

**Treasury Report: Briefing for Sustainability Allocation Bilateral:
8am, 9 February 2005**

Date:	4 February 2005	Treasury Priority:	High
Security Level:	IN CONFIDENCE	Report No:	T2005/159

Action Sought

	Action Sought	Deadline
Minister of Finance	Read the attached briefing	Prior to bilateral meeting, 8am, 9 February
Associate Minister of Finance (Hon Trevor Mallard)	Read the attached briefing	Prior to bilateral meeting, 8am, 9 February
Ministers of Forestry, Research, Science and Technology, Agriculture, Biosecurity, Energy, Land Information, Environment and Fisheries	Read the attached briefing	Prior to bilateral meeting, 8am, 9 February

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
[]	[]	[]	[]	✓
David Galt	Manager, Environment and Natural Resources, Treasury	[]	[]	
Paul Stocks	Director, Sustainability Package, MAF	[]	[]	

[Names and phone numbers withheld under s.9(2)(a) of the Official Information Act]

Enclosure: No

4 February 2005

DH-0-1

Treasury Report: Briefing for Sustainability Allocation Bilateral: 8am, 9 February 2005

This report is prepared by Sustainability officials and Treasury officials. It provides Sustainability Ministers and Finance Ministers with a briefing for the budget bilateral on the Sustainability allocation, scheduled for 8am, Wednesday 9 February. This bilateral will cover initiatives from Votes Agriculture and Forestry, Biosecurity, Climate Change and Energy Efficiency, Energy, Environment, Fisheries, Lands, and Research, Science and Technology.

Additional funding for these votes is being considered as part of the RMA/CMA allocation (Fisheries and Environment), the GIF allocation (Agriculture and Forestry, Research, Science and Technology) and the Other allocation (Sustainable Farming Fund).

Operating funding

Cabinet has set an operating allocation of \$173 million across five years for Sustainability Ministers. This includes several "pre-committed" items:

- Tuna by-catch quota (\$8.9 million);
- Lake Rotoiti water quality (\$4 million);
- Painted Apple Moth aerial operations (\$7.8 million); and
- Hotel Cecil (\$9.4 million).

These total \$30.1 million, leaving \$142.9 million to spend.

Vote Ministers have proposed a package that fits within their allocation. Funding sought is detailed by initiative in Annexes One, Two and Three (pages 7 to 11), and is summarised in the table below:

Operating \$ million (GST incl)	2004/05	2005/06	2006/07	2007/08	2008/09	Outyrs	04/05 - 08/09 total
Pre-committed funding	18.948	11.152	-	-	-	-	30.100
Agriculture and Forestry	-	4.875	4.875	4.875	4.875	2.625	19.500
Biosecurity	-	3.935	3.935	3.429	3.429	3.429	14.728
Climate Change and Energy Efficiency	-	3.917	3.617	3.017	0.650	0.650	11.201
Energy	-	2.270	3.270	2.270	2.270	2.270	10.080
Environment	-	8.010	8.958	8.940	7.092	7.092	33.000
Fisheries	0.900	4.250	4.250	4.250	4.250	4.250	17.900
Lands	-	4.206	4.189	4.224	4.206	4.206	16.825
Research, Science & Technology	-	3.545	3.545	3.545	3.545	3.545	14.180
Contingency	3.987	-	-	0.750	0.750	0.750	5.487
Total funding sought	24	46	37	35	31	29	173
Allocation	51	34	30	29	29	29	173
Difference	27	-12	-7	-6	-2	0	0

Key items funded within the package include:

- Climate change and energy efficiency initiatives across votes (\$33 million);
- Marine science and information – the Tangaroa vessel (\$20 million);

- Biosecurity initiatives (\$15 million);
- Fisheries enforcement services and stakeholder engagement (\$14 million);
- The Ministry for the Environment's activities in leveraging business growth from improved environmental management (\$14 million); and
- Walking access and land tenure (\$9 million).

Information on outcome linkages and value for money is included in Annex Six on page 14. Annex Seven on page 15 lists initiatives that were rejected from the package through the prioritisation process.

Sustainability Ministers are aware that the unallocated contingency in the package is low compared with previous years' between-budget spending, and have committed to manage the risks that are known about at bilateral time, and things that could reasonably be expected to be known at bilateral time within the contingency or within existing baselines. The Minister of Finance agrees that genuinely unforeseeable risks (e.g. pest incursions and responses to natural disasters) will be considered against the general contingency. The unallocated contingency for the Sustainability package is only \$3.987 million in total. See Annex Five on page 13 for details on previous between-budget spending. Significant effort has been put into ensuring that departments have identified all their potential spending during the Budget prioritisation process. This has resulted in several specified contingency items. Sustainability Ministers are confident that there are no proposals under development at this point that will result in spending proposals during the 2005/06 financial year.

Capital funding

The package includes five capital bids, as outlined by initiative in Annex Four (page 12) and summarised by vote below:

Capital \$ million (GST N/A)	2004/05	2005/06	2006/07	2007/08	2008/09 & outyrs	5 year total
Agriculture and Forestry	-	8.266	0.575	-	-	8.841
Environment	-	0.850	0.850	0.050	0.050	1.800
Fisheries	-	0.810	-	-	-	0.810
Lands (net figures)	(31.388)	31.120	0.120	0.120	8.120	8.092
Total funding sought	(31.388)	41.046	1.545	0.170	8.170	19.543

Capital funding is sought for continuation of the Land Tenure review, the purchase of the Wallaceville containment laboratory, and consequential capital relating to operating bids.

Land tenure

A multi-year appropriation of \$45 million over the next three years is sought to continue implementation of the Land Tenure review programme (the bid also notes that Land Tenure review is forecast to generate \$14 million revenue over the next three years). This funding could be offset by funding already in the Land Tenure Reform Acquisition multi-year appropriation [Information withheld under s.9(2)(i) and s.(9)(2)(j) of the Official Information Act]. As this funding was for the achievement of similar outcomes to what will be achieved through Land Tenure review it is proposed that this funding be used for the continued implementation of the review programme.

Wallaceville containment laboratory

The Wallaceville capital (\$7.691 million) includes a significant contingency component: 25% on existing buildings, site improvement, subdivision costs and land, and an additional 10%

contingency overall. Final approval of this capital expenditure should be subject to joint Minister approval of the business case.

Emissions Units

In addition to the funding outlined above, the package includes the allocation of six million emissions units in 2005/06, for a third round of Projects to Reduce Emissions. This involves the Crown giving emissions units to selected firms that deliver verified emissions reductions via a project that would not have otherwise occurred.

The first Projects round resulted in a 1:1 ratio of units to emissions reductions. This means that it delivered no improvement to New Zealand's net emissions position. The second round was more successful, delivering one unit of reductions to every 0.86 units given away.

Treasury would like to ensure that a third round delivers adequate value for money. Treasury is concerned to protect and enhance the Crown's net emissions position. A net surplus represents a valuable asset to the Crown. However, a net deficit would represent a financial liability.

To this end, Treasury recommends the setting and achievement of a specified minimum ratio of emissions units sought to emissions reductions offered for projects. This minimum "price" would need to be determined prior to the commencement of the tender round taking into account the climate change objectives of the programme.

The Ministry for the Environment considers that setting a specified minimum price prior to the commencement of the tender round is not desirable.

Recommended Action

Officials recommend that Joint Ministers:

- a **note** the proposed package of \$173 million operating (of which \$30 million has been pre-committed by Cabinet) and \$69 million gross capital (\$20 million net) across five years;
- b **note** that the proposed package has an unallocated contingency of \$4 million in total;
- c **note** that contingency funding can be rolled into subsequent years if it is unspent;
- d **agree** to the initiatives listed on page 7;

Agree/disagree.

- e **agree** to the contingency allocation listed on page 10;

Agree/disagree.

- f **agree** to the pre-committed items listed on page 11;

Agree/disagree.

- g **agree** to the capital initiatives listed on page 12;

Agree/disagree.

- h **agree** that the funding [Information withheld under s.9(2)(i) and s.9(2)(j) of the Official Information Act] be retained to offset the Land Tenure review initiative;

Agree/disagree.

- i **agree** to the following conditions around the package:

- i Managing the contingency – Vote Ministers agree that they will manage the risks that are known about at bilateral time, and things that could reasonably be expected to be known at bilateral time (like time-limited funding running out, legislative requirements and forthcoming new Ministerial policy priorities) within the contingency or within existing baselines. The Minister of Finance agrees that genuinely unforeseeable risks (e.g. pest incursions and responses to natural disasters) will be considered against the general contingency;

- ii Carbon accounting and reporting system – given the potentially large operational inventory, mapping and related database project envisaged (in the order of [Information withheld under s.9(2)(f)(iv) of the Official Information Act] across four years, of which \$14 million is sought at this bilateral and \$12 million is already in baselines), standard government procedures will be followed before expenditure is approved. The project has been operational for 2-3 years. Officials will prepare another Cabinet paper for joint Minister sign-off including full project costs and any necessary business case. Release of operating and capital funding would be conditional on achievement of milestones set out in a project plan;

- iii Envirolink – the Minister of Research, Science and Technology will report back to the Minister for the Environment and the Minister of Finance with details of the proposed funding and governance arrangements by 31 July 2005;
- iv Electricity demand-side participation – support for this initiative is contingent on the signing of a Memorandum of Understanding between EECA and the Electricity Commission to ensure against duplication of services; and
- v Wallaceville capital – capital funding is subject to joint Minister approval of the business case.

Agree/disagree.

- j EITHER (*Treasury recommendation*):

support the initiative Projects to reduce emissions – allocation of units for a third tender round **subject to** the setting and achievement of a specified minimum ratio of emissions units sought to emissions reductions offered for projects prior to the commencement of the tender round.

OR (*Ministry for the Environment recommendation*):

support the initiative Projects to reduce emissions – allocation of units for a third tender round without conditions.

David Galt
 Manager, Environment & Natural Resources
 for Secretary to the Treasury

Paul Stocks
 Director, Sustainability Package
 Ministry of Agriculture and Forestry

Hon Dr Michael Cullen
 Minister of Finance

Annex One: Package Proposed by Ministers

Initiative	\$million (increase/decrease)				
	2004/05	2005/06	2006/07	2007/08	2008/09 & outyears
Vote Agriculture and Forestry					
Sustainable water development	-	0.500	0.500	0.500	0.500
Development of walking access policy	-	2.125	2.125	2.125	2.125
Generic forestry market development (FIFA) * NB funding ceases after 2008/09	-	2.250	2.250	2.250	2.250*
Total Vote Agriculture and Forestry	-	4.875	4.875	4.875	4.875
Vote Biosecurity					
International mail centre staffing and courier mail clearance	-	0.255	0.255	0.255	0.255
Post-border pest detection in high risk sites	-	1.000	1.000	1.000	1.000
Maintenance of the National Centre for Disease Investigation at Wallaceville	-	(0.076)	(0.076)	(0.076)	(0.076)
Bovine Spongiform Encephalopathy (BSE) surveillance	-	0.506	0.506	-	-
New organisms enforcement capability	-	1.250	1.250	1.250	1.250
MAF collective employment agreement settlement	-	1.000	1.000	1.000	1.000
Total Vote Biosecurity	-	3.935	3.935	3.429	3.429
Vote Climate Change and Energy Efficiency					
Electricity demand-side participation	-	0.700	0.700	0.600	0.400
Review of the National Energy Efficiency and Conservation Strategy	-	0.300	-	-	-
Energy efficient products programme	-	1.250	1.250	0.750	0.250
Improve energy efficiency and reduce greenhouse gas emissions by energy-intensive businesses	-	1.667	1.667	1.667	-
Total Vote Climate Change and Energy Efficiency	-	3.917	3.617	3.017	0.650

Initiative	\$million (increase/decrease)				
	2004/05	2005/06	2006/07	2007/08	2008/09 & outyears
Vote Energy					
Maintain policy capability for energy policy and electricity market development work/Strengthening collaboration on sustainable energy	-	1.000	2.000	1.000	1.000
Operation of the national unit register under the Climate Change Response Act 2002	-	1.270	1.270	1.270	1.270
Refund of over-collected electricity industry levies relating to 2000/01 (NB this is a technical change that impacts on the Other allocation, not on the Sustainability allocation, so is not included in total figures)	0.058	-	-	-	-
Total Vote Energy	-	2.270	3.270	2.270	2.270
Vote Environment					
Review of river control and flood risk management	-	0.750	0.750	-	-
Development of New Zealand carbon accounting and reporting system	-	2.500	3.238	3.570	2.692
Implementation of Fiordland Marine Area (cross-vote initiative)	-	0.760	0.870	0.870	0.900
Leveraging business growth from improved environmental management	-	3.500	3.500	3.500	3.500
Complete development of New Zealand Oceans Policy	-	0.500	0.600	1.000	-
Total Vote Environment	-	8.010	8.958	8.940	7.092
Vote Fisheries					
Fisheries enforcement services: poaching and black market deterrence	-	3.250	3.250	3.250	3.250
Increase in the baseline for Observer Services	-	-	-	-	-
International capability	-	0.750	0.750	0.750	0.750
Recreational fisheries engagement	-	0.250	0.250	0.250	0.250
Legal expenses	0.900	-	-	-	-
Total Vote Fisheries	0.900	4.250	4.250	4.250	4.250

Initiative	<i>\$million (increase/decrease)</i>				
	<i>2004/05</i>	<i>2005/06</i>	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09 & outyears</i>
Vote Lands					
Land tenure review (cross-vote initiative)	-	0.188	0.171	0.206	0.188
Improved sea-level monitoring to enhance tsunami warning systems	-	0.563	0.563	0.563	0.563
Marine science and information	-	3.455	3.455	3.455	3.455
Total Vote Lands	-	4.206	4.189	4.224	4.206
Vote Research, Science and Technology					
Marine science and information	-	1.545	1.545	1.545	1.545
EnviroLink: connecting science with management for environmental benefit	-	2.000	2.000	2.000	2.000
Total Vote Research, Science and Technology	-	3.545	3.545	3.545	3.545
Grand Total	0.900	35.008	36.639	34.550	30.317

Emissions Units

Initiative	<i>Emissions units millions (increase/decrease)</i>				
	<i>2004/05</i>	<i>2005/06</i>	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09 & outyears</i>
Vote Climate Change and Energy Efficiency					
Allocation of emissions units for a third round of Projects to Reduce Emissions	-	6.000	-	-	-

Annex Two: Contingency Items

Initiative	<i>\$million (increase/decrease)</i>				
	2004/05	2005/06	2006/07	2007/08	2008/09 & outyears
[Information withheld under s.9(2)(f)(iv) of the Official Information Act.]	-	-	-	0.750	0.750
Unallocated contingency	3.987	-	-	-	-
Grand Total	3.987	-	-	0.750	0.750

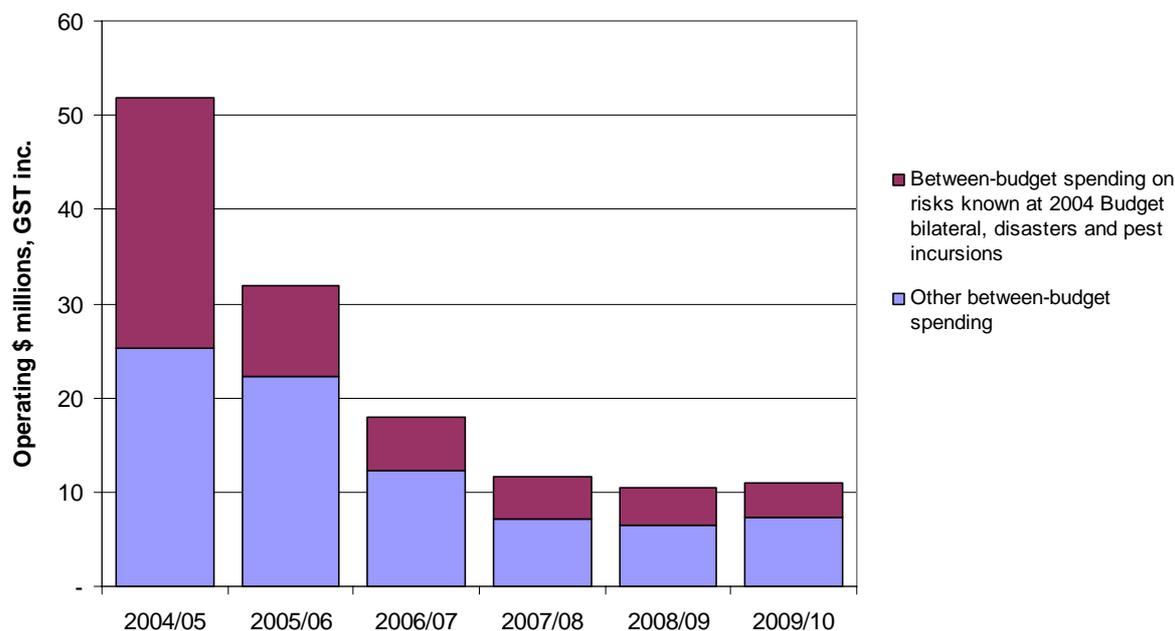
Annex Three: Pre-Committed Items

Initiative	\$million (increase/decrease)				
	2004/05	2005/06	2006/07	2007/08	2008/09 & outyears
Vote Biosecurity					
Painted Apple Moth aerial operations (contingency item if needed)	7.800	-	-	-	-
Total Vote Biosecurity	7.800	-	-	-	-
Vote Environment					
Lake Rotoiti water quality	0.108	3.892	-	-	-
Total Vote Environment	0.108	3.892	-	-	-
Vote Fisheries					
Disposal of Tuna Bycatch Quota and Annual Catch Entitlement	1.640	7.260	-	-	-
Total Vote Fisheries	1.640	7.260	-	-	-
Vote Lands					
Hotel Cecil (contingency item if needed)	9.400	-	-	-	-
Total Vote Lands	9.400	-	-	-	-
Grand Total	18.948	11.152	-	-	-

Annex Four: Capital Items

Initiative	\$million (increase/decrease)				
	2004/05	2005/06	2006/07	2007/08	2008/09 & outyears
Vote Agriculture and Forestry					
Maintenance of the National Centre for Disease Investigation at Wallaceville	-	7.691	-	-	-
Development of walking access policy	-	0.575	0.575	-	-
Total Vote Agriculture and Forestry	-	8.266	0.575	-	-
Vote Environment					
Development of New Zealand carbon accounting and reporting system	-	0.850	0.850	0.050	0.050
Total Vote Environment	-	0.850	0.850	0.050	0.050
Vote Fisheries					
Fisheries enforcement services: poaching and black market deterrence	-	0.810	-	-	-
Total Vote Fisheries	-	0.810	-	-	-
Vote Lands					
Land tenure review (both LINZ and DOC capital) * NB: this includes a multi-year appropriation of \$45 million for the years 2005/06 to 2007/08	-	45.120*	0.120	0.120	12.120
Land tenure review forecast revenue		(14.000)			(4.000)
Offsetting reduction – [Information withheld under s.9(2)(i) and s.(9)(2)(j) of the Official Information Act]	(31.388)				
Total Vote Lands	(31.388)	31.120	0.120	0.120	8.120
Grand Total	(31.388)	41.046	1.545	0.170	8.170

Annex Five: Between-Budget Spending by the Group Since the 2004 Budget



'Other between-budget spending' in 2004/05 covered a range of initiatives. It included one-off funding for items such as:

- disposal of Crown-held tuna bycatch quota and annual catch entitlement (\$8.9 million);
- work programme for Petroleum Data Acquisition (\$15 million over three years); and
- Lake Rotoiti water quality (\$4 million).

It also included ongoing funding for:

- relieving congestion at Auckland and Christchurch airports (\$2 million p.a.);
- Fisheries and Environment share of the interim RMA/CMA funding package (\$2 million p.a.);
- gas exploration incentives (\$1 million p.a.); and
- MAF lease of Pastoral House (\$4 million in 2004/05, dropping to \$2 million p.a. thereafter).

Annex Six - Outcome Linkages and Value for Money

The Sustainability Package represents a collection of a large number of initiatives that promote responsible development alongside environmental protection. The package totals \$173 million over five years with a \$29 million per annum permanent increase in baselines.

The package includes significant funding to work towards:

- achieving climate change outcomes by meeting international obligations, reducing emissions, and improving energy efficiency;
- protecting New Zealand's health, natural environment and primary industries by improving detection of, and response to, biosecurity threats;
- ensuring the sustainable utilisation of our fisheries resources, through targeting poaching and black market activities and improving engagement with the recreational sector;
- enhancing New Zealanders' enjoyment of our natural resources through improved land access; and
- promoting sustainable business practices through reducing the production and impact of waste and encouraging recycling.

The package is the result of Ministers working together to prioritise the highest value for money across eight votes and six departments. This process resulted in \$500 million of initiatives being trimmed to fit within the allocation. The resulting package reflects the highest priorities and achieves outcomes across all these votes.

Initiatives in the package will be monitored and evaluated to ensure that the desired outcomes are being achieved. Funding for a number of specific initiatives will be subject to satisfactory reporting to joint Ministers and/or Cabinet on costs, objectives and progress, as outlined in the conditions on the package set out in the recommendations.

Annex Seven – Bids Rejected from the Sustainability Package

[Information withheld under s.9(2)(f)(iv) of the Official Information Act]