

# The Treasury

## Briefing to the Incoming Minister of Finance

December 2020

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## How to use this document

This briefing gives you a summary of your role, and the responsibilities and processes that come with it. It outlines how the Treasury can support you in your role and provides some contextual information about us. We will provide you a list of key decisions and critical issues that we would like to engage with you on, ahead of our first meeting with you.

Please note that this document is not exhaustive. We can provide further information on any part of this briefing.

# 1 Context

New Zealand is in the midst of a global public health crisis and severe recession that has left many New Zealanders, and the country as a whole, worse off. COVID-19 has exacerbated existing weaknesses in the economy and introduced new challenges.

There are critical decisions to make in the short term to minimise the wellbeing impact on New Zealanders and to position the country for recovery. In addition, changes to structural policy settings are needed to create a faster-growing, more equitable and sustainable economy over the medium and long term.

Government will need to make strategic choices about what to prioritise and what to stop or delay. Significant work already underway places pressure on public service agencies and on Cabinet and House time; and existing fiscal pressures have been exacerbated by the COVID-19 impact and response. The right settings for private sector will be key to supporting recovery; engagement will help Government to understand these settings.

We set out key features of the strategic context below.

## New Zealand's economic performance pre-COVID-19

New Zealand has generally performed well against the Treasury's Living Standards Framework and across the domains of wellbeing used by the OECD.

Prior to COVID-19, New Zealand sat in the top third of the OECD for all social capital metrics, and many of the human and natural capital metrics. However, our position for nearly all financial and physical capital metrics was in the middle. Our housing costs as a percentage of disposable household income are among the highest in the OECD. Māori and Pacific populations experienced worse outcomes across most domains of wellbeing.

Pre-COVID strengths and weaknesses include the following:

- **Social and human capital:** We have a safe, multicultural society, with high levels of trust in each other and in government, which we have been able to leverage in responding to COVID-19. We enjoy high levels of subjective wellbeing, and exceptional access to natural beauty. International comparisons show we have a highly skilled population with high life expectancies. However, these averages hide significant differences. Income distribution is more unequal than the OECD average; and education, health and housing outcomes vary significantly by socioeconomic background and ethnicity. The ability for some Māori and Pacific peoples to achieve their aspirations is impeded by the fact that education, health and social welfare systems have not addressed multifaceted, intergenerational disadvantages. While we have relatively low levels of elder poverty thanks to universal superannuation, we do not perform well on many outcomes for children, including child poverty, child abuse and teenage suicide rates.

- **Financial and physical capital:** Our economy has low barriers to trade, with low levels of labour market regulation by international comparison and high ‘ease of doing business’. However, competitive pressure in some parts of the economy appears to be weak, especially for locally focused firms and for services firms. By international comparison we have few very large firms, low (though rising) levels of R&D and moderate (though rising) levels of private sector investment. Low interest rates and significant undersupply of housing stock (due to regulatory and planning constraints paired with rapid population growth) contribute to high house prices; and housing faces a lower effective tax rate than many other investments. Despite very low unemployment pre-COVID-19, GDP growth in recent years has been primarily driven by increased labour supply – due mainly to immigration – rather than higher rates of investment and productivity. New Zealand has been diversifying its trade (though primary products still comprise around two-fifths of exports) and has benefited from high terms of trade, which have lifted living standards by enabling us to buy more imports with our exports. However, this has not changed our underlying weak productivity and wage growth. New Zealand’s GDP per capita is about 30% below the average of the top half of the OECD, where it has been since it settled in the mid-1990s. Labour productivity growth has slowed since the Global Financial Crisis, with average annual labour productivity in the measured sector of 1.0% between 2008 and 2019. Despite this weaker relative economic performance, pre-COVID-19 New Zealand’s fiscal position was stronger than that of most advanced economies – though facing significant medium- to long-term fiscal pressures from an ageing population.
- **Natural capital:** While New Zealand has abundant natural resources, our greenhouse gas emissions per capita are the fifth highest in the OECD, reflecting the high level of methane emissions in our large primary sector and some carbon-intensive manufacturing. Implementing freshwater reform will be critical to improving quality, particularly in agricultural and urban areas. Climate change will exacerbate environmental challenges in the coming decades through increased flooding, drought and erosion.

The interrelated challenges of low productivity growth, relatively low incomes, expensive housing, child poverty and growing pressure on natural resources are complex and hard to solve. Many of the interventions to tackle them carry risks. However, failing to tackle them is also risky or harmful.

## COVID-19 has materially shifted the economic context...

**The economic impact of the COVID-19 crisis has been severe.** The Treasury forecast at the Pre-election Economic and Fiscal Update (PREFU, September 2020) that the economy would shrink by 3.1% in the year to June 2020 and 0.5% in the year to June 2021. Our preliminary Half Year Economic and Fiscal Update (HYEFU) forecasts show a smaller downturn and faster recovery, but the basic shape of the challenge remains the same.

There is a high level of uncertainty around the economic forecasts due to the path of the disease, but **we will be much poorer as a country than we expected to be prior to COVID-19.**

New Zealand’s cumulative nominal GDP over the five years to June 2024 is now forecast to be around \$140 billion lower than was forecast at the 2019 HYEFU.

The economic policy **response has been effective to date in softening the impact on households and firms**. However, the economy is now facing a significant period of economic adjustment and higher unemployment, and a slow and uneven recovery.

This economic shock is occurring in a macroeconomic context that was already unusual and is now more so. Interest rates were already very low; with traditional monetary policy hitting its lower bound, alternative monetary policy tools are being deployed alongside fiscal policy interventions. Inflation was already low and will likely fall further. COVID-19 further complicates the picture by introducing significant spare capacity while at the same time limiting the supply of skilled migrants.

### ...and could exacerbate some of the challenges

The **economic impact has fallen unevenly**.<sup>1</sup> Businesses and workers in the sectors heavily exposed to border closures and Alert Level restrictions have been most affected. In particular, international education and tourism face a lengthy period of weak demand due to the border closure, while hospitality is also further affected by Alert Level restrictions. Conversely, some parts of the economy are growing and the primary sector has held up well so far. But assuming border flows remain restricted for some time, some primary sector firms may have to reduce their reliance on migrant labour. It is not clear what impact this will have on the international competitiveness of those firms – this will depend on the extent to which the firms can use domestic labour, or capital investment, in place of migrant labour.

Youth employment has been heavily affected. The differential impacts by sex and ethnicity are not yet clear – varying messages in the data make us hesitant to suggest any definitive statements. Impacts within demographic groups are likely to differ and be complex. However, the risk of exacerbating existing inequities is high. The employment of Māori and Pacific people tends to be disproportionately affected in economic downturns so there are risks that these population groups will be more adversely affected as the recession continues. These communities also have other factors that can leave them more susceptible to worse outcomes from COVID-19. The COVID-related reduction in school attendance for 2020 has also been more noticeable for Māori and Pacific students. Women tend to be more represented in the workforce of service sectors most heavily impacted by border closures and Alert Level restrictions.

Regions most reliant on international tourism, including Otago and the West Coast, have been more affected than those with a lesser international tourism footprint or larger primary sector presence, such as Taranaki and Manawatu-Wanganui. Auckland was also impacted by its second period of lockdown.

There is uncertainty on how economic contraction and rising unemployment may interact with house prices, and what impact this could have on distributional outcomes. Given that interest rates are likely to remain at record-low levels for several years, and that we have a considerable existing housing shortage, house prices could continue to rise for some time. This is already exacerbating the challenge of finding affordable housing for low-income households or those who have lost income in the downturn.

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<sup>1</sup> The Treasury's July 2020 report He Kāhui Waiora presents the results of a 'rapid evidence review' of the potential impacts of COVID-19, and the associated economic recession, on the wellbeing of New Zealanders.

## We expect to live with COVID-19 for some time...

New Zealand has done exceptionally well in managing COVID-19 so far. The ongoing impact of the virus on economic and social activity, including border openings, will depend on medical technologies such as a widely available and effective vaccine, significantly improved treatment options, or a test that rapidly and accurately determines infection.

The Treasury's central scenario at PREFU assumes that New Zealand's border restrictions are lifted from 1 January 2022, with some limited international travel permitted from mid-2021. We indicated that this might be consistent with the development and deployment of a vaccine or treatment within the next year. But we need to be resilient to the possibility that this does not occur.

## ...which means the path of the virus and its effective management are critical to the economic outlook and living standards in the near term

The Government has already made significant investments in health system capacity and capability (eg, testing, tracing, border controls and Alert Levels). These investments allowed the resurgence in Auckland to be addressed without the need for another prolonged nationwide lockdown. Additional measures could be taken to create further opportunities for safe economic activity while relaxing border controls and avoiding an escalation in Alert Levels.

Three focus areas for an economic strategy could support near-term economic recovery and longer-term reallocation of resourcing:

- **Investing in resilience:** Further investments in system resilience will reduce the need to raise Alert Levels in the future and may allow for a faster relaxation of the border controls. We see opportunities to further strengthen health sector capacity (especially surveillance and testing capacity), refine the Alert Levels to reflect the lessons learned over the past six months, and further encourage behavioural change that will reduce the risk of transmission at all Alert Levels. These types of opportunities – which will enable us to manage the virus while allowing more economic and social activity – will make the response easier to sustain with the public over time.
- **Managing potential resurgence events:** Clarifying the package of economic measures that adapt to support activity at different Alert Levels could help to reduce uncertainty and build confidence. This would require decisions around the key supporting measures – including the wage subsidy, and individual and firm support – prior to another possible resurgence.
- **Supporting a resumption in growth, higher employment and living standards:** With limited scope for monetary policy to support growth, we see a case for continued temporary and timely measures to support a more rapid return to full employment. There are a number of choices that can be resilient to resurgence risks and minimise labour market scarring while also enabling adjustment across sectors, firms and individuals. The ideal measures would boost short-term growth, while also taking steps to address long-term challenges relating to productivity and the management of New Zealand's capital stocks: natural, financial/physical, social and human.

Across these areas of focus, **investing in social capital** will be critical for successful delivery. It will be important to continue building trust and confidence in the overall response measures, requiring the Crown to engage effectively with Treaty partners and with other affected groups.

## The long-term fiscal challenge is stark

**The strong Crown balance sheet position prior to the pandemic has helped absorb the fiscal impact from COVID-19.** Lower growth and a large fiscal response mean a significant deterioration in the fiscal position. Annual OBEGAL deficits average around \$20 billion over the next four years. Net core Crown debt is forecast to reach 55.3% of GDP by the end of the forecast period, although debt remains low when compared with other OECD economies.

**In the short term, fiscal policy will need to support economic activity, particularly as monetary policy is approaching its limits.** At present, the risks of fiscal policy doing too little outweigh the costs of it doing too much and debt levels are manageable. However, it is critical any fiscal interventions are temporary, while remaining aligned with the longer-term economic strategy and offering value for money.

**The cost of COVID-19 will compound the existing long-term challenges for the Government's fiscal position.** Even with lower interest rates, the fiscal position will become unsustainable in the medium term if the costs of public services continue to increase at historical rates and/or revenue is not increased as a share of the economy. These pressures are driven by an ageing population and cost increases in health and education; they existed before COVID-19, but a smaller economy and higher debt have brought the challenges forward. Though measures to enhance productivity remain important, even under optimistic scenarios higher economic growth alone will be insufficient to secure long-term fiscal sustainability. Strong management of revenue and expenses is required.

**Slowly rebuilding fiscal buffers is a task best undertaken once the economy recovery is more secure.** Maintaining short-run controls on ongoing spending will be important so as not to exacerbate these challenges.

**Prioritisation and value for money are more important than ever.** To achieve meaningful progress on addressing New Zealand's long-standing challenges while maintaining a sustainable fiscal position, the Government will need to:

- shift resources to the drivers that matter most for lifting living standards, stopping or delaying other areas of work
- set a high bar for the value for money of any new or reprioritised expenditure.

Many of our long-standing economic challenges need regulatory reform to shift the incentives in the system. During an extended period of constrained spending, quality regulation will play a larger role in achieving the Government's objectives. Engagement with the private sector, for example on regulatory settings to support growth, will help identify more immediate pressures and opportunities. But there will be difficult trade-offs for Ministers to consider.

## Building back better will require ongoing reform

A successful and resilient COVID-19 economic recovery strategy will support the desired longer-term shifts in the economy rather than work against them. In the long run, 'building back better' means setting in train the few, crucial, long-term living standards-enhancing changes even as we continue to fight COVID-19.

We look forward to advising you as you consider these issues in the coming weeks and months. Attached to this briefing you will find a pack of slides providing a high-level overview of areas most closely related to your Finance portfolio, and selected others related to core elements of the Living Standards Framework. We are ready to brief you in more detail on these and other topics at your convenience.

## 2 Your Ministerial responsibilities

As the Minister of Finance, you have a key role in all aspects of the economy, and extensive influence in Government decision-making, and also represent New Zealand internationally. Being the Government's lead Minister on financial and economic policy gives you a wide-ranging ambit. There are some specific responsibilities related to leading the annual Budget cycle and associated requirements to be transparent about the Government's finances. You are the Minister with responsibility for macroeconomic policy settings and banking supervision policy, and you also set the Government's economic strategy (in consultation with other Ministers).

This broad economic leadership role means that you have interests across other Ministers' portfolios – beyond just potential fiscal impacts – and through the Budget, Cabinet committees, and related processes you have considerable influence over those portfolios. You have direct levers such as financial decisions on spending and holding overall responsibility for the Crown's finances (including all revenue), plus less direct levers such as engagement with your Ministerial colleagues.

You are the only Minister with the ability to provide guarantees and approve Crown borrowing. This is particularly important given that Crown debt is forecast to increase markedly as a result of responding to the COVID-19 pandemic. You help set the parameters for how the Treasury, on behalf of the Crown, manages the asset and debt portfolio, which reflects your 'risk appetite'.

You also have the ability to veto any proposed bill, amendment or motion that would have more than a minor impact on the Government's finances.

The Minister of Finance is New Zealand's Governor at major international financial institutions including the International Monetary Fund and World Bank. International investors, rating agencies and commentators will also look to you for a steer on New Zealand's economic direction and prospects. Specific policy responsibilities here relate to your role in overseas investment and in managing New Zealand's debt programme.

We will support you in all your specific responsibilities and in your broader role across government. The Treasury uses the Living Standards Framework as a frame for our advice. This ensures our advice considers potential economic and fiscal impacts, as well as broader considerations such as social and natural capital, and wellbeing impacts.

## 2.1 Organisations and legislation

You are responsible for the following organisations:

<b>Departments</b>	Te Tai Ōhanga – The Treasury
<b>Crown entities</b>	Government Superannuation Fund Authority Guardians of New Zealand Superannuation New Zealand Productivity Commission
<b>PFA Schedule organisations</b>	New Zealand Government Property Corporation (the legal owner of New Zealand House in London) (Schedule 4)
<b>Other organisations</b>	Reserve Bank of New Zealand Government Superannuation Appeals Board Community Trusts

Annex A provides you with a list of legislation administered within the Finance portfolio.

## 2.2 Public Finance Act roles and responsibilities

One of your key responsibilities under the Public Finance Act 1989 (PFA) is to deliver the Government's annual Budget. The PFA sets out your role in relation to the annual Budget and gives you a number of other functions, duties and powers.

We will provide further advice on a range of options to consider before agreeing your Budget Strategy for Budget 2021, including matters of implementation capacity and ensuring value for money.

### The Government's annual financial cycle

The Crown must not incur expenses or capital expenditure or make capital injections without Parliament's approval, so your input is required throughout the year. As well as the main responsibility of delivering the Budget, your key responsibilities over the annual financial cycle (with particular reference to the current financial year where relevant) are to:

- arrange to be published and present to the House a Half Year Economic and Fiscal Update (HYEFU) prepared by the Treasury between 1 November and 31 December 2020
- arrange to be published and present to the House the Budget Policy Statement (BPS) by the statutory deadline of 31 March 2021
- introduce the Appropriation (2020/21 Supplementary Estimates) Bill and present the 2020/21 Supplementary Estimates so that the Bill can be passed before the end of the 2020/21 financial year
- introduce the Appropriation (2021/22 Estimates) Bill and deliver the 2021 Budget by the statutory deadline of 31 July 2021. On the same day you must present the Government's Fiscal Strategy Report (FSR), a Budget Economic and Fiscal Update (BEFU) prepared by the Treasury, and the Estimates and supporting information, including a report on child poverty.

### Actual and forecast financial statements

Under the PFA, the Treasury prepares the Financial Statements of the Government, publishing monthly and annual (year-end) financial statements for the government reporting entity. These provide information on the government's assets and liabilities, revenue and expenses and cash flows.

We also prepare economic and fiscal updates (often referred to as BEFU, HYEFU and PREFU), which include forecast financial statements. You have responsibility for aspects of those updates, in particular for the disclosure of Government decisions and other circumstances with material economic or fiscal implications.

## Fiscal responsibility

Under the PFA, the Government must pursue its policy objectives in line with the principles of responsible fiscal management. The Government may depart from these principles, but only if the departure is temporary, and the PFA requires you to state the reasons why, plus how and when you will return to the principles.

You also need to set objectives that will guide the Government's Budget decisions. There are regular reporting obligations, in addition to those in the annual financial cycle, that hold the Government to account. These are:

- a statement on the long-term fiscal position, which is prepared by the Treasury every four years; the next statement is due by 30 September 2021
- an investment statement also prepared by the Treasury every four years; the next statement is due by March 2022
- a Wellbeing Report prepared by the Treasury every four years; the first report is due by the end of 2022
- a Pre-election Economic and Fiscal Update (PREFU) prepared by the Treasury and published between 30 and 20 working days before Election Day.

## The Treasury's role is to assist you in meeting requirements

There are a number of processes within the Treasury and the executive government to assist you in meeting your responsibilities under the PFA. Those that relate to the annual Budget include:

- the Fiscal Management Approach, which is a set of rules that enables the Minister of Finance to manage additional spending against an annual operating allowance and a multi-year capital allowance
- the Budget process, which typically consists of four phases. These are the:
  - 1 strategic phase – this enables you and the Government to determine your strategy for the forthcoming Budget. This is signalled in the Budget Policy Statement
  - 2 submission phase – portfolio Ministers and their departments prepare and submit Budget initiatives (both expenditure and savings). Depending on your Budget strategy, these submissions could be on either a targeted or a more open basis
  - 3 assessment and decision phase – Budget initiatives are assessed by the Treasury Vote teams against assessment criteria such as links to the Budget strategy, value for money, wellbeing analysis, and readiness for implementation. These are then considered by Budget Ministers, and a package, agreed by Budget Ministers, is submitted to Cabinet for approval
  - 4 production phase – documents that are required to be presented to the House on Budget day and other material (eg, media releases) are prepared, approved and printed.

## Other matters relating to appropriations

You have other appropriation-related responsibilities in addition to those that are part of the annual financial cycle. Some of the main ones are:

- approving the establishment of multi-category appropriations
- granting exemptions from the end-of-year performance information requirements
- agreeing with a department's responsible Minister that the department can keep some or all of its operating surplus
- approving expenses or capital expenditure to be incurred or capital injections to meet an emergency or disaster.

## Financial powers

Your financial powers under the PFA allow you to do various things on behalf of the Crown. This includes borrowing money, appointing borrowing agents, issuing securities, lending money and giving guarantees or indemnities.

Crown borrowing has increased markedly as a result of the COVID-19 pandemic. New Zealand Debt Management (NZDM) sits within the Treasury and is responsible for managing the Government's debt and overall cash flows. It sells New Zealand Government Securities, and repays securities as they fall due, in addition to other functions.

NZDM manages a portfolio of assets alongside its debt portfolio. As Minister of Finance, you have a role in setting the parameters for these activities, reflecting your 'risk appetite'. These parameters are documented in the Portfolio Management Policy. This includes setting the maximum level of Market Risk and Credit Risk exposure that can be taken at any given time. You also approve the annual New Zealand Government Bond programme. NZDM administers loans on behalf of the Crown and provides transactional services to departments to help them manage financial markets risk (eg, foreign exchange hedging).

New Zealand Export Credit (NSEC) is run out of the Treasury and helps exporters and their domestic suppliers to access finance and trade credit insurance to enable trade, secure sales, and mitigate repayment risks by foreign buyers. Since 2001 NSEC has underwritten approximately \$1.5 billion in exposure in support of export sales into 103 countries, worth a combined value of \$3.4 billion. The Secretary to the Treasury has delegated authority to issue guarantees and pay claims as part of the management and administration of NSEC.

## Bank accounts

You have oversight of how government bank accounts are opened and operated. Some of these powers are also exercisable by the Treasury. In respect of an intelligence and security department, these powers must be exercised by, or in consultation with, the department's responsible Minister.

## Departments' strategic intentions

Departments, and those departmental agencies operating outside the strategic and policy framework of their host department, are required to provide information on their strategic intentions to their responsible Minister at least once every three years. If the department is likely to be disestablished, you can waive this requirement. If a department is likely to have significant changes in the nature and scope of its functions, you can extend the time for providing the information by up to a year, provided you are satisfied that it will enable the department to improve the quality of its information.

## Reporting by newly-established or disestablished entities

You can exempt new entities established during the last four months of a financial year from providing an annual report until their first full financial year. When an entity has been disestablished, you can transfer the responsibility for providing some or all of its final report to another entity.

## Public Service Act 2020

The recently enacted Public Service Act 2020 allows for new organisational forms to be established (interdepartmental ventures, interdepartmental executive boards and more autonomous forms of departmental agencies). Under the PFA, these new organisational forms are collectively known as specified agencies and have planning and reporting obligations similar to existing departments under the PFA.

You can grant a waiver to specified agencies that manage assets and liabilities from producing their own full financial statements. You may also grant a waiver to certain types of specified agencies of the requirement to provide information on strategic intentions. The ability to grant these waivers is not unfettered.

Under the Public Service Act 2020, the Secretary to the Treasury is required to provide you with a long-term insights briefing at least once every three years. The purpose of the briefing is to make available into the public domain:

- information about medium and long-term trends, risks, and opportunities that affect or may affect New Zealand and New Zealand society
- information and impartial analysis, including policy options for responding to matters in the categories referred to above.

The Public Service Act 2020 also explicitly recognises the role of the public service to support the Crown in its relationships with Māori under Te Tiriti o Waitangi. It also aims to unify the public service to fulfil its stewardship responsibility to support the Crown's relationships with Māori.

## Modernisation of the public finance system

The Treasury is undertaking a programme of work to modernise the public finance system. Key objectives are to simplify reporting to Parliament and make it more meaningful and linked to wellbeing outcomes, embed cross-agency working, and reset fiscal management and Budget processes with a medium-term focus and better scrutiny of existing spending.

Some changes have already been made. The Public Service Act 2020 allows for new organisational forms to be established to facilitate collaboration. The Public Finance (Wellbeing) Amendment Act 2020 introduced new requirements in relation to Budget priorities and wellbeing reporting. The Treasury is running a programme of baseline reviews and has been working with agencies to rationalise appropriation structures.

We are currently developing options for more fundamental reform over the coming parliamentary term and will provide you with advice shortly.

## Regulatory stewardship

Your role as Minister of Finance also includes the lead responsibility within Cabinet for promoting the regulatory management system, which includes departmental responsibilities for regulatory stewardship and regulatory impact analysis. This cross-government mandate requires the exercise of your role as a senior Minister to secure the ongoing support of all Ministers in improving existing regulatory systems and implementing upcoming regulatory reforms.

The Treasury supports you in this role through the exercise of its regulatory stewardship responsibilities. The Treasury's responsibilities arise through our long-standing Cabinet mandate to exercise strategic oversight of the regulatory management system, and via the cross-government leadership role for regulatory system stewardship and assurance recently given to the Secretary to the Treasury.

## 2.3 Your involvement in different organisations

As Minister of Finance, you have responsibilities related to a range of different organisations. These include Crown entities, State-owned enterprises and companies in which the Crown is a shareholder.

Your involvement varies depending on whether you are acting in your capacity as:

- Minister of Finance
- a shareholding Minister, or
- a responsible Minister.

Some examples of responsibilities include appointing directors to the board (subject to Cabinet approval), setting clear performance expectations, and providing feedback on the organisation's business planning documents.

You will receive a separate briefing in relation to your roles and responsibilities as a shareholding Minister for certain Crown companies and entities.

### Crown entities

Statutory entities are a kind of Crown entity. The statutory entities that you are responsible for are the:

- Government Superannuation Fund Authority
- Guardians of New Zealand Superannuation
- New Zealand Productivity Commission.

Your powers and responsibilities include, but are not limited to, appointing directors (except for the Guardians of New Zealand Superannuation, who are appointed by the Governor-General), and processes related to reporting and accountability.

### Your role in relation to Crown entities

As Minister of Finance, you have certain powers over some Crown entities (separate from the powers of the responsible Minister). Among other things, you can approve the entity's investing, lending, borrowing, giving guarantees, giving indemnities or entering into derivatives; direct a net surplus to be paid to the Crown; and require an entity to pay a capital charge.

As Minister of Finance, you also have powers and functions in relation to particular Crown entities (including the Accident Compensation Corporation, Kāinga Ora – Homes and Communities and Public Trust), and types of Crown entity (District Health Boards and School Boards of Trustees), which are contained in legislation specific to those entities.

## 2.4 The Reserve Bank of New Zealand

The Reserve Bank of New Zealand Act 1989 (the RBNZ Act) provides you with the following key powers and functions in relation to the Reserve Bank of New Zealand's central bank and monetary policy functions:

- On the recommendation of the Reserve Bank Board, appoint the Governor and agree terms and conditions of employment (including remuneration).
- On the recommendation of the Reserve Bank Board, appoint the members of the Monetary Policy Committee (MPC).
- Issue a Remit to the MPC setting out the operational objectives for monetary policy.
- Recommend Orders in Council to direct the Reserve Bank to formulate and implement monetary policy for different economic objectives.
- Direct the Reserve Bank to deal in foreign exchange within particular guidelines.
- Request the Reserve Bank's policy advice on matters connected with its functions.
- Appoint members of the Reserve Bank Board and set their fees.

Some of these powers and functions are subject to the review of the RBNZ Act. This is discussed below.

Outside the legislative framework, the Minister of Finance and Governor of the Reserve Bank have also agreed a Memorandum of Understanding on the use of alternative monetary policy (AMP) tools. The Memorandum agrees a process whereby the Bank may seek indemnities for AMP programmes in advance of their implementation. This allows an assessment of the balance of the potential benefits and fiscal risks of a given AMP tool. Section 65ZD of the PFA empowers you to give an indemnity on behalf of the Crown if it appears to you to be necessary or expedient in the public interest to do so. The Bank has made a number of requests for indemnities since the Memorandum of Understanding was signed in March 2020.

You also have some power in relation to the Reserve Bank's role as prudential regulator of banks, insurers and non-bank deposit takers. Those powers are contained in the:

- RBNZ Act
- Insurance (Prudential Supervision) Act 2010
- Non-bank Deposit Takers Act 2013.

The Reserve Bank will provide further advice on these powers in its briefing to you.

## Review of the Reserve Bank Act

The monetary policy provisions in the RBNZ Act were substantively amended as part of Phase 1 of the Review of the RBNZ Act, including the introduction of a 'maximum sustainable employment' objective and the creation of the MPC.

The Treasury and the Reserve Bank have been jointly progressing Phase 2 of the Review. The current scope of this review covers the Reserve Bank's institutional arrangements, the prudential regulation of banks and other deposit takers, and the development of an explicit deposit insurance scheme.

The Reserve Bank of New Zealand Bill, introduced to Parliament in July 2020, would replace the institutional, governance and accountability provisions of the RBNZ Act. To ensure that Parliament can consider these reforms, we recommend that Parliament (through a motion from the Leader of the House) reinstate the Reserve Bank of New Zealand Bill when Parliament resumes.

Key changes include:

- providing the Reserve Bank with a reframed mandate for its financial policy responsibilities, focusing on promoting financial stability
- creating a new governance board for the Reserve Bank
- requiring the Minister of Finance to issue a financial policy Remit to the Reserve Bank regarding prudential policy
- increasing oversight and accountability of the Reserve Bank by providing for the Treasury to take on the monitoring of the Reserve Bank and aligning with Crown entity accountability mechanisms.

We will provide you with further advice on these decisions and the overall process for progressing the Review.

## 2.5 International responsibilities

One of your international responsibilities is to act as New Zealand's Governor at several International Financial Institutions (IFIs). These are the:

- International Monetary Fund (IMF)
- International Bank for Reconstruction and Development (World Bank)
- Asian Development Bank (ADB)
- Asian Infrastructure Investment Bank (AIIB)
- European Bank of Reconstruction and Development (EBRD).

The Treasury Secretary is New Zealand's Alternate Governor at the World Bank, ADB, AIIB and EBRD. The Reserve Bank Governor is the Alternate Governor for the IMF.

As New Zealand's Governor in these forums, you may be asked to engage on capital increase requests, performance issues or matters where New Zealand is changing a previous policy position. Most governance decisions are, however, delegated to the Alternate Governors unless they involve a new financial commitment for New Zealand.

The COVID-19 pandemic has put a brake on international travel and the ability to attend meetings overseas. However, it has also raised new opportunities for virtual meetings with overseas Ministerial counterparts, and new ways to engage with IFIs.

For example, since June 2020 New Zealand has participated in a series of monthly virtual meetings with other Finance Ministers from Australia, Canada, the United Kingdom and the United States. These meetings are focused on countries' economic and financial responses to the COVID-19 pandemic, and they provide a valuable opportunity to build relationships and share insights on common challenges. We will seek your intention to attend the next meeting, which is likely to be held in November.

We provide regular recommendations to you about possible meetings (virtual or otherwise) with counterparts and IFI representatives. In doing so, we consider the value proposition of each meeting from both a Finance portfolio and a wider New Zealand Inc perspective. In the COVID-19 context, our focus is on gaining international insights on response and recovery policies, reinvigorating the international trade architecture, and restoring bilateral and multilateral relationships.

We also consider your international priorities and provide advice on requests for engagement from international stakeholders. We will provide advice on engagement with investors or intermediaries involved in the New Zealand Government Securities market and with sovereign credit rating agencies.

## APEC 2021

New Zealand is the chair of the Asia-Pacific Economic Cooperation (APEC) forum in 2021. In June 2020 Cabinet decided to host APEC virtually, given the uncertainties about New Zealand's ability to host in-person meetings arising out of COVID-19 travel restrictions.

The Minister of Finance chairs the Finance Ministers' Meeting (FMM) in the lead-up to the APEC Leaders meeting. The FMM is one of the few 'locked-in' Ministerial meetings held annually. While dates for APEC 2021 meetings are yet to be confirmed, the FMM is typically held in October.

The FMM is supported by the Finance Ministers' Process (FMP) with officials typically meeting in three blocks over the course of the year. With the shift to virtual hosting we are examining the scope for innovation in the meeting schedule to better support discussions by Ministers.

## Overseas Investment Act 2005

The Overseas Investment Act 2005 (OIA) requires overseas persons (including businesses 25% or more owned or controlled by overseas persons) to obtain consent for investments in sensitive land, significant business assets or fishing quota. The OIA also temporarily requires investors to notify any controlling investment in an existing New Zealand business (as part of the response to COVID-19). This requirement is scheduled to be replaced by a permanent requirement to notify transactions which are more likely to pose risks to national security and public order once COVID-19 is no longer having a significant effect on New Zealand.

You are responsible for:

- deciding applications for consent – in some cases in conjunction with other Ministers (the Minister for Land Information where a transaction involves sensitive land and the Minister of Fisheries where a transaction involves fishing quota, with all Ministers responsible for transactions that involve both sensitive land and fishing quota)
- progressing notifications received under the emergency notification regime
- deciding applications for exemptions.

You are generally able to delegate these decisions to other Ministers or the Overseas Investment Office (OIO) (subject to the constraints detailed below), and there are currently delegations in place. The existing delegations will remain in place unless you replace or revoke them; however, you may wish to revisit these arrangements. You are unable to delegate your decision-making powers under the national interest test – a backstop power to impose conditions on, or decline, transactions that you consider to be contrary to the national interest (whether notified under the temporary emergency regime or an application for consent) – to another Minister who is also responsible for deciding on any other aspect of that transaction.

In addition, you also have the power to recommend regulations, including regulatory exemptions, approve OIO guidelines, and set Ministerial directives for the OIO. There are currently two Ministerial directives to the OIO in place, principally focused on how to assess applications for consent involving different types of sensitive land (including farm land) and how to operationalise the recently introduced national interest test and emergency notification regime. There is no statutory obligation to revisit these directives.

The Overseas Investment Amendment Bill (No 3) (No 3 Bill) is currently before select committee; however, it lapsed when the previous Parliament was dissolved. This Bill builds on the Overseas Investment (Urgent Measures) Act (the Urgent Measures Act), which introduced the national interest test, and emergency notification power, and significantly reduces the number of low-risk transactions screened under the Act, by:

- increasing statutory thresholds for the acquisition of farmland
- more transparently recognising Māori cultural values
- granting new tools to manage water bottling and water extraction for human consumption on sensitive land
- ensuring better links between the foreign investment screening regime and the tax system
- making many temporary provisions in the Urgent Measures Act permanent, because the No 3 Bill will be subject to full parliamentary scrutiny, while the Urgent Measures Act was passed under urgency.

To ensure that these reforms can be considered by Parliament and significant portions of the Urgent Measures Act do not lapse (such as removing fundamentally New Zealand companies from the regime), we recommend that Parliament (through a motion from the Leader of the House) reinstate the No 3 Bill when Parliament resumes.

## 2.6 Delegations and transfers of your responsibilities

There are several ways for you to delegate duties while retaining overall responsibility, depending on how much involvement you want to retain in a particular area. Transfers of responsibilities can also be put in place. Some arrangements will stay in place until revoked but none of them are permanent; there is scope to revisit them at any point. We can work with your office and the Cabinet Office to set up any of these arrangements.

Method	Effect	Prime Minister's approval required?
Delegation to Associate Minister(s) of Finance	You can decide how you want to share work with Associate Ministers of Finance (eg, by delegating tasks or by assigning shadow portfolios). You will retain overall responsibility for all aspects of the Finance portfolio. You will need to consider what arrangements should be put in place, depending on synergies or conflicts with other portfolio responsibilities.	Yes
Transfer to other Ministers	You will no longer have responsibility for, or involvement in, matters that have been transferred. This is because transfers are typically used to deal with a conflict of interest.	Yes
Assignment to other Ministers	Assignments enable another Minister to act as the Minister of Finance for a particular purpose. Assignments made prior to the election will not automatically carry over.	Yes
Delegation to the Secretary to the Treasury	Delegations are useful to enable the day-to-day/operational aspects of your role to be carried out by the Treasury. You will retain overall responsibility for all matters delegated to the Treasury. Existing delegations will carry over unless revoked.	No
Appointment of borrowing agents	You may appoint agents to borrow money and issue securities in relation to borrowing on behalf of the Crown. There are several existing borrowing agent warrants in place to allow the Treasury to undertake these activities. Existing warrants will stay in place until revoked.	No

There is a lot of flexibility in these arrangements. For example, rather than delegating responsibility for an entire company to an Associate Minister, you can delegate certain powers and functions only.

## Delegations to Associate Ministers of Finance

You can delegate as much or as little as you like to Associate Ministers of Finance (with some limited exceptions depending on the statutory power). Some things to consider are:

- the number, and experience, of the Associate Ministers of Finance
- your other portfolio responsibilities and those of the Associate Ministers. There may be aspects of the Finance portfolio that align with an Associate Minister's primary portfolio responsibilities
- whether Associate Ministers will take full responsibility for decision-making, or instead support you by providing views.

Associate Ministers have been given the following delegations in recent years:

- The performance of the Minister of Finance role for Vote Finance proposals you make as appropriation Minister; we recommend a similar delegation remain in place.
- Full responsibility for decision-making under the Overseas Investment Act 2005 on individual consent applications and individual exemption applications.
- Full responsibility regarding community trusts under the Community Trusts Act 1999.
- Shareholding Minister responsibilities (note you will receive a separate briefing with more information on these responsibilities).

We recommend making early decisions on working arrangements with your Associate Ministers, as it can take a long time to work through potential conflicts of interest and ensure an appropriate balance of workloads. We also suggest talking to the Associate Ministers early in this process, as they will be aware of potential conflicts that you may not know about. The Treasury and Cabinet Office can also provide advice on possible conflicts between portfolio responsibilities.

If it is helpful as a starting point, we can provide you with a list of potential powers to delegate or retain.

Once you and the Associate Ministers have settled on arrangements, your delegations have to be approved by the Prime Minister. The Cabinet Office provides advice and template letters, and liaises with the Prime Minister to obtain approval.

## Transfers to other Ministers

If two of your responsibilities create an actual, potential or perceived conflict of interest, it may be appropriate to transfer responsibility for one of the matters to another Minister. This means that you would not be responsible for, or involved in, decisions relating to the transferred matter. Transfers can be done on a standing or one-off basis. For example, the following matters have previously been transferred on a standing basis:

- Setting the employer contribution rate for the Aircrew Superannuation Scheme. Those decisions affect Air New Zealand Limited, in which you hold shares on behalf of the Crown.
- Providing a Finance portfolio perspective on aviation policy and regulation, which again may conflict with your role as shareholder in Air New Zealand.
- Responsibilities, functions and powers as Crown shareholder in the New Zealand Local Government Funding Agency Limited (LGFA), given the work the Treasury may do in relation to the LGFA.

From time to time it may be necessary to transfer decision-making under the Overseas Investment Act 2005 regarding consent applications involving Crown-owned companies in which you are a shareholder. This would still be necessary even if you had delegated that decision-making to an Associate Minister.

## Delegations to the Secretary to the Treasury

There are several delegations from the Minister of Finance to the Secretary to the Treasury. Many of these powers are then sub-delegated to specific roles within the Treasury, with a few delegated to other agencies. This enables us to carry out the more operational and day-to-day aspects of your functions and powers on your behalf. The existing delegations will remain in place unless you amend or revoke them (noting that there are some delegations that have been in place since 2005 which we rely on daily).

Some of your statutory powers and responsibilities cannot be delegated to the Treasury, such as the powers of shareholding Ministers under the Crown Entities Act 2004.

## Appointment of borrowing agents

Under the PFA, only the Minister of Finance can borrow on behalf of the Crown. This power cannot be delegated but you can appoint borrowing agents. There are several borrowing agent warrants in place, most held by Treasury officials, which will remain effective until they are revoked or expire. These arrangements allow us to carry out the Crown's borrowing programme, including in relation to the domestic borrowing programme (Government Bonds, Treasury Bills and Kiwi Bonds), the Euro Medium Term Note programme, the Euro Commercial Paper programme, emergency payment arrangements and overdrawn Crown bank accounts.

### 3 The Treasury: Our key functions and operations

The Treasury is the Government's lead economic and financial advisor. We advise the Government on its overarching economic framework, on its fiscal strategy and on achieving value for money from its investments. We implement Government decisions and are responsible for the Financial Statements of the Government, supporting effective management of the assets and liabilities on the Crown's balance sheet, and publishing economic and fiscal forecasts.

Our vision is to become a world-leading Treasury working towards higher living standards for New Zealanders. It is important that New Zealand's economy supports higher living standards for this and future generations, and that all New Zealanders can play their role in the economy and society. We work with others – across the government and non-government sectors, in New Zealand and overseas – to turn our vision into reality.

We believe in applying rigorous analysis to the best available evidence, and we use the twin lenses of the Living Standards Framework and He Ara Waiora to guide us in this. We also believe in the importance of a trusted, professional public service and we strive for operational excellence.

Over the past 12 months the Treasury has worked to strengthen our governance, operating model, systems and processes. Alongside this critical work, we are adapting to the fundamental changes that COVID-19 has required and we have a vital role to play in New Zealand's COVID-19 response and economic recovery. A key focus for us is addressing immediate needs for supporting people and businesses in a way that also can tackle long-standing challenges such as productivity, sustainability and equity.

To address these challenges we are working to become a stronger, strategy-led Treasury that makes a difference to New Zealanders and embraces its lead role in stewardship across the government.

We have set up the Strengthening the Treasury programme to drive these improvements. It is a multi-year change programme that focuses on three key work streams:

- Setting a clear direction for the Treasury – we are refreshing our organisational strategy including our vision, purpose and values as well as resetting our outcomes framework and strategic priorities to align our work programme with our organisational strategy.
- Supporting our people to succeed – by building a strong culture of operational excellence, continually developing our leaders and changing our structure to support our people and build capability.
- Setting up our systems and processes for operational excellence – which includes improvements in governance, information management and security, risk management, compliance, and production processes.

Following the refresh of our organisational strategy, the Treasury will need to publish its Strategic Intentions for the period 2021 to 2025. This will replace the Statement of Intent 2017-2021 and needs to be tabled in Parliament by 8 February 2021. We will seek your signing of the statement of responsibility for the Strategic Intentions 2021-2025 document.

## Vote Finance

The Treasury's departmental budget is approximately \$103 million for 2020/21. The Policy Advice and Financial Services multi-year multi-category appropriation (MYMCA), ending in 2024, provides approximately \$286 million in funding to deliver outputs over the next four years and typically funds 70% to 75% of total departmental appropriations in any one year. We have discretion in how the funds are phased across these years. This expenditure has recently been front-loaded to fund urgent and unplanned work, such as the response to the COVID-19 pandemic. It is also the appropriation which will need to fund most future cost pressures (eg, wage growth, rent increases, inflation-adjusted IT contracts). We expect these cost pressures to be \$2 million to \$3 million per annum.

Over the forecast period, the Policy Advice MYMCA decreases from the \$82 million spent in 2019/20 to an average of \$72 million per annum. The decrease in baselines, alongside the increasing cost pressures, will result in having to reduce existing resources over the next three years, or obtain additional funding. Reducing resources from current levels will require difficult trade-offs and prioritisation decisions that will impact our ability to deliver on outcomes. We will provide you with further advice on what work could be reprioritised in order to ensure that we deliver for you and operate within our fiscal envelope.

For the 2020/21 financial year, Vote Finance comprises annual, multi-category and permanent appropriations totalling approximately \$103 million in departmental expenditure and \$4.4 billion in non-departmental expenditure. You have ultimate responsibility for the Vote. You have new appropriation and vote responsibilities as a result of the COVID-19 economic response. These are \$600 million for COVID-19 loans to Air New Zealand, the Business Finance Guarantee, and \$470 million for shovel ready projects. Within the Vote, there are appropriations for which other Ministers have responsibility. These are the: Minister for Climate Change; Minister of Housing; Minister for State Owned Enterprises; Minister for Infrastructure; Minister for Greater Christchurch Regeneration; Minister Responsible for the Earthquake Commission; and the Minister for Urban Development.

### 3.1 How we support and engage with you

We provide advice to support your responsibilities for economic, fiscal and financial policy. We also support you to deliver your specific responsibilities under the PFA and other legislation as set out earlier in this briefing.

In addition, we provide you with strategic economic policy advice on how to advance the Government's priorities.

We work with other public sector agencies and wider stakeholders to develop our advice and understand a broad range of perspectives. The Treasury regularly engages with the business community across New Zealand. Our proactive programme of face-to-face engagements was accelerated during the COVID-19 lockdown and has continued since, via online meetings with regional Chambers of Commerce and employers' associations, sector organisations and others, including unions, business incubators, and Pacific and iwi groups. The purpose of our engagement is to hear first-hand perspectives to increase our understanding of how the government's economic response is landing amongst regions, sectors, businesses and households, and inform our policy advice.

A key metric for the quality of our work is a satisfaction survey that we ask you and Associate Ministers of Finance to complete every six months. We also assess internally, and report on, the quality of our policy advice and our commercial advice on a regular basis.

## Cabinet and Cabinet committee processes

We have responsibility for advising you on all Cabinet proposals with economic, financial, fiscal, regulatory and PFA implications.

As a result, we provide you with briefings prior to every Cabinet committee on which you sit. These briefings summarise the key context and analysis in Cabinet papers being considered. They also include our recommendations on whether to support the decisions being sought, and potential actions that could be taken to resolve any issues.

We will work with your office to ensure that these briefings are provided in a way that allows you to engage effectively with your Cabinet colleagues.

## Regular oral briefings

From our experience it is useful to meet regularly to brief you in person to supplement written briefings sent to your office. We will work with you and your office on options for what regular meetings work best for you. In particular we would recommend considering the following;

- A weekly Minister of Finance and Agency meeting to discuss matters such as fiscal and budget process issues, policy priorities and upcoming advice.
- A weekly pre-Cabinet briefing, where we can brief you and Associate Ministers of Finance on papers going to Cabinet and Cabinet committees that week.
- A fortnightly meeting with the Secretary to the Treasury for you to have a regular dialogue in person.
- A two-monthly meeting with the Treasury's Executive Leadership Team to discuss strategic and departmental issues.

## 3.2 Our leadership

The Treasury's principal leadership is delivered by the Executive Leadership Team (ELT) and Kaiurungi.

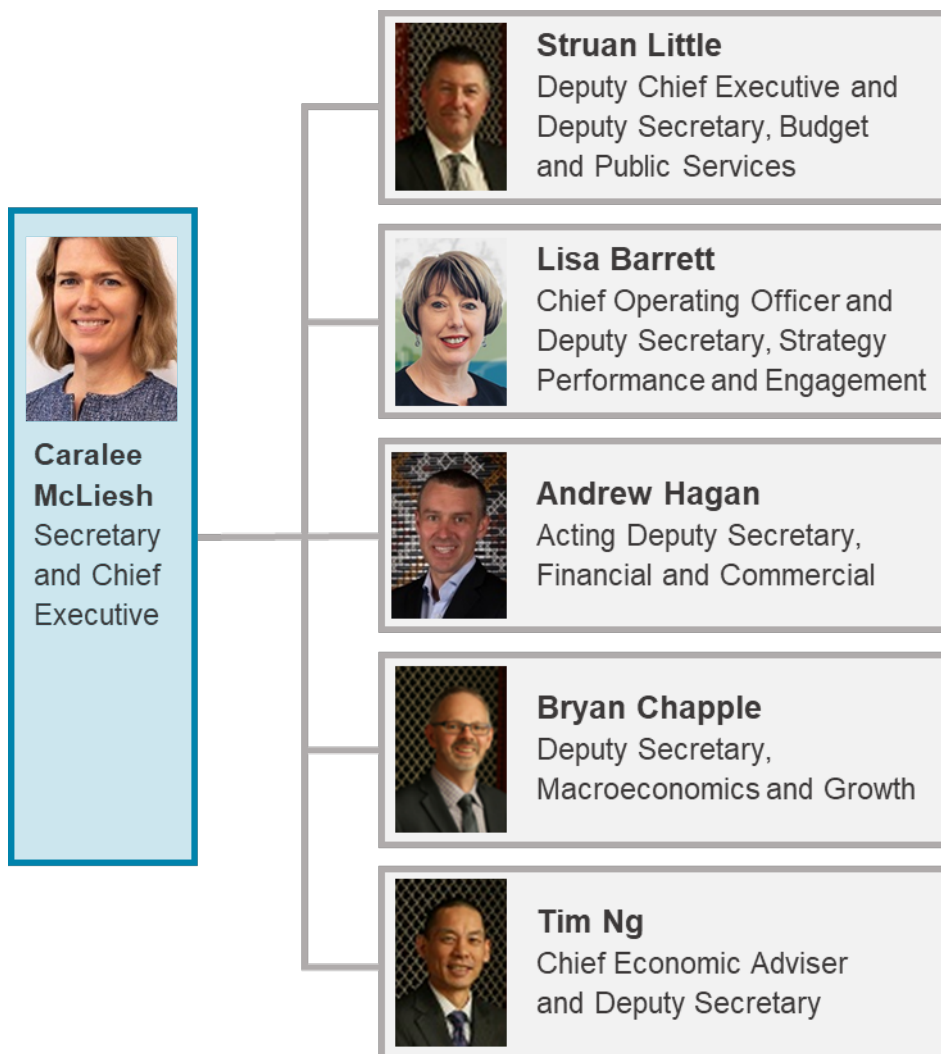
ELT is made up of the Te Tumu Whakarae mō Te Tai Ōhanga – Secretary to the Treasury (who is also the Chief Executive) and five Deputy Secretaries. ELT has the responsibility and ultimate accountability for the strategic direction and operation of the organisation.

A number of Directors and Corporate Chiefs report to each Deputy Secretary, and collectively they make up Kaiurungi, 'the people who steer'.

To support ELT, there are three sub-committees that include members of Kaiurungi to make decisions across the organisation in different areas:

- People, Culture and Capability.
- Risk and Assurance.
- Finance and Prioritisation.

## The Treasury's Executive Leadership Team



## Chief Executive



Caralee McLiesh is the Government's chief economic and financial advisor, and leads the Treasury's work to help raise living standards for New Zealanders through a stable, growing economy, and a high-performing public service.

**Contact:** [35]



### Andrew Rutledge

Chief Advisor to the Secretary  
[35]



### Trevor Moeke

Poutiaki – Director Te Ao Māori  
Strategy and Performance

## Budget and Public Services



Struan Little oversees advice in the areas of justice, security, health, welfare, public sector performance, and delivery of the Government's annual Budget. In addition, Struan holds the new role of Deputy Chief Executive, overseeing the Treasury's internal response to COVID-19, and maintaining the Treasury's focus on stewardship, strengthening its operations, and building capability and culture. He is also the Treasury's Chief Security Officer.

**Contact:** [35]

### Public Sector Management



#### Carolyn Palmer

*System Design & Strategy – Health –  
Justice, Security & Government  
Services – Welfare & Oranga Tamariki*

### Office of the Government Accountant



#### Paul Helm

*Budget Management – Fiscal  
Reporting – Strategic Performance  
Improvement – Investment  
Management & Asset Performance*

## Corporate and Shared Services



As the Chief Operating Officer, Lisa Barrett oversees the Treasury's corporate functions and is leading the Strengthening the Treasury work programme.

**Contact:** [35]



#### Fiona Foster

Chief People Officer



#### Tom Byrne

Chief Information  
Officer



#### Glenn McStay

Chief Financial  
Officer



#### Nick Robinson

Chief Communications  
and Engagement  
Officer



#### Anthea Williams

Treasury Solicitor



#### Sarah Hardy

Strengthening the  
Treasury

## Financial and Commercial



Andrew Hagan is responsible for the Commercial, Infrastructure and Urban Growth directorate and the Capital Markets directorate. Andrew is also the Chair of the Treasury's Capital Markets Advisory Committee (CMAC).

**Contact:** [35]

### Capital Markets



#### **Kim Martin**

*Financial Institutions – Risk – Funding  
Strategy & Engagement – Portfolio  
Management – Accounting &  
Transactional Services – Business  
Information – Export Credit Office*

### Commercial, Infrastructure and Urban Growth



#### **Matt Gilbert**

*Commercial Performance –  
Governance & Appointments –  
Housing & Urban Growth – National  
Infrastructure Unit*

## Macroeconomics and Growth



Bryan oversees advice relating to the Economic Systems and Growth and Public Services directorates.

**Contact:** [35]

### Economic System



#### **James Beard**

*Macroeconomic & Fiscal Policy –  
Modelling, Research & Forecasting –  
Tax Strategy – Financial Markets –  
International – Earthquake  
Commission (EQC) Policy*

### Growth and Public Services



#### **Vicki Plater**

*Economic Strategy & Productivity –  
Natural Resources – Transitions,  
Regions & Economic Development –  
Skills & Work – Education &  
Population Agencies*

### Office of the Chief Economic Adviser



As Chief Economic Adviser, Tim Ng is responsible for ensuring that the Treasury's policy advice on raising New Zealand's living standards is supported and strengthened by sound economic theory and evidence.

*Analytics & Insights – Economic Capability*

**Contact:** [35]

### Deputy Chief Economic Adviser



**Diana Cook**

### Director, Reserve Bank Act Review



**Tamiko Bayliss**

### Special Projects

#### Firm Support



**Maureena van der Lem**

*Business Finance Guarantee –  
Firm Support*

#### Deployment/Agile



**Matt Gilbert**

#### COVID Economic Response



**Mark Vink**

(Monday – Wednesday)

*Strategy & Policy – Governance &  
Coordination*



**Melody Guy**

(Wednesday – Friday)

*Strategy & Policy – Governance &  
Coordination*

### 3.3 Our governance

The Treasury uses internal advisory boards to challenge its thinking and decision-making. Members are appointed by the Secretary to the Treasury to provide a range of perspectives and expertise. We are reviewing arrangements as part of our *Strengthening the Treasury* programme.

Details of each advisory body are provided below:

- **The Risk and Audit Committee:** This is an advisory committee with an independent chair and four additional independent members. It provides observations, views and advice to the Secretary to the Treasury relating to the effectiveness and adequacy of internal control and risk management systems, processes and activities across the Treasury.
- **FSG Audit Committee:** This is an advisory committee that provides advice and observations to the Secretary to the Treasury relating to key issues and risks that affect the production and audit of the Financial Statements of the Government (FSG).
- **Capital Markets Advisory Committee:** The committee supports the Deputy Secretary, Financial and Commercial by providing guidance on the strategic approach and work programme priorities of the Capital Markets directorate.

## 4 Upcoming key decisions and issues

We would like to engage with you on a range of key decisions and critical issues before the end of 2020. These relate to legislative requirements, your manifesto priorities, and other priority issues. We will provide you with a list of these issues and proposed timeframes for engaging with you ahead of our first meeting.

# Annex A

## Legislation administered within the Finance portfolio

### *Acts administered by the Treasury*

#### Appropriation Acts

Bank of New Zealand Act 1988

Crown Entities Act 2004 (Part 4 only; the Public Service Commission administers the other Parts)

Crown Forest Assets Act 1989

Crown Retail Deposit Guarantee Scheme Act 2009 Earthquake Commission Act 1993

Finance Acts (seven in total – 1978, 1988, 1990, 1990 No 2, 1992 No 2, 1994, 1995)

Government Superannuation Fund Act 1956

Imprest Supply Acts

International Finance Agreements Act 1961

KiwiSaver Act 2006

National Provident Fund Restructuring Act 1990

New Zealand Government Property Corporation Act 1953

New Zealand Productivity Commission Act 2010

New Zealand Superannuation and Retirement Income Act 2001 (Parts 2 and 3 and Schedule 3 only)

Overseas Investment Act 2005

Post Office Bank Act 1987

Public Audit Act 2001

Public Finance Act 1989

Rural Banking and Finance Corporation of New Zealand Act 1989

Utilities Access Act 2010

Venture Capital Fund Act 2019

### *Acts administered by the Reserve Bank of New Zealand*

Decimal Currency Act 1964 Finance Act 1988 (Part 2)

Insurance (Prudential Supervision) Act 2010

Non-bank Deposit Takers Act 2013

Reserve Bank of New Zealand Act 1989

### *Acts administered by the Department of Internal Affairs*

Community Trusts Act 1999

Trustee Banks Restructuring Act Repeal Act 1999

# Annex B

## Statutory powers of the Minister of Finance in relation to organisations and companies

You have a wide array of statutory powers across the statute book. The following is a list of some of your key statutory powers in relation to organisations and companies. It is non-exclusive and further advice can be provided in relation to your statutory powers.

Entity (type of entity)	Relevant legislation	Key statutory powers
State-owned enterprises (SOEs) A list of these can be provided on request.	State-Owned Enterprises Act 1986 Companies Act 1993 Various Acts specific to particular SOEs	<p><i>As shareholding Minister</i></p> <ul style="list-style-type: none"> <li>• Appoint directors and chairperson, approve directors' fees, and remove directors.</li> <li>• Set content of <i>Statement of Corporate Intent</i> (SCI) – boards must act in accordance with the SCI.</li> <li>• Direct a dividend be paid, after consulting with the board.</li> <li>• Amend company constitution.</li> <li>• Approve or reject resolutions put to shareholders (eg, major transactions).</li> <li>• Request information from the SOE, after consulting with the board (may be done by one shareholding Minister).</li> </ul> <p>You also have various powers under Acts specific to particular SOEs. Further advice can be provided.</p>
Crown entity companies (except Crown Research Institutes) A list of these can be provided on request.	Crown Entities Act 2004 Companies Act 1993 PFA	<p><i>As shareholding Ministers</i></p> <ul style="list-style-type: none"> <li>• Appoint directors and chairperson, approve directors' fees and remove directors.</li> <li>• Set content of <i>Statement of Intent</i> (SOI) and <i>Statement of Performance Expectations</i> (SPE) – boards must act in a manner consistent with the SOI and SPE.</li> <li>• Amend company constitution.</li> <li>• Approve or reject resolutions put to shareholders (eg, major transactions).</li> </ul> <p><i>As Minister of Finance</i></p> <ul style="list-style-type: none"> <li>• Depending on the company and which financial activity restrictions under the Crown Entities Act 2004 apply to it: approve the company investing, lending, borrowing, giving guarantees, giving indemnities or entering into derivatives.</li> <li>• Depending on the company, require a net surplus to be payable to the Crown.</li> <li>• Request information from the company.</li> <li>• With the Minister of State Services, give directions to support a whole-of-government approach.</li> </ul>

Entity (type of entity)	Relevant legislation	Key statutory powers
Organisations listed in Schedule 4 of the Public Finance Act 1989 A list of these can be provided on request.	Public Finance Act 1989 (Sections 45M and 45N and Schedule 4) Crown Entities Act 2004	<i>As Minister of Finance</i> Depending on the organisation and which financial activity restrictions under the Crown Entities Act 2004 apply to it: approve the company investing, lending, borrowing, giving guarantees, giving indemnities or entering into derivatives.
Companies listed in Schedule 4A of the Public Finance Act 1989 A list of these can be provided on request.	Public Finance Act 1989 (Part 5AAA and Schedule 4A) Crown Entities Act 2004 Companies Act 1993	<i>As shareholding Minister</i> <ul style="list-style-type: none"> <li>• Appoint directors and chairperson, approve directors' fees and remove directors.</li> <li>• Set content of <i>Statement of Intent</i> (SOI) and <i>Statement of Performance Expectations</i> (SPE) – boards must act in a manner consistent with the SOI and SPE.</li> <li>• Amend company constitution.</li> <li>• Approve or reject resolutions put to shareholders (eg, major transactions).</li> </ul> <i>As Minister of Finance</i> <ul style="list-style-type: none"> <li>• Depending on the particular company and which financial activity restrictions under the Crown Entities Act 2004 apply to it: approve the company investing, lending, borrowing, giving guarantees, giving indemnities or entering into derivatives.</li> <li>• Request certain information from the company.</li> </ul>
Mixed Ownership Model (MOM) companies (Companies listed in Schedule 5 of the Public Finance Act 1989) A list of these can be provided on request.	Public Finance Act 1989 (Part 5A and Schedule 5) Companies Act 1993 Laws applying to listed companies	<i>As shareholding Minister</i> <ul style="list-style-type: none"> <li>• Vote at annual shareholder meetings – this provides the opportunity to appoint or remove directors.</li> <li>• Vote on any resolutions put to shareholders (eg, approve major transactions or changes to the constitution).</li> <li>• Dealing with listed companies also comes with legal risk, and there is the potential for Ministers to personally commit offences. We suggest you always first seek advice on how to deal with information that could materially change a share price. There is further guidance in CO (12) 7: Guidelines for Dealing with Inside Information About Public Issuers, and we can provide further advice.</li> </ul>

Entity (type of entity)	Relevant legislation	Key statutory powers
<p>Crown Research Institutes (CRIs)</p> <p>A list of these can be provided on request.</p>	<p>Crown Research Institutes Act 1992</p> <p>Crown Entities Act 2004</p> <p>Companies Act 1993</p>	<p><i>As shareholding Minister</i></p> <ul style="list-style-type: none"> <li>As for Crown entity companies, but there is no <i>Statement of Performance Expectations</i> (SPE), and the financial activity restrictions and approvals under the Crown Entities Act 2004 do not apply.</li> <li>With Minister of State Services, give directions to support a whole-of-government approach.</li> </ul>
<p>Airports in which the Crown holds shares: Christchurch International Airport Limited (25%), Dunedin International Airport Limited (50%), Hawke's Bay Airport Limited (50%)</p>	<p>Companies Act 1993</p> <p>Airports Authorities Act 1966</p>	<p><i>As shareholding Minister:</i></p> <ul style="list-style-type: none"> <li>Vote on any resolutions put to shareholders (eg, approve major transactions or changes to the constitution).</li> <li>Christchurch: appoint two directors (currently six in total), and remove Crown-appointed directors.</li> <li>Dunedin and Hawke's Bay: appoint half the directors, and remove Crown-appointed directors.</li> </ul>
<p>Statutory Crown entities (Crown agents, Autonomous Crown entities, Independent Crown entities)</p> <p>A list of these can be provided on request.</p>	<p>Crown Entities Act 2004</p> <p>Various Acts specific to particular Crown entities</p>	<p><i>As Minister of Finance</i></p> <ul style="list-style-type: none"> <li>Together with the Minister of State Services, issue directions to support a whole of government approach.</li> <li>Request certain information.</li> <li>Depending on the particular statutory Crown entity and which financial activity restrictions under the Crown Entities Act 2004 apply to it: approve the entity investing, lending, borrowing, giving guarantees, giving indemnities or entering into derivatives; or require the entity to pay its net surplus to the Crown</li> <li>Some involvement in financial accountability matters</li> </ul> <p><i>As Responsible Minister in relation to the Government Superannuation Fund Authority, Guardians of New Zealand Superannuation, New Zealand Productivity Commission</i></p> <ul style="list-style-type: none"> <li>Involved in board appointments (the level of involvement will depend on the kind of statutory Crown entity)</li> <li>Involved in key planning, reporting and accountability processes</li> <li>You also have powers as Minister of Finance under Acts specific to particular statutory Crown entities.</li> </ul> <p>Further advice can be provided in relation to these.</p>

Entity (type of entity)	Relevant legislation	Key statutory powers
Community Trusts	Community Trusts Act 1999	<i>As Minister of Finance</i> you have the power to recommend Orders in Council to adjust boundaries of, amalgamate or split up community trusts.
National Provident Fund	National Provident Fund Restructuring Act 1990	<i>As Minister of Finance</i> you have various powers in relation to the Board, including the power to appoint and remove members of the Board, including the Chair.
Reserve Bank of New Zealand	Reserve Bank of New Zealand Act 1989	Discussed at 2.4.
Air New Zealand Limited	Companies Act 1993 Law applying to listed companies	<i>As shareholding Minister</i> you have similar powers to those in relation to MOM companies, as listed above.
Crown Forestry Rental Trust	Trust Deed Crown Forest Assets Act 1989	<i>As Minister of Finance</i> you appoint the Crown Trustees to the Trust.
Government Superannuation Appeals Board	Government Superannuation Fund Act 1956	<i>As Minister of Finance</i> you appoint the members of the Appeals Board.
International financial institutions		Discussed at 2.5.

# Annex C

## Other statutory powers of the Minister of Finance

You have a wide array of statutory powers across the statute book, including those set out in Annex B. The following is a list of some of your other key statutory powers. It is non-exclusive and further advice can be provided.

Legislation	Powers and roles
Public Finance Act 1989	Discussed at 2.2.
Overseas Investment Act 2005	Discussed in some detail at 2.5.
KiwiSaver Act 2006	Various powers, including the power to make recommendations in relation to compulsory employer contributions and mortgage diversion facilities.
Climate Change Response Act 2002	Direct the Registrar of the Emissions Trading Register on various matters.
Crown Forest Assets Act 1989	With the Minister for State-Owned Enterprises, grant Crown forestry licences, deal with protective covenants and public access easement on licensed land and transfer Crown forestry assets.
Health Sector (Transfers) Act 1993	With the Minister of Health, agree to transfer assets and liabilities between certain government agencies in the health sector, and transfer assets and liabilities from or to the Crown.
Public Audit Act 2001	Agree to the transfer of Crown assets and liabilities to the Auditor-General, or agree to the management of Crown assets and liabilities by the Auditor-General.
Utilities Access Act 2010	Approve the National Code of Practice for Utility Operators' Access to Transport Corridors.



TE TAI ŌHANGA  
**THE TREASURY**

# Minister of Finance portfolio BIM slides

November 2020

# Purpose and Contents of this Briefing

This slide pack aims to support your early engagement with the Treasury. In particular, it sets out how we can help you to progress your priorities and responsibilities, and identify what you would like to focus on in this term. These slides provide a high-level overview of areas most closely related to your Finance portfolio, and selected others related to core elements of the Living Standards Framework. We are ready to brief you in more detail on these and other topics at your convenience.

While New Zealand generally performs well in assessments of living standards, there are some key challenges that need to be met. The slides provide an assessment of the current context and long-term structural challenges for New Zealand. Addressing these in a mutually supporting way will be key to both supporting a short-term economic recovery and ensuring a long-term economic path to a productive, sustainable and inclusive economy that supports higher living standards for New Zealanders.

3	COVID-19	13	Budget and Fiscal Management
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# COVID-19

## Strategic assessment

The economic impact of the COVID-19 crisis has been severe. The Pre-Election Economic and Fiscal Update (PREFU) forecasts the economy will shrink by 3.1% in 2020 and 0.5% in 2021. While the future path of the pandemic and its economic impact are highly uncertain, there is growing evidence the effects on wellbeing are being felt unequally across the population.

The public health approach will be the most important factor within our control in mitigating the impacts on living standards, across all four capitals, in the near term. The significant investments and improvements that the Government has already made in health capacity and capability allowed us to respond to the Auckland outbreak without the need for a prolonged lockdown. Strengthening and improving the range of public health levers we have could provide further opportunities for safe economic activity, reduce our reliance on border controls, and avoid further Alert Level escalations.

Different policy approaches are needed to respond to outbreaks, and to support growth and employment as the economy recovers and adapts. Effective Crown engagement with Treaty partners, the private sector and other more affected groups may continue to build trust and confidence in the overall response measures. Getting broader reform under way can support “building back better.”

## Strategic policy directions

Three self-reinforcing focus areas to support near-term recovery and position the economy for longer-term adjustment are:

- **Preventing outbreaks by sustaining a strong public health response:** strengthening dimensions of the public health system would reduce reliance on border controls and higher Alert Levels, supporting the health system to address inequities for Māori and Pacific populations and other poorly-served groups; considering ongoing measures at Alert Level 1 to decrease the likelihood and severity of future outbreaks and avoid escalation in Alert Levels; and ensuring that the economic response supports public health (such as through the Leave Support Scheme).
- **Minimising job losses in any outbreak:** support measures can be set out in advance and activated in the event of an outbreak, which would support employment and social licence, and reduce the uncertainty faced by businesses and individuals at higher Alert Levels (eg, the Wage Subsidy at Alert Levels 3 and 4 and the Small Business Cashflow Scheme).
- **Supporting a rapid resumption in growth and employment:** measures to support a more rapid return to full employment (such as hiring and investment subsidies), which could also be designed to help address longer-term challenges of productivity, sustainability and inclusiveness.

# Productivity Growth

## Strategic assessment

Productivity is the biggest long-run determinant of wages and material living standards. The stocks of physical and financial capital and human capital are particularly important for productivity growth.

New Zealand's labour productivity growth has been persistently low, averaging just over 1% per year since the early 1990s (as per chart).

About half of labour productivity growth has been through capital deepening and about half through multifactor productivity (MFP). However, the former stalled after the 2008 Global Financial Crisis, and New Zealand's investment per worker is below the OECD average. We think this is compounded by underinvestment in business-related intangible capital.

COVID-19 is likely to exacerbate this by reducing businesses' confidence to invest, and a loss of firm-specific capital from business closures. It may provide a spur, however, for businesses to reconsider their operating models.

## Strategic policy direction

The productivity challenge is multi-faceted and not within the control of any single portfolio.

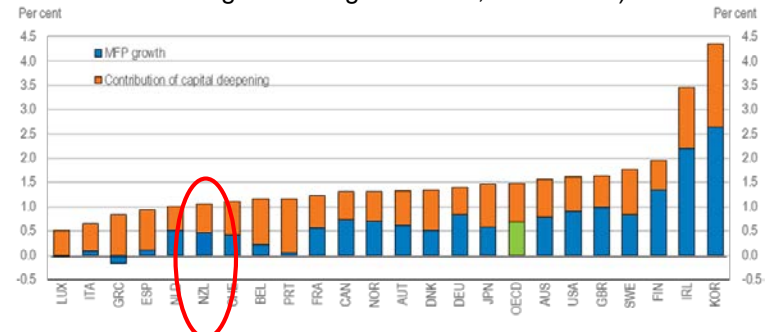
The Productivity Commission currently has one inquiry under way, *Frontier Firms*, with a draft report due in November and a final report in March 2021. The Commission can start a second inquiry once commissioned and another when *Frontier Firms* is complete. You have choices to make about future inquiry topics [33]

Increasing productivity growth will require a range of reforms, and engagement with the private sector (eg, on digitalisation and regulatory settings to support growth). The resource management system, and constraints around local government funding and financing, are hampering productivity growth. Reform in those areas could also improve sustainability and inclusiveness outcomes.

New Zealand has a large services sector. This points to the following as means of improving productivity: competition (supported by market studies), support for business R&D, public science institutions and funds, a policy focus on a wider set of intangibles, and international linkages. The directions set out on the Financial Markets slide are also relevant (see slide 19).

Treasury will work with you on policy options related to broader settings across growth and productivity portfolios such as labour markets, skills, tax, industry policy, infrastructure (see slide 5), and natural resources (see slide 7).

Labour productivity growth (total economy, hours worked, average annual growth rate, 1991-2017)



Source: OECD (2019) <https://doi.org/10.1787/888933948644>

# Infrastructure

## Strategic assessment

New Zealand's infrastructure faces a number of challenges including the need to renew ageing infrastructure, the pressures of an urbanising population, tight fiscal constraints, changing technology, the effects of climate change, and the increased pressure on our natural resources. To address these challenges we need to increase the resilience of existing infrastructure, continue to deliver committed capital spending on infrastructure, and invest more in new infrastructure that is fit for purpose and value for money.

We also need to ensure our infrastructure system settings and frameworks are appropriate to improve wellbeing, support productivity and growth, generate jobs, and contribute to lifting national productivity. These system settings include planning, procurement, and investment in infrastructure.

## Strategic policy directions

### ***30-year infrastructure strategy***

The New Zealand Infrastructure Commission (Te Waihanga) is the Government's lead infrastructure advisor and, in the near term, will provide a 30-year infrastructure strategy that aims to improve how New Zealand coordinates, plans and invests in infrastructure. This strategy will provide a consensus view on the priority areas that require further investment, and how to prioritise this investment. The 30-year infrastructure strategy is supported by Te Waihanga's national infrastructure pipeline, which provides a forward view of committed, short to medium-term infrastructure projects. In the medium term there is a need to broaden this pipeline information to enable greater transparency and investment decisions in skills, training and employment across the system.

### ***Resilient networks that support living standards***

There are significant deficits in our three waters infrastructure (drinking water, wastewater and stormwater). The current reform programme aims to address these challenges and deliver significant benefits to New Zealand. However, these benefits need to be balanced against the significant fiscal and implementation risks of the current reform programme.

Much of our infrastructure is exposed to climate change hazards such as sea-level rise and extreme weather events. By investing in resilient infrastructure, we can ensure our infrastructure networks can absorb disturbance, recover from disruptions, adapt to changing conditions and support community resilience, while continuing to deliver the services New Zealanders rely on.

### ***The RMA, resource management system and planning framework are potential enablers or barriers to infrastructure***

A better planning system would create greater certainty for infrastructure planning, funding and delivery, and there is a strong case for beginning any review of this system with a focus on housing and infrastructure.

# Human and Social Capital

## Strategic assessment

**Health:** The health system continues to experience significant and long-standing inequities across populations, significant DHB deficits, a growing financial sustainability challenge and institutional challenges. The impact of COVID-19 has emphasised the urgency of healthcare reform, as one element of a system-wide effort to mitigate the impacts on human and social capital for the most vulnerable. However, in the context of a constrained fiscal environment, choices and trade-offs will need to be made.

**Local solutions:** There are a number of locally led and centrally supported initiatives across government that explore new ways of solving complex (often social) issues, which support human and social capital. Recent COVID-19 experience has demonstrated the benefits of these initiatives, where the urgency of the situation enabled some agencies, such as MSD, to use higher-trust models to enable providers to respond flexibly to community needs. Iwi, Māori and Pacific organisations were also quick to mobilise support to whānau.

**Labour market:** The labour market impacts of COVID-19 are likely to erode human capital. Individuals that exit education or become jobless during a recession face heightened risks of scarring, including long-term unemployment, skills erosion, underemployment and lower future earnings. These impacts are not equally distributed. A lack of social capital (eg, knowledge of employment services, support, rights and obligations, as well as networks) can exacerbate the impacts of the economic downturn for populations who historically during downturns have been disadvantaged.

## Strategic policy directions

**Health:** The Health and Disability System Review recommends significant reforms centred around legislation, structure and funding to support cultural and capability changes. In the short term, a focus on controlling DHB deficit growth is a priority. Long-term, strengthened institutions and accountabilities along with a clear plan for financial sustainability, will be critical to improving outcomes and addressing inequities. Measures should be prioritised and sequenced based on the extent to which they contribute to these aims.

**Local solutions:** There is an opportunity to have an all-of-government view of these locally led solutions, and implement a more coordinated and continuous improvement approach to the establishment of new initiatives. There is also a link to the Public Finance System Modernisation programme, specifically the potential for clusters to support more collaborative efforts and in how to support the Crown-Māori partnership.

**Labour market:** Research suggests that some of these impacts can be mitigated through well-targeted and effective active and passive labour market policies, but how they are administered matters. There is significant opportunity to improve coordination among existing CRRF employment initiatives and value in a greater focus on what works for specific populations. Untested approaches should be implemented with caution given the potential for lock-in effects and further erosion of human and social capital.

# Natural Capital

## Strategic assessment

**Resource Management Reform:** The resource management system struggles to enable communities to adequately identify desired natural environment outcomes, give effect to Te Tiriti o Waitangi, manage cumulative effects, allocate resources, or respond to changing resource demands. The current RM approach has also contributed to an uncompetitive housing market. If focused well, reform of the resource management regulatory system offers a once-in-a-generation opportunity to substantially improve housing affordability, particularly for disadvantaged New Zealanders.

**Freshwater:** Freshwater quality and use are of significant importance to New Zealanders. The implementation of the Action for Healthy Waterways (AfHW) package is under way, but there are still significant system issues to address. AfHW did not address the current ineffective allocation system or resolve Māori rights and interests in freshwater. The Crown has made undertakings to address Māori rights and interests for over a decade and litigation is a risk.

**Climate change:** New Zealand has committed to ambitious emissions reduction targets. There are choices on the levers to achieve those targets. Changing climates will exacerbate environmental challenges through increased flooding, drought and erosion and change the spread of pest species and diseases. Adaptation to climate change involves widespread risk management across local and central government, individuals, firms and households.

## Strategic policy directions

**Resource Management Reform:** Prioritising the outcomes that reforms should focus on improving will be critical. Strategic direction from Ministers will also need to consider governance of reforms, how to work with Māori and local government in progressing reforms, timeframes for policy and legislation, and resourcing for implementation following legislative changes. You may also wish to be involved in the governance of the reform programme given the broad reach of the RM system.

**Freshwater:** Implementation of freshwater reforms alongside the related Three Waters work program (see slide 5) will require ongoing engagement with local government and industry stakeholders. Addressing Māori rights and interests in freshwater will be a necessary consideration in water allocation. Water allocation will require a reasoned national conversation to establish rights to use, draw or pollute freshwater. Changes to RM will need to consider freshwater impacts, especially implementation of AfHW and allocation tools.

**Climate change:** Emissions pricing is critical but needs to be combined with a portfolio of other complementary policies which should be central to the Government's Emissions Reduction Plan in 2021. The development of the 2022 National Adaptation Plan and a policy framework for Managed Retreat will need to consider how the cost of adaptation is distributed, and avoid moral hazard and stranded assets for government, for firms, and for individuals and households.

# System-Wide Reform

## Strategic assessment

Significant reforms and programmes under way in other portfolios are important for your reform agenda. These are listed below. They involve cross-economy levers that are relevant to your portfolio, and have wide-ranging impacts on living standards. They also demonstrate the volume of pressure across systems to develop and implement reforms:

- Health and Disability System Review
- Resource Management Act reform (to help with urban growth management and natural resources management)
- Three Waters' reform programme
- Reform of Vocational Education
- Education work programme
- Climate change transition
- Overseas Investment Act reform
- Welfare reform, including a focus on child poverty
- 30-year infrastructure strategy and delivery of enhanced programme
- Changes to tax policy.

## Strategic policy direction

Government bandwidth is under pressure, so you will need to make choices about what to prioritise to drive forward your agenda. We would like to work with you to identify which issues you wish to focus on, and how we can support you to do that.

# Regulatory Stewardship

## Strategic assessment

The Government is responsible for the development and administration of around 200 regulatory systems. These systems contribute to the social capital that underpins the living standards of New Zealanders.

Regulatory systems need ongoing care and attention to deliver effectively over time – they are not easy to design and can also become quickly out-dated and unfit for purpose, and add unnecessary compliance costs. New Zealand has a long history of ‘set and forget’, with regulatory change often driven more by failures than by proactive stewardship.

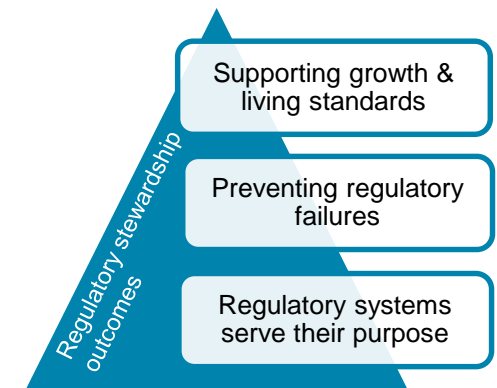
Regulatory stewardship asks public service agencies to adopt a whole-of-system, proactive, collaborative approach to the monitoring and care of the regulatory system(s) within which they have responsibilities. It is mandated by the Public Service Act and Cabinet expectations.

New Zealand needs stronger stewardship practice if it is to successfully deliver important structural reforms, such as RMA and climate change response, in a world of greater fiscal constraint and where many businesses and individuals have been made more vulnerable by the disruption caused by COVID-19. Ensuring regulatory systems are fit for purpose in a rapidly changing world can also support future growth opportunities.

## Strategic policy directions

Regulatory stewardship practice can be developed to assist the Government to deliver on its reform objectives by:

- identifying and capturing the long-term benefits of regulatory reforms for growth and living standards, supporting dynamism, productivity growth and accumulation of intangible capital in existing and new industries (see slide 4)
- ensuring the lasting success of major regulatory reform initiatives, such as public finance modernisation (see slide 10) or Reserve Bank Act Review (see slide 19) by bringing more attention to their implementation
- keeping regulatory systems fit for purpose through regular adjustments and addressing vulnerabilities early to reduce the likelihood and potential severity of regulatory failures that can be a costly distraction to Government’s reform agenda.



The Treasury has a leadership and coordination role in the development of regulatory stewardship practice across the public service, while the chief executives of each agency participating in the regulatory system are collectively responsible for its stewardship.

# Public Finance System Modernisation

## Strategic assessment

It is over 30 years since New Zealand's public finance system was fundamentally reformed. The system was world leading at the time it was introduced, but government has evolved and new challenges have emerged. With fiscal and economic impacts from COVID-19, a well-functioning public finance system is central to raising living standards and maintaining fiscal sustainability.

You took some important steps to modernise the public finance system during the last term, with a focus on wellbeing and living standards, collaboration and value for money. These include embedding the Living Standards Framework as a practical policy advice tool, broadening the fiscal and budgetary framework under the Public Finance Act to incorporate wellbeing, implementing a programme of baseline reviews, and introducing new arrangements for cross-agency working under the Public Service Act.

Challenges remain, however. We believe there is an opportunity for New Zealand to again be at the forefront of public finance reform to ensure government has the best tools available to improve the intergenerational wellbeing of New Zealand.

## Strategic policy directions

You can take action in the short-term to strengthen the focus on fiscal control and value for money. These include the structure and design of Budget 2021, examining the CRRF to identify opportunities for more value for money, and looking at central levers to manage cost pressures including wages.

There are also more comprehensive structural reforms that would require further amendment to the Public Finance Act 1989 (PFA). These could be informed by He Ara Waiora – a tikanga-based framework centred on a te ao Māori view of wellbeing developed contiguously with the Living Standards Framework. Linking these principles with the public finance system would illustrate New Zealand's unique point of difference in the world. The objectives of reform would be to:

- re-orient the Budget process to have a longer-term focus, with deeper analysis that also includes baselines and delivers more systematic assessment of efficiency, performance and living standards
- embed and facilitate collective working across government, focused on the Government's wellbeing priorities
- simplify reporting and make it more meaningful and linked to wellbeing outcomes.

Treasury is ready to advise you on a range of proposals to help progress these issues. We would welcome an early discussion about options to deliver meaningful reform during the coming parliamentary term.

# Fiscal Policy

## Strategic assessment

The economic impact of COVID-19, together with the Government's response, has had a significant impact on the Government's fiscal position. However, the economy is expected to remain below potential in the short term, and maintaining stimulatory fiscal policy will support the recovery. Too little support will result in more job losses, firm closures and a permanently poorer economy. While the economy remains weak, higher debt from expansionary fiscal policy is likely to be welfare-improving, if expenditure is temporary, targeted and timely.

Over the longer term, the greater challenge is that underlying Government spending now exceeds revenue, and this deficit is expected to continue for the foreseeable future. Once the economy has recovered, fiscal policy should steer a path towards stabilising debt and, in the long-run, rebuilding buffers.

Alongside COVID-19, there are significant pre-existing challenges relating to how the Government should manage long-term cost pressures, particularly the ageing population and rising expenditure on public sector wages and key sectors such as health. This may require key policy settings to be reconsidered, as maintaining spending in line with historical trends without increasing revenue will result in rising debt.

## Strategic policy directions

The PFA requires you to publish a Half Year Economic and Fiscal Update (HYEFU) by 31 December and deliver your Budget Policy Statement (BPS) by 31 March. Typically the BPS is published alongside the HYEFU but given the relatively late election date this would result in tighter production timeframes than usual.

The BPS will state your strategic priorities for Budget 2021, and the PFA requires this to set out any changes to your short-term fiscal intentions and long-term fiscal objectives. The BPS should also confirm your operating and capital allowances for Budget 2021 and signal allowances for future years. **This will be the first statutory opportunity to communicate the Government's fiscal strategy for the new parliamentary term.**

In addition to these spending decisions, we can provide advice on other issues you may wish to consider, such as:

[33]

- revisions to New Zealand's macroeconomic frameworks, including the PFA, in light of the new macroeconomic challenges faced, and opportunities for Public Finance System modernisation (see slide 7).

# Monetary Policy

## Strategic assessment

Fiscal and monetary policy both have a role to play in supporting macroeconomic stability, and have worked well together to support the economy through COVID-19. In addition to lowering the Official Cash Rate (OCR) to 0.25%, the Reserve Bank ('Bank' hereafter) has provided additional support through Large Scale Asset Purchases (LSAPs) as part of its Alternative Monetary Policy (AMP) toolkit. To date, AMP appears to have reduced NZ Government Bond (NZGB) yields with likely flow-on effects to lower interest rates on other financial products, and downward pressure on the exchange rate. To provide further support, the Bank has indicated it may lower the OCR and will develop a Funding for Lending Programme (FLP).

AMP tools have both positive and negative distributional and sectoral impacts through their effects on asset prices, financial markets, economic activity and unemployment. However, their net impacts are highly uncertain at this stage.

Some AMP tools entail fiscal risks and costs. The RBNZ Act (1989) provides the Monetary Policy Committee (MPC) with the responsibility to formulate monetary policy but does not specify or limit the tools which the Bank may use for this purpose. You have signed a Memorandum of Understanding (MOU) with the Bank on the fiscal risks and costs of AMP tools – in particular the process for the Bank to request indemnities for losses arising with the use of AMP programmes.

The Bank's announced bond purchase programme is near to the cap specified in the current indemnity (although the Bank has not made all of the actual purchases yet). The indemnity cap reflects concerns about retaining an active investor base, primarily for NZGBs.

## Strategic policy directions

Further monetary policy stimulus would help support economic activity. We can provide advice on how to manage any constraints to the delivery of further monetary policy stimulus:

- [33,29]
- We could do further work to understand the distributional and sectoral impacts of AMP if desired.

# Budget and Fiscal Management

The Fiscal Management Approach (FMA) is a key lever for achieving your fiscal strategy and wider Government priorities. Key features of the existing FMA include fixed nominal baselines and new spending Budget allowances in the annual Budget processes to control additional expenditure. Your desired fiscal strategy, and the balance between short-term stimulus objectives and stabilisation of the long-term debt trajectory, will shape your choices about the strategy and process for Budget 2021.

## Strategic assessment

Recent Budgets have seen pressure on Budget allowances, a high volume of initiatives submitted, increased use of tagged contingencies, and increased out-of-cycle new spending. This has led to significant work for agencies and the Treasury, and impacted on the:

- ability to maintain focus on delivering improved wellbeing outcomes through high-value initiatives
- visibility of trade-offs between maintaining existing services and funding new policy ideas
- ability for agencies to implement and deliver new initiatives.

Looking ahead, known cost pressures are likely to absorb the majority of the Budget allowances and may further limit discretion.

You may wish to structure Budget 2021 to address the above, and increase the quality of new initiatives and your ability to prioritise spending. Increasing the scrutiny and controlling out-of-cycle new spending (including tagged contingencies) will also support fiscal control and assist you in achieving your fiscal strategy.

## Strategic policy directions for Budget 2021

- The pre-Christmas **Budget 2021 Strategy Cabinet Paper** provides an opportunity for you to link your fiscal strategy through to the structure and design of Budget 2021. This will enable you to discuss Budget priorities with your colleagues, confirm expectations about the Budget allowances, and communicate your objectives and the process to your colleagues and agencies. This will be followed by the **Budget Policy Statement** as noted in the Fiscal Policy slide.
- You may wish to set clear objectives and processes to separate the remaining funding left in the CRRF from the Budget allowances.
- You could consider progressing options for reprioritisation of existing spending, either as part of Budget 2021 or separately.

# Government Expenses

- Total Crown operating expenses were \$111.4 billion for the year ended 30 June 2019, with the core Crown expenses being \$87.0 billion.
- Core Crown operating expenses are expected to increase significantly over the next few years primarily as a result of decisions to support New Zealand through the COVID-19 pandemic.
- Around 70% of core Crown spending expected to happen over the next four years is in relation to social security and welfare (eg, benefit payments), health services and education services.
- The forecast for core Crown expenses also includes spending that is yet to be appropriated to Votes: see “Forecast new operating spending”. On average in each year around \$9 billion of expenditure is yet to be appropriated. This will be made up of future Budget allowances, tagged contingencies and unallocated funding from the CRRF.
- In addition to operating expenditure, the Treasury forecasts that the Government will spend around \$44.4 billion in capital investments. This includes \$12.0 billion to invest in physical assets (eg, building school property), \$1.3 billion in providing loans (eg, student loans), \$7.7 billion in contributions to the New Zealand Superannuation Fund and \$15.6 billion to invest into other Government agencies (eg, NZTA to build state highways). Similar to operating expenditure, the forecast includes spending that is yet to be appropriated to Votes.
- The annual Budget process is a key lever for the Minister of Finance in setting the spending intentions for the Government.

## Core Crown Expenses (2018/19 to 2023/24)

	2019	2020	2021	2022	2023	2024
	Unaudited					
	Actual <sup>1</sup>	Actual	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m
<b>By functional classification</b>						
Social security and welfare	28,740	44,028	39,897	37,846	38,514	39,899
Health	18,268	19,891	23,132	21,343	21,407	21,486
Education	14,293	16,322	15,968	17,252	16,950	17,010
Core government services	5,166	6,083	5,966	5,155	5,133	5,368
Law and order	4,625	4,911	5,384	5,147	5,179	5,142
Transport and communications	2,889	3,179	5,548	3,718	3,758	3,558
Economic and industrial services	3,006	3,988	4,744	3,798	3,661	3,447
Defence	2,395	2,499	2,762	2,745	2,736	2,840
Heritage, culture and recreation	918	1,106	1,576	1,237	1,050	992
Primary services	960	961	1,448	906	822	746
Housing and community development	727	1,015	1,972	1,535	1,224	1,134
Environmental protection	1,119	1,485	1,691	1,591	1,567	1,491
GSF pension expenses	66	73	30	31	49	71
Other	96	63	739	339	325	341
Finance costs	3,691	3,228	2,044	1,408	1,702	2,364
Forecast new operating spending	-	-	10,057	7,431	8,467	11,048
Top-down expense adjustment	-	-	(3,500)	(1,550)	(850)	(800)
<b>Total core Crown expenses excluding losses</b>	<b>86,959</b>	<b>108,832</b>	<b>119,458</b>	<b>109,932</b>	<b>111,694</b>	<b>116,137</b>

Source: Pre-election Economic and Fiscal Update 2020

# Capital Investment Management

## Strategic assessment

The last three Budgets have included unprecedented levels of capital investment and the COVID-19 response (including shovel-ready projects) added even more – and these decisions were made at pace as part of the crisis response.

Although the multi-year capital allowance can provide greater flexibility on capital allocation, in practice the capital budget is consistently oversubscribed. We expect pressure on the allowance to continue as asset replacements are a significant driver of spending.

Despite the expected ongoing oversubscription, the capacity and capability to deliver investment projects is a significant constraint to capital investment. It is important not to take on more than the system can reasonably deliver, and that the limited capability we have is directed towards investments that provide the greatest value to New Zealanders.

## Strategic policy directions

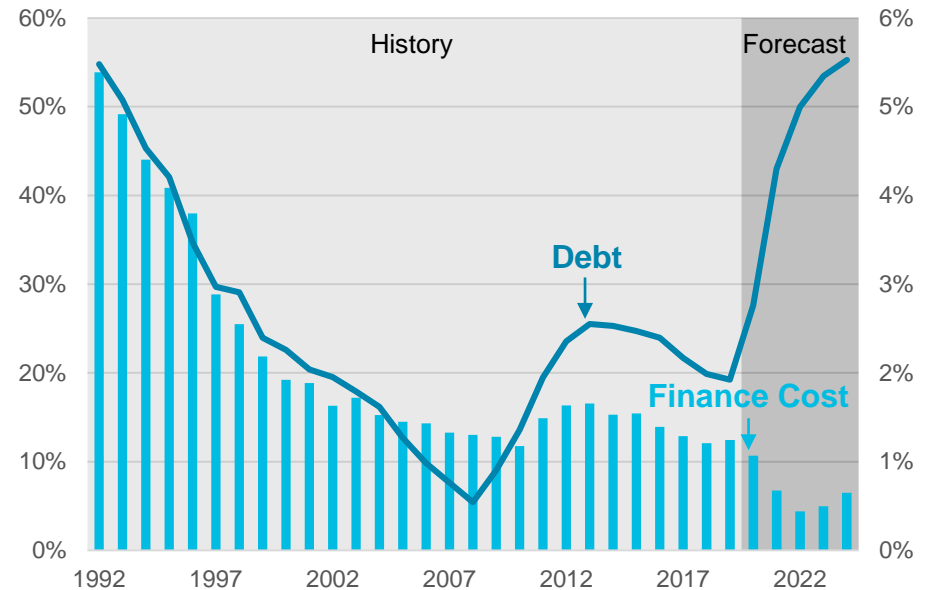
If you wish, you could review existing Budget 2020 capital spending, including CRRF spend, to understand the achievability of funded investments and review tagged contingencies. You could do this through a rapid, discrete process or by including a reprioritisation track within Budget 2021, within which the capital budget process will fall.

Budget 2021 provides the opportunity to strengthen your expectations around capital investment and delivery. Treasury is ready to advise around these options and more broadly on capital investment management.

# Government Debt

- **Net core Crown debt** was 19% of GDP in 2019 and in PREFU was projected to peak at 56% in the mid-2020s. This is driven by higher expenditure, largely from COVID-19 spending, and lower tax revenue, due to the economic cycle. Even so, debt remains low compared to other OECD countries, and current levels remain manageable.
- However, we face future fiscal challenges from increased demand on public services, for example from an ageing population and rising healthcare costs. Funding this through persistent deficits, with no change in revenue policy, would result in debt rising at an unsustainable rate.
- Despite net core Crown debt rising, finance costs remain low over the forecast period at or under 1% of GDP. For comparison, when debt was at just over 50% of GDP in the early 1990s, finance costs were over 5% of GDP. Today's lower finance cost is due to historically low interest rates, with the 10-year Government Bond Rate currently at 0.5%. The path of interest rates is highly uncertain but it is widely expected rates will remain relatively low in the medium term.
- The Government finances borrowing through the sale of Government securities, predominantly **Government Bonds**.
- Debt management attempts to balance three main goals: minimising overall Crown balance sheet costs and risks, promoting well-functioning and liquid New Zealand Government Bond markets, and stimulating investor demand.

**Net Core Crown Debt (LHS) and Core Crown Finance Cost (RHS) as a % of GDP**



- These debt figures do not include **contingent liabilities**, which are either costs that the Crown will have to face if a particular event occurs, or present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements.
- Total quantifiable contingent liabilities, as reported in the pre-election forecasts, were \$9.6 billion (3% of GDP). Examples include contractual obligations with the IMF, and uncalled capital facilities with the Asian Development Bank and the International Bank for Reconstruction and Development.

# Government Revenue

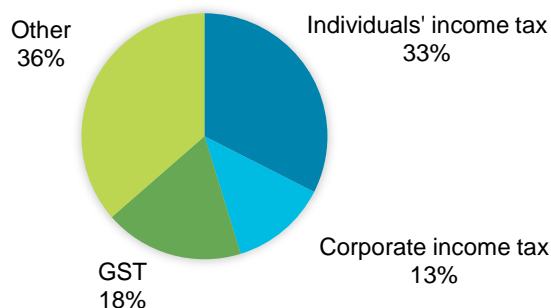
The Ministers of Finance and Revenue are jointly responsible for tax policy. Total Crown revenue was \$119 billion to June 2019. Of this, \$85.5 billion is tax revenue, \$6 billion is other sovereign revenue (including from levies, fines and the Emissions Trading Scheme (ETS)), \$20 billion is from sales of goods and services (mainly by SOEs) and \$7.5 billion is other revenue (including interest revenue and dividends).

A strength of New Zealand's broad-base, low-rate system is that it raises the majority of New Zealand's revenue in a relatively low-cost and coherent way. However, as shown in Figure 1 below, New Zealand does rely on a few key tax bases (income, consumption and company taxes). New Zealand's taxes and transfers work together as a system to reduce income inequality. While New Zealand's tax and transfer system is redistributive, it is less so than most other OECD countries.

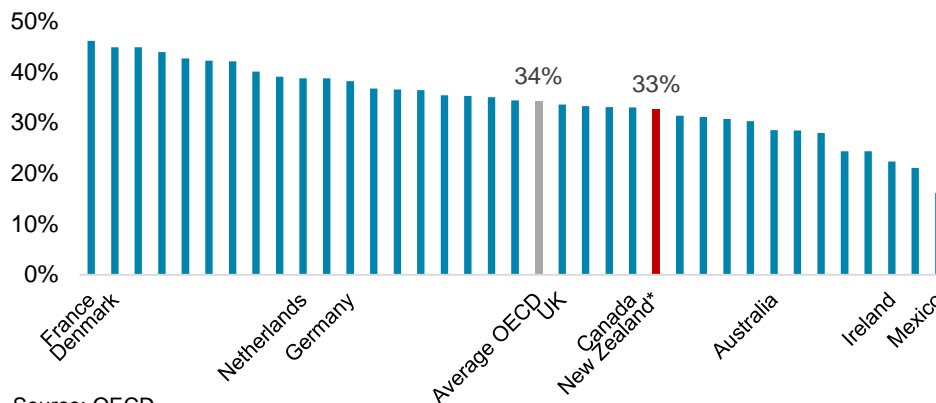
Central government tax revenue is around 28% of GDP. Local government has its own revenue base from rates, development contributions, fees and charges. Local government tax revenue is around 2% of GDP. New Zealand's total tax revenue (from central and local government) as a percentage of GDP is below the OECD average (Figure 2).

The COVID-19 shock continues to have a significant impact on the Government's fiscal position going forward through reduced tax revenues and increased expenditure. In PREFU, Treasury forecast a -1.5% of GDP structural deficit to remain at the end of the forecast period (June 2024). Forecasts of tax revenue are lower than was forecast pre-COVID-19 due to the lower nominal GDP following the COVID-19 shock.

**Figure 1: Sources of Crown Revenue, 2019**



**Figure 2: Tax Revenue as a Percentage of GDP, 2018**



Source: OECD.

\* The bulk of the difference between the 28% + 2% of GDP in the paragraph above and the 33% in the graph is inter-governmental taxes.

# Revenue and Tax Policy

## Strategic assessment

In the near term, there are choices for how the tax system could support economic recovery, while balancing the Government's fiscal and other objectives. Over the longer term, the revenue system faces challenges related to long-term fiscal sustainability (including demographic change), and from international mobility of capital and businesses.

Against that background, strategic issues for tax policy include:

- **revenue sufficiency:** ensuring the tax system generates sufficient revenue in the context of the Government's fiscal strategy
- **productivity:** ensuring business tax settings support economic recovery, productivity, and economic growth
- **integrity and fairness:** ensuring the tax system is robust and minimises opportunities for tax avoidance
- **distributional impacts:** understanding how the tax and transfer system impacts inequality
- **international integrity:** ensuring the international tax settings remain robust to the digitalisation of the economy and multi-national companies pay their fair share of New Zealand tax
- **environmental:** ensuring the tax system supports environmental objectives

## Strategic policy directions

The PFA requires the Government to outline its revenue strategy in the upcoming Budget as part of the Fiscal Strategy Report. We will support you in articulating a revenue strategy, which details your objectives for the tax system and tax policy. The revenue strategy also guides the setting of priorities for the tax policy work programme, which will help to prioritise work on specific tax policy changes over this term.

You have indicated your priorities are:

- **new tax bracket:** Implementing a bracket with a rate of 39% for personal income earned over \$180,000. You may also wish to consider possible accompanying measures to support the effectiveness and integrity of the reform
- **international integrity:** Continue negotiations with the OECD on the taxation of multi-national corporations but, if agreement is not reached, work towards implementing a Digital Services Tax
- **small business cash-flow scheme:** Extend the scheme and investigate more permanent financing options
- **social insurance:** Investigate a social insurance scheme, which may impact the tax system (eg, through a social security levy)

# Financial Markets

## Strategic assessment

Banks are well-capitalised and overall financial markets are stable. Ongoing house price increases are exacerbating unaffordability and wealth inequality. We have high household debt, but most customers who took up mortgage deferrals are resuming payments. The RBNZ temporarily removed loan-to-value ratio (LVR) limits in response to COVID-19 and will consult you on any changes it makes to macro-prudential policy to address emerging stability risks.

Bank lending to businesses is low as a result of COVID-19, with uncertainty affecting the flow of credit. Continued lending to sound businesses will be critical to support an economic recovery.

There have been stresses in the non-bank deposit-taking sector for some time, which is exacerbated by COVID-19. [29]

Beyond COVID-19, New Zealand's financial markets face structural challenges:

- The lending market is concentrated in four homogeneous and relatively profitable banks making up 94% of business lending and a large share of the KiwiSaver market. Around 85% of the property insurance market is concentrated in three insurers.
- Our capital markets are small and less developed and credit provision is concentrated in residential property.
- [29] The IMF recommended we improve our crisis management and resolution framework, which is being addressed by the Reserve Bank Act Review. [29]

## Strategic policy direction

The significant reforms under way, such as the Reserve Bank Act Review, Conduct of Institutions Amendment, financial advice regime, consumer credit regulation, and the Insurance (Prudential Supervision) Act review, affect the capacity of the financial sector to absorb and engage, and need time to bed in and have the desired behavioural effect. The Treasury will have a new role as Reserve Bank monitor once the Institutional Act has passed and an ongoing stewardship role in ensuring we have the right balance of growth, efficiency, stability, and consumer protection.

You could focus on areas that enhance productivity and innovation. For example, by considering a Productivity Commission inquiry into the financial system, including the cost and availability of capital and credit; accelerating progress on a Consumer Data Right for the banking sector (ie, Open Banking); the role of the non-bank sector in supporting competition and innovation; KiwiSaver's role in capital markets; [33]

However, government and financial regulators need to consider the ability of the sector to engage in any regulatory changes and manage the forward work programme accordingly.

# Financial Institutions

## Strategic assessment

The Crown's Financial Institutions (CFIs) implement fiscal policies that support the intergenerational equity, efficiency and resilience of New Zealand's financial capital. They do this by managing funds on behalf of the Crown or as a trustee for insurance or pension schemes.

The CFIs provide a significant offset to total Crown liabilities, while supporting the equitable financing of universal allowances. Current assets under management of the four largest funds<sup>1</sup> is almost \$100 billion, equivalent to approximately 30-35% of GDP and 1.4 times the KiwiSaver market.

The long-term investment time horizon and risk appetite of CFIs may support some of the Government's strategic priorities, such as infrastructure investment, where there is commercial alignment. Careful thought would need to be given to policy design, to assure the CFIs retain the critical success factor of independence over investment decision-making.

Long-term absolute performance of CFIs has been strong, correlated with market performance. However, macroeconomic uncertainty and a low interest rate environment will likely lower performance in the medium term. This is likely to show through impacts on fund contributions, most notably for ACC, where low interest rates materially increase the accounting liability.

## Strategic policy directions

- Funding in periods of deficit; balancing short-term fiscal pressures with long-term efficient management of finances. This includes developing risk-focused reporting for CFIs and reviewing appetite for volatility relative to stress events.
- [25,33,37]
- Clarifying Government expectations for responsible investment. This could consider the positive impacts of environmental, social and governance factors as well as the minimum expectations represented by shared exclusions.
- Institution dynamics to support consistent and agile delivery of policy, where externalities are targeted through investment (productivity; regional growth; green investment). There is an opportunity to consider the benefits of greater coordination of agencies, focusing initially on a common approach to climate or other impact investments.

<sup>1</sup> New Zealand Super Fund (\$45.77b), Accident Compensation Scheme assets (\$46.3b), Government Superannuation Fund (\$4.3b), National Provident Fund (\$1.8b).

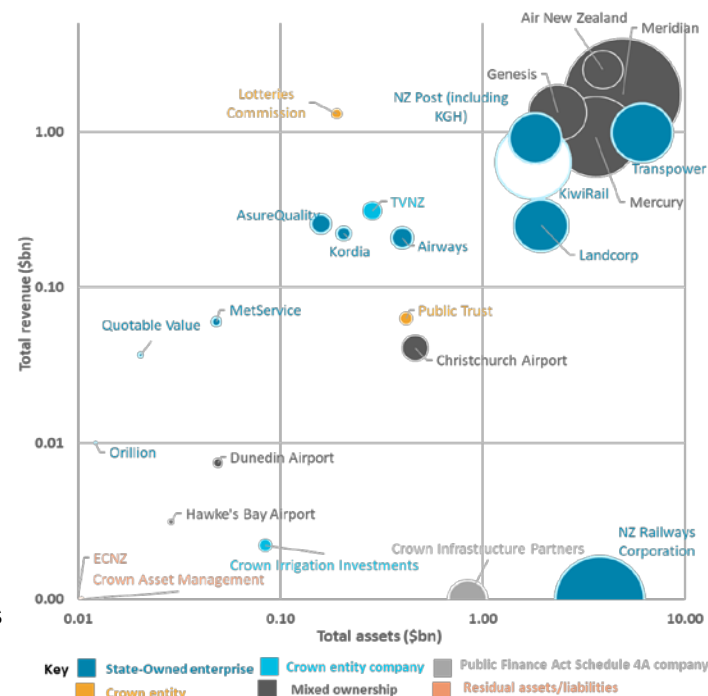
# Crown Company and Entity Stewardship

## Strategic assessment

- Crown-owned companies and entities that carry out mainly commercial activities are a significant part of New Zealand's economy. Strong performance by these 25 entities can support achievement of your economic strategy and your broader wellbeing outcomes, as these entities employ approximately 26,000 FTEs providing essential goods and services such as transport, energy, public media, financial and infrastructure management services. Last year they generated nearly \$18 billion revenue using assets valued at more than \$52 billion.
- COVID-19 impacted on the Crown's transport, media and services entities through falls in passenger, freight and advertising activity, with the Crown committing \$1.3 billion in funding relief. The pandemic has highlighted risks and opportunities to drive greater value and performance from companies and entities, including:
  - high director turnover, meaning that relatively new boards may be leading through disruptive change. Governance expertise is crucial to entities' strategic direction, performance, and adaptation through change
  - form and mandate that give levers for achieving your objectives. There are currently six entity ownership frameworks, which adds complexity, but does not always signal the Crown's rationale for ownership and limits flexibility for the role of entities to change over time.

## Strategic policy directions

- Key areas of focus are:
  - **developing ownership policies:** Set ownership expectations about your financial and public benefit objectives and more explicit performance expectations to provide clear signals to support transparent choices by boards about funding, and commercial and public benefit trade-offs
  - **proactively driving entity stewardship:** Strengthen board governance, including board-led succession planning. For entities with form or mandate in review or change, consider whether ownership remains the most effective approach compared with other options for intervention. In the longer term, consider a review of entity ownership forms.
- In the next six months, we think the focus should be on setting objectives and expectations to drive long-term performance of key entities. We can provide you further advice on developing ownership policies and stewardship opportunities.



# APEC 2021

## Strategic assessment

- New Zealand will host Asia-Pacific Economic Cooperation (APEC) in 2021 and has taken an early decision to host 'virtually'.
- You will chair the Finance Ministers' Meeting, which usually takes place in late September and is the culmination of an officials' process that Treasury will steer for you – the Finance Ministers' Process (FMP).
- Hosting APEC in 2021 comes at a challenging time for the global economy and for APEC as an institution. Hosting will allow us to deepen our connections with the Asia-Pacific region, in which many of our most important trading partners are located.

## Strategic policy direction

In the next few months you will have some key decisions to make as we prepare for the host year:

- Discuss and finalise policy priorities (with Cabinet colleagues for APEC-wide priorities and with Treasury for FMP priorities). Communicate to APEC Ministerial counterparts and economies by early December.
- Discuss and agree with Treasury the FMP process (including key deliverables and the nature of discussions) for 2021. This could include an 'extra' scene-setting Ministers' meeting early in 2021 to guide official's work.
- Agree and action a programme of outreach and engagement with APEC counterparts to build momentum for the Finance Ministers' meeting.

MFAT is leading a process that aims to finalise New Zealand's APEC-wide theme(s) for our host year, along with associated policy priorities. For FMP:

- we propose priorities focused around COVID-19 recovery and the challenges ahead, with an emphasis on fiscal policy and budget frameworks as signalled previously. We also propose to bring a wellbeing lens to discussions and take into account the distributional impacts of the pandemic.

# Overseas investment

## Strategic assessment

New Zealand's economy benefits significantly from productive overseas investment. It will be a critical source of capital for firms facing distress from the economic downturn caused by COVID-19. Conversely, foreign investment can also pose risks to New Zealand's national interest, including our national security.

The Treasury has completed the 'Phase Two' review the Overseas Investment Act in 2019/20. The review resulted in proposals to cut red tape to support productive foreign investment, while filling gaps in the government's ability to manage risks when they arise.

Those reforms necessary to support the government's COVID-19 response were passed urgently in June 2020. Other parts of the reform are contained in the Overseas Investment Amendment Bill (No3), which is currently before Parliament (subject to it being reinstated).

## Strategic policy directions

Our suggested priorities are to:

- support the passage of the No3 Bill through Parliament to ensure an enduring and balanced framework for regulating foreign investment in New Zealand is in place
- work with the Overseas Investment Office (OIO) to operationalise the reforms, once passed, with a focus on realising the intended process improvements and efficiencies, while also supporting the OIO to establish a new fee schedule that reflects the costs of administering the new model
- completing the statutory review of the 2018 reforms to the overseas investment settings for forestry, which will consider their operation and effectiveness.