3. We are yet to formulate a view on these initiatives.
4. Attached to this report are two annexes:
  - Annex A provides talking points for your bilateral discussion.
  - Annex B provides a full list of the Foreign Affairs and Trade initiatives selected for your request to Minister Peters on how they are delivering on past Budget commitments.

## Context

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### Foreign Affairs and Trade portfolio

5. For 2018/19, the Ministry of Foreign Affairs and Trade's ('MFAT') annual operating expenditure was \$1,245,442 million and its annual capital expenditure was \$53 million. This included:
  - *Vote Foreign Affairs and Trade*: \$367.767 million departmental output; \$50.360 million departmental capital; \$38.856 million non-departmental output; \$58 million non-departmental other; and \$2.800 million non-departmental capital. The largest component of the departmental output is for policy advice and representation in other countries and in international institutions.
  - *Vote Official Development Assistance (ODA)*: \$72.347 million departmental output and \$707.876 million non-departmental other. Of that non-departmental expenditure, approximately 60% is spent on grant funding in the Pacific, which is an important component of the Government's Pacific Reset strategy.

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<sup>1</sup> As at 10am 11 November, cost pressure bids seeking a combined total of \$14.97 billion operating over the forecast period (\$3.74 billion average per annum), and \$6.11 billion total capital have been submitted across all Ministerial portfolios.

6. The following tables summarise the total baseline increases over the last three Budgets, by Vote:

*Vote Foreign Affairs and Trade*

<b>Budget Estimates</b>	<b>Total appropriations (4 year annual avg) at Budget (\$m)</b>	<b>% increase (decrease) in total appropriations (4 year annual avg) from previous Budget (\$m)</b>
Budget 2017	491.114	
Budget 2018	575.257	17%
Budget 2019	595.165 <sup>2</sup>	3%

*Vote ODA*

<b>Budget Estimates</b>	<b>Total appropriations (4 year annual avg) at Budget (\$m)</b>	<b>% increase (decrease) in total appropriations (4 year annual avg) from previous Budget (\$m)</b>
Budget 2017	664.641	
Budget 2018	826.917	24%
Budget 2019	889.170	8%

7. Within Vote Foreign Affairs, the most significant new funding provided in Budgets 2018 and 2019 was for:
- a *APEC 2021 hosting*: \$184.410 million. Despite the recent New Zealand International Convention Centre fire, we understand that APEC preparations are still progressing well. Until there is an assessment on the convention centre's opening date, it will remain the preferred venue. There are, however, contingency plans for alternative venues, which MFAT is progressing. We also understand that the cost of these contingencies can be met within existing funding.
  - b *Meeting departmental pressures and increasing capability*: \$43.545 million in Budget 2018 for cost pressures across posts (\$21.545 million), and for increasing departmental capability to support the delivery of the Pacific Reset (\$22 million) – this included establishing 14 new Pacific-focused diplomatic and development postings, 10 in the Pacific itself and four in Beijing, Brussels, New York and Tokyo.
8. Within Vote ODA, new funding of \$842.765 was provided to increase ODA to 0.28% of Gross National Income ('GNI'), the majority of which has been directed towards the Pacific Reset. We understand this funding has largely been committed to projects in the region.

<sup>2</sup> The last year of the forecast is 22/23, which is after the APEC 2021 Multi-Year Appropriation ends. If the year 22/23 is removed from the forecast the average and percentage increase rises to \$613 million and 7%, respectively.

### *Cost pressures*

9. Minister Peters has not submitted any cost pressure initiatives for Budget 2020 for the Foreign Affairs and Trade portfolio.

### **Racing portfolio**

10. The Racing portfolio is one of seven portfolios supported by the Department of Internal Affairs (DIA), within Vote Internal Affairs.<sup>3</sup>
11. Minister Peters is responsible for appropriations totalling \$4.490 million operating in 2019/20, consisting of \$0.990 million for racing safety grants, and \$3.5 million (for 2019/20 only) to assist with the reform of the New Zealand racing industry. Funding for racing policy advice (\$1.179 million for 2019/20) is provided through a category in the Policy Advice multi-category appropriation, for which the Minister of Internal Affairs is the appropriation Minister.
12. Within Vote Racing, new funding provided in Budgets 2018 and 2019 was for:
  - a *Budget 2018*: \$4.8 million total operating over the forecast period in tax deductions for bloodstock investors, to contribute to the development of the racing industry;
  - b *Budget 2019*: \$46.5 million total operating over the forecast period to support reform of the New Zealand racing industry. This consisted of \$3.5 million contribution to the Racing Industry Transition Agency, and \$43 million from the repeal of the totalisator duty (betting levy) currently paid to the government by the New Zealand Racing Board.
13. The focus of the portfolio over the last 18 months has been on reform of the New Zealand racing industry, in response to recommendations made by Australian racing industry expert John Messara in late 2018.
14. In April 2019, Cabinet agreed to the first phase of legislative reforms. These were implemented in the Racing Reform Act that received Royal assent on 26 June 2019, which included reconstituting the New Zealand Racing Board, and measures to increase the financial sustainability of the industry.
15. The second phase of legislative reforms was agreed in October and November 2019, with key aims of making the racing industry more commercially-oriented (rather than community oriented) to drive its own revitalisation, while also reducing the need for future government intervention in the industry.

### *Wider DIA funding context*

16. DIA supports seven portfolios through Vote Internal Affairs, and a summary of its current baselines for 2019/20 is outlined in the table below:

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<sup>3</sup> The other portfolios are Internal Affairs, Local Government, Government Digital Services, Ethnic Communities, Community and Voluntary Sector, and Ministerial Services.



(\$m)	Departmental	Non-departmental
Operating	506.168	152.162
Capital	103.100	22.490

17. Nearly 40% of DIA's departmental baselines are funded through cost recovery (e.g. through fees for passports and other identity documents). Policy advice and ministerial servicing across all DIA portfolios are provided through respective multi-category appropriations that are the overall responsibility of the Minister of Internal Affairs (Hon Tracey Martin). Other significant departmental funding includes support for the National Library and Archives New Zealand, the Government Chief Digital Officer, regulation of charities and online content, and support for various commissions of inquiry.
18. Non-departmental baselines include funding for community grants schemes, support for Crown entities and local government, rebates for low-income ratepayers, and fees for various commissions of inquiry.

#### *Cost pressures*

19. Minister Peters has not submitted any cost pressure initiatives for Budget 2020 for the Racing portfolio, and wider Vote Internal Affairs cost pressure initiatives do not directly impact on the Racing portfolio.

#### **State-owned Enterprises portfolio**

20. As Minister for State Owned Enterprises, Minister Peters is responsible for a single multi-category appropriation "Crown Company Monitoring Advice" in Vote Finance.
21. As at 2019 October Baseline Update total operating expenses for 2019/20 are \$5.769 million.
22. Total forecast baselines for the State-owned Enterprises portfolio have remained relatively flat over the last three Budgets, as illustrated in the below table:

Budget Estimates	Total appropriations (4 year annual avg) at Budget (\$m)	% increase (decrease) in total appropriations (4 year annual avg) from previous Budget (\$m)
Budget 2017	4.776	
Budget 2018	4.925	3%
Budget 2019	4.869	-1%

#### *Cost pressures*

23. Minister Peters has not submitted any cost pressure initiatives for Budget 2020 for the State-owned Enterprises portfolio.

## New initiatives

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### Foreign Affairs and Trade

24. We understand Minister Peters will be submitting bids for capital expenditure in the Pacific and for an increase in ODA.

#### *Capital expenditure in the Pacific*

25. This bid will be for investing in staff housing and chanceries in the Pacific. The amount is not yet clear. We understand that MFAT may be able to fund some of this expenditure through existing cash balances. We note, however, that much of the Pacific property portfolio is over 40 years old and some of the staff accommodation is currently leased,<sup>4</sup> so depreciation may not be sufficient to fund upgrades.

#### *Increasing ODA*

26. We understand this bid will be to maintain ODA at 0.28% of GNI now that the funding we provide the Cook Islands cannot be counted as ODA.
27. On 1 January 2021, the Cook Islands will reach developed nation status according to the Organisation for Economic Cooperation and Development (OECD). This means the development assistance it receives will no longer be counted as 'official development assistance' by the OECD's Development Advisory Committee (DAC), which defines, measures and compares official development assistance provided by OECD member countries.
28. Between 1 January and 30 June 2024, New Zealand is expected to give \$88 million to the Cook Islands from Vote ODA. As this funding will no longer count as ODA according to DAC criteria, it will reduce our ODA/GNI figure. We expect that the Minister will make a bid to offset that reduction, in order to maintain New Zealand's 'DAC-able' ODA at 0.28% of GNI.
29. It may be possible to offset this reduction without entirely new funding. Treasury will be providing you with advice this week requesting your agreement to seek \$41 million in capital expenditure through Budget 2020 to fund part of New Zealand's contribution to the World Bank capital increase package (you deferred seeking this funding from Budget 2019 – T2018/3062 refers). Treasury and MFAT's initial assessment is that this will be partially DAC-able ODA<sup>5</sup>, therefore offsetting some of the reduction caused by the Cook Islands' graduation to developed status.

#### *Other initiatives*

30. As well as these two initiatives, we also understand Minister Peters may seek funding for supporting policy and leveraging opportunities for APEC 2021 (detailed below),  
[1,33] and in relation  
to the forthcoming recommendations of the Trade for All Advisory Board.<sup>6</sup>

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<sup>4</sup> MFAT is looking to move from a leasing to owning model in some regions, including the Pacific, due to the lack of supply (and relatively high costs) in those regions.

<sup>5</sup> In the past, MFAT has not considered these types of capital contributions as DAC-able ODA, but both MFAT and Treasury's current assessment is that considering these types of capital contributions as ODA will align us better with the practice of other donors

<sup>6</sup> The Trade for All Advisory Board is expected to release its final report on 28 November 2019  
T2019/3596

31. APEC New Zealand has developed a business case for a budget bid for 'policy and leveraging opportunities' from APEC 2021. The policy component of the bid is for funding for agencies other than MFAT to contribute to the policy component of APEC 2021. We understand that the total amount will be \$4.33 million. The leveraging bid is composed of initiatives designed to maximise the benefits of hosting.<sup>7</sup> It is likely to be \$7.764 million.
32. The leveraging component is composed of a number of small and separable initiatives so there will be opportunities for scaling. If there is no bid, or the bid is unsuccessful, we understand that there will be opportunities for some spending to be reprioritised within MFAT and other agencies' baselines and, with respect to the policy component, agencies may be preparing their own bids.

## **Racing**

33. In order to support additional ongoing Ministerial responsibilities in implementing racing reforms, we understand that the Minister intends to submit a bid for a new initiative. This does not appear consistent with the stated aim of reducing the need for future government intervention in the racing industry.
34. DIA is carrying out further work to determine these additional costs, but at this stage additional Ministerial involvement is likely to include:
  - a additional appointments and regulation-making processes;
  - b additional costs of last-resort decision making by the Minister on racing club property, and
  - c Ministerial decision-making on new racing wagering products.

[33]

## **State-owned Enterprises**

[33]

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<sup>7</sup> The events that would be funded from the leveraging bid would result in APEC 2021 having a larger geographical spread. It is not clear whether the bid will consider the implications of this on security costs.

## Annex A: Talking Points for your Bilateral with Minister Peters

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### *Foreign Affairs and Trade*

[33]

### *Racing*

[33]

### *State-owned Enterprises*

[33]

## Annex B: Delivering on past Budget Commitments – Initiatives within Scope

### Foreign Affairs and Trade

Budget	Title	Funding Allocated		
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)
2018	Foreign and Trade Policy Challenges – meeting departmental pressures	13.256	53.022	-
2018	Foreign and Trade Policy Challenges – increasing departmental capability	15.625	62.5	-
	<b>Total</b>	<b>28.881</b>	<b>115.522</b>	<b>-</b>

### Official Development Assistance

Budget	Title	Funding Allocated		
		Opex Avg <sup>8</sup> (\$m)	Opex Total (\$m)	Capex Total (\$m)
2018	Increasing our aid to tackle the biggest global and regional challenges of our time	178.554	714.217	-
2019	Increase New Zealand's Official Development Assistance: Increasing New Zealand's Investment to Deliver on the Pacific Reset and to Demonstrate Global Leadership	32.137	128.548	-
	<b>Total</b>	<b>168.553<sup>9</sup></b>	<b>842.765</b>	<b>-</b>

<sup>8</sup> For Budget 2018, 18/19 to 21/22, for Budget 2019, 19/20 to 22/23.

<sup>9</sup> These totals do not add because the Budget 18 initiative include 18/19 (for which \$122.357 million was committed), and the Budget 19 initiative included 2023/24 (for which \$69.297 million was committed).