The Treasury

Ministerial OIA responses 20230022 and 20230023 Information Release

April 2023

This document has been proactively released by the Treasury on the Treasury website at

https://www.treasury.govt.nz/publications/other-official-information/responses-official-information-act-requests

Context for Release

On 20 January 2023, the Minister of Finance (Hon Grant Robertson) received two Official Information Act requests. These requests asked for a significant number of reports that he had received in October and November 2022.

Due to the significant amount of information released in the responses to these requests, the Minister has approved the publication of the documents released so that they may be made available for the public.

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Please refer to each document for the specific information that has been withheld.

Where information has been withheld, a reference to the applicable section of the Act has been made.

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OIA 20230022
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TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2396

Date: 1 November 2022

To: Minister of Finance (Hon Grant Robertson)

Deadline: None
(if any)

Economic Security Finance Priorities Meeting

You are meeting with officials at the next Finance Priorities Meeting on Thursday 3 November to discuss economic security. You have recently received two reports on related issues – s6(a) and *Building resilience to supply chain risks* [T2022/1977 refers].

At the Finance Priorities Meeting, we wish to provide an overview of the economic security work we are engaged in, and to understand what your priorities are for further work in this area.

We have attached a short slide pack to this Aide Memoire to support this discussion (enclosed).

Caleb Morrall, Analyst, Economic Policy, s9(2)(g)(ii)
John Beaglehole, Manager, Economic Policy, s9(2)(g)(ii)

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TE TAI ŌHANGA
THE TREASURY

Economic Security

Finance Priorities Meeting

3 November 2022

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Purpose of the meeting

- We have provided you with two reports on supply chain resilience recently:
  - Building resilience to economic coercion [T2022/1037]
  - s6(a)

- There is a range of other work on supply chain resilience happening across government that the Treasury is involved in

- Given economic resilience is part of your economic strategy, we want to discuss your goals in this area and how the Treasury can support you to achieve them

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A changing international economy

- Key trends affecting global supply chains:
  - **Volatility:** Frequency and severity of economic shocks is likely to grow (war in Ukraine, geopolitical tensions and major power competition, future pandemics, climate-induced natural disasters, etc)
  - **Increasingly fractured global trading system:**
    - The use of trade and investment levers to advance non-economic interests (economic coercion, sanctions, etc)
    - Increased restrictions on cross-border flows of goods, services, and capital, especially between major economies and in advanced technologies (US-China decoupling, etc)
- Consequences for New Zealand:
  - More fractured, less efficient, smaller global economy with greater inflation pressures
  - Blurred distinction between trade and foreign policy decisions, and growing US engagement in our region (e.g., the Pacific Islands)
  - Increased risk of supply chain disruption to imports important for wellbeing
  - New Zealand's position in global supply chains means our access to imports can be affected by disruption elsewhere in value chains

Do you have any reflections on this assessment (e.g., from recent engagement with partners in Washington DC)?

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Existing work on supply chain resilience

	Absorptive capacity	Adaptive capacity
Market-Focused Intervention	s6(a)	Trade Recovery Strategy 2.0, including focus on market diversification
	MoT Freight and Supply Chains Strategy	s9(2)(f)(iv)
	Indo-Pacific Economic Framework (currently under negotiation)	Regulatory reform (e.g., changing building codes to enable a wider range of materials to be used)
	s6(a)	Industry Transformation Plans
	DPMC-led work on critical national infrastructure resilience	
Direct Government Action	s9(2)(f)(iv)	

Productivity Commission supply chains inquiry (spans Absorptive capacity and Adaptive capacity)

We are interested in your views on the balance of this work

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Priorities for further work

- Treasury is engaged on resilience issues because:
  - **Economic advisor role:** your economic strategy is to create a high wage, low emissions economy that provides economic security in good times and bad.
  - s9(2)(f)(iv) [redacted]

What are your goals in this area? And how can Treasury support you to achieve them?

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2063

Date: 19 October 2022

To: Minister of Finance (Hon Grant Robertson)
Minister for State Owned Enterprises and Minister Responsible for the Earthquake Commission (Hon Dr David Clark)

Deadline: None
(if any)

Aide Memoire: SOE Portfolio (Kordia, MetService) and Independent Oversight Committee for Southern Response Earthquake Services Ltd Documentation to Confirm Appointments at APH Committee on 26 October 2022

On Wednesday 26 October 2022 you are intending to take two papers to the Appointments and Honours Committee to note your intention to make three appointments/elevations across two boards in the SOE Portfolio, and one appointment to the Independent Oversight Committee for Southern Response Earthquake Services Ltd Board in the Earthquake Portfolio, as follows:

Company	Name	Designation	Appointment/ reappointment	Term
Kordia Group Ltd	Mr Benjamin Paul (Ben) Kepes	Director	Elevation to Deputy Chair	1 November 2022 up to 30 April 2024
	Ms Linda May Robertson	Director	Appointment	1 November 2022 up to 31 October 2025
Meteorological Service of New Zealand Ltd	Dr Alison Jane Watters	Director	Elevation to Deputy Chair	1 November 2022 up to 30 April 2024
IOC for Southern Response Earthquake Ltd	Mrs Analisa Elstob	Member	Appointment	1 November 2022 up to 30 June 2024

SOE Portfolio: Kordia Group Ltd

Reappointment - Elevation Deputy Chair

Ben Kepes is a globally recognised expert in cloud computing, enterprise technology, and digital transformation. He is an experienced director across both early-stage technology companies, not-for-profits, and substantive entities. He has previously won the Sir Peter Blake Leadership Award. He brings the combination of commercial experience and a deep understanding of the growth parts of the Kordia business.

Appointment – Director

Linda Robertson of Queenstown has had a long executive career in corporate finance, treasury management and banking, having worked for Westpac, ANZ, Contact Energy. She was Group Manager, Treasury and Procurement at Meridian Energy until 2015 when she moved into directorships full time. She has extensive governance experience including directorships on listed companies, chairing boards, chairing audit and risk committees, investment committees as well as SOE boards, having been elevated to chair of Crown Irrigation Investments Limited (CIIL) in 2019. She has strong commercial and finance experience and has invested significantly into developing her professional capabilities including Climate Governance, Cyber, Organisational Psychology and Socially Responsible Business. She is a Distinguished Fellow of the NZ Institute of Finance Professionals, Fellow of Institute of Directors, Member of Global Women, and a Fellow of Governance New Zealand.

Diversity

If the proposed Kordia board elevation and appointment are confirmed, the proportion of women on the board as at 1 November 2022 will be 60%. Ethnicities represented will be NZ European and British/Irish. The board has a wide regional spread, with members from Auckland, Wellington, Canterbury, and Otago.

SOE Portfolio: Meteorological Service of New Zealand Ltd

Reappointment - Elevation Deputy Chair

Dr Alison Watters from Feilding is a potential future chair for MetService and appointing her deputy chair now will enable her to gain experience with the company before the chair role comes up for consideration in 2023. She is currently the chair of AsureQuality Ltd and has experience in applied science and joint venture partnerships.

Diversity

If the proposed MetService board elevation is confirmed, the proportion of women on the board will remain at 57%. Currently there is one member who identifies as Australian, five members that identify as NZ European and one other ethnicity. The board has members from Manawatu, Otago, Wairarapa, and Wellington regions.

Earthquake Portfolio: IOC for Southern Response Earthquake Services Ltd

Appointment – Member

Analisa Elstob of Christchurch is a chartered accountant with over 20 years' risk advisory and assurance experience in both New Zealand and overseas with strong technical skills in areas of risk management, finance, strategy, insurance, resilience planning and response, fraud, and health and safety. She is currently a director and the AFR committee chair of Canterbury Cricket Association, independent chair of audit and risk committee Selwyn District Council and chair Christchurch Boys' High School A&R committee. She has held risk manager roles with Ngāi Tahu Holdings, Canterbury Earthquake Recovery Authority and Ernst & Young. Her wide sector experience includes the oil and gas, utilities, mining and primary, manufacturing, government, and iwi.

Diversity

If the proposed appointment for IOC Southern Response Earthquake Services board is confirmed, the proportion of women on the board will remain at 75%. Currently there is one member who identifies as Lebanese, four members that identify as NZ European and one other ethnicity. The board has members from Auckland and Canterbury regions.

Simon Wi Rutene, Senior Advisor, Governance and Appointments s9(2)(k)
Joy Tracey, Senior Advisor, Governance and Appointments, s9(2)(k)
Stella Kotrotsos, Manager, Governance and Appointments, s9(2)(k)

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: The Financial Statements of the Government of New Zealand for the three months ended 30 September 2022

Date:	2 November 2022	**Report No:**	T2022/2179
		File Number:	BM-1-2-1-2023-3

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Agree** that the Financial Statements of the Government to the end of 30 September 2022 be presented to the House on 8 November 2022 **Provide** a copy of your press release to the Treasury by 5pm, 7 November 2022 for fact checking **Note** the contents of this report and that they are embargoed until 10am on 8 November 2022 **Note** the information on the 30 September 2022 Financial Statements of Government	7 November 2022
Associate Minister of Finance (Hon Dr Megan Woods)	**Note** the contents of this report and that they are embargoed until 10am on 8 November 2022	
Associate Minister of Finance (Hon David Parker)	**Note** the contents of this report and that they are embargoed until 10am on 8 November 2022	
Associate Minister of Finance (Hon Kiri Allan)	**Note** the contents of this report and that they are embargoed until 10am on 8 November 2022	

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Peter Mora	Team Leader, Fiscal Reporting	s9(2)(k) [redacted]	N/A (mob)	
Kamlesh Patel	Deputy Chief Government Accountant, Fiscal Reporting		N/A (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury. **Provide** a copy of the Minister of Finance's press release to the Treasury for fact checking. (Minister of Finance's office only).

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: The Financial Statements of the Government of New Zealand for the three months ended 30 September 2022

Executive Summary

This report outlines the financial results of the Government for the three months ended 30 September 2022 compared against monthly forecasts based on the *2022 Budget Economic and Fiscal Update (BEFU 2022)* and the results against the same period for the previous year.

This is the first reported interim financial results of the Government for the new financial year. These results will be considered in the preparation of our fiscal forecasts for the *Half-Year Economic and Fiscal Forecasts (HYEFU 2022)*. We will be reporting our preliminary fiscal forecasts to you on 10 November 2022.

Increasing interest rates since the *BEFU 2022* forecast are having an impact across the Financial Statements of Government. Increasing interest rates impact the following:

- interest income is higher than was forecast, however finance costs are also higher leading to net finance costs being higher than was forecast at *BEFU 2022*,
- investment portfolios returns are also impacted by interest rates alongside other market factors and have led to losses on financial instruments of $3.2 billion.
- assets and liabilities are also impacted by interest rates, as interest rates form the basis for the valuations of some of the Government's assets and liabilities (including student loans and the ACC insurance liability).
- the value of derivative financial instruments such as interest rate swaps and foreign exchange hedges have changed due to market conditions.

The other significant impact reflected in these results is the 30 June 2022 financial results. In particular the stronger starting position, than was forecast at *BEFU 2022*, primarily due to an OBEGAL deficit that was $9.3 billion lower than forecast and asset valuations being $30.7 billion higher than forecast. Both of these factors led to opening net worth being $44 billion higher than was forecast.

Table 1 – 30 September 2022 results compared to *BEFU 2022* forecasts

	Year to date				*Full Year*
	September 2022 Actual $m	**September 2022 BEFU 2022 Forecast $m**	***Variance BEFU 2022 $m***	***Variance BEFU 2022 %***	**June 2023 BEFU 2022 Forecast $m**
Core Crown tax revenue	**26,667**	26,800	*(133)*	*(0.5)*	116,098
Core Crown revenue	**29,498**	29,215	*283*	*1.0*	125,701
Core Crown expenses	**31,155**	30,912	*(243)*	*(0.8)*	127,051
Core Crown residual cash	**(8,672)**	(8,799)	*127*	*1.4*	(29,280)
Net debt	**71,038**	66,314	*(4,724)*	*(7.1)*	74,972
as a percentage of GDP	***19.8%***	*18.4%*			*18.7%*
Gross debt	**130,271**	120,409	*(9,862)*	*(8.2)*	130,219
as a percentage of GDP	***36.2%***	*33.5%*			*32.4%*
Operating balance before gains and losses	**(2,606)**	(2,553)	*(53)*	*(2.1)*	(6,634)
Operating balance (excluding minority interests)	**(2,873)**	(1,557)	*(1,316)*	*(84.5)*	(1,632)
Total borrowings	**219,232**	209,291	*(9,941)*	*(4.7)*	230,618
Net worth attributable to the Crown	**164,385**	122,406	*41,979*	*34.3*	122,401
as a percentage of GDP	***45.7%***	*34.1%*			*30.5%*

Overall, most operating fiscal indicators were close to forecast, the only exception was the **operating balance** deficit which was $1.3 billion larger than the forecast deficit. The variance to forecast was largely driven by the net losses on financial instruments being $4.1 billion more than the forecast gain, partially offset by net gains on non-financial instruments being $2.9 billion favourable to forecast.

As at 30 September 2022 **net debt** was $71.0 billion (19.8% of GDP), $4.7 billion higher than forecast. The variance is primarily a result of market movements since the *BEFU 2022* forecasts, with losses on financial instruments being higher than forecast and Crown entity borrowings being higher than forecast as a result of losses on derivatives.

Gross debt at $130.3 billion (36.2% of GDP), was $9.9 billion higher than forecast due to a range of factors, including derivative liabilities being greater than forecast, borrowings for RBNZ operational purposes and other borrowings by Capital Markets being higher than forecast.

Total borrowings were $219.2 billion, $9.9 billion higher than forecast. In addition to the variance in gross debt, two other key variances are impacting the total borrowings. Derivatives liabilities outside of the core Crown are $6.8 billion greater than forecast. Offsetting these are RBNZ settlement deposits which are less than forecast by $5.1 billion and lower than forecast other borrowings outside of the core Crown, primarily as a result of the borrowings within Kiwi Group Holdings being less than forecast.

While we do not expect any significant changes to the results prior to publication, as we are still finalising the results, any significant changes will be communicated to your office.

Recommended Action

We recommend that you:

a **agree** that the Financial Statements of the Government for the three months ended 30 September 2022 be presented to the House on 8 November 2022.

Agree/disagree.

b **note** the release date for the 30 September 2022 financial statements is 8 November 2022 at 10.00am and the results are embargoed until that time.

c **note** that most variances in key fiscal indicators discussed in this report are in line with forecast.

d **provide** your press release to accompany the publication of the 30 September 2022 financial statements to the Treasury by 5pm on 7 November 2022 for fact checking.

Kamlesh Patel
Deputy Chief Government Accountant

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

Purpose of Report

1. This report outlines the financial results of the Government for the three months ended 30 September 2022 compared against monthly forecasts based on the *BEFU 2022* forecast. This report also outlines the result against the same period for the previous year.

Year-to-date results compared to *BEFU 2022*

Table 2 – 30 September 2022 results compared to *BEFU 2022* forecasts

	Year to date				*Full Year*
	September 2022 Actual[1]	**September 2022 BEFU 2022 Forecast[1]**	***Variance BEFU 2022***	***Variance BEFU 2022***	**June 2023 BEFU 2022 Forecast[3]**
	$m	**$m**	***$m***	***%***	**$m**
Core Crown tax revenue	**26,667**	26,800	*(133)*	*(0.5)*	116,098
Core Crown revenue	**29,498**	29,215	*283*	*1.0*	125,701
Core Crown expenses	**31,155**	30,912	*(243)*	*(0.8)*	127,051
Core Crown residual cash	**(8,672)**	(8,799)	*127*	*1.4*	(29,280)
Net debt[4]	**71,038**	66,314	*(4,724)*	*(7.1)*	74,972
as a percentage of GDP	***19.8%***	*18.4%*			*18.7%*
Gross debt	**130,271**	120,409	*(9,862)*	*(8.2)*	130,219
as a percentage of GDP	***36.2%***	*33.5%*			*32.4%*
Operating balance before gains and losses	**(2,606)**	(2,553)	*(53)*	*(2.1)*	(6,634)
Operating balance (excluding minority interests)	**(2,873)**	(1,557)	*(1,316)*	*(84.5)*	(1,632)
Total borrowings	**219,232**	209,291	*(9,941)*	*(4.7)*	230,618
Net worth attributable to the Crown	**164,385**	122,406	*41,979*	*34.3*	122,401
as a percentage of GDP	***45.7%***	*34.1%*			*30.5%*

1 Using the most recently published GDP (for the year ended 30 June 2022) of $359,476 million (Source: Stats NZ).
2 Favourable variances against forecast have a positive sign and unfavourable variances against forecast have a negative sign.
3 Using BEFU 2022 forecast GDP for the year ending 30 June 2023 of $401,466 million (Source: The Treasury).
4 The net debt indicator includes core Crown advances, Crown entity borrowings and the financial assets and borrowings of the New Zealand Super Fund (NZS Fund). Net core Crown debt (the previous headline net debt indicator) was $138.1 billion (38.4% of GDP) at 30 September 2022, the forecast at 30 September 2022 was $143.1 billion (39.8% of GDP) and the forecast for 30 June 2023 is $163.7 billion (40.8% of GDP).

2. **Core Crown tax revenue** for the three months ended 30 September 2022 was $0.1 billion (0.5%) below the *BEFU 2022* forecast. The main variances were:

   - GST revenue was $0.3 billion (3.8%) below forecast. The 3.1% drop in private consumption in the June quarter signalled some weakness in general consumer sentiment, and this has likely continued into the September quarter.

   - Other indirect taxes were $0.2 billion (24.2%) below forecast, mainly owing to below forecast Road User Charges. This is because the decision to extend the temporary reduction scheme for road transport was made subsequent to the Budget forecasts.

   - Partially offsetting the above was source deductions revenue, which was $0.5 billion (4.4%) above forecast, owing to continued strength in the labour market. This trend will likely continue in the coming months as employment indicators published by Statistics New Zealand for the month of September continued to show both the number of people in employment and average hourly earnings are higher than forecast.

3. We are currently completing the *HYEFU 2022* forecast which will incorporate the most recent economic information and actual results to date.

Table 3 – 30 September 2022 core Crown tax revenue compared to forecast

Tax type	Actual ($m)	BEFU 22 Forecast ($m)	Variance to BEFU 22 ($m)	Variance to BEFU 22 (%)
Source deductions	**11,432**	10,948	484	4.4
Other individuals tax	**2,056**	2,130	(74)	(3.5)
Corporate tax	**4,223**	4,336	(113)	(2.6)
Other direct taxes	**461**	454	7	1.5
GST	**6,835**	7,106	(271)	(3.8)
Customs and Excise duties	**1,191**	1,207	(16)	(1.3)
Other indirect taxes	**469**	619	(150)	(24.2)
Core Crown tax revenue	**26,667**	26,800	(133)	(0.5)

4. **Core Crown tax receipts** for the three months to September 2022 were also $0.1 billion (0.4%) below the *BEFU 2022* forecast, which is close to forecast, with some timing differences in some taxes.

Table 4 – 30 September 2022 core Crown tax receipts compared to forecast

Tax type	Actual ($m)	BEFU 22 Forecast ($m)	Variance to BEFU 22 ($m)	Variance to BEFU 22 (%)
Source deductions	**11,428**	10,963	465	4.2
Other individuals tax	**1,795**	1,916	(121)	(6.3)
Corporate tax	**4,736**	4,663	73	1.6
Other direct taxes	**520**	502	18	3.6
GST	**5,710**	6,229	(519)	(8.3)
Customs and Excise duties	**1,182**	1,066	116	10.9
Other indirect taxes	**497**	636	(139)	(21.9)
Core Crown tax receipts	**25,868**	25,975	(107)	(0.4)

5. Although core Crown tax revenue was below forecast, overall **core Crown revenue** was $0.3 billion higher than forecast largely driven by higher interest income. The variance in interest income was driven by a mix of higher interest rates and higher interest-bearing investments spread across a number of areas.

6. **Core Crown expenses** at $31.2 billion were $0.2 billion above forecast. Aside from the top-down adjustment, the variances in core Crown expenses include:

- *Finance costs* were higher than forecast by $0.3 billion, with the key driver being interest costs on settlement deposits (which are floating rate debt) at the RBNZ, resulting from increases in the official cash rate. Other drivers include borrowings being higher than forecast.
- *Health expenses* were higher than forecast by $0.3 billion with COVID-19 related vaccine spending that was forecast to be spent in 2021/22 being spent in the period to 30 September 2022 and hospital and specialist related spending being ahead of forecast in September, with the variance expected to reverse over the year.
- *Housing and community development* expenses were lower than forecast by $0.2 billion, as a result of market conditions slowing KiwiBuild property sales (which means less costs of sales as the properties are sold) and spending under the Housing Acceleration Fund being capital in nature, rather than operating as forecast.
- *Economic and industrial services* expenses were $0.2 billion less than forecast which is largely due to lower than forecast grants and lower than forecast spending on the COVID-19 response.

Table 5 – 30 September 2022 core Crown expenses compared to forecast

Core Crown expenses	Actual ($m)	BEFU 22 Forecast ($m)	Variance to BEFU 22 ($m)	Variance to BEFU 22 (%)
Finance costs	**1,240**	929	(311)	(33.5)
Health	**7,386**	7,114	(272)	(3.8)
Housing and community development	**634**	844	210	24.9
Economic and industrial services	**931**	1,110	179	16.1
Social security and welfare	**10,628**	10,600	(28)	(0.3)
Education	**4,583**	4,651	68	1.5
Transport and communications	**1,065**	980	(85)	(8.7)
Other	**4,688**	4,884	196	4.0
Core Crown expenses (excluding top-down adjustment)	**31,155**	31,112	(43)	(0.1)
Top-down expense adjustment	**-**	(200)	(200)	100.0
Core Crown expenses excluding losses	**31,155**	30,912	(243)	(0.8)

7. The **OBEGAL** deficit of $2.6 billion was largely in line with forecast. The OBEGAL deficit of the SOE segment is lower than forecast by $0.3 billion largely as a result of the impairment of some physical assets. Within the Crown entity segment, ACC reported a better than forecast OBEGAL of $0.4 billion due to higher than forecast revenue and lower claims and surgery costs.

8. The **operating balance** was a $2.9 billion deficit, $1.3 billion more than the forecast deficit as a result of:

- Net losses on financial instruments of $3.2 billion were $4.1 billion more than the forecast gain. The losses largely reflects weaker investment returns from the Government's investment portfolios and losses on derivative instruments.
- Partially offsetting the losses on financial instruments were net gains on non-financial instruments which were $2.9 billion better than forecast mainly from actuarial gains on the ACC liability being higher than forecast. This is primarily driven by the change in discount rate assumptions partially offset by an adjustment in inflation assumptions since the *BEFU 2022* forecasts were prepared.

9. The **core Crown residual cash** deficit of $8.7 billion was broadly in line with the deficit forecast. Operating payments were $0.4 billion higher than forecast as a result of interest and operating payments. Capital cash flows were lower than forecast by $0.5 billion, largely driven by timing differences in the Ministry of Health's investments relating to the recently implemented health reforms ($0.2 billion) and MBIE's investments in Crown entities being $0.2 billion less than forecast.

10. At 30 September 2022 **net debt** was $71.0 billion (19.8% of GDP) which was $4.7 billion greater than forecast. At 30 June 2022 actual net debt was greater than forecast by $0.7 billion. Although net debt was close to forecast at year-end, this was due to some offsetting factors, with adverse valuations changes being offset by an improved residual cash position. Since 30 June 2022, valuation movements in financial assets and liabilities have continued resulting in the higher net debt position. The valuation movements primarily relate to the returns on the NZSF being $3.6 billion lower than forecast and ACC's derivative instruments which were forecast to be an asset at *BEFU 2022*.

11. ACC uses derivatives to hedge certain exposures in its investments. At a total Government level, the derivative financial liabilities are offset by other investment assets, such as marketable securities and at an overall balance sheet level, a minimal impact is expected.

Table 6 – 30 September 2022 reconciliation of net debt and net core Crown debt

	Year to date				*Full Year*
	September 2022 Actual $m	**September 2022 *BEFU 2022* Forecast $m**	***Variance*[3] *BEFU 2022* *$m***	***Variance BEFU 2022 %***	**June 2023 *BEFU 2022* Forecast $m**
Net core Crown debt	**138,120**	**143,130**	***5,010***	***3.5***	**163,683**
Include					
Core Crown advances	(28,491)	(28,699)	*(208)*	*(0.7)*	(38,545)
Net NZSF financial assets and borrowings	(53,861)	(61,967)	*(8,106)*	*(13.1)*	(66,677)
Crown entity borrowings	15,270	13,850	*(1,420)*	*(10.3)*	16,511
Net Debt	**71,038**	**66,314**	***(4,724)***	***(7.1)***	**74,972**
%of GDP					
Net core Crown debt	38.4%	39.8%			40.8%
Net debt	**19.8%**	**18.4%**			**18.7%**

12. **Gross debt** at $130.3 billion (36.2% of GDP), was $9.9 billion higher than forecast due to multiple factors, including Government Stock and other Capital Markets borrowings being greater than forecast by $1.6 billion, derivatives in loss being $3.5 billion greater than forecast and RBNZ borrowings being $4.9 billion above forecast.

13. **Total borrowings** were $219.2 billion, $9.9 billion higher than forecast. In addition to the variance in gross debt, two other key variances are impacting the total borrowings. Derivative liabilities outside of the core Crown are $6.8 billion greater than forecast. Offsetting these are RBNZ settlement deposits are less than forecast by $5.1 billion and lower than forecast other borrowings outside of the core Crown, primarily as a result of the borrowings within Kiwi Group Holdings being less than forecast.

14. **Net worth attributable to the Crown** at $164.4 billion was $42.0 billion higher than forecast. The key driver of this is the stronger year end results, leading to the starting position being $44.0 billion stronger than was forecast, largely as a result of year end asset valuations and the OBEGAL deficit being $9.3 billion lower than expected.

Year-to-date results compared to 30 September 2021

Table 7 – 30 September 2022 results compared to 30 September 2021 actuals

	Year to date				*Full Year*
	September 2022 Actual[1] $m	**September 2021 Prior Year Actual[2] $m**	***Variance[3] to 2021 $m***	***Variance to 2021 %***	**June 2022 Prior Year Actual[4] $m**
Core Crown tax revenue	**26,667**	23,990	*2,677*	*11.2*	108,458
Core Crown revenue	**29,498**	25,930	*3,568*	*13.8*	117,516
Core Crown expenses	**31,155**	31,022	*(133)*	*(0.4)*	125,641
Core Crown residual cash	**(8,679)**	(9,924)	*1,245*	*12.5*	(27,043)
Net debt[5]	**71,038**	46,287	*(24,751)*	*(53.5)*	61,850
as a percentage of GDP	***19.8%***	*13.5%*			*17.2%*
Gross debt	**130,271**	116,408	*(13,863)*	*(11.9)*	118,950
as a percentage of GDP	***36.2%***	*34.0%*			*33.1%*
Operating balance before gains and losses	**(2,606)**	(5,352)	*2,746*	*51.3*	(9,691)
Operating balance (excluding minority interests)	**(2,873)**	(11,556)	*8,683*	*75.1*	(16,932)
Total Borrowings	**219,232**	179,429	*(39,803)*	*(22.2)*	203,965
Net worth attributable to the Crown	**164,385**	139,264	*25,121*	*18.0*	167,036
as a percentage of GDP	***45.7%***	*40.7%*			*46.5%*

1 Using the most recently published GDP (for the year ended 30 June 2022) of $359,476 million (Source: Stats NZ).
2 Using prior year published GDP (for the year ended 30 June 2021) of $341,978 million (Source: Stats NZ).
3 Favourable variances against forecast have a positive sign and unfavourable variances against forecast have a negative sign.
4 Using published GDP (for the year ended 30 June 2022) of $359,476 million (Source: Stats NZ).
5 The net debt indicator includes core Crown advances, Crown entity borrowings and the financial assets and borrowings of the New Zealand Super Fund (NZS Fund).

15. When comparing the three months to 30 September 2022 to the three months ended 30 September 2021, the following key drivers explain the change in results

- Growth in the economy is the key factor impacting core Crown tax revenue as the tax take increases
- While core Crown expenses are broadly similar to the prior period, the composition of expenses has changed significantly as the COVID-19 response spending has significantly reduced from the prior year. For example, in the current period there are no costs associated with the wage subsidy and COVID-19 resurgence support payment, while at 30 September 2021 these costs totalled $3.7 billion. These costs have largely been replaced by other spending, reflecting Budget 2022 decisions.
- The changes in borrowings and the balance sheet are largely reflective of what has occurred since 30 September 2021, which include the revaluation of assets at 30 June 2022 and the spending over the period impacting borrowings.

16. We will provide a draft of the commentary to the Financial Statements of Government for the three months ended 30 September 2022 to your office on Monday 7 November which will expand on the comparison of the current results compared to last year for your information.

Next Steps

17. The Financial Statements of the Government for the three months ended 30 September 2022 are **embargoed** and due to be released on **Tuesday 8 November 2022** at 10:00am.

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2355

Date: 3 November 2022

To: Minister of Finance (Hon Grant Robertson)

Deadline: 10 November 2022
(if any)

Speaking Notes for Westpac-KangaNews Sustainable Finance Summit

You have been invited to give a keynote on 10 November 2022 at the Westpac Sustainable Finance Summit. You will appear via video between 9.20am and 9.45am, giving a 15 minute keynote followed by a 10 minute Q+A session.

The Q+A session will be facilitated by Laurence Davison, who is also introducing you. Laurence is the head of content for KangaNews, an information service covering Australasian fixed-income markets.

The organisers of the Summit have asked you to speak to:

- your take on New Zealand's progress towards its climate change goals.
- insights on how other governments/countries are prioritising climate.
- the value to New Zealand in progressing climate action in terms of access to global markets and capital.
- the role of mandated climate risk disclosure.
- how government is managing increasing debt levels while also funding climate goals.
- the Green Bond Programme (noting that the session after you will be presented by Karina Witty and Kim Martin from the Treasury, who will go into depth on this).
- insights on the importance of business leadership to help Aotearoa achieve its sustainability goals, and the partnership role that government is encouraging business to play alongside government.
- opportunities for business in taking action on climate.

Because your keynote is only 15 minutes, we have provided talking points for your speech at Annex 1 that focus on New Zealand's progress, Green Bonds, funding climate goals, climate reporting and opportunities to partner with business. We have also included some possible questions and answers at Annex 2.

Katie Collier, Senior Analyst, Climate Change, s9(2)(k)
Nicky Lynch, Manager, Climate Change, s9(2)(k)

Annex 1: Talking Points

We recommend that you begin with some acknowledgements, and then highlight progress on climate targets, and some of the Government's sustainable finance initiatives, including Green Bonds, the 'Climate Economic and Fiscal Update' and climate related disclosures, the approach to funding climate goals, and New Zealand Green Investment Finance Limited.

Acknowledgements

Westpac and KangaNews have asked that you make the following acknowledgements:

- Catherine McGrath, CEO of Westpac and members of her executive team.
- Directors, CEOs, businesses and investors from across the NZ economy.

Progress on Climate Targets

Westpac and KangaNews have requested that you 'share your take on New Zealand's progress towards its climate goals'. We suggest that you could use this opportunity to reiterate some of your messages from the State of Sustainable Finance Forum, where you acknowledged the progress made in climate policy over the last five years. You could highlight:

- creating an enduring system through a legislative framework for regular and transparent communication and planning on climate targets through the Zero Carbon Act,
- establishment of the Climate Change Commission as an important independent source of advice and analysis
- raising the ambition of New Zealand's Nationally Determined Contribution under the Paris Agreement,
- setting the first emissions budgets and releasing the first Emissions Reduction Plan and National Adaptation Plan, and
- implementing these plans, including funding initiatives through the Climate Emergency Response Fund.

Green Bonds

Kim Martin, Head of NZ Debt Management, and Karina Witty, Senior Funding and Engagement Strategist at the Treasury will be speaking about Green Bonds directly after you. We therefore recommend that you introduce Green Bonds at a high level ahead of their more detailed presentation. Possible talking points include:

- In September the Government furthered its commitment to climate change mitigation and environmental protection by launching the New Zealand Sovereign Green Bond Programme (the Programme) – ahead of the inaugural bond issuance to global financial markets sometime this month, subject to market conditions.

- Green Bonds provide financing to advance climate change and environmental priorities like the transition to clean transport and support for biodiversity – they are issued globally to support climate-friendly initiatives, and New Zealand joins other governments around the world in making this commitment.
- Money raised from the bonds will be used to support projects that help reach this Government's pledge to reduce net greenhouse gas emissions by 50 percent by 2030 and reach our net zero carbon target by 2050.
- Design of the Programme has been informed by international best practice and incorporates New Zealand specific elements that align with our priorities as stated in the Emissions Reduction Plan released earlier this year.
- In addition to providing financing for public sector projects, the Programme will support the development of New Zealand's wider sustainable finance market, which has been central to our vision for building a net-zero, productive, sustainable and inclusive economy since we came into Government.

Climate Reporting: The CEFU and Climate-related Disclosures

This could be an opportunity to mention the work government is doing on monitoring and reporting for climate change as a key way to measure and understand this progress. You could make brief comments on the Climate Economic and Fiscal Update, and climate-related disclosures.

- Treasury and the Ministry for the Environment will be jointly releasing a new report: the 'Climate Economic and Fiscal Update'. This report will provide a framework for understanding the economic and fiscal impacts from climate change. It will also provide an estimate of the fiscal costs of meeting New Zealand's first Nationally Determined Contribution (NDC) based on illustrative scenarios.
- The report will be the first of its kind in New Zealand, building on government's stewardship reporting and its increasing focus on climate change. The CEFU will be released by early next year.
- The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 will require around 200 large financial institutions covered by the Financial Markets Conduct Act to start making climate-related disclosures.
- The External Reporting Board (XRB) has been working on its first climate standard to support the legislation, which it aims to issue in December 2022. This would require disclosures alongside wider year-end reporting in 2023 at the earliest.
- For the private sector, climate-related disclosures will be an important way to:
    - ensure that the effects of climate change are routinely considered in business, investment, lending and insurance underwriting decisions
    - help climate reporting entities better demonstrate responsibility and foresight in their consideration of climate issues
    - lead to more efficient allocation of capital, and help smooth the transition to a more sustainable, low emissions economy.

Funding Climate Goals

You have also been asked to comment on how government is managing increasing debt levels while also funding climate goals.

- The government can't and shouldn't pay for all of the costs of the actions needed to achieve our goals. In many cases, the best role for government will be to create the wider environment that encourages investment in mitigation and adaptation across the economy. The ETS is a critical tool for ensuring the costs of emissions are recognised, and the Government is also committed to introducing pricing of agricultural emissions. In some case regulation will also be appropriate.
- For instances where public investment is needed, we have established the Climate Emergency Response Fund (CERF).
- The CERF was announced in the Budget Policy Statement for Budget 2022 with a down-payment of $4.5 billion from the cash proceeds of the Emissions Trading Scheme, and has funded $3.7 billion of climate change mitigation activity.
- Looking ahead, in Budget 2023 the CERF criteria will be extended to cover climate change adaptation, given the Government's recent release of the first National Adaptation Plan.
- The CERF is a key mechanism to address these costs. Using ETS proceeds as the CERF's primary funding source links the costs that emitters pay for their greenhouse gas emissions output to the government's activities to reduce emissions - a 'polluter pays' arrangement.
- Over the longer-term, it will also be important that wider spending and investment decisions increasingly take climate considerations into account. This will help government to balance its core spending activities with climate considerations.

New Zealand Green Investment Finance

Finally, we suggest that you could raise New Zealand Green Investment Finance in response to Westpac and KangaNews' request that you indicate how government is partnering with business.

- The government continues to support sustainable finance by mobilising private capital to green objectives. New Zealand Green Investment Finance Limited (NZGIF), a green bank, facilitates investment in green objectives.
- NZGIF invests on a commercial basis in companies, projects, and technologies that accelerate emissions reductions. It is intended to stimulate capital markets, attract and crowd-in private capital, and demonstrate the potential for green investment in New Zealand to the private market.
- To accelerate projects that will support a low carbon future, NZGIF has committed more than $100m since 2019 and attracted another $150m of co-investment.

- Coincidentally, NZGIF worked with Westpac to provide capital for a warehouse as part of their investment in solarZero, a residential solar energy services business.

Annex 2: Possible Q&A

We consider that the questions raised at the event are likely to be similar to the questions at the Centre for Sustainable Finance's State of Sustainable Finance Forum. We have therefore repeated relevant questions from that briefing here [T2022/2261 / BRF 2339 refers].

Are Green Bonds a new source of additional funding for the Government?

- No. Green Bonds **are not a new source of funding** for government agencies – they provide financing for funding decisions that have already been made, typically through the Budget or delegated decision-making processes.
- That is, while Green Bonds **are a new source of finance**, this does not represent additional funds for the Crown – they will be issued as part of the overall forecast core Crown borrowing programme run by the Treasury's New Zealand Debt Management function.

s9(2)(b)(ii) and 9(2)(g)(i)

[redacted]

Will the CERF be topped up for Budget 2023?

- The CERF was set up in the Budget Policy Statement for Budget 2022 with $4.5 billion of ETS cash proceeds as a 'down payment'.
- Government expects to continue topping up the CERF as additional cash proceeds from the Emissions Trading Scheme become available.
- We expect there will be significant calls for funding for high-value climate-related initiatives in the future.

Will the government be subject to the climate-related disclosures regime in the future?

- Our climate-related disclosures regime currently covers around 200 of the countries largest financial market participants, including roughly 90% of New Zealand’s total assets under management.
- We are now exploring whether to expand requirements to the public sector and large non-listed entities.

What is the future of non-financial disclosures? What’s after TCFD?

- Over the next 5-10 years, we are likely to see businesses increasingly embrace broader sustainability reporting, including disclosing nature-related risks such as biodiversity loss.
- Emerging frameworks like the Taskforce for Nature-related Financial Disclosures (TNFD) will play an important role in supporting businesses to assess these types of risk.

Does NZGIF crowd out bank finance and private investment?

- NZGIF works *with* private capital markets, not against them, to accelerate the flow of capital to investment that can enable New Zealand's decarbonisation.
- NZGIF works with other institutions, including Westpac, in pursuing this purpose.
- NZGIF has two main approaches to accelerating investment in the market: direct investment in opportunities that are not typically supported by mainstream financing, and the creation of products and programmes to attract additional flows of capital.

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Stockton Acid Mine Drainage - Project Update

Date:	3 November 2022	**Report No:**	T2022/2227
		File Number:	SE-1-3-20

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the Stockton Acid Mine Drainage project update and revised timeline **Refer** this report to the Minister for the Environment	17 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Dave Hendle	Senior Analyst, Commercial and Institutional Performance	s9(2)(k)	✓
Ann Webster	Manager, Commercial and Institutional Performance		

Minister's Office actions

Return the signed report to the Treasury.

If agreed, **refer** a copy of this report to the Minister for the Environment's office.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Stockton Acid Mine Drainage - Project Update

Purpose of report

1. This report responds to your request for an update on the Stockton Acid Mine Drainage (AMD) project, including next steps and options. It recommends that you refer this report to the Minister for the Environment.

Background

2. In June 2021, you provided the Cabinet Environment, Energy and Climate Committee with an overview of the Stockton AMD Project. Members were asked to note the process to identify a long-term solution to manage AMD and the Crown's liability. It was expected that members would be asked to make decisions on a preferred long-term solution in February 2022, following completion of a business case (ENV-21-SUB-0025 refers).

The Acid Mine Drainage issue

3. AMD, such as that at the Stockton Mine, occurs where mining removes a top layer of pyrite waste rock, and it reacts with air and water to create sulphuric acid. The water running off such mined areas can also mobilise heavy metals. Untreated, this water runs into surrounding rivers, negatively impacting plant and animal life.

4. BT Mining (BT) currently manages the Crown's share of ongoing AMD resulting from historic mining activities at Stockton up to September 2014. The Crown reimburses BT for these costs it incurs. BT is also responsible for the cost, current and future, of managing AMD resulting from its own mining activities. Whenever BT chooses to exit Stockton, responsibility for managing AMD will return to the Crown.

5. The main approach to managing AMD at Stockton is to capture run off water in sumps, where it is treated with lime to neutralise the acid content before being discharged to waterways. This treatment has improved AMD runoff from the site and the quality of waterways, s9(2)(ba)(ii) and 9(2)(b)(ii) [redacted]

6. BT had planned to capture AMD from these historic mining areas, through the construction of a new sump at "Mine Creek". However, that plan depends on amendments made to the *National Policy Statement for Freshwater Management 2020* (NPS-FM) and the *National Environment Standards for Freshwater 2020* (NES-F). If BT is able to locate the sump at Mine Creek, the volume of AMD collected will be maximised and it is expected that, over time, water quality standards compliance would improve.

The project

7. The Treasury has been provided funding to identify the optimal solution to manage the Crown's long-term AMD liability.

8. The investment objectives for the project are to identify an approach that:

   a takes account of cultural and community concerns

   b reduces cost uncertainty for the management of AMD over the life of the project c progressively improves the health of aquatic ecosystems, and

d ensures that current and reasonably foreseeable future regulatory requirements can be met.

9. Governance for the project is provided by a Project Steering Group (PSG), supported by an Expert Advisory Group. These groups include partners and representatives from BT, Te Rūnanga o Ngāti Waewae (local iwi and mana whenua), the Treasury, Tregaskis Brown Ltd (consultants preparing the case) and relevant experts in mining engineering, water ecology, soil ecology, hydrogeology, geochemistry, and geology.

10. Consultation is an important part of the project. There is a high level of local interest in the project, and a large number of stakeholders, including members of central and local government, interest groups such as Forest and Bird, Fish and Game and local business interests.

Update on progress

11. Milestones reached since your update to Cabinet in June 2021 include:

a establishment of a robust governance structure for the project, including engagement of expert advisors

b development of a framework for assessing AMD management options, and

c development of a range of potential treatment options and assessment of those options against the framework.

12. However, the project has not progressed as quickly as anticipated due to:

a *Change in responsibility for delivering the business case.* The Treasury resumed responsibility for the project in December 2021 and commissioned Tregaskis Brown Ltd to continue managing aspects of the project and deliver the business case

b s9(2)(ba)(i) [redacted]

c s9(2)(f)(iv) [redacted]

s9(2)(f)(iv) [redacted]

s9(2)(f)(iv) [redacted]

Impacts of the Mine Creek site on the business case

17. To date, the business case assessment of options has assumed that BT would construct the next sump at its preferred Mine Creek site.

18. s9(2)(g)(i) [redacted]

19. [redacted]

Risks

20. The Stockton project is technically complex, proceeding in a dynamic regulatory environment, and with multiple stakeholders and competing project investment objectives. These factors have already caused delays for the project timeline and are likely to continue posing risks for AMD management over the life of the Crown's remediation obligations.

21. All options identified will involve one or more challenges:

    a use of Stewardship Land under the Conservation Act (which may result in the land being given greater legal protection at a future point in time)

    b destruction of a wetland area

    c s9(2)(ba)(ii) and 9(2)(f)(iv) [redacted]

    d discharge of contaminated water to the ocean.

22. s9(2)(g)(i) [redacted]

Options and revised timeline to progress the project

23. Work to develop the shortlist of options for Ministers has resumed, but delays have pushed timelines out considerably. There are options to either wait for decisions on the final NPS-FM and NES-F amendments, or to push ahead with the project and carry a level of uncertainty on this issue.

24. While deferring the AMD project would provide more certainty about the placement of AMD treatment infrastructure likely to be in place when BT exit the plateau, we do not recommend this. The project has regained momentum after a period of waiting for the cultural assessment.

25. We propose to push ahead with the project under the revised timelines below and to continue liaising with the Ministry for the Environment (MfE) to understand and take account of the amendments to the NPS-FM and NES-F as they develop.

Milestone	**June 2021 timeline**	**Revised timeline**
Ministerial review of the shortlist of options	Aug 2022	Feb 2023
Preferred option chosen	Sep 2022	Mar 2023
Business case finalised	Feb 2023	Jul 2023

26. The PSG has asked Tregaskis Brown Ltd to rework its analysis using the alternative North-Eastern sump site. If the Mine Creek sump location becomes an option at a later stage, it can still be incorporated, although potentially with the sunk cost of the North-Eastern sump being built in the meantime.

27. The Treasury has also considered options to accelerate progress. However, the project timeline will largely be driven by the availability of the panel of expert advisors and on consultation processes with Ngāti Waewae partners, project stakeholders and Ministers, factors that the Treasury has limited ability to influence.

Next steps

28. We will incorporate Ngāti Waewae's cultural assessment into the shortlist of options and carry out analysis to model the alternative, North-Eastern sump location as the base case scenario.

29. At the same time, we will continue to consult with MfE on the process to finalise the NPS-FM and NES-F.

30. We anticipate presenting the shortlist of options to Ministers in February 2023. That shortlist will be accompanied with an outline of the required consultation and process towards a final option being selected.

Consultation

31. MfE and Ngāti Waewae were consulted on this paper and BT was informed.

Recommended action

We recommend that you:

a **note** the project update and revised timeline

b **refer** this report to the Minister for the Environment for their information

Refer/do not refer.

Ann Webster
Manager, Commercial and Institutional Performance

Hon Grant Robertson
Minister of Finance

Reserve Bank of New Zealand
Te Pūtea Matua

Project Waitoa

To	Hon Grant Robertson Minister of Finance	**Date**	3 November 2022
Authorised by	Nigel Prince Strategic Advisor to the Governor	**Report no**	5978
Prepared by	Ian Woolford, Director of Money & Cash	**Security**	IN CONFIDENCE

Action Sought

Action sought	Deadline
a) **Note** the initiation and purpose of Project Waitoa **b)** **Note** cabinet funding will be requested via the Better Business Cases process	17 November 2022

Reserve Bank Contact for Telephone Discussion (if required)

Name	Position	Telephone
Nigel Prince	Strategic Advisor to the Governor, Project Sponsor	s9(2)(a)
Ian Woolford	Ian Woolford, Director of Money & Cash, Project Business Owner	

Actions for the Minister's Office Staff

Note any feedback on the quality of the report.	

Attachments -

Project Waitoa

Purpose

1. This paper is to advise you that RBNZ have initiated Project Waitoa, which will develop and implement a new vaulting and cash processing solution in order to support current and future business operations.

2. The project is brought to your attention because it is of national significance and despite being a sensitive project with a security classification of Restricted may attract public and media attention.

3. Cabinet approved funding will be required via the Treasury Better Business Case process.

Background

4. Since 2013 RBNZ has highlighted in public accountability documents the need to manage the risks associated with our near-end-of-life vaulting and processing infrastructure. Our work on The Future of Money and associated preparatory work on required cash system infrastructure gives us confidence that despite a decline in cash used for transactional purposes, the case for a new vault remains.

5. Our Future of Cash strategy is focussed on bolstering the resilience of Aotearoa's Cash System in the context of a 'less cash, not cashless' future. Delivery of a new vaulting and cash processing solution is key to executing this strategy.

Why do we need this project?

6. The current vault is critical national infrastructure, both in terms of our own storage and operational needs, but also in the critical role it plays in enabling private sector cash system participants to operate.

7\. However, our vault is nearing end of life and s6(a) [redacted]

8\.

9\.

10. The current solution cannot support future cash strategies in a 'less cash, not cashless' future.

Project delivery

11. Project Waitoa is in the early stages of initiation, but is likely to require funding in the region of s9(2)(f)(iv) over the next 5 years.

12. Robust governance and security measures have been put in place manage project and operational risks.

13. Inter-agency consultation is about to commence with Treasury and other relevant agencies.

Recommendation

14. It is recommended that you:

   a) Note the initiation and purpose of Project Waitoa

   b) Note cabinet funding will be requested via the Better Business Cases process

Hon Grant Robertson
Minister of Finance

RBNZ Nigel Prince
Strategic Advisor to the Governor
Reserve Bank of New Zealand

02/11/2022

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Kiwi Group Capital Limited: Proposed Fees for Directors

Date:	3 November 2022	**Report No:**	T2022/2361
		File Number:	CM-0-2-24

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Agree** to the proposed fees for Kiwi Group Capital Limited Directors and sign updated APH Committee documentation for submission to Cabinet Office	Wednesday 9 November to allow updated APH documentation to be lodged with Cabinet at 10.00am on Thursday 10 November 2022.
Acting Minister for State Owned Enterprises (Hon David Parker)	**Agree** to the proposed fees for Kiwi Group Capital Limited Directors and sign updated APH Committee documentation for submission to Cabinet Office	Wednesday 9 November to allow updated APH documentation to be lodged with Cabinet at 10.00am on Thursday 10 November 2022.

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Olivia Paterson	Principal Advisor, Commercial and Institutional Performance	s9(2)(k)	s9(2)(g)(ii)	✓
Stella Kotrotsos	Manager, Governance & Appointments			

Minister's Office actions (if required)

If agreed, **sign** and **lodge** updated APH documentation with Cabinet Office by 10.00am on Thursday 10 November for consideration at APH Committee on Wednesday 16 November and at Cabinet on Monday 21 October 2022.

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)
22.11 KGC Updated Combined APH Memo Appointments and Fees 2022 (Treasury:4715686v1)

Treasury Report: Kiwi Group Capital: Proposed Fees for Directors

Executive Summary

Cabinet agreed to establish Kiwi Group Capital Limited (KGC), a company to be owned by the Crown, incorporated under the Companies Act 1993 and listed on Schedule 4A of the Public Finance Act 1989 (PFA) to hold the Crown's shares in Kiwi Group Holdings Limited (KGH).

KGC is being set up to hold the Crown's (indirect) 100% interest in Kiwibank Limited (Kiwibank) and The New Zealand Home Loan Company Limited (NZHL) and, through those subsidiaries, to carry on and develop the group's banking and financial services business.

The shares in the holding company will be held equally by the Minister of Finance and the Minister of State Owned Enterprises.

Appointment of at least one director to the KGC Board is required prior to its incorporation, enabling KGC to purchase KGH shares by the end of November 2022.

The KGC appointment process has been expedited and consultation is underway on two potential KGC directors. It is expected that these appointments will be considered by the Appointment and Honours Committee on 16 November 2022 and Cabinet on 21 November 2022 (T2022/2324 refers).

The KGC board is expected to have four directors including the Chair. The demands on these directors, particularly the Chair, during the establishment phase of KGC will be significant. In order to deliver on the Crown's goals, KGC needs outstanding directors with excellent governance skills, banking sector experience, strong financial acumen, the ability to manage diverse stakeholders, experience leading transformations/innovations and support Te Ao Māori principles.

As a PFA Schedule 4A company, KGC board fees are covered by the Treasury's Fees Methodology (Fees Methodology). We have assessed KGC in accordance with the Fees Methodology and current market data (minus 10 percent). On this basis we propose that the annual fee for the Chair is $125,000, deputy chair $78,100 and directors $62,500. We have provided updated APH documentation which includes the proposed board fees (Annex One).

Given the significant establishment requirements for the new entity we propose that you approve KGC accessing special purpose fees for the first seven months of operation. Special purpose fees can be sought for a limited period where directors are required to contribute additional time over and above what would be considered an ordinary commitment, such as establishing or restructuring a company, during a major acquisition or where there is significant change. It is estimated that all directors will need to contribute an additional 50 per cent of their time resulting in an additional fee pool of $100,000 to 30 June 2023.

We require urgent decisions from you on the proposed fee structure for KGC so the fees can be considered at the same time as the board appointments going to Cabinet on 21 November 2022, which will enable fees to be included in the Letters of Appointment. If you agree, please sign and lodge the attached updated APH committee documentation.

Recommended Action

We recommend that you:

a **note** it is expected that the KGC board will have four directors including the Chair who will oversee the investment in its subsidiaries to carry on and develop the group's banking and financial services business

b **note** that appointment of at least one director to the KGC board is required prior to incorporation of KGC, enabling the purchase of KGH shares by KGC at the end of November 2022

c **agree** to the proposed fees for the KGC chair of $125,000, deputy chair of $78,100 and $62,500 for directors pursuant to the Treasury Fees Methodology

Agree/disagree. *Minister of Finance*	*Agree/disagree.* *Acting Minister for State Owned Enterprises*

d **agree** to a pool of Special Purpose Fees of $100,000 to 30 June 2023, given the significant additional time commitment required of directors during the establishment phase of KGC.

Agree/disagree. *Minister of Finance*	*Agree/disagree.* *Acting Minister for State Owned Enterprises*

e **agree** to submit updated APH documentation for consideration by the Appointments and Honours Committee on 16 November 2022 and Cabinet on 21 November 2022 which sets out proposed board fees, two priority appointments to KGC's board and a pool of Special Purpose Fees.

Agree/disagree. *Minister of Finance*	*Agree/disagree.* *Acting Minister for State Owned Enterprises*

Stella Kotrotsos
Manager, Governance & Appointments

Hon Grant Robertson **Minister of Finance**	Hon David Parker **Acting Minister for State Owned Enterprises**
_____/_____/_______	_____/_____/_______

Treasury Report: Proposed Fees for Kiwi Group Capital Limited Directors

Purpose of Report

1. This report seeks your agreement to the proposed fees for Kiwi Group Capital Limited (KGC) and to sign and send updated Appointment and Honours Committee (APH) documentation to Cabinet by 10.00am, Thursday 10 November 2022.

Background

2. KGC will be a limited liability company incorporated under the Companies Act 1993, and will be listed on Schedule 4A of the Public Finance Act 1989 (PFA). The shares will be held by the Minister of Finance and the Minister for Stated Owned Enterprises.

3. KGC is being set up by the Crown to hold the Crown's (indirect) 100 per cent interest in Kiwibank Limited (Kiwibank) and the New Zealand Home Loan Company Limited (NZHL).

4. The purpose of KGC as a holding company will be to oversee the investment in subsidiaries (including Kiwibank and NZHL) and indirectly, through those subsidiaries, to carry on and develop the group's banking and financial services business.

5. It is expected that the KGC board will have four directors including the Chair.

6. You are looking to appoint at least one director to the KGC board before the end of November 2022, to ensure that KGC can be incorporated in time to acquire Kiwi Group Holdings Limited (KGH) shares.

7. The KGC appointment process has been expedited and consultation is underway on two potential KGC directors. It is expected that these appointments will be considered by APH on 16 November 2022 and Cabinet on 21 November 2022 (T2022/2324 refers).

8. As a PFA Schedule 4A company, KGC board fees are covered by the Treasury's Fees Methodology (Fees Methodology). Ideally fees will be considered alongside the appointment process to ensure that they can be included in Letters of Appointments.

9. We have provided updated APH documentation which sets out proposed board fees as well as two priority appointments to KGC's board now we have completed the fees assessment in accordance with the Fees Methodology.

The importance of a strong board for KGC

10. It is critical for the KGC board to have highly skilled directors who can navigate the complex financial, operational and policy issues associated with successfully establishing a new entity within a Crown context.

11. KGC, itself a start-up entity, will be the indirect holding company of Kiwibank, New Zealand's fifth largest bank. Over the next three years the board will need to implement systems, processes, and structures to manage the governance and oversight risks that entails.

12. s9(2)(f)(iv) [redacted]

13. [redacted]

- The acquisition effectively represents the ownership of a bank within the core Crown, rather than through a commercial or investment entity.

- Ownership of a bank has some specific requirements of the Board, recognising that KGC is not Kiwibank's operational board, but as the indirect holding company will be ultimately responsible. These characteristics include the highly regulated nature of the retail banking sector, and the critical role that bank boards have in setting risk culture.

- Kiwibank itself represents $31.5 billion of total assets and $29.3 billion of liabilities, and customer relationships with over one million New Zealanders. s9(2)(f)(iv) [redacted]

- s9(2)(b)(ii) [redacted]

14. The Board is responsible for leadership, governance, and oversight, particularly supporting Kiwibank to identify strategic opportunities that will challenge the market share of the four Australian-owned banks (which currently account for about 84% of the banking market), and increasing its strengths as a major and New Zealand-owned alternative in the banking sector.

Treasury's Fees Methodology

15. In 2003 Cabinet established the Fees Methodology for setting directors fees for Crown companies which are not covered by the Cabinet Fees Framework (CFF). Under the Fees Methodology ordinary fees are set by shareholding Ministers.

16. Fees are benchmarked at 90% of comparable private sector fees i.e. paying reasonably similar fees for the experience sought by private firms for directors, but at a 10% discount to recognise a public service element.

17. The Fees Methodology uses nine factors, similar to those used under the CFF, to determine and review the points attributed to each board. The factors include Complexity of the Operating Environment, Innovation / Technology / Intellectual Complexity, Board Discretion / Autonomy, Stakeholder Management, Revenue / Capital Risk, Liability Risk to Organisation, Public Perception / Organisation Profile Risk, Organisation Revenues, and Organisation Total Assets.

18. Ordinary fees cover the full 'normal' contribution of each director, including attendance at board and committee meetings, meeting preparation and travel time, stakeholder management, and any other agreed tasks.

19. Fees are allocated at a rate of two times the standard director rate for the chair and 1.25 times for deputy chairs. There are no additional fees included in the pool for board sub-committee meetings, which are increasingly common in the private sector. Ordinary fees cover the full expected duties of a director.

20. Fees and member-related expenses are paid out of the organisation's own budget and the amount paid on director development and training should be published in annual reports.

Proposed Ordinary KGC Fees

21. We applied the Fees Methodology to KGC and recommend that the fees for KGC directors are:

Table 1: Proposed KGC Fee Structure

Role	Proposed Annual Fee	Fees Methodology	Estimated Working Days Per Annum
Chair	$125,000	2x Director Rate	50
Deputy Chair	$78,100	1.25 Director Rate	35
Director	$62,500	-	30

Is there a case for Special Purpose Fees for KGC directors in the short term?

Special Purpose Fees

22. Consistent with the CFF, the Fees Methodology allows Special Purpose Fees to be sought where companies have a greater than ordinary workload. Special purpose fees, if requested by a company, are subject to approval by the responsible Minister and Cabinet.

23. Special purpose fees are considered in exceptional circumstances and for a limited period only where directors are required to contribute additional time over and above what would be considered an ordinary commitment. Exceptional circumstances could be where:

- significant director involvement is required in a specific and time-limited major issue, such as establishing or restructuring a company, a major acquisition, or where changes in legislation lead to significant change

- directors represent the company on relevant industry committees or boards, where the commitment is significant, or

- additional contributions are made by directors relating to lengthy travel requirements (where the director's presence is essential, and the circumstances are exceptional).

24. Requests for special purpose fees include a per diem rate and the total amount to be paid based on equivalent director fee levels. Special purpose fees must only be used for the purpose for which they were approved.

25. We consider that there is a strong case for additional fees to be paid during the establishment phase of KGC. The amount of $100,000 is proposed as a total pool available to cover this additional workload for the period up to 30 June 2023. This amount was calculated on the basis that the proposed new Chair and Deputy Chair allocation of an additional 50 per cent of their time from 1 December 2022 to 30 June 2023 and two new board members, once appointed allocating an additional 50 percent of their time from 1 April 2023.

Risks

26. Setting board fees for newly established companies at 90% of current market rates creates inequities with board fees allocated to existing Crown company and entity, that have not been adjusted for a number of years. It is expected that fee gaps will be addressed over time and it is critical for KGC to have directors with outstanding governance capabilities. There is precedent to support fees in accordance with current market rates, for example fees approved for Auckland Light Rail board members and the establishment board for the Reserve Bank of New Zealand.

27. If fees do not reflect current market rates, the level of risk and increasing statutory compliance requirements for directors means that we may not be able to attract and retain directors with sufficient skills and experience to position KGC for success from its establishment.

Next Steps

28. If you agree, please sign and lodge attached updated APH documentation with Cabinet Office by 10.00am on Thursday 10 November for consideration at the APH Committee on Wednesday 16 November and at Cabinet on Monday 21 October 2022.

Attachments

- Annex 1: APH Documentation

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2341

Date: 3 November 2022

To: Minister for State Owned Enterprises (Hon Dr David Clark)

Cc: Minister of Finance (Hon Grant Robertson)
Associate Minister of Finance (Hon Dr Megan Woods)

Deadline: 8 November 2022
(if any)

Aide Memoire: Visit to Kordia Cyber Academy

You will be visiting Kordia Cyber Academy ('the academy') at 10am – 11am Wednesday 9 November 2022, in Auckland. This briefing will provide you with an agenda for the visit, background information on the academy, an update on Kordia's recent developments, and some talking points.

Agenda

You will be visiting Kordia Cyber Academy at Kordia SecOps. As part of the visit, Kordia's CEO, Shaun Rendell, Chair, Sophie Haslem, and Executive General Manager Cyber Security, Dermot Conlon, will provide an overview of the academy. Students and graduates of the programme will be present. The team will then give you a tour of Kordia's Cyber Defence Operations.

Finally, the Kordia team will invite you to speak to employees and cyber academy students in your capacity as the Minister for the Digital Economy and Communications. MBIE will provide talking points and we have provided the information below to support the discussion.

Kordia's role and Cybersecurity

Kordia is a State Owned Enterprise that provides information and communication technology services. Kordia's purpose is to build trusted connections that make the digital world more secure, reliable and resilient. Kordia's business units include cybersecurity, cloud and connectivity, media (TV and radio transmission), maritime communications and bespoke solutions.

Kordia provides cybersecurity services through its Cyber Defence Operations (CDO). The CDO functions 24/7 365 days, which allows Kordia to manage and respond to cyber security incidents and threats in real time. Kordia cybersecurity services include:

- Expert advice to businesses on how to defend against cyber-attacks. Including guidance, design and test, trainings and post-attack response.
- Products and services to protect businesses network form external and internal threats. Including back up and restore, managed firewall, DDOS protection and Redshield.

- Security monitoring and responding to threats. This includes the assessment of assets, vulnerabilities, security intelligence, intrusion detection and defence.

We note that Kordia's cybersecurity business has been growing. Kordia's strategy has been a mix between organic growth and acquiring smaller businesses. The latest cyber business Kordia acquired was SecOps in 2021 (this is the office you will be visiting). Cyber represents s9(2)(b)(ii)

Kordia Cyber Academy

Kordia has been growing its cyber security business, and in 2021 it launched its 'Cyber Academy' to bolster New Zealand's cyber security sector, and to nurture Kiwi talent in the industry. This 100% cybersecurity focused training academy is a social enterprise initiative for Kordia that provides opportunities for students and junior ICT professionals who wish to commence or advance their career in cybersecurity and information security.

Kordia provides the foundational hands–on practical training, enabling students to learn the technologies and processes that exist in the working world. The overall objective is to provide students with real world experience that assists them to demonstrate their understanding and ability to have an immediate impact as a security professional.

During the six-week intensive course, students get practical training in cyber security from Kordia's cyber security experts. The curriculum covers a wide range of disciplines, including policies and frameworks, vulnerability management, endpoint protection and penetration testing, as well as exposure to some of the security tools Kordia uses.

The first intake was a success, with several graduates transitioning into full-time cyber security roles within Kordia. The academy has recently started with its second cohort, and Kordia is planning to continue with this initiative in years to come.

The demand for cybersecurity experts is increasing[1]. Business environments are becoming more complex with organisation moving their operation online and the rise in remote working. In addition, cyber threats have increase given the changes in the geo-political environment. According to Kordia, one third of New Zealand businesses suffered a cyber-attack in the past 12 months. Further, the threats and attacks are getting more frequent and sophisticated.

Kordia recent developments

During your visit you might discuss some of the most recent developments on Kordia's business. This includes:

- Kordia has recently secured a contract with Next Generation Critical Communications (NGCC) to deliver the Public Safety Network (PSN). The PSN will be delivered through a joint venture with Tait International Communications.

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1 According to einpresswire.com, the number of unfilled cyber security jobs worldwide more than tripled between 2013 and 2021 to 3.5 million.

The value over the 15-year lifetime is approximately s9(2)(b)(ii) to Kordia. Currently Kordia and Tait are working on establishing the project, including the design, systems, and key milestones. Treasury will continue to closely monitor the establishment and implementation on the contract.

- In FY22 Kordia completed the disposal of its underperforming business, Kordia Solutions Australia. This has resulted in better financial performance from Kordia Group Ltd and allowed management and the Board to focus on Kordia's profitable business units. With its strengthened balance sheet, Kordia was able to pay a dividend of $2 million, which was distributed on September 29, 2022.

Eru Pomare, Analyst, Commercial and Institutional Performance, Services, s9(2)(k)

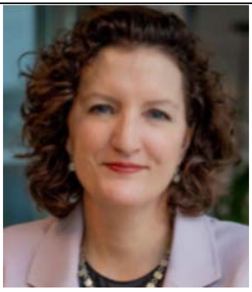
Andrew Wood, Principal Advisor, Commercial and Institutional Performance, Services, s9(2)(k)

Appendix One: Questions and Talking Points

Please note that the Minister may not have used the questions proposed by the Treasury.

- **Programme feedback/prospects:** What has been the feedback from the first cohort of students graduated? What is the prospective inflow?
- **Keeping current/relevant:** Given the fast-changing environment in the cybersecurity space, with more frequent and sophisticated attacks, how does Kordia ensure the cybersecurity programme keeps up to date?
- **Talent development/sourcing:** The Cyber Academy seems a great initiative for developing talent, and for mitigating the sourcing challenge in the current tight market. What other initiatives is Kordia pursuing to source talent/address labour challenges?
- **Importance of cyber security to Kordia's future:** Cyber security is a growing segment for Kordia. What areas of cyber security do you see as key future growth drivers for Kordia's cyber security business?
- **Importance of Kordia's cyber security function to New Zealand:** How is Kordia positioned in NZ's cyber security industry? How important is Kordia's success in cyber security to NZ's cyber security environment?

Appendix Two: Key Attendees

	**Sophie Haslem, Chair, Kordia** Sophie has recently been appointed as Chair of Kordia's Board. Sophie has been on the board since May 2017, and is now the longest standing member on the board, with the departure of Peter Ennis last month. Sophie is also the Chair of Metservice and serves on several other boards including Payments NZ and Ngāi Tahu holdings.
	**Shaun Rendell, CEO, Kordia** Shaun has been the CEO of Kordia for three years. He has extensive experience in the telecommunications industry holding senior roles both in NZ and in the UK.

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Te Tai Waiora: Wellbeing in Aotearoa New Zealand 2022

Date:	4 November 2022	**Report No:**	T2022/2375
		File Number:	

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Refer** this report and the near final version of **Te Tai Waiora: Wellbeing in Aotearoa New Zealand 2022** to the following Ministers for their information: Prime Minister, Minister of Housing, Minister of Education, Minister for Social Development and Employment, Minister of Health, Minister for the Environment, Minister for Māori Development and Minister for Pacific Peoples. **Indicate** if you wish to take an oral item to Cabinet on Monday 21 November to inform wider Ministerial colleagues.	10 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Diego Cardona	Analyst, Economic Strategy	s9(2)(k)	s9(2)(g)(ii)	✓
Chris Nees	Acting Manager, Economic Strategy			

Minister's Office actions (if required)

Return the signed report to Treasury.

Forward the signed report and the near final version of Te Tai Waiora: Wellbeing in Aotearoa New Zealand 2022 to the above Ministers subject to agreement by the Minister of Finance.

Note any feedback on the quality of the report	

Enclosure: Annex (attached separately): near final version of **Te Tai Waiora: Wellbeing in Aotearoa New Zealand 2022.**

Treasury Report: Te Tai Waiora: Wellbeing in Aotearoa New Zealand 2022

Recommended Action

We recommend that you:

a **Note** the contents of this report and the near final version of **Te Tai Waiora: Wellbeing in Aotearoa New Zealand 2022** (Te Tai Waiora).

b **Note** the scheduled date for the publication of Te Tai Waiora is 24 November 2022.

c **Refer** this report and the near final version of Te Tai Waiora to the following Ministers for their information:

Portfolio	Referred / Not referred
Prime Minister	*Referred / Not referred*
Minister of Housing	*Referred / Not referred*
Minister of Education	*Referred / Not referred*
Minister for Social Development and Employment	*Referred / Not referred*
Minister of Health	*Referred / Not referred*
Minister for the Environment	*Referred / Not referred*
Minister for Māori Development	*Referred / Not referred*
Minister for Pacific Peoples	*Referred / Not referred*

d **Indicate** if you wish to take an oral item to Cabinet on Monday 21 November to inform wider Ministerial colleagues of the publication.

Yes / No

e **Note** that we intend to offer a briefing on the key findings of Te Tai Waiora to other parliamentary parties, indicatively on 23 November.

Chris Nees
Acting Manager, Economic Strategy

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Treasury Report: Te Tai Waiora: Wellbeing in Aotearoa New Zealand 2022

Purpose of this Report

1. This report provides you with a near final version of Te Tai Waiora, the Treasury's first Wellbeing Report. It also provides a summary of the key findings and next steps, ahead of publication on 24 November 2022.

Background

2. In 2020, the Public Finance Act was amended to require the Treasury to produce a Wellbeing Report at least once every four years. Section 26NB of the legislation requires that the Report must describe, using indicators:

   - the state of wellbeing in New Zealand,
   - how the state of wellbeing has changed over time, and
   - the sustainability of, and any risk to, the state of wellbeing in New Zealand.

3. The Wellbeing Report must be accompanied by a statement of responsibility signed by the Secretary to the Treasury, which states that the indicators have been selected, and the report prepared, by the Treasury using its best professional judgement.

Key findings from Te Tai Wairoa

4. Te Tai Waiora is a big picture report. It provides – in one place – a broad perspective on the range of things that matter for wellbeing. The Treasury has used its best professional judgement in selecting the indicators and analysis included in this report. More depth is provided in the additional background papers we have already published or are publishing on the same day or shortly thereafter (see Table 1.1 in the near final version of Te Tai Waiora).

5. The top ten findings from Te Tai Waiora are:

   I. In many ways, wellbeing in New Zealand is strong and has improved over twenty years. For example, we now experience longer life expectancy, greater safety, cleaner air, and higher incomes.

   II. Young people face greater challenges than older New Zealanders:

      i. Young people have lower wellbeing across many facets of life.

      ii. Worsening mental health and educational outcomes could pose future challenges.

      iii. Māori and Pacific peoples have lower wellbeing in many ways and are a younger group.

      iv. Deteriorating environment, climate change and other risks pose challenges for young people's future.

III. We identify three important areas of low or deteriorating wellbeing: increasing rates of psychological distress, worsening educational outcomes, and high-cost and low-quality housing.

IV. Most people in New Zealand experience low wellbeing in only some aspects of life, or temporarily. But approximately 5% to 10% have low wellbeing across many domains. Low wellbeing is more common among disabled people and sole parent families. Low wellbeing as measured by income poverty is often recurrent, particularly for sole parents and those who do not hold qualifications.

V. Children of poor parents are more likely to become poor themselves. Our education is less effective at countering early disadvantage than in many comparable OECD countries.

VI. The wellbeing of Māori is improving in many ways, but gaps remain. Particular areas of concern include psychological distress, low trust in government, and discrimination.

VII. Pacific peoples in New Zealand have strong social connections and a high sense of belonging to New Zealand, but have low wellbeing in many other domains, notably housing and income deprivation.

VIII. In future, people in New Zealand will benefit from the country's increasing stock of physical capital and human capability. High social cohesion bodes well for future wellbeing, although there are threats.

IX. Aspects of the natural environment are deteriorating, and the climate is changing, suggesting that our current way of life is unsustainable. Whether we can sustain wellbeing depends on societal choices, technology and productivity.

X. New Zealand's risk profile is skewed towards long tail events. Strong and flexible institutions and social cohesion will enable society to respond to these events.

The release of Te Tai Waiora

6. The scheduled date for the release of Te Tai Waiora is 24 November 2022. We plan to hold an embargoed media briefing in the morning, with the release of the report in the afternoon accompanied by a virtual presentation by Caralee McLiesh, as part of our wellbeing seminar series.

7. Under section 26NB(1) of the Public Finance Act, you must present Te Tai Waiora to the House of Representatives before the end of 2022. We will work with your office to support you in this process.

8. Te Tai Waiora is currently being designed and will go through a quality assurance and final editorial review.

9. In the lead up to the release, we will hold briefings with key stakeholders, specifically:
   a. members of our Expert Advisory Panel, and
   b. Victoria University of Wellington School of Government roundtable participants.

10. We propose that you forward this report to a group of Ministers whose portfolios are directly related to the key findings and messages, as outlined above.

11. As Te Tai Waiora provides a broad perspective on the range of things that matter for wellbeing, you may wish to take an oral item to Cabinet on Monday 21 November, before the publication day, to inform wider Ministerial colleagues of the publication.

12. As discussed at the Finance Priorities meeting on 27 October, we will also offer a briefing on the report with opposition parties in advance of the release. The Secretary to the Treasury will write to party leaders to offer this briefing, tentatively for 23 November.

13. Over the course of 2023 we plan to present key findings from Te Tai Waiora to a wide set of stakeholders. A key aspect of this will be a ‘road show’ across the country, potentially hosted by the Trans-Tasman Business Circle. Potential audiences could include business organisations, local government and the social services sector.

Reserve Bank
of New Zealand
Te Pūtea Matua

Review and assessment of the formulation and implementation of monetary policy

To	Hon Grant Robertson Minister of Finance	**Date**	04/11/2022
Authorised by	Adrian Orr, Governor	**Report no**	#5980
Prepared by	Katy Simpson, Adviser, Policy Analysis	**Security**	Sensitive

Action Sought

Action sought	Deadline
Note the contents of the paper **Agree** to present a copy of the review and assessment report to the House of Representatives on 10 November	9 November

Reserve Bank Contact for Telephone Discussion (if required)

Name	Position	Telephone
Chris Bloor	Manager, Policy Analysis	s9(2)(a)
Paul Conway	Chief Economist	

Actions for the Minister's Office Staff

Note any feedback on the quality of the report.	

Attachment: Review and assessment of the formulation and implementation of monetary policy

Review and assessment of the formulation and implementation of monetary policy

Report

Purpose

1. The Reserve Bank is required under the Reserve Bank of New Zealand Act 2021 ('the Act') to undertake a review and assessment of the formulation and implementation of monetary policy every five years. The first review and assessment report – covering the period from 2017 to 2022 – will be published by the Reserve Bank on 10 November.

2. We have attached a near-final copy of the review and assessment report to this briefing.

The review and assessment of the formulation and implementation of monetary policy

3. The review and assessment report notes that the last five years have been a uniquely challenging period. In particular the COVID-19 pandemic has presented a highly disruptive shock with monetary policymakers faced with pervasive uncertainty.

4. The report starts by looking at the conduct of monetary policy in real-time over three distinct periods during the five-year review period: below-target inflation (2017-2019); initial pandemic response (2020); above-target inflation (2021 - now). This places monetary policy decisions in the context of the information available to policymakers at the time.

5. The report then assesses the conduct of monetary policy over the five years as a whole. This includes an assessment of additional monetary policy tools and the effectiveness with which monetary policy achieved its mandate.

6. The report finds that the formulation and implementation of monetary policy over the last five years has been consistent with the objectives set out in the Remit. However, the report identifies nine areas for improvement. These lessons and areas of focus have fed into the extensive work programme we already have underway around policy design, capability building and informing our research agenda.

External reviewers

7. In producing the review and assessment report, the Reserve Bank engaged with two external reviewers who are experts in monetary policy: Lawrence Schembri, a former deputy governor of the Bank of Canada, and Warwick McKibbon, an academic at the Australian National University. Both reviewers have provided valuable comments on earlier drafts of the report, and we have made substantial revisions to the report to reflect the feedback that they have provided.

8. In general, the external reviewers support the conclusions reached in the review and assessment report.

9. The external reviewers will be providing written reports on the final version of the review and assessment report. These written reports will be provided to you on 7 November.

Next steps

10. The Reserve Bank will publish the review and assessment report on the Reserve Bank website at 9am, followed by a media briefing at 1pm, on 10 November 2022.

11. The Act requires the review and assessment report to be presented to the House of Representatives. The Reserve Bank will provide your office with a final version of the report ahead of publishing on 10 November 2022, noting any changes from the version attached to this briefing. With your permission we will arrange for the report to be tabled on your behalf directly after publication on 10 November.

12. The Reserve Bank will publish written reports from the external reviewers alongside the review and assessment report. In addition, we will publish an article evaluating past forecast performance and a research paper estimating the effects of the Funding for Lending programme.

Recommendations

We recommend you:

a. **note** the Reserve Bank will be publishing a review and assessment of the formulation and implementation of monetary policy at 9am on 10 November 2022

b. **note** a near-final copy of the review and assessment report is attached to this memorandum

c. **note** you will receive a final copy of the review and assessment report ahead of publication on 10 November 2022

d. **agree** to present a copy of the review and assessment report to the House of Representatives on 10 November 2022

   agree / disagree

e. **note** the Reserve Bank will also be publishing written comments on the review and assessment report from external reviewers on 10 November, which you will receive on 7 November 2022

Hon Grant Robertson
Minister of Finance

RBNZ Governor Adrian Orr
Governor
Reserve Bank of New Zealand

04/11/2022

SENSITIVE

Sensitive

Embargoed until 9am 10 November

In Retrospect: Monetary Policy in New Zealand 2017-22

Titiro whakamuri kōkiri whakamua

Look back and reflect so you can move forward

Reserve Bank of New Zealand
Te Pūtea Matua

Message from the Reserve Bank Board Chair

The Board of Directors of the Reserve Bank of New Zealand have for many years undertaken reviews of the Reserve Bank's *Monetary Policy Statements*, both at the time of the release of each *Monetary Policy Statement* and annually in preparation for the *Annual Report*. This report and assessment of the implementation and formulation of monetary policy, prepared in accordance with section 131 of the Reserve Bank of New Zealand Act 2021, continues our tradition of internal review and of learning from the past conduct of monetary policy.

The report has been compiled by Reserve Bank of New Zealand staff, with input and review from external reviewers, members of the Monetary Policy Committee, and the Board. It provides both the Reserve Bank's assessment of its conduct of monetary policy, and in addition, a comprehensive range of information that will allow those who read it to form their own views.

The Board supports the approach taken in the report, and in particular its explanation of both the macroeconomic context for monetary policy immediately before and during the pandemic, and the reasons why key decisions were taken at each point in time. Since monetary policy affects the economy with long and variable lags, and since the Reserve Bank does not operate with perfect foresight, the report also makes appropriate use of hindsight in assessing the decisions that were taken.

The Reserve Bank looks forward to the informed feedback and commentary that the report will no doubt generate.

Professor Neil Quigley
Chair, Board of Directors

External Reviewers of this report

The Reserve Bank commissioned two international experts to provide an independent review of this report. These reviewers provided valuable comments on earlier drafts of the report, which have contributed to significant improvements to the final version. The final reports of these external reviewers have been published alongside this document.

Warwick McKibbin

Professor Warwick McKibbin, AO, FASSA is a Distinguished Professor of Economics and Public Policy and Director of the Centre for Applied Macroeconomic Analysis (CAMA) in the Crawford School of Public Policy at the Australian National University (ANU). He is also Director of Policy Engagement, and ANU Node Leader at the ARC Centre of Excellence in Population Ageing Research (CEPAR). In addition to these roles, he holds a number of research fellowship positions.

Professor McKibbin served for a decade on the Board of the Reserve Bank of Australia until July 2011. He was awarded the Centenary medal in 2003 "For Service to Australian Society through Economic Policy and Tertiary Education" and made an Officer of the Order of Australia in 2016.

Professor McKibbin is internationally renowned for his contributions to global economic modelling. Professor McKibbin has published more than 200 academic papers and has authored or edited 5 books. He has been a consultant for many international agencies and a range of governments on issues of macroeconomic policy, international trade and finance, greenhouse policy issues, global demographic change, and the economic cost of pandemics.

Lawrence Schembri

Lawrence Schembri served as Deputy Governor from 2013 until his retirement from the Bank of Canada in June 2022. In this capacity, he was one of two deputy governors responsible for overseeing the Bank of Canada's analysis and activities promoting a stable and efficient financial system. From 2016, he supervised the Bank of Canada's analysis of domestic economic developments. As a member of the Bank of Canada's Governing Council, he shared responsibility for decisions related to monetary policy and financial system stability and for setting the Bank of Canada's strategic direction.

Mr Schembri joined the Bank of Canada in 1997 as a visiting Research Advisor, before being appointed Senior Research Director in 2001 and Managing Director of the International Economic Analysis Department in 2005. In 2010 he was appointed Advisor to the Governor, with responsibilities for financial stability analysis and coordinating the Bank of Canada's contribution to the Financial Stability Board.

While at the Bank of Canada, Mr Schembri was an active researcher. His published works focused on exchange rate and monetary theory and policy in open economies, the international monetary system and financial stability. Prior to joining the Bank of Canada, Mr Schembri was an assistant professor and, later, associate professor of economics at Carleton University until 2001.

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Executive Summary

New Zealand's Monetary Policy 2017-2022

This paper reviews and assesses the recent formulation and implementation of monetary policy in New Zealand. The paper outlines lessons learned from the operation of monetary policy during turbulent economic times and outlines our priorities for improving monetary policy going forward.

New Zealand's monetary policy framework changed during the review period. The Government established a dual mandate in the Reserve Bank's legislation, with the addition of 'supporting maximum sustainable employment' to the price stability objective. A formal Monetary Policy Committee (Committee) and *Remit* for the conduct of policy were also established, replacing the previous 'single decision maker' model for the operation of monetary policy.

The review period includes several years of significant economic volatility, initiated by the onset of the COVID-19 pandemic and accentuated by rising geopolitical tensions, including Russia's invasion of Ukraine. When COVID-19 reached New Zealand in early 2020, significant health and social measures were implemented, to try and reduce the impact of the virus on New Zealanders. These measures caused disruption to economic activity for close to two years, with lingering effects, including labour shortages, still evident.

The global nature of the pandemic, coupled with pervasive health and economic uncertainties, created risks for the New Zealand financial system during 2020. The domestic and global financial markets that New Zealand's commercial banks, corporates, and local governments rely on for funding and liquidity seized up in a way not seen since the Global Financial Crisis over a decade earlier. A sharp contraction in economic activity occurred in New Zealand and globally. In a highly uncertain global environment, the risks to future economic activity – both demand and supply – were significantly skewed to the downside.

In that environment, the Committee acted to ease monetary conditions by lowering the Official Cash Rate (OCR) to its 'effective lower bound' of 0.25%. The Committee also committed to keep the OCR at this level for the next 12 months. The Committee then implemented additional monetary policy tools (primarily Large-Scale Asset Purchases (LSAP)) to further lower long-term interest rates. Later in 2020, the Committee introduced the Funding for Lending Programme (FLP) to provide additional stimulus by lowering marginal bank funding costs, while also providing a funding backstop to ensure banks could maintain their liquidity and support customers.

Government fiscal support to the economy was also incrementally and significantly increased over 2020. Unique support packages were designed and implemented at pace. The most impactful of these for household and business confidence was the Wage Subsidy Scheme.

As a result, New Zealanders were provided with significant monetary and fiscal support during this period of high uncertainty, before a vaccine could be developed, approved and distributed.

While many domestic restrictions were eased by the end of 2020, ongoing changes to 'Alert Levels' persisted as the virus mutated and spread. It was not until early 2022, with vaccine levels at target, that New Zealand effectively re-opened its borders to international travel. The isolation of New Zealanders – both within and between borders – dramatically contained COVID-19 infection rates and allowed time for vaccinations to be available and distributed. However, the economic variability created by changing restrictions generated considerable supply and demand uncertainties for businesses and households.

Despite significant disruption to economic output over 2020, domestic spending and exporting proved resilient. The combination of monetary and fiscal support, and the initial success in containing the spread of the virus in New Zealand, supported both domestic spending and employment – especially relative to the global economic outlook in early 2020.

New Zealanders adapted to working and consuming from home. Spending patterns changed, with goods delivery growing strongly, while parts of the service sectors languished due to health-related isolation policies. Despite extreme volatility, New Zealand's GDP over the 2020 calendar year declined by only a small amount and employment remained high. Statistics New Zealand recorded a 10% quarterly decline in GDP followed by a 14% quarterly increase over the course of the year.

The aggregate economic outcome masks the significant variability in industry fortunes. Tourism, international education, and many service industries were severely impacted by the pandemic and are only now recovering.

By early 2021, the economic outlook had improved due to reduced health restrictions, the vaccine rollout, and strong prices for New Zealand's commodity exports. Low nominal interest rates had also spurred strong asset price growth, particularly in housing in New Zealand. House prices increased well above their sustainable level as the persistent shortage of supply struggled to meet higher demand.

Over the first quarter of 2021, in the face of ongoing supply-chain restrictions and an increasingly tight labour market, the Committee debated the extent to which rising inflationary pressures were likely to be 'transitory' or 'persistent'. On balance, measures of core inflation and inflation expectations indicated that some inflation would be transitory.

However, the weight of persistent price pressures shifted significantly over the first half of 2021, resulting in the Committee signalling in its May 2021 *Monetary Policy Statement* (MPS) that the OCR would need to increase in coming quarters. The Committee also reduced its level of bond purchases in the LSAP programme, before halting them outright in July 2021. The Committee also brought forward the expected timing of OCR increases into the September quarter of 2021.

The arrival of the Delta variant of COVID-19 in New Zealand prolonged restrictions, particularly in Auckland, and spurred additional fiscal support. The timing of the first widely expected OCR increase was reconsidered when the country went into 'Alert Level 4' lockdown the night before the August 2021 MPS.

In October 2021, the Committee increased the OCR by 25 basis points. It was again raised by 25 basis points at each of the next two meetings, bringing it to 1% by February 2022. New Zealand was one of the first developed nations to commence a tightening cycle, with clear communication that significantly more tightening was to come.

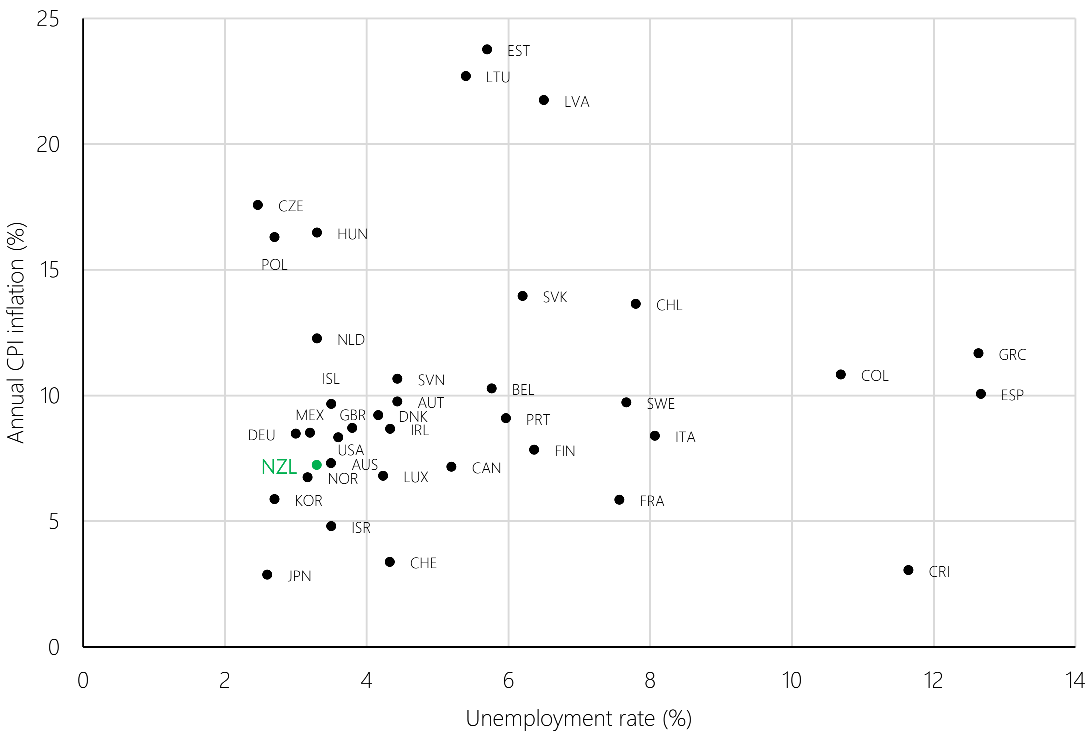
New Zealand house prices peaked in November 2021 and have steadily declined over 2022. Higher interest rates, a house building boom, low population growth, and regulatory and tax changes all influenced the decline.

From early 2022, domestic and border restrictions were progressively eased. However, COVID-19 became widespread in New Zealand for the first time since the pandemic began. And in February, Russia invaded Ukraine, accentuating global supply-chain constraints and inflationary pressures.

The Committee raised the OCR in successive 50-basis-point steps from April 2022. It reached 3.5% by October 2022. The Committee also projected an OCR peak above 4% by early 2023. Annual inflation was 7.2% in the September 2022 quarter and is expected to decline back toward the target range over the medium term. Employment is estimated to be well above its maximum sustainable level at present and unemployment is expected to rise as domestic spending eases to better match supply.

The New Zealand economy has weathered the pandemic and war in Ukraine relatively well in international comparison (Figure 1). However, there are important lessons to be learned from the experience of the past five years.

Figure 1 - Inflation and unemployment in OECD economies



Note: The data are sourced from the OECD database. The latest available data points have been used; unemployment data for 2022Q3 for New Zealand (NZL), Australia (AUS), Canada (CAN), United States (USA), Israel (ISL), Chile (CHL), Mexico (MEX), Japan (JPN) and South Korea (KOR), and 2022Q2 for other countries, inflation data for 2022Q3 for all countries except Costa Rica (CRI) for which only 2021Q4 data is available. Turkey has been omitted since it is an outlier with an exceptionally high inflation rate of 81%.

Lessons Learned

The formulation and implementation of monetary policy has been consistent with its objectives. Over the past five years, monetary policy has been set to ensure that forecasts of inflation return to their target and maximum sustainable employment (MSE) is supported. However, while Reserve Bank forecasts have been relatively good compared to other forecasters, they misjudged some aspects of the New Zealand economy. For example, the fall in neutral interest rates prior to the pandemic and the effectiveness of fiscal policy during the pandemic were likely underestimated.

Monetary policy over the review period has had clear regard for the efficiency and soundness of the financial system. It has been set so as to avoid unnecessary instability in output, interest rates and the exchange rate. The Reserve Bank and the Committee have also comprehensively assessed the effect of monetary policy decisions on house price sustainability.

Faced with pervasive uncertainty, the Committee engaged in **agile and nimble decision making in response to the pandemic**. In early 2020, three monetary policy decisions were made over a four-week period, in response to a rapidly evolving situation. Likewise, Reserve Bank staff worked through operational matters in a systematic and considered way, leading to a well-controlled operational risk environment and well-implemented monetary policy decisions.

The dramatic easing in monetary policy was largely warranted during the pandemic, and worst-case economic scenarios were avoided. In the early days of the pandemic, the Committee eased monetary policy in the knowledge that there could be some 'policy regret' in future, depending on how the economy evolved. The Committee considered that managing future high inflation down, rather than dealing with deflation and economic depression, was likely to be the least-regrettable option. This approach was in line with many peer central banks.

The Reserve Bank's forecasts and the Committee's policy decisions are conditional on government actions. In 2020, new fiscal policy tools were designed and rolled out at pace. **A clear understanding of the economic effects of these tools is key for monetary policy.**

Additional Monetary Policy (AMP) tools were effective at restoring functionality to the financial system. The Committee's response (along with other Reserve Bank actions) to the liquidity crisis in financial markets was highly effective, particularly given the environment of heightened uncertainty in early 2020. The LSAP programme successfully restored functionality to financial markets, and the FLP provided additional stimulus and supported confidence in the banking system.

AMP tools provided further monetary policy stimulus, as well as successfully addressing market dysfunction in conjunction with other liquidity measures. The LSAP programme put significant downward pressure on government bond yields and the exchange rate during the pandemic, while the FLP reduced bank funding costs and retail interest rates.

By providing additional stimulus, **AMP tools contributed to higher-than-otherwise economic activity and inflation** in the economy during the COVID-19 pandemic, consistent with the Committee's objectives. However, with significant uncertainty over the strength of the transmission channels, it is difficult to accurately quantify the net economic benefits of these programmes. In contrast, the marked-to-market cost of the Reserve Bank's holdings of government bonds bought under LSAP is relatively straightforward to measure.

The Committee's inflation and employment objectives have not been in conflict over the review period. For instance, during periods when the inflation outlook has been weak, employment has not been above its maximum sustainable level. As such, the Committee has not faced a conflict in its objectives in setting monetary policy.

Prudential policy is the best way to limit financial stability risks resulting from the housing market. As house prices rose, the Committee recognised that, in most instances, any associated financial stability risks should be dealt with through prudential policy rather than monetary policy. Over the review period, the Reserve Bank has undertaken a large amount of research around the impact of monetary policy changes on house prices. In short, changes to interest rates result in changes to housing demand. If housing supply is sticky, then any change in housing demand will have an outsize effect on house prices.

Providing credible and clear communication are critical in monetary policy implementation. Clearly explaining and justifying monetary policy decisions is imperative in retaining credibility. Relatively stable long-run inflation expectations indicate strong Reserve Bank credibility. Some aspects of the Reserve Bank's work, such as the requirement to support MSE, appears not to be well understood by the public. This suggests an ongoing need for strong communications.

Recognising the importance of being credible and consistent, the Committee kept the FLP in place as a source of funding for commercial banks until December 2022, as originally specified. However, because economic activity improved faster than anticipated, in hindsight, **the FLP could have been designed with more flexibility**. For example, the inclusion of an early termination clause with reasonable notice in the event of changed economic conditions could have been included, although such an amendment could potentially reduce the effectiveness of the FLP.

While monetary policy decisions have been consistent with the economic data available at the time, with the benefit of hindsight, it appears that **monetary policy should have been tightened earlier in 2021**. For example, the Committee could have supported an earlier tightening in monetary conditions by explicitly endorsing a lower volume of weekly asset purchases, reducing the overall size of the LSAP programme, and/or stopping the programme earlier. Likewise, in hindsight, the Committee could have raised the OCR earlier. Importantly, however, beginning the monetary policy tightening earlier in 2021 would not have fully offset the strong inflationary impulse stemming from the war in Ukraine.

Areas for Improvement

Monetary Policy Formulation

1. Develop broader insight into the impacts of supply shocks on inflation

A deep understanding of the economic context in which monetary policy operates is essential. To this end, the Reserve Bank needs a strong focus on the supply side of the economy and the impacts of relative price shocks on aggregate inflation. Pandemics, earthquakes, and climate change are all examples of sources of shocks.

2. Develop new sources of data for economic monitoring

Committee decisions are based on an expectation of how the economy could evolve and how it will react to monetary policy decisions. There remains potential to incorporate more and different types of higher-frequency data into the Committee's assessment process.

3. Develop better measures of 'neutral' interest rates

Neutral interest rates fell more than expected in the period leading up to the pandemic, resulting in tighter-than-intended monetary policy. Improving our understanding of the stance of monetary policy (whether monetary policy settings are expansionary, contractionary, or neutral) assists in policy calibration. This includes improving our understanding of the factors that influence neutral interest rates and developing additional indicators of policy tightness.

4. Understand the future role of fiscal policy instruments in managing economic shocks

Working with Treasury, fiscal policy should also be considered as a source of stimulus under certain conditions, and/or when the OCR is near its effective lower bound. The recently-developed suite of fiscal tools need to be further understood.

5. Refine the measure of 'maximum sustainable employment'

The MSE objective in the Committee's *Remit* is somewhat opaque and is not well understood by the public. Further clarity about its nature and how it fits within the *Remit* could be helpful.

6. Use LSAPs to mitigate financial market dysfunction

The LSAP programme was highly effective in response to the liquidity crisis that emerged in early 2020, when financial markets were becoming dysfunctional. As such, LSAPs should be used to correct dysfunction in financial market in future. Communicating the overall stance of policy while using a mix of policy instruments (OCR and LSAP) could also be improved.

7. Be cautious in providing forward guidance in uncertain times

To be effective, the FLP required a long time-commitment to ensure banks were confident that a stable and secure funding source was available. In hindsight, the FLP could have been designed with more flexibility. While forward guidance is effective, the appropriate stance of monetary policy is data-dependent.

Monetary Policy Implementation

8. Maintain the OCR as the preferred tool for setting monetary policy

The OCR is the preferred tool for managing the level of monetary stimulus through economic cycles, provided the OCR is above the effective lower bound. While AMP tools influence interest rates, they carry reputational risk as the general public only directly observe the marked-to-market fiscal implications of the Reserve Bank holding government bonds, as well as operational risk in calibrating their effectiveness.

9. Maintain operational readiness for AMP tools

The decline in neutral interest rates over recent decades increases the risk of the OCR hitting its effective lower bound. The Committee needs to maintain the operational readiness of AMP tools. This includes being able to implement a negative OCR if required.

Introduction

Monetary policy is a powerful tool. Used well, it can provide the platform of low and stable inflation and contribute to maximum sustainable employment, which are necessary (but not sufficient) for an economy to flourish. However, poor monetary policy can lead to excessively high or low inflation, detract from maximum sustainable employment, or create unnecessary instability in output, interest rates or the exchange rate.

To help maintain macroeconomic stability and contribute to low and stable inflation, monetary policy is best conducted independently of the political cycle. Given this separation from the democratic process, it is important that central banks are accountable in their use of monetary policy to pursue their legislated objectives.

With this in mind, the Reserve Bank of New Zealand (Reserve Bank) regularly reviews its performance and holds itself accountable in a number of ways. The Reserve Bank Board is responsible for monitoring and assessing past performance and publishes its findings in Reserve Bank annual reports. The Reserve Bank has also regularly reviewed monetary policy settings and published its findings in business cycle reviews, which are the predecessor to this current review.[1]

In addition, there have been a number of independent monetary policy reviews conducted over recent years. The Reserve Bank also regularly appears before Parliament's Finance and Expenditure Committee and the media to explain the assessments that underpin monetary policy decisions.

This review reinforces the Reserve Bank's long tradition of holding itself to account and learning from the past conduct of monetary policy. It is the first five-yearly review and assessment of the formulation and implementation of monetary policy required under the Reserve Bank of New Zealand Act (2021). To ensure continuity, this review evaluates monetary policy developments from the end point of the last business cycle review to the time of writing; that is, from 2017 to October 2022.

Reviewing monetary policy requires much more than simply comparing macroeconomic outcomes to target. First, monetary policy affects the real economy and inflation with 'long and variable' lags, meaning policy settings today influence inflation and employment in the future. Second, economic shocks frequently influence inflation and employment outcomes, and the Committee cannot (and should not) be expected to have perfect foresight. Third, the Committee has flexibility around the speed with which it aims to return inflation and employment to target so as to avoid unnecessary instability in the economy. The Committee can also discount events that are expected to have only transitory effects on inflation.

For these reasons, a balanced review of the formulation and implementation of monetary policy hinges crucially on understanding the macroeconomic context that motivated decisions at the time they were being made.[2] That is, just how reasonable were monetary policy decisions given the information available at the time?

1 For examples, see Williams (2017a).
2 This draws on the approach suggested in Ford, Kendall & Richardson (2015).

To evaluate monetary policy decisions on the basis of the information available at the time, the review period is split into three sub-periods. These are identified on the basis of when the outlook for monetary policy materially changed direction. The COVID-19 pandemic and Russia's invasion of Ukraine were key economic events during the review period, and changes in the stance of monetary policy largely reflect responses to these and associated shocks.

In addition to 'real-time' analysis, a balanced review also requires an evaluation of the appropriateness of monetary policy decisions based on the judicious use of hindsight. While hindsight should not be used to evaluate particular decisions made under very specific circumstances, it can provide broader lessons on the monetary policy framework and the broad appropriateness of decisions made within that framework.

Hindsight is used to assess the broad conduct of monetary policy over the review period and whether it has been consistent with achieving its mandate. This includes an assessment of additional monetary policy (AMP) tools, which were deployed for the first time in New Zealand during the review period.

This review adds to a long line of papers evaluating the performance of monetary policy in New Zealand over various time periods. The main thrust of the earlier literature is that the introduction of inflation targeting in 1989 led to improvements in the performance of monetary policy, with a sustained reduction in inflation and reduced volatility of inflation, output, and employment.[3]

As a result of the pandemic, the period since 2019 has been much more volatile and challenging for monetary policy than anything experienced since the advent of inflation targeting and the operational independence for central banks. As such, the period since 2019 provides a sharp contrast to the previous 30 years of inflation targeting by the Reserve Bank and offers important lessons for the road ahead.

Given the extreme challenges of the past few years, the economic effects of the pandemic and the response of policymakers will be intensively studied for decades to come. Indeed, the economic and social ramifications of the pandemic and policy response are still playing out. This review and assessment of monetary policy in New Zealand provides some early lessons from this unique period.

This review is structured into three broad sections. The first provides context for the review and assessment that follows. It discusses recent changes in the monetary policy framework and relevant dynamics in inflation and neutral policy interest rates that were underway leading into the review period. The second section reviews economic and monetary policy developments in 'real time' from 2017 to mid-2022, split into three key phases. The third and final section assesses the conduct of monetary policy over the period as a whole. This includes an assessment of AMP tools and the effectiveness with which monetary policy achieved its mandate. 'Lessons learned' are outlined at the end of Section 1 and 2 and areas for improvement identified from the review are outlined in the Executive Summary above.[4]

3 See, for example, McDermott,& Williams (2018), Wheeler (2014) and Buckle (2018).

4 This report is a self-assessment of the performance of the Governor and the Committee in conducting and implementing monetary policy from 2017 to October 2022. It is complemented by two independent reviews of its content from independent, international monetary policy experts.

1

Context to the review

Section 1: Context to the Review

This section briefly outlines important context for the review and assessment that follows. It begins by discussing changes in the monetary policy framework that have occurred over the five years of the review. It then describes what was happening with inflation and the neutral policy interest rate leading into the review period.

1.1. Changes in the Monetary Policy Framework over the Review Period

The Reserve Bank of New Zealand Act was Reviewed

In 2017, at the request of the new Labour-led Government, the Treasury and the Reserve Bank began a comprehensive review of New Zealand's monetary policy framework, as set out in the Reserve Bank of New Zealand Act (1989). The first phase of this review was completed in 2018 and resulted in some important changes to New Zealand's monetary policy framework that come into effect from 1 April 2019.

The most salient features of the new framework included:

- Establishing a Monetary Policy Committee (Committee) that includes a minority of external members appointed by the Minister of Finance on the recommendation of the Reserve Bank Board and a non-voting Treasury observer.
- Creating a dual mandate for monetary policy, requiring the Committee to support employment at its maximum sustainable level, alongside maintaining price stability.
- Replacing the *Policy Targets Agreement (PTA)* between the Minister of Finance and the Governor with a formal *Remit* for the Committee that specifies its mandate. In addition, the new framework also established a *Charter* and *Code of Conduct* to guide Committee decision making.

The second phase of the review of the Act considered the Reserve Bank's governance arrangements, funding model, financial policy provisions and role as regulator of deposit-taking institutions. The Government decided to replace the existing legislation with two new pieces of legislation: the Reserve Bank of New Zealand Act 2021 and a Deposit Takers Act.

The Reserve Bank Act 2021 came into effect in July 2022. The main changes that affect monetary policy include:[5]

- Establishing a new Reserve Bank governance Board responsible for all decision making, except decisions made by the Committee.

5 Non-monetary policy changes include: introducing an overarching objective of financial stability ("protecting and promoting the stability of New Zealand's financial system"); requiring the Minister of Finance to issue a Financial Policy Remit that the Board must have regard to; aligning more closely with wider state sector practice in terms of reporting and monitoring requirements (with the Treasury acting as the external monitor); and, legislatively mandating the role of the Council of Financial Regulators to ensure the coordination of agencies which are responsible for regulating our financial system.

- Recreating the role of Governor as Chief Executive and Board member, and allowing the Minister of Finance to direct the Reserve Bank to maintain a minimum level of capital.

The Monetary Policy Committee was Established

The new committee-based decision making model ended the long-established practice of the Reserve Bank Governor being the single decision-maker. This brought New Zealand's framework more into line with those in a number of other countries. As the decision making group responsible for monetary policy, the Committee sets policy to achieve the objectives specified in the *Remit* (discussed below). The Reserve Bank is responsible for implementing the monetary policy decisions formulated by the Committee.

In contrast to several other countries, where monetary policy committee members sometimes express non-consensus views of monetary policy through published votes or speeches, the Committee in New Zealand typically speak with 'one voice'. To an extent, this is prescribed by the Committee *Charter* (discussed below) which calls for consensus in decision-making.

Where consensus cannot be reached, a vote must be taken and a non-attributed record of the vote must be published. However, despite provisions in the *Charter*, the Committee has not needed to vote since its inception.

This *Review and Assessment* covers the period from 2017 to 2022. With the formal Committee only coming into existence in 2019, monetary policy decisions in 2017 and 2018 were made by the Governor based on advice from an advisory committee on monetary policy.[6]

Monetary Policy Objectives are Specified in the Remit

The Committee's decisions are made independently, but are aimed at achieving objectives specified by Government in the *Remit*. The first *Remit* under the new legislation was issued by the Minister of Finance to the Committee on the 14th of February 2019 and came into effect on the 1st of April 2019.

In substance, the new *Remit* was very similar to the 2018 PTA it replaced. It retained the dual operational objectives of maintaining price stability and supporting maximum sustainable employment (MSE). This dual mandate was distinct from *PTAs* prior to 2018 which tasked monetary policy solely with maintaining price stability.

Adding MSE to the *PTA*, and then to the *Remit*, formalised the Reserve Bank's existing practice of influencing activity in the labour and goods markets to control inflation. Historically, the Reserve Bank has responded to changes in economic activity and inflation in much the same way as the Federal Reserve. Since 1977, the Federal Reserve has operated with the dual objectives of maintaining price stability and maximum employment.[7]

6 The advisory group for monetary policy was known as the OCR Advisory Group (OCRAG) and comprised Reserve Bank staff and two external advisers.
7 See Jacob & Wadsworth (2018).

While MSE was a new addition to the PTA and then the *Remit*, the secondary ('have regard to') objectives in the 2018 *PTA* and 2019 *Remit* were comparable to past mandates. The *Remit* stipulates that in pursuing the operational objectives of maintaining price stability and supporting MSE, the Committee shall:

- have regard to the efficiency and soundness of the financial system
- seek to avoid unnecessary instability in output, interest rates and the exchange rate
- discount events that have only transitory effects on inflation, setting policy with a medium-term orientation.

In late 2020, against a backdrop of surging house prices, the Minister of Finance wrote to the Governor seeking his views on how the Reserve Bank could best support the Government's objectives in the housing market when formulating monetary policy. Following advice from Treasury and consultation with the Reserve Bank, the Government incorporated house price considerations into the Committee's *Remit* as well as its financial stability objectives.[8]

An updated *Remit* was issued by Order in Council on 22 February 2021 and became effective from 1 March 2021. The amended *Remit* included a clause which "required the Committee to assess the effect of its monetary policy decisions on the Government's policy" to "support more sustainable house prices, including by dampening investor demand for existing housing stock, which would improve affordability for first-home buyers". The full version of this *Remit* can be found in Appendix 1.

The Committee's Decision-Making is Guided by a Charter

The Reserve Bank Act requires the Minister of Finance to issue a *Charter* for the Committee. The purpose of the *Charter* is to facilitate effective decision-making and ensure transparency to improve the effectiveness of monetary policy and hold the Committee accountable.

The *Charter* must include:

- requirements for summary records of Committee meetings, stipulating the content of the records, when and how those records must be published, and matters relating to the record of votes, and
- guidelines or requirements relating to the publication or disclosure by a member of the Committee of any matter relating to the Committee or its functions, powers, or duties.

The Charter may also include other requirements relating to decision-making procedures and information that must or may be published by the Committee. The first *Charter* was issued by the Minister of Finance to the Committee on 14 February 2019 and became effective from 1 April 2019.

8 Minister of Finance (2021).

1.2. A Backdrop of Low Inflation and Falling Neutral Interest Rates

In reviewing and assessing the conduct of monetary policy over the last five years, it is important to understand any relevant long-run structural changes that were underway leading into the review period.

Headline Inflation had Fallen to Very Low Levels

When inflation targeting became widespread across advanced-economy central banks in the 1990s, inflation expectations fell globally, and actual inflation trended downwards. By the end of the Global Financial Crisis (GFC), inflation in New Zealand was already at low levels. For much of the decade prior to the COVID-19 pandemic, inflation was below the Reserve Bank's target level of two percent (Figure 2).

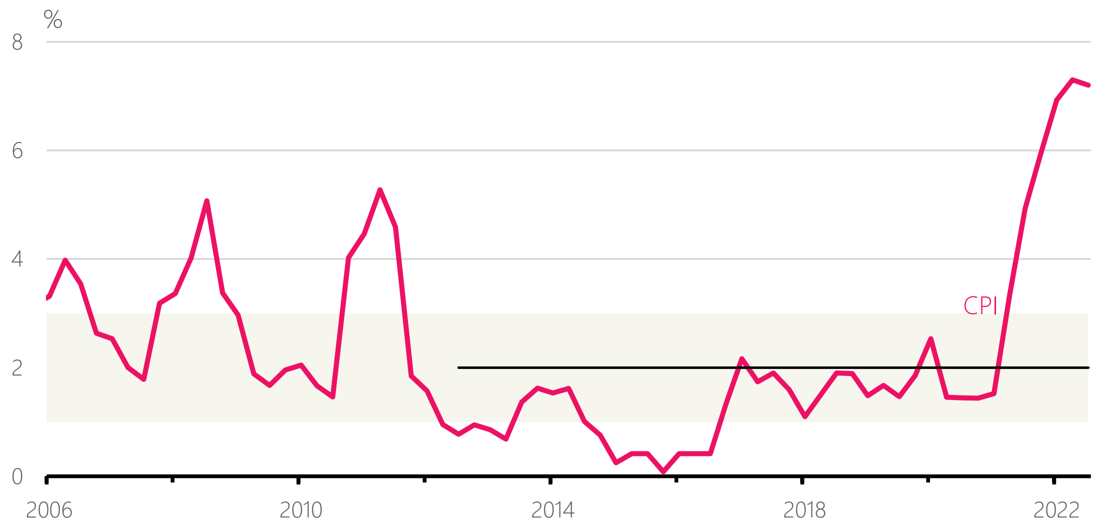
As well as increased monetary policy credibility, structural changes in the global economy also contributed to an underlying trend reduction in inflation. Globalisation shifted production from high- to low-cost economies, while digitisation lowered the prices of business processes and consumer goods. Ageing populations led to increased savings, dampening demand and reducing inflationary pressures. Labour market dynamics changed, with weaker unionisation reducing wage pressures.[9]

Cyclical factors also contributed to lower inflationary pressures, with the GFC becoming a persistent drag on economic activity. In addition, a high New Zealand dollar exchange rate, weak commodity prices and contractionary fiscal policy all worked to reduce headline inflation at various times in the decade prior to the pandemic.

These and associated economic changes led to a so-called 'flattening' of the Phillips curve that made it harder for monetary policy to have an impact on inflation. This meant that aggregate demand, and therefore the policy interest rate, needed to move by more to achieve a given inflation impact.

9 See Auer, Borio, & Filardo (2017), Spencer (2017), and Westelius & Liu (2016).

Figure 2 - Inflation in New Zealand



Source: Stats NZ.

The Neutral Interest Rate Fell....

The neutral interest rate is the interest rate at which monetary policy is neither contractionary nor expansionary.[10] The real neutral interest rate is primarily determined by the supply of savings and the demand for investment in the global economy. The nominal neutral interest rate is the real neutral interest rate plus expected inflation.

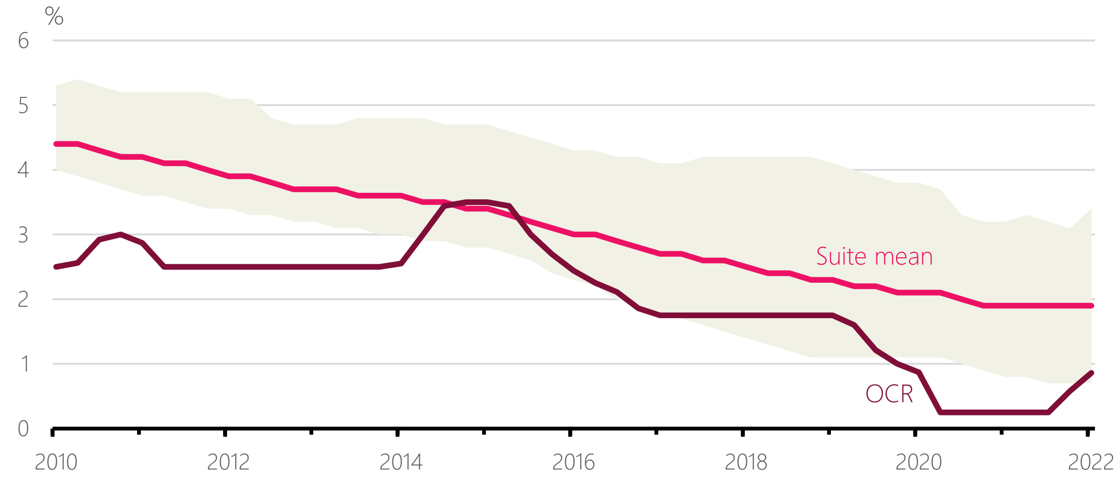
In many advanced economies, real and nominal neutral interest rates have been falling over time, particularly since the GFC.[11] In New Zealand, the Reserve Bank estimated the nominal neutral OCR was around 5% in 2007/08, but had fallen to 2% by the time COVID-19 arrived in 2020 (Figure 3). This long-run decline can also be seen in other nominal interest rates in the economy (Figure 4).

Broadly speaking, the decline in the real neutral interest rate reflects an excess supply of global savings over global investment demand. In turn, this has been driven by long-run macroeconomic trends, such as declining expectations of future productivity, ageing populations, shifts in preferences favouring saving over investment, and increased labour force participation.[12]

Falling expectations of future productivity growth reduce the real neutral interest rate – as the expected return on capital declines. Changing demographics, in particular, ageing populations that raise the supply of savings, have also been suggested to be a key driver of declining real neutral interest rates.[13] Similarly, recent analysis argues that rising income inequality has also played a large part in the fall in the real neutral interest rate, given that high income households have higher saving rates compared to low-income households.[14]

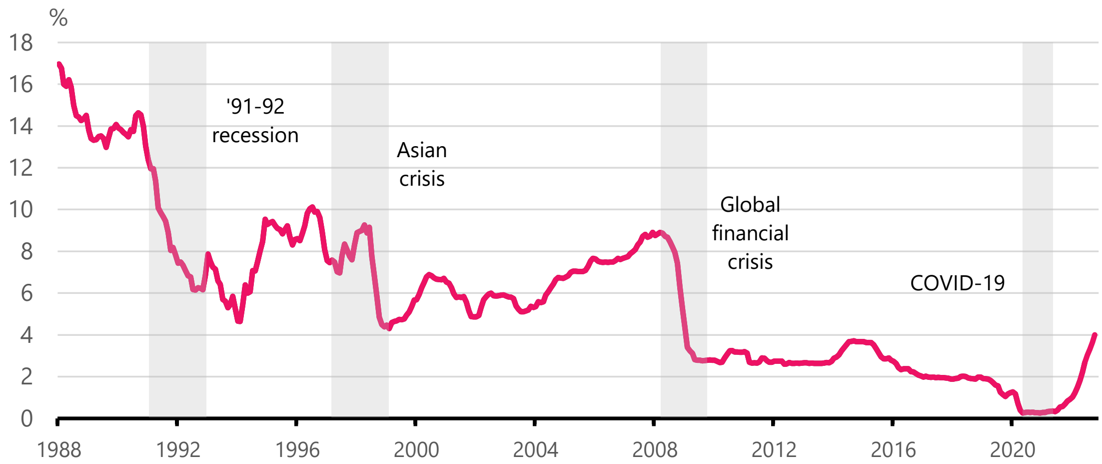
10 Richardson & Williams (2015) explain how the Reserve Bank constructs the neutral rate.
11 See Holston, Laubach & Williams (2017) for estimates of the neutral interest rate in the US, UK, euro area and Canada.
12 See Chetwin & Wood (2013) for an explanation of the fall in neutral interest rate in New Zealand.
13 See Papetti (2021).
14 See Mian, Straub, & Sufi (2021).

Figure 3 - OCR against the suite of neutral interest rate estimates



Source: RBNZ estimates. The shaded area indicates the range of estimates obtained from the Reserve Bank's neutral rate indicator suite. This data is up to March 2022.

Figure 4 - 90-day bank bill yields during COVID-19 and previous recessions



Source: Reuters, RBNZ.

Productivity growth in New Zealand has been slowing, contributing to the falling neutral interest rate.[15] New Zealand also has an ageing population, which may have contributed to a decline in real neutral interest rates. In addition to these downward shifts in the real neutral rate, falling inflation expectations over recent decades will have reduced the nominal neutral interest rate further.

The neutral interest rate cannot be directly observed and must be estimated to assess whether a given level of the policy interest rate is expansionary or contractionary. While the neutral interest rate has been falling over time, the decline has not been observed in real time by central banks.

15 The decline in productivity growth has been attributed to a range of factors including low rates of business investment (capital shallowness), low domestic savings, tax and welfare settings, migration, the education system, insufficient infrastructure, limited trade exposure, weak competition and remoteness from global markets (Conway, 2018).

Statistical filtering techniques are typically used to estimate the neutral interest rate, and these estimates are revised periodically as additional data-points are included in the estimation.

… Increasing the Risk of Policy Rates Hitting their Effective Lower Bound

As interest rates have trended downward over recent decades – due to the falling real neutral rate and persistently low inflation – conventional monetary policy has had less headroom to provide stimulus in response to economic shocks.

This is because there is a limit to how far the OCR can fall, known as the effective lower bound (ELB). At the ELB, further cuts to the policy interest rate no longer flow through to the real economy, as depositors do not accept deeply negative interest rates on their savings. As long as physical cash remains viable as a store of value, potential depositors can circumvent the banking system and, instead, hold their savings in cash. The monetary policy transmission mechanism breaks down and further rate cuts become ineffective at stimulating economic activity.

To provide further policy stimulus at the ELB, a number of central banks implemented additional monetary policy (AMP) tools following the GFC. AMP tools include a range of monetary policy instruments other than the policy interest rate that can be used to stimulate the economy. The most common AMP tools implemented by other central banks prior to the pandemic included term lending, asset purchases and forward guidance.

Just as with conventional policy interest rates, AMP tools aim to lower interest rates in the economy, thereby supporting aggregate demand. Therefore, if the policy interest rate reaches the ELB, AMP tools can be used to meet the central bank's monetary policy mandates. Global empirical evidence suggests that AMP tools were effective at stimulating aggregate demand and contributing to maintaining price stability following the GFC.[16] However, as discussed in Section 3.1 below, these tools entail risks for government balance sheets and resource allocation in the economy.

16 See Bank for International Settlements (2019).

2

A review of monetary policy in real time

Section 2: A Review of Monetary Policy in Real Time

This section provides an overview of the conduct of monetary policy from 2017 to October 2022. It is split into three sub-sections corresponding to three distinct periods during the five-year review period: below-target inflation (2017-2019); initial pandemic response (2020); and above-target inflation (2021 – October 2022).

Over these three periods, this section outlines the economic context facing the Governor and the Committee and the monetary policy decisions that were made based on that context. A list of lessons learned from the review is given at the end of the section.

2.1. 2017-2019: Below-Target Inflation

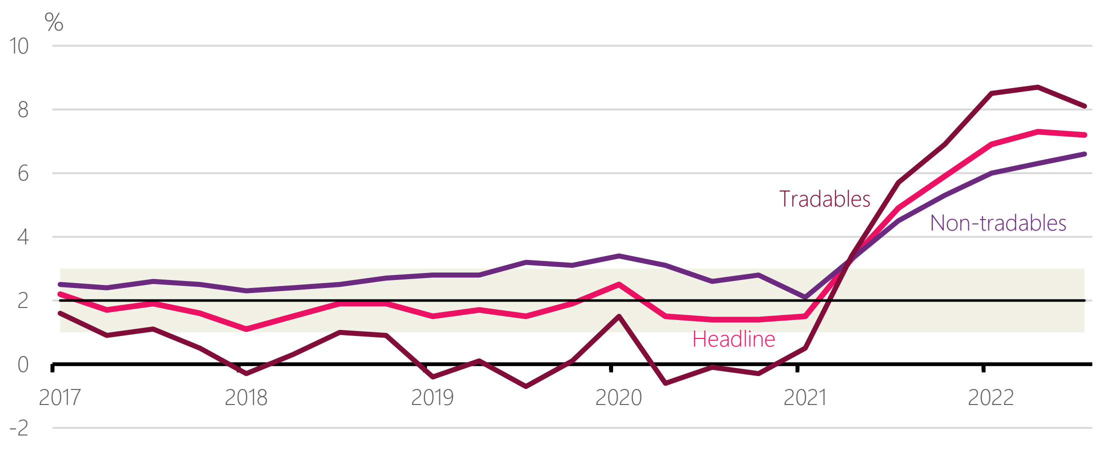
The Economic Context

Inflation was Low From 2017 to 2019...

From 2017 to 2019, headline CPI inflation stayed within the 1-3% target range in every quarter, but was only above the 2% midpoint for one quarter (Figure 5).[17]

In very broad terms, subdued inflationary pressures reflected low tradables inflation, which averaged just 0.4% over the period. In turn, low tradables inflation predominantly reflected the forces of globalisation delivering falling prices for New Zealand's imports (Figure 6). On the other hand, non-tradables inflation was consistently above the midpoint of the target band, averaging 2.7% over the period. In broad terms, this reflected a positive (but declining) output gap at the time (Figure 7). Core measures of inflation were mostly below the 2% target midpoint between 2017 and 2019 (Figure 8).

Figure 5 - Composition of CPI inflation, 2017-2022

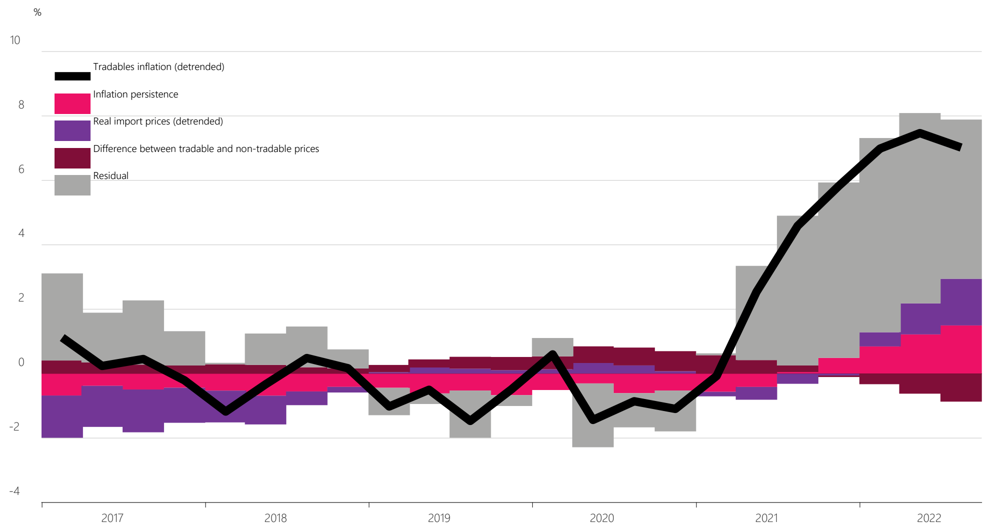


Source: Stats NZ, RBNZ estimates.

17 The quarter in concern was the first quarter of 2017 and was partly attributable to base effects as very low inflation quarters from a year prior dropped off.

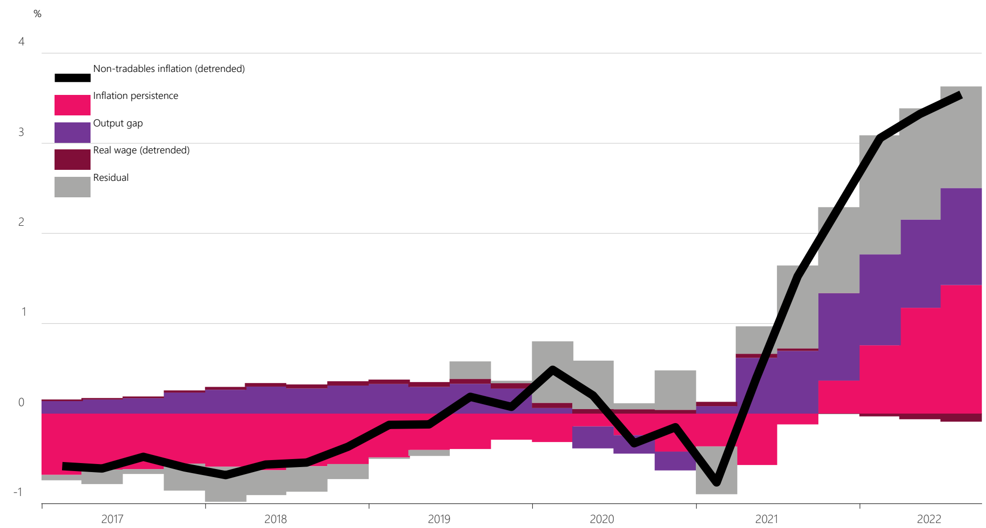
SENSITIVE

Figure 6 - Cyclical drivers of tradables inflation in the Reserve Bank's forecasting model



Source: RBNZ
Note: In the Reserve Bank's forecasting model for the New Zealand business cycle, tradables inflation is influenced by its own history as well as lags of headline inflation ('inflation persistence'), import prices, costs of non-tradable retail distribution services (wedge between tradables and non-tradables prices) and a residual. The figure presents 4-quarter moving averages of the cyclical gaps.

Figure 7 - Cyclical drivers of non-tradable inflation in the Reserve Bank's forecasting model



Source: RBNZ
Note: Non-tradables inflation is modelled as being determined by its own history as well as lags of headline inflation ('inflation persistence'), overall economic activity pressures summarised by the output gap, labour cost pressures measured by the real wage and a residual. The figure presents 4-quarter moving averages of the cyclical gaps.

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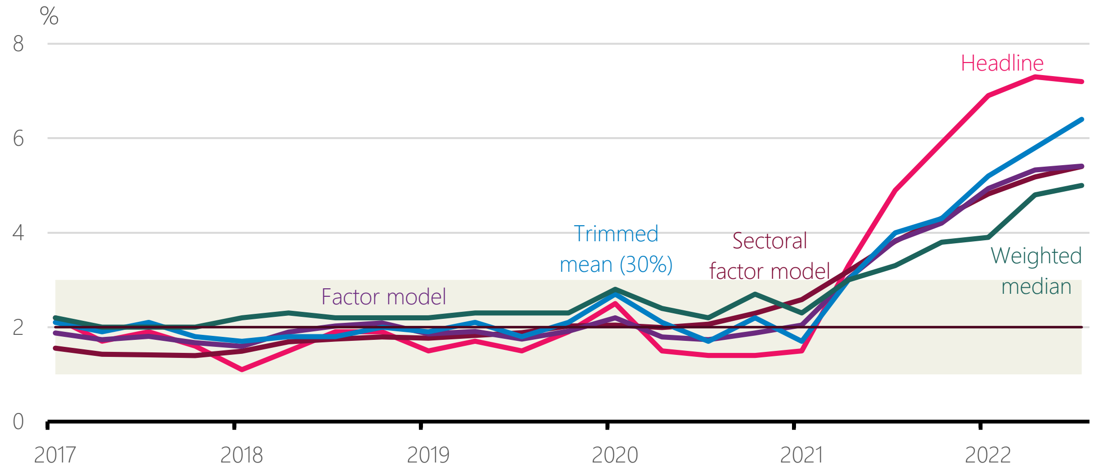
Figure 8 - Core inflation measures, 2017-2022



Source: Stats NZ, RBNZ estimates.

... and Economic Growth was Slowing

The New Zealand economy appeared to be approaching a business cycle trough prior to the pandemic. Real GDP growth fell below 2% in 2019, significantly lower than the highs of 3-4% growth at the peak of the expansion (Figure 9). Growth in GDP per capita, which is a better proxy for changes in average living standards, was close to zero prior to the pandemic and had been low across the full cycle compared to previous cycles.

Prior to the pandemic, net migration was strong and a key driver of economic growth. However, from a monetary policy perspective, large migration inflows had little impact on aggregate demand relative to the productive capacity of the economy. As such, migration inflows at this time did not cause significant inflationary pressures, which was unusual compared to previous New Zealand migration cycles.[18] However, net inward migration did increase pressure on infrastructure, including housing.

Geopolitical uncertainty – notably United States-China trade tensions and Brexit – posed a risk to the economic outlook over this period. In late 2018, the global economic outlook deteriorated, with trading partner growth falling from 4.1% in mid-2018 to 3% by mid-2019. This weighed on domestic growth through lower export volumes. Business confidence was also low and real business investment declined in 2019.

18 Vehbi (2016) finds that the lower age composition of migrants in the most recent migration cycle can help explain why demand pressures were weaker than expected. Armstrong & McDonald (2016) find that the underlying drivers of immigration – such as weakness in the Australian labour market – can lead to different labour market and inflation outcomes.

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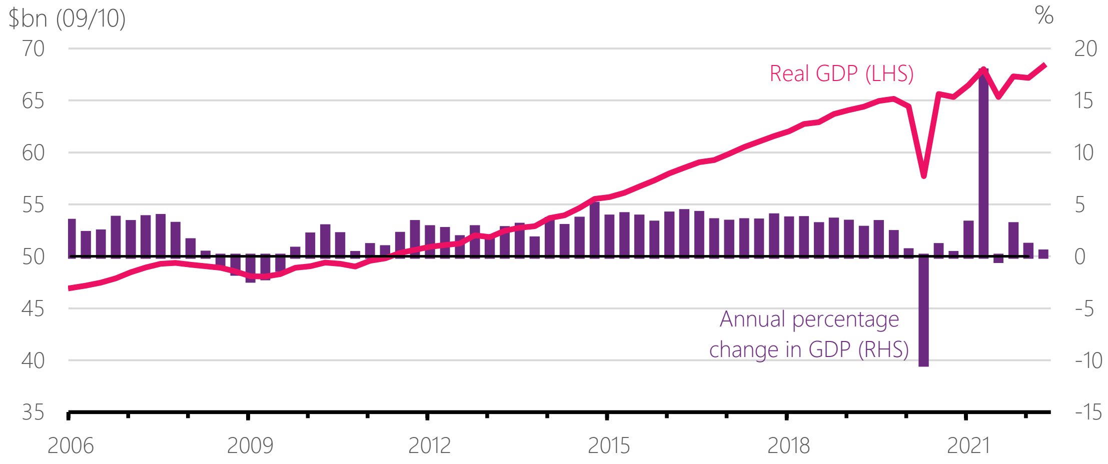
Figure 9 - Real GDP



Source: Stats NZ.

Contractionary Fiscal Policy and an Appreciating Exchange Rate Contributed to Low Inflation

Even though the change in Government in late 2017 brought about higher operating allowances and increased capital expenditure, fiscal policy was, on balance, marginally contractionary in the lead-up to the pandemic.[19] The cyclically-adjusted operating balance was positive from 2015 to 2019, indicating a dampening effect on aggregate demand from fiscal policy. The net public debt-to-GDP ratio continued to decline from a post-GFC peak of 25.5% in 2013 to 19% in 2019.[20] The fiscal consolidation over this time acted as a drag on inflation.

New Zealand's terms of trade were strong (Figure 10) and dairy prices had risen from mid-decade lows. Strong commodity prices likely contributed to New Zealand's appreciating real exchange rate, which, in turn, contributed to weak tradables inflation and dampened headline inflation over most of the pre-pandemic review period. [21] The exchange rate was elevated relative to historical averages, but drifted downward in the lead-up to the pandemic (Figure 11).

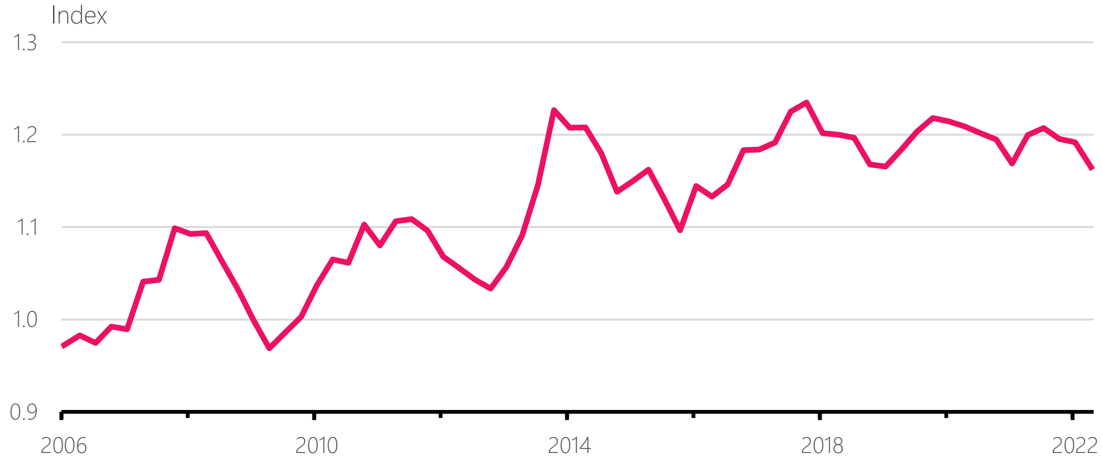
---

19 The new Labour-led Government funded some of its new operating initiatives in HYEFU 2017 – such as higher student allowances, subsidies for new parents, and a winter energy subsidy for those on social welfare (e.g. the unemployed and the elderly) – through the cancellation of the previous Government's personal tax cuts in Budget 2017. However, Budget 2018 and Budget 2019 had significantly higher operating allowances than the previous Government had planned. Higher capital spending projections were partly due to higher Super Fund contributions as well as KiwiBuild (which was implemented at a much slower rate than initially announced).

20 Represents Gross Sovereign Issued Debt less core Crown financial assets (excluding the New Zealand Super Fund). This was the Governments preferred measure of their debt position over this period.

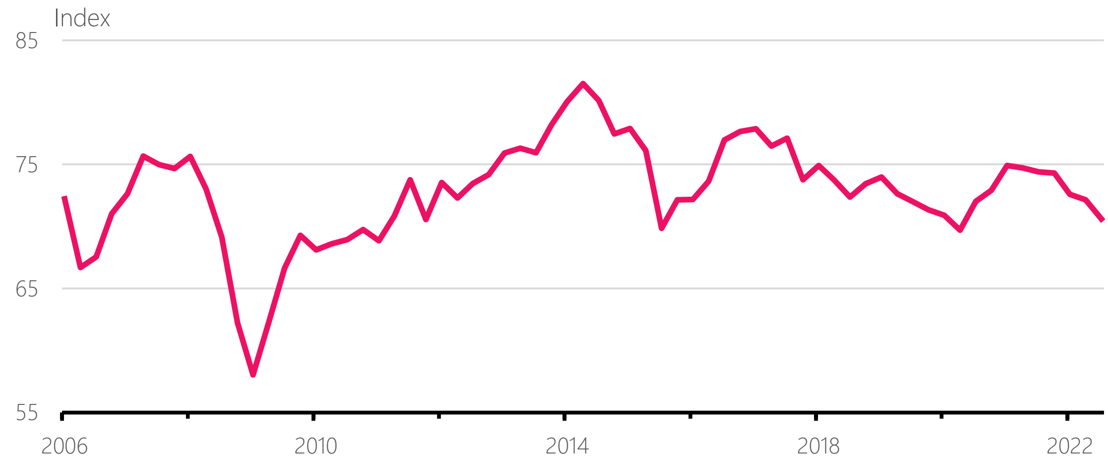
21 See Steenkamp (2014) for a discussion of how the terms of trade can affect the real exchange rate.

Figure 10 - New Zealand terms of trade (seasonally adjusted)



Source: Stats NZ.

Figure 11 - New Zealand dollar trade-weighted index (quarterly average)

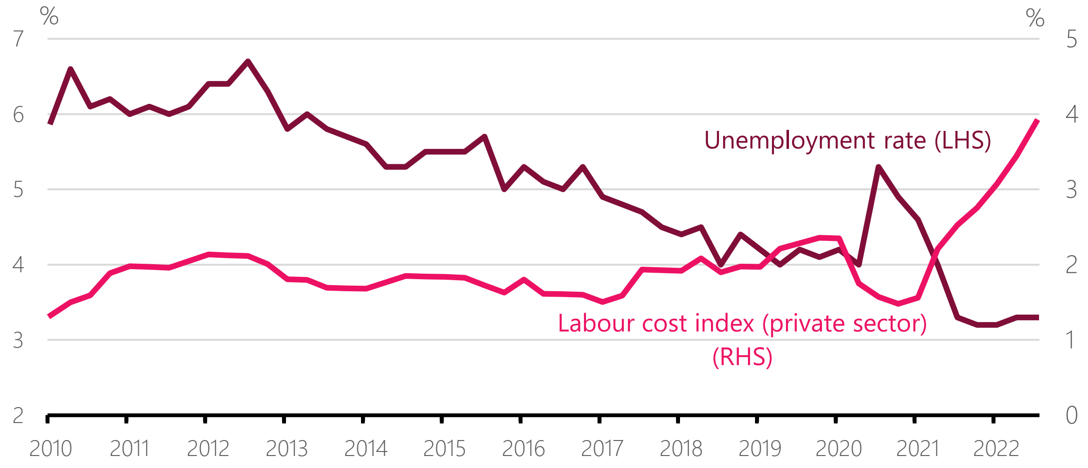


Source: RBNZ.

The Labour Market was Relatively Tight...

The labour market was relatively tight over this period. The unemployment rate had fallen slowly following the GFC from a peak of 6.7% in 2012 to 4% in 2019 (Figure 12). The employment rate increased significantly, with a higher proportion of the working-age population participating in the labour market. Nominal wage growth was moderate, broadly consistent with the labour market tightening and, if anything, higher than expected given low productivity growth.

Figure 12 - Unemployment and private sector wage growth



Source: Stats NZ, RBNZ estimates.

...and House Prices Increased

Between 2010 and 2019, house prices increased by 79%, significantly outpacing inflation or average earnings growth. Falling interest rates and steadily increasing household incomes led to increased demand for housing. In turn, given relatively inelastic supply, demand pressures in the housing market contributed to higher house prices. [22]

By the end of 2019, the median house price in New Zealand was around $630,000 – a 21% increase over the previous three years.[23] In early 2018 and again in 2019, the Reserve Bank eased loan-to-value (LVR) restrictions as housing market pressures appeared to have moderated.[24]

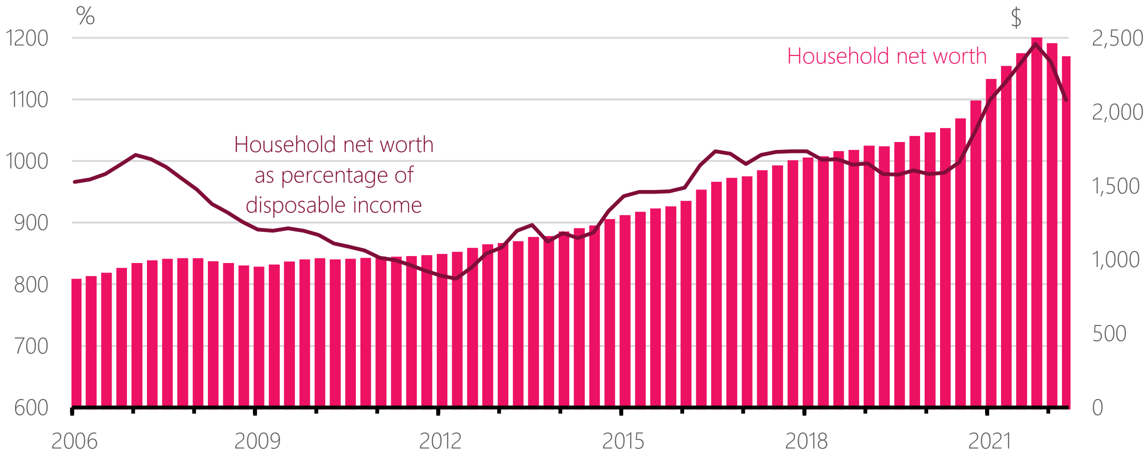
Higher house prices added some resilience into household balance sheets, although higher borrowing costs offset much of the gain. Household net wealth as a proportion of disposable income was approximately 930% at the end of 2019, compared to a peak of 900% prior to the GFC and a low of 740% in 2012 (Figure 13). Around half of the recovery in household net wealth was through higher net housing equity.

22 The average 1-year mortgage rate declined from approximately 6% at the start of 2010 to approximately 3.5% at the end of 2019. See Conway (2022) for an overview of the Reserve Bank's latest research on housing.

23 Source: REINZ.

24 From 1 January 2018, banks were allowed up to 15% (up from 10%) of new mortgage lending to owner-occupiers with deposits of less than 20%. From 1 January 2019, banks were able to lend up to 20% of new mortgage loans to owner-occupiers with deposits of less than 20%.

Figure 13 - Household net wealth



Source: RBNZ, Stats NZ, CoreLogic, Inland Revenue.

The Monetary Policy Response

Interest Rates Remained at Historic Lows in 2017 and 2018

Since 2015, the Governor had been cutting the OCR in an effort to stimulate aggregate demand and lift inflation back towards the midpoint of the target range. At the beginning of 2017, the OCR was set at 1.75%, a historic low at the time (Figure 14). This followed a 75 basis point decline in 2016 and a 100 basis point cut in 2015 (reversing a 100 basis point increase in 2014).

Through 2017 and into 2018, the Governor continued to see the need for ongoing monetary easing to lift inflation back to the target midpoint and to keep inflation expectations anchored. Though the OCR remained stable at 1.75% during this period, projections in *Monetary Policy Statements* (*MPS*s) – derived via the Reserve Bank's forecasting framework (Box A) – showed increases in the OCR over the medium term (Figure 15). However, these statements and other monetary policy communications also emphasised high levels of uncertainty around the forward path for interest rates.

> "There is significant uncertainty about the outlook for trading-partner growth and inflation, and risks remain skewed to the downside. Uncertainty surrounds policy developments in the United States (US), implications of the withdrawal of the United Kingdom from the European Union, and upcoming elections in several euro area countries." February 2017 *MPS*

In early 2018, there were signs of emerging inflationary pressures as labour market conditions continued to tighten and wage growth increased. However, with inflation still below the target midpoint, the Governor indicated there would be continued need for monetary policy support in the near term. At the time, the view was that inflation would return to the target midpoint over the medium term as wage pressures materialised and monetary policy continued to support

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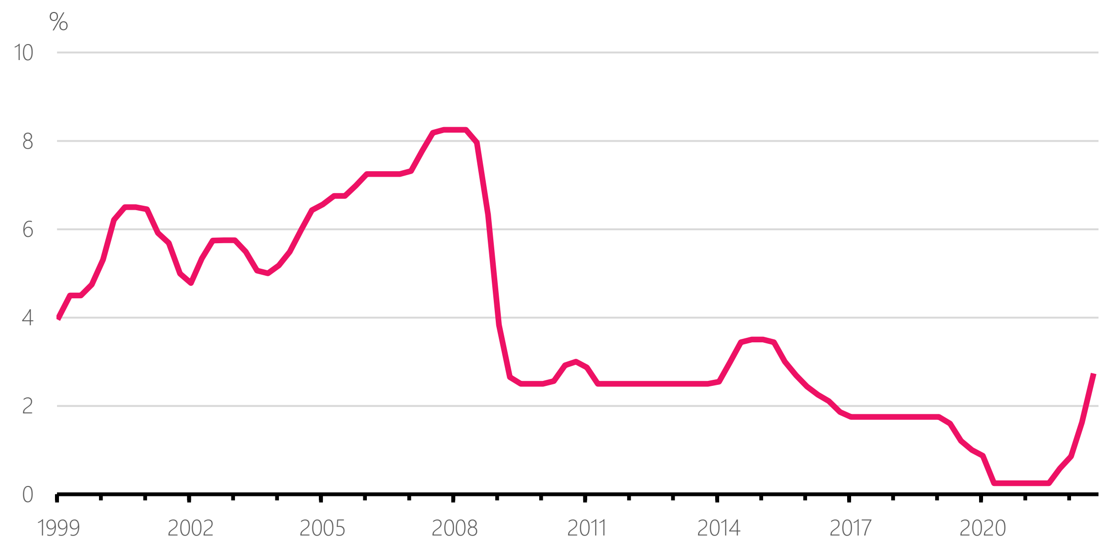
aggregate demand. Estimates of the output gap between 2017 and 2019 also suggested that inflation would rise.

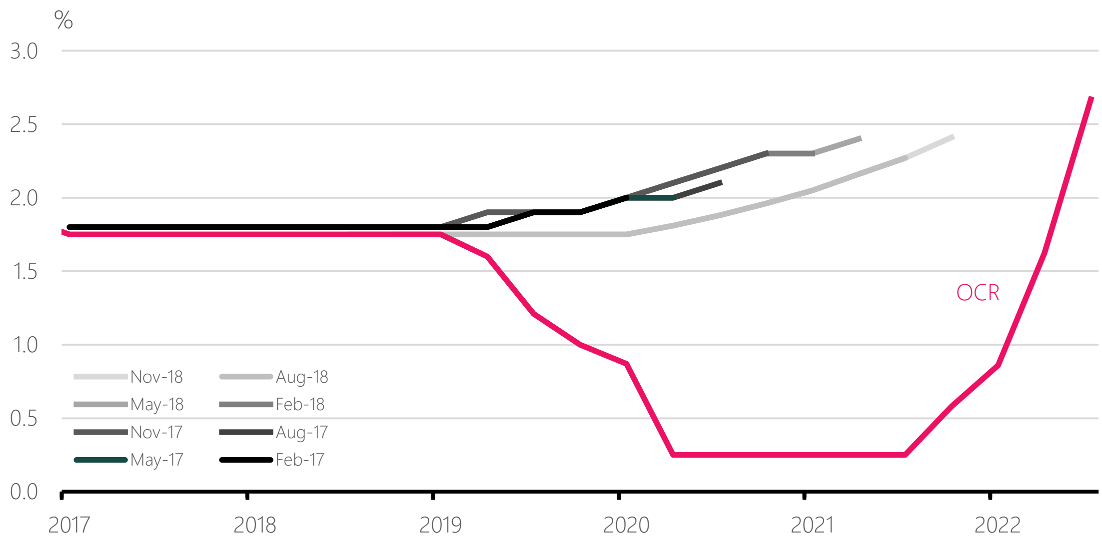
The apparent disconnect between capacity pressures and inflation over this period may be partly explained by declining one and two-year ahead inflation expectations between 2015 to 2017 affecting subsequent price and wage-setting behaviour, even without excess capacity in the economy. As noted above, the waning correlation between economic activity and inflation – otherwise known as a flattening of the Phillips Curve – was not unique to New Zealand.

Figure 14 - The OCR from 1999-2022 (quarterly average)



Source: RBNZ.

Figure 15 - Reserve Bank OCR projection, 2017-2018



Source: RBNZ estimates.

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The OCR was Cut in 2019 Given a Weaker Outlook…

In the face of global and domestic headwinds, the newly instituted Committee lowered the OCR projection slightly in early 2019, signalling that looser monetary policy settings were necessary to meet the objectives specified in the *Remit*.

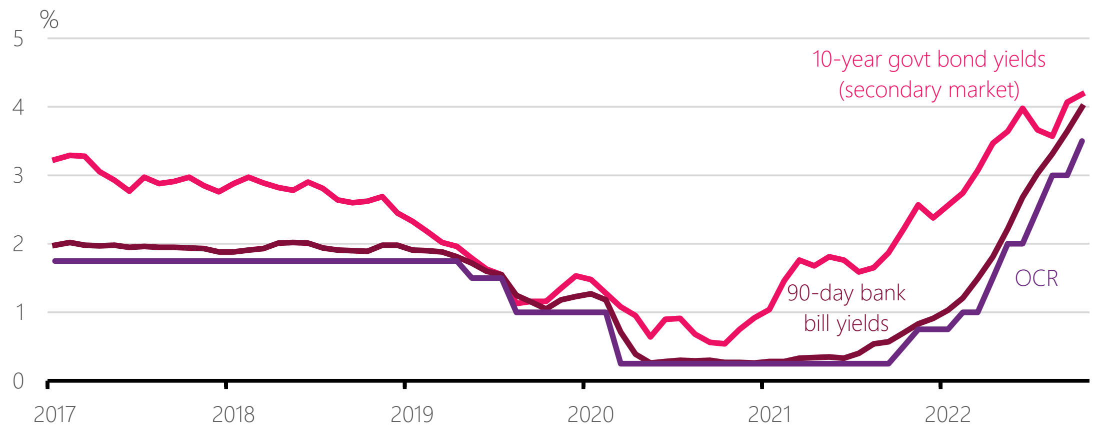
Along with a deterioration in the global economic situation given increasing geopolitical tensions, the change in the monetary policy outlook was also motivated by weaker domestic growth and reduced capacity pressures, partly due to weaker residential investment. Over the longer term, the Committee expected activity and inflationary pressures to increase, given monetary and fiscal stimulus and a depreciating exchange rate.

Over 2019, monetary policy was loosened as global headwinds intensified and domestic wage and general inflationary pressures failed to emerge. The OCR was reduced by 75 basis points in 2019 to another historic low of 1% and the forward projection for the OCR was cut substantially.

New Zealand short-term interest rates remained steady until mid-2019, when the outlook deteriorated and the OCR was reduced. Long-term government bond yields fell gently over 2018, before declining sharply from late 2018 (Figure 16). Because other central banks were also easing monetary policy in the face of a weaker global outlook, there was no significant downward pressure on the NZD exchange rate over this period.

Monetary policy may have been slightly tighter than assumed over this period, given downward revisions in the neutral interest rate. For example, in 2017Q1, the neutral (nominal) OCR was estimated to be 3.5%. In 2020, the estimated neutral rate for 2017Q1 was revised down to 3.4%. This suggests that the actual OCR in early-2017 may have been 10 basis points higher relative to the neutral OCR than assumed at the time. This suggests that somewhat tighter-than-intended monetary policy in New Zealand may have contributed to inflation being persistently below target between the GFC and the onset of the COVID-19 pandemic.

Figure 16 - New Zealand key interest rates



Source: Reuters, RBNZ.

…and Preparation for the use of Additional Monetary Policy (AMP) Tools Began

The OCR did not reach the effective lower bound (ELB) prior to the pandemic. Consequently, there was no need for the Governor nor the Committee to implement AMP tools over this period.

However, the OCR had been trending downward since the GFC and was at a historic low of 1% by late 2019.

In case additional monetary stimulus was required in future, Reserve Bank staff began to review AMP tools in 2019 that the Committee could deploy if the OCR reached the ELB. The Reserve Bank revisited scoping work that had been done in 2017, but that had been discontinued over concerns of a possible negative market reaction.

By the end of 2019, the Reserve Bank had identified potential AMP tools that could be used if necessary (Table 1) and had published guidelines on how they should be selected and used (Table 2).[25]

Table 1 - Additional monetary policy tools

Principle	Description
Forward guidance	This is stronger than conventional OCR forecasts and could involve a commitment to keep monetary policy expansionary or contractionary for a specified period of time.
A negative OCR	Reducing the OCR below zero.
Interest rate swaps	Entering into interest rate swaps, which can reinforce forward guidance.
Large-scale asset purchases	Purchasing government bonds to lower interest rates and contribute to a flattening of the yield curve.
Foreign asset purchases	Purchasing foreign currency or assets to reduce the NZD exchange rate and, if desired, to increase NZD liquidity.
Term lending	The provision of collateralised long-term loans to banks to support monetary policy transmission through the banking sector.

Table 2 - Principles determining the selection of monetary policy tools

Principle	Description
Effectiveness	Tools are designed to provide a strong influence over inflation and employment, to ensure that monetary policy objectives are achieved.
Efficiency	The distortionary impacts of the tools on the efficient allocation of resources within the economy, including between various groups and sectors of the economy, are taken into account.
Financial system soundness	The impact of the tools on financial system risks are taken into account to avoid the costs of financial dysfunction.

25 These were outlined in Drought, Perry, & Richardson (2018), and later in Unconventional monetary policy: Principles and tools.

Principle	Description
Public balance sheet risk	The financial risks that the tools create for the Crown's and the Reserve Bank's balance sheets are taken into account to protect public funds and central bank independence.
Operational readiness	Use of the tools take into account the operational readiness of each tool, to ensure the transmission channels function as expected. This includes our readiness to implement each tool and the readiness of financial markets and the New Zealand public to respond appropriately to the tools.

Note: Principles governing monetary tools are outlined on the Reserve Bank's website.

Box A – The forecasting framework at the Reserve Bank

The official projections that are published in the Reserve Bank's *MPS*, are shaped by a forecasting system that comprises several econometric models. At the heart of the forecasting system lies the New Zealand Structural Inflation Model (NZSIM) which captures the correlations between key macroeconomic aggregates over the business cycle.

NZSIM has two components:

- a core dynamic stochastic general equilibrium (DSGE) model, rooted in macroeconomic theory, that describes consumption, imports and exports, and
- additional modelling features that are more statistical or 'semi-structural' in flavour , describing business investment, the housing market, fiscal policy, inflation expectations and how monetary policy should respond in order to meet the Reserve Bank's dual mandate.

The incorporation of economic theory as well as statistical relationships allows NZSIM to remain internally consistent while preserving a high degree of empirical fit. The DSGE theoretical segment of NZSIM utilises standard features – a consumption Euler equation, uncovered interest rate parity in real exchange rate determination, and Phillips curves that link price- and wage-setting to aggregate demand. However, some of these standard features are modified to include the semi-structural components. For example, the consumption Euler equation also allows for households' decisions to be influenced by house prices. This captures the strong correlation between consumption and house prices observed in New Zealand data.

In addition to NZSIM, the forecasting system also uses a number of econometric models to analyse different sectors and aspects of the economy, over different time horizons. Statistical filters are used to separate the long-run trends of macroeconomic aggregates, so that the short-run business cycle aspects of the projections are more influenced by NZSIM. In the long run, as monetary policy stabilises the business cycle in NZSIM, macroeconomic variables settle at their trend values.

The forecasting system is not used mechanistically. Rather it is a consistent framework for understanding economic developments, forming a view on likely future developments, and understanding risks. The forecasting process is designed to be iterative and inclusive. This ensures that the forecasts reflect insights from staff across the Reserve Bank. These insights form the expert judgement that complements the model-based inputs into the Reserve Bank's projections.

2.2. 2020: The Initial Pandemic Response

The Economic Context

The Emergence of COVID-19 Led to Stringent Social and Economic Restrictions

The COVID-19 virus emerged in late 2019, quickly triggering a major global health crisis and, by implication, a severe economic shock. The virus spread quickly around the world and, within months, most advanced economies had imposed stringent restrictions on the mobility of people and social activities to reduce its spread.

In late January 2020, the New Zealand Government imposed restrictions on people who had been in China moving across the New Zealand border.[26] In late February, the first case of COVID-19 was detected in New Zealand (Figure 17 -). By mid-March, New Zealand's borders were closed to non-citizens and non-residents, and large indoor gatherings were banned.

In late March, the Government introduced an Alert Level system that specified increasing degrees of restrictions on physical mobility and social engagement. The country was moved to the highest Alert Level 4 setting on 26 of March 2020. These restrictions – among the most stringent in the world (Figure 18) – were highly successful in curbing the spread of the virus in New Zealand. As the virus was contained, the country progressively moved down the Alert Levels (Figure 17 -).

Even though COVID-19 was effectively contained through most of 2020, there was a high risk of a renewed outbreak, necessitating the re-imposition of restrictions. Vaccine development was still at an early stage globally, with clinical trials being conducted through 2020. In December 2020, an approved COVID-19 vaccine became available.[27] However, the first batches of vaccine did not arrive in New Zealand until mid-February 2021 and the country did not achieve its vaccination targets until December 2021.[28]

26 From 27 January, non-New Zealand citizens or permanent residents who had been in China over the previous 14 days were debarred from entering New Zealand. New Zealanders who had returned from China were asked to self-isolate for 14 days.
27 See Ledford, Cyranoski, & Van Noorden (2020).
28 See New Zealand Government (15 February 2021).

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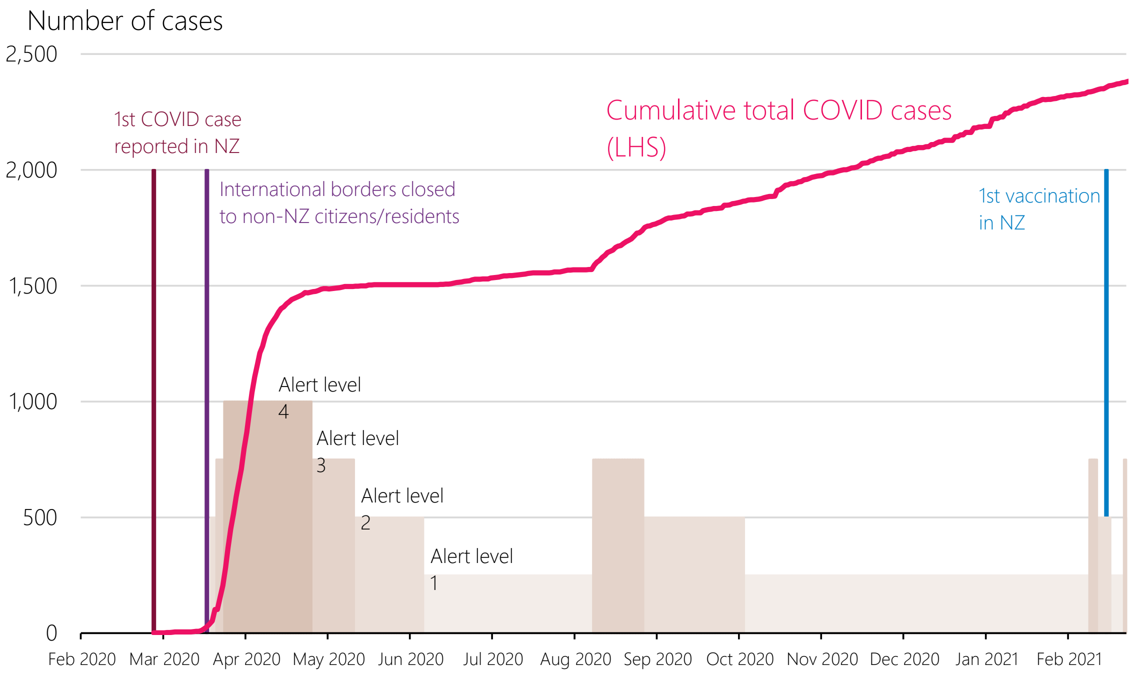
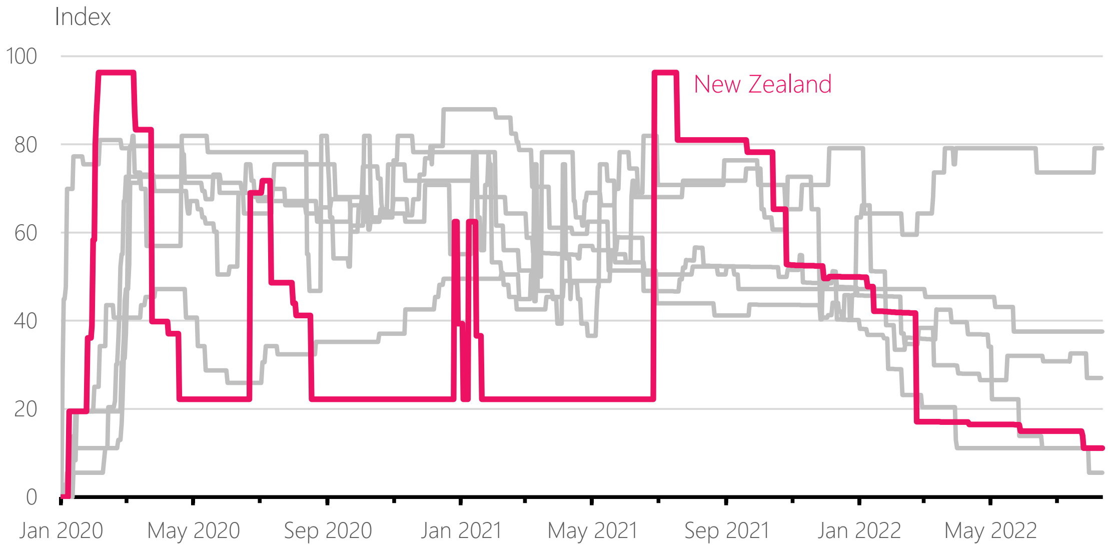
Figure 17 - The first year of COVID-19 in New Zealand, 2020-21



Source: Our World in Data, https://covid19.govt.nz/.
Note: The Alert Levels shown here include those for the whole country as well as those specifically for the Auckland region.

Figure 18 - Oxford COVID-19 Stringency Index - New Zealand and major trading partners



Source: Oxford COVID-19 Government Response Tracker, University of Oxford.
Note: Major trading partners includes China, Australia, the United States of America, Japan, and the United Kingdom. Data is up to August 2022.

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The Government Launched a Large Fiscal Stimulus Programme

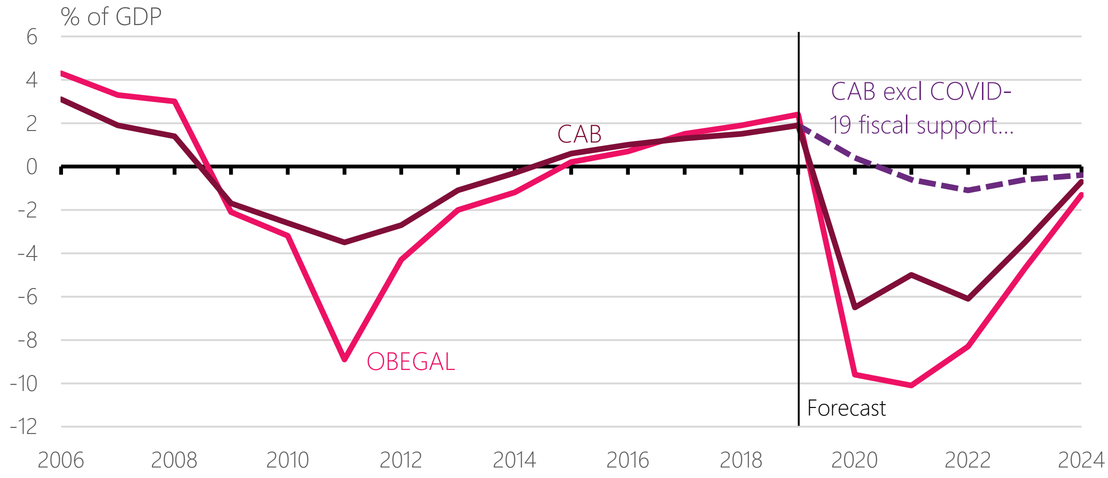
Fiscal policy played an extremely important role in supporting household incomes during the period of heavy restrictions on economic activity. In March 2020, the Government announced a fiscal stimulus package of $12.1 billion (about 4% of GDP). The package included temporary measures to provide income support to households and businesses, such as a $5.1 billion wage subsidy scheme, as well as other permanent changes.[29]

On 14 May 2020 – a day after the May 2020 *MPS* – the Government released the 2020 Budget. The centrepiece was a 'COVID-19 Response and Recovery Fund' containing fiscal stimulus of $50 billion. This increased the total announced fiscal stimulus to $62.1 billion, or around 20% of GDP. At the time, the Treasury was forecasting budget deficits of approximately 10% of GDP for two years (Figure 19). Overall, New Zealand's fiscal response to the pandemic was one of the largest (as a share of GDP) in the OECD (Figure 20).

In their update on 14 May 2020, New Zealand Debt Management (NZDM) noted that "the impact of COVID-19 on the Crown's fiscal outlook is unprecedented, and requires substantial increases to the forecast borrowing programme, relative to that forecast at the Half Year Economic and Fiscal Update (HYEFU) 2019." The forecast borrowing programme for the 2021 fiscal year was set at $60 billion, up from $10 billion in HYEFU 2019. The forecast borrowing programmes for the subsequent three financial years were also materially revised upward, by a cumulative $83 billion.

This was, in the context of New Zealand's relatively shallow debt capital markets, a significant amount of issuance, of a scale previously not seen in New Zealand. The near-term borrowing requirements were also occurring in a period of significant global market instability and similarly large increases in borrowing from other countries around the world.

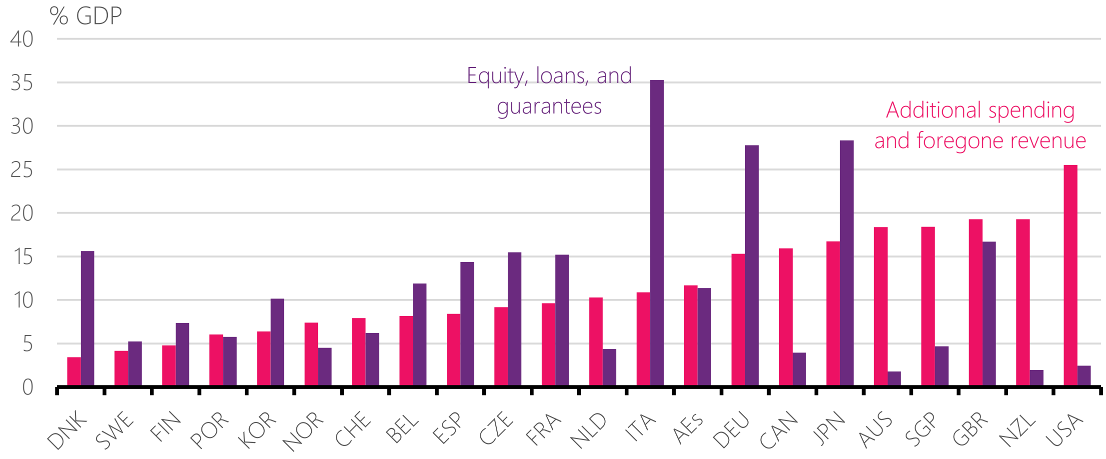
Figure 19 - Fiscal forecasts in May 2020 (OBEGAL, Cyclically Adjusted Balance)



Source: The Treasury.

29 The permanent changes included increases to welfare benefit rates and changes to business tax settings, such as reinstating building depreciation.

Figure 20 - COVID-19 fiscal measures across advanced economies (as of October 2021)



Source: IMF Database of Fiscal Policy Responses to COVID-19.

Aggregate Economic Outcomes Were Better Than Expected in 2020

Over 2020, the aggregate economy performed much better than expected by virtually all forecasters at the onset of the pandemic. This economic resilience reflected the relaxation of restrictions, given that COVID-19 was largely eliminated for much of the year, a high proportion of employees using digital technologies to work and shop from home, pent up demand from over the lockdown period, and a change in consumption patterns from services to goods. Fiscal stimulus played a critical role in minimising job losses and thereby protecting household incomes.

At the aggregate level, real annual GDP in 2020 was only 2% lower than in 2019. This was a very robust outcome considering ongoing border closures, periods of significant restrictions on domestic activity, and ongoing uncertainty about the pathway through COVID-19.

While aggregate outcomes surprised on the upside, parts of the economy were severely negatively impacted by the pandemic and the public health response. This included tourism, international education, and a number of service industries.

Output volatility was also extremely high in 2020 (and into 2021), creating very difficult circumstances for the Committee in setting monetary policy. In the second quarter of 2020, which included a long period of lockdown, real GDP fell 10% (Figure 21). However, this was much less severe than initial forecasts of more than a 20% fall. In the third quarter, activity rebounded 14% as most domestic restrictions were eased.

The financial system was also under severe strain over parts of 2020, with markets becoming increasingly dysfunctional. At the time, serious concerns were being raised about certainty of funding and liquidity for commercial banks, corporates and central and local government.

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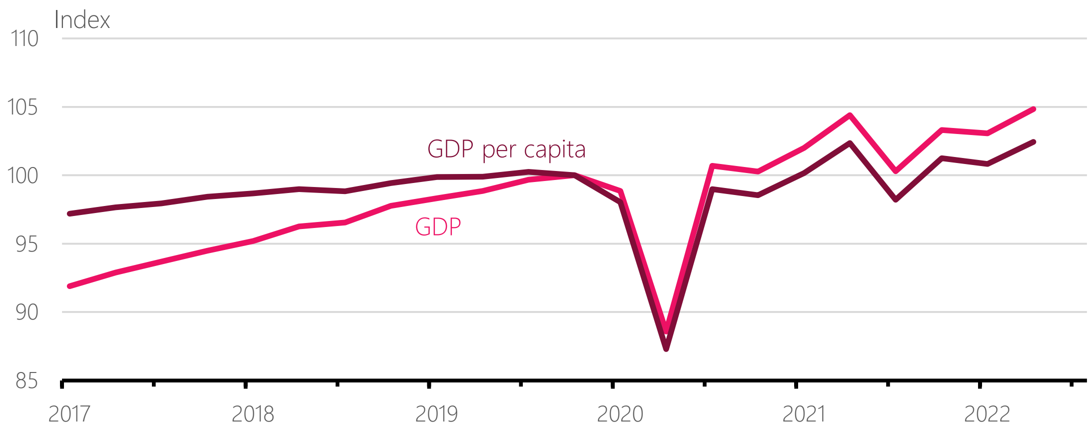
Figure 21 - Indexed Annual GDP & GDP per capita (100 = 2019 Q4)



Source: Stats NZ, RBNZ estimates.
Note: GDP per capita is calculated is calculated using real production GDP and the working age population.

In the labour market, job losses over 2020 were much lower than expected, and less than in many other economies such as the United States, United Kingdom and Australia. Unemployment increased from 4% at the end of 2019 to a peak of 5.3% in the second half of 2020. This compares to earlier Reserve Bank projections of a 9% peak in the unemployment rate. Over the same period, the average OECD unemployment rate increased by 2.4 percentage points to 7.7%.

The early removal of restrictions and significant fiscal support (notably a large wage subsidy) and monetary stimulus (discussed below) helped shelter the labour market from a more significant contraction. Border restrictions led to a sharp reduction in net migration, reducing labour market mobility and worker availability in industries traditionally reliant on migrant labour. In light of this, the Committee considered there would be increased skill mismatches in the economy, which would likely reduce maximum sustainable employment in the near term.

In the early stages of the pandemic, the Reserve Bank and most other forecasters expected house prices to fall. On balance, lower growth in the population and in household incomes was expected to outweigh the effects of lower interest rates, an easing of loan-to-value ratio restrictions, and weaker construction activity. At the beginning of the pandemic, the Reserve Bank's baseline scenario was that house prices would fall by around 9% over 2020. Instead, house prices increased 17% during 2020.

Unusually, the exchange rate remained strong over 2020. The trade-weighted index (TWI) did briefly decline in March when strict restrictions were in force. However, most of this decline was reversed by June.[30] New Zealand dollar strength was likely partly due to the strength of New Zealand's commodity exports and New Zealand's economic resilience compared to that of our trading partners.

Annual CPI inflation for 2020 was 1.4%, within the target band but below the midpoint. This was higher than the Reserve Bank and other forecasters expected. However, at this time, there remained considerable uncertainty over the future inflation outlook. In essence, this uncertainty

30 Note this is based on the daily TWI rather than the quarterly average in Figure 11.

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was about whether the ongoing economic shock from the pandemic would have a more lasting impact on the supply capacity of the economy or on aggregate demand.

The Monetary Policy Response

COVID-19 was Considered a Risk in February 2020

When the Committee convened in February 2020, there had been no recorded cases of COVID-19 in New Zealand and the World Health Organisation had not yet declared the COVID-19 outbreak to be a global pandemic. At this time, the Committee considered the COVID-19 outbreak to be a "complicating factor" and an "emerging downside risk".[31]

The Committee's near-term economic outlook accounted for lower economic activity in China and reduced demand for exports, although both were forecast to improve over the course of 2020. However, COVID-19 did not materially affect the monetary policy decision – the OCR was held at 1% and the outlook for the OCR was revised up.

> "We assume the overall economic impact of the coronavirus outbreak in New Zealand will be of a short duration, with most of the impacts in the first half of 2020. Nevertheless, some sectors are being significantly affected. There is a risk that the impact will be larger and more persistent. Monetary policy has time to adjust if needed as more information becomes available." February 2020 MPS

The Committee Cut the OCR as Public-Health Restrictions Became More Stringent

As COVID-19 restrictions in New Zealand and around the world rapidly intensified, the Committee convened for a previously unscheduled meeting on 16 March, 2020. The Committee came to the view that aggregate spending and investment would be subdued for an extended period as the economic impacts of COVID-19 evolved. Accordingly, the Committee updated its outlook, noting that demand for New Zealand's goods and services and domestic production would most likely be constrained going forward.

Economic uncertainty was pervasive in 2020. Shocks of this type were unparalleled in modern economic history; a reduction in economic activity given the spread of the virus and the associated public health actions. Globally, policymakers had little experience of pandemics to guide their judgements and economic projections.

This uncertainty was accentuated by the fact that the characteristics of the COVID-19 virus were not well understood at this time. There was little understanding of the variants that could emerge and how contagious they were likely to be. A lack of clarity about the development and roll out of vaccines added to the heightened sense of uncertainty.

31 February 2020 *MPS*.

While it was clear that New Zealand's early public health measures would lead to large reductions in economic activity, there was a high level of uncertainty as to how households and businesses would respond, and how the Government would adjust its approach as the situation evolved.

There was little that monetary or fiscal policy could do to reverse declines in economic activity in the short run while public health restrictions were in place. However, there was a clear and pressing need for significant monetary stimulus to support a medium-term recovery in economic activity and employment and to prevent deflation. It was also considered important to ensure that New Zealanders had confidence in the financial system and access to cash when they needed it.[32]

The Need for AMP Tools Became Increasingly Apparent

It became increasingly likely that cuts to the OCR in isolation would not provide enough stimulus for the anticipated economic downturn, and that AMP tools would need to be used. AMP tools are not perfect substitutes for conventional monetary policy. As such, the Committee considered a range of issues around the deployment of these tools (Table 2 above). The risks associated with the deployment of AMP tools were also carefully considered at this time (Table 3).

Table 3 - Risks that the Committee considered in deploying AMP tools

Risk	Description
Legal	The Committee is legally obliged to pursue the operational objectives in the Committee *Remit*
Reputational	If the Committee does not achieve its objectives, the public have lost faith in the Reserve Bank's ability to achieve the Remit objectives. This makes monetary policy less effective and makes the Committee's task more difficult in the future.[33]
Operational	As AMP tools are not implemented in the same way as conventional policy, they can face operational barriers to being implemented.
Financial	The different means of implementing AMP tools means that they can create financial risk for the Reserve Bank and/or the Crown.

At the meeting on 16 March, the Committee lowered the OCR by 75 basis points to 0.25% and committed to keeping it unchanged for the next 12 months. The Committee also agreed that should further stimulus be required, a Large Scale Asset Purchase (LSAP) programme would be developed and implemented.

The size of the March 2020 OCR cut reflected a trade-off between providing stimulus and supporting financial market functioning. Based on consultations with commercial banks and other market participants, the Committee was highly concerned about the capability of New Zealand's

32 Mahi Tahi: Working Together to Ensure Cash-flow and Confidence - Reserve Bank of New Zealand - Te Pūtea Matua (rbnz.govt.nz).
33 This is because inflation and the wage-setting process are influenced by expectations of future price changes, which is itself predicated on how determined the central bank is to maintain inflation at its stated target.

financial system to operate with interest rates at or below zero.[34] This meant that the use of a negative OCR posed significant operational risk to the financial system at the time. If the Reserve Bank had not paused the work programme on the use of AMP tools for 12 months in 2017, the operational risks of implementing a negative OCR may have been materially lower in early 2020.

In contrast, the forward guidance adopted by the Committee – committing to keep the OCR at 0.25% for next 12 months – did not face the same implementation risks. This commitment is one of the clearest – and possibly only – examples of time-dependent 'Odyssean' forward guidance used by an advanced-economy central bank.[35] In making this commitment, the Committee traded-off future flexibility in the OCR against the provision of certainty and clear guidance around their future decisions. This allowed the Committee to provide monetary policy stimulus while also maintaining a buffer against financial markets having to operate with negative interest rates in the near future.

The Reserve Bank, through its financial stability functions, also delayed expected increases in bank capital requirements by twelve months to ease pressures on commercial bank balance sheets. This was followed by a delay or slowdown of most other Reserve Bank regulatory initiatives for at least six months, to allow commercial banks to focus on supporting customers through the pandemic.

The Committee Announced a Large Scale Asset Purchase Programme…

Economic and financial market conditions continued to deteriorate throughout March 2020. The Committee became increasingly concerned about tightening financial conditions, as long-term government bond yields had risen significantly since their monetary policy decision on 16 March, and market liquidity had rapidly declined (Figure 22). This tightening in financial market conditions threatened to disrupt the transmission of the low OCR to the real economy, compromising the Committee's ability to achieve its *Remit*.

In response, the Committee decided to provide additional monetary stimulus through a Large Scale Asset Purchase (LSAP) programme that involved buying New Zealand government bonds in the secondary market.[36] The Committee initially specified that the LSAP programme would be up to a maximum limit of $30 billion of nominal government bonds across all maturities over the next 12 months, which was roughly equivalent to around 9% of GDP and approximately 47% of all nominal government bonds on issue at the time.[37]

LSAP was the preferred AMP tool to launch at this time because of the importance of the New Zealand government bond market to the overall New Zealand financial system. The interest rate on New Zealand government bonds is a benchmark interest rate that influences other interest

34 The Reserve Bank launched a new payment settlement system in February 2020 which was capable of operating with negative interest rates. Over the second half of 2019, the Reserve Bank engaged with registered banks regarding their ability to operate negative interest rates. This first involved engaging with the Reserve Bank's counterparties in its open market operations in financial markets. More broadly, bank supervisors raised the issue of preparedness for negative interest rates at banking sector workshops in December 2019. In late January 2020, the Reserve Bank's Head of Supervision sent a letter to banks' chief executives formally requesting they report on the status of their systems and capability. The responses raised a number of material constraints and concerns regarding operationalising negative interest rates.

35 Based on the idea that the central bank is tying their hands to carry out that policy even if they would not want to later on, much like Odysseus tied himself to the mast to resist the sirens' call in Greek mythology (Campbell, et al., 2012).

36 This decision was made via email, given restrictions on in-person gatherings.

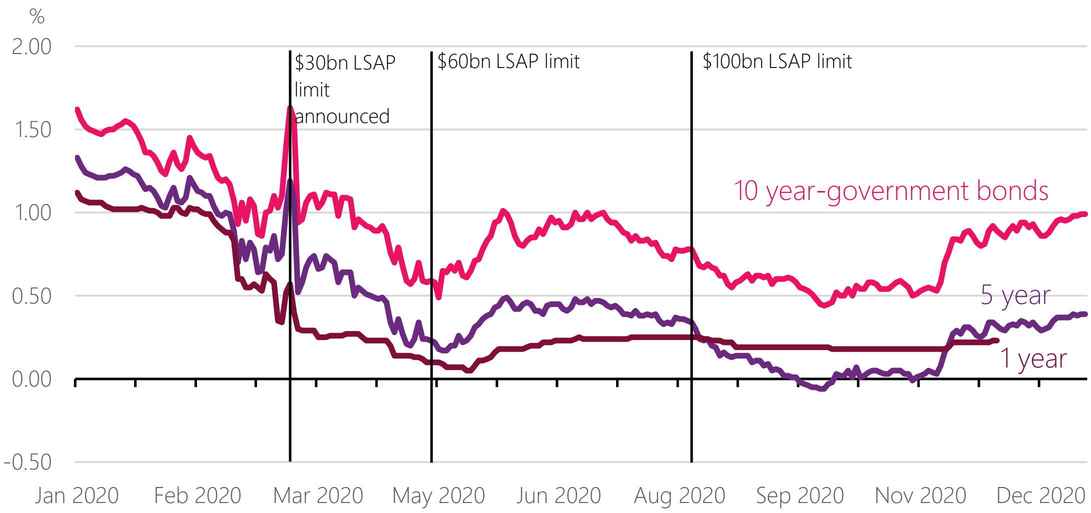
37 Given the volatility in GDP over this period, the level of bond purchases as a percentage of GDP is quite dependent on the time period chosen.

rates in the economy. If the government bond market is not stable and the Crown is unable to issue debt, then private sector borrowers will also be unable to do so. LSAP was also operationally relatively easy to implement compared with other AMP tools, and there were examples over the prior decade of other central banks implementing LSAPs or similar programmes. Furthermore, other central banks were launching, or expanding existing, LSAP programmes at the same time.

New Zealand government bonds make up a significant proportion of New Zealand's relatively small debt market, making them easily accessible to willing buyers. They are also referred to as high quality liquid assets (HQLA), meaning that they are considered to be a safe asset involving low credit risk.[38]

By deploying LSAP, the Committee aimed to provide further support to the economy by ensuring New Zealand's debt markets continued to function such that the transmission of monetary policy was unaffected (i.e., keeping interest rates on government bonds low). By restoring market functioning, the Committee aimed to restore economic confidence for households and businesses. Bond yields continued to fall after the LSAP programme was first announced, as the Reserve Bank began buying large quantities of government bonds in the secondary market.

Figure 22 - Government bond yields in 2020



Source: Reuters, RBNZ.

The Committee chose to implement asset purchases before using negative interest rates or interest rate swaps.[39] This decision was guided by the Committee's core principles for AMP formulation (Table 2 above). As well as providing additional stimulus, LSAP conferred the critical benefit of stabilising financial markets by providing market liquidity, which other tools could not easily provide. LSAP also did not face the same operational barriers as negative interest rates.

Implementing LSAPs did entail public balance sheet risk, as the programme changed the interest rate exposure of the whole of Crown balance sheet (discussed in more detail in Section 3.1). Under LSAP, the Reserve Bank funded its purchases of government bonds by creating new settlement

38 Drought, Perry, & Richardson (2018).
39 Reversing the ordered preference set out by the Governor earlier in 2020 (Orr, 2020a).

cash. The Reserve Bank pays the OCR on settlement cash and earns the fixed yield on the purchased longer-term government bonds. In effect, the increase in settlement cash shortens the average duration of Crown debt. The financial risks associated with this change were transferred to the Crown through an indemnity negotiated prior to the announcement of the LSAP programme.

While both the Reserve Bank and the Minister of Finance understood the risks of potential losses, the probability of such losses was hard to assess *ex ante*. In any case, the purpose of the programme was not to generate trading gains, but to achieve the Committee's *Remit* objectives. It would be reasonable to expect that if these objectives were met, then interest rates would rise and there would be a direct financial cost associated with the programme. In the context of the large downside economic risks and uncertainty, the Committee considered that taking on this financial risk was necessary to achieve the monetary policy objectives of the *Remit*.

…Deliberately Keeping Weekly LSAP Purchases Flexible

In implementing LSAP, the Committee set the maximum size of total bond purchases and the operational horizon of the programme, consistent its high-level monetary policy goals. Reserve Bank staff were then instructed to achieve a low and flat yield curve and to improve and maintain financial market functioning.

The Committee retained responsibility for the total limit on the bond buying programme and the horizon of purchases, thereby controlling the average rate of purchases made by the Reserve Bank. However, the process for staff to advise the Committee, and for the Committee and senior Reserve Bank leadership to provide feedback on the volume of weekly purchases, evolved over the life of the programme.

In effect, responsibility for deciding on the weekly quantity and tenor of bond purchases was delegated to Reserve Bank staff. In the early stages of the programme, this involved purchasing enough bonds to restore market function and to reduce and maintain yields without creating a shortage of bonds in the market.

The delegation of this responsibility empowered staff to adjust the tenor and quantity of bonds on a weekly basis to ensure that LSAP supported the efficient functioning of the NZGB market and related markets. Each week, in advance of publishing the LSAP schedule, staff monitored a broad range of market indicators, undertook analysis and gathered market intelligence.

The discretion Reserve Bank staff had around the tenor and quantity of bonds purchased allowed the LSAP programme to respond to market conditions, including an increase in bonds outstanding following new issuance by NZDM (as discussed above).

This discretion also provided an additional benefit whereby the Reserve Bank was able to respond relatively promptly to changes in market conditions that could have undermined the Committee's desired stance of monetary policy. It is likely that this improved the outcomes of the LSAP programme from a market functioning perspective, and potentially mitigated the headline effect of declining purchases at the later stage of the programme.

Bond purchase and issuance decisions were made independently by the Reserve Bank and NZDM respectively. This preserved the Reserve Bank's operational independence and allowed each organisation to prioritise its own objectives. At no time did the Reserve Bank participate in primary market issuance by NZDM. Furthermore, newly issued maturities were generally excluded from the LSAP purchase schedule for around eight weeks after issue, so as to allow market price discovery to occur for new bond lines.

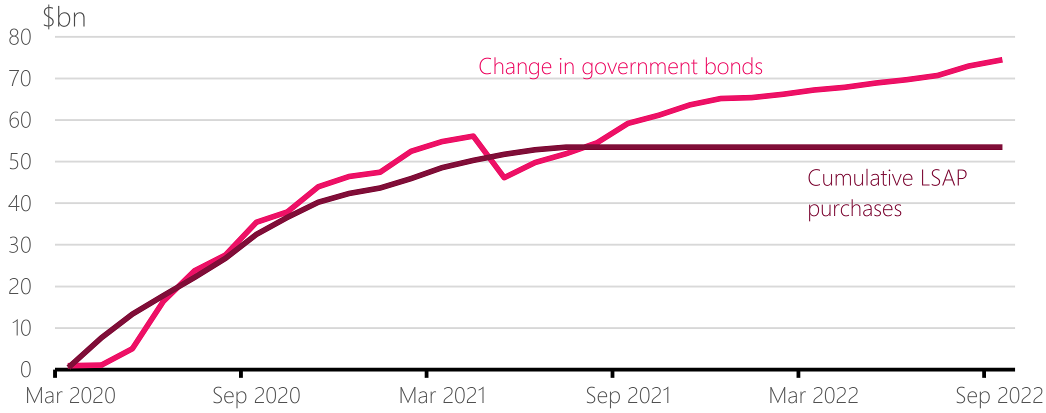
An increase in government bond issuance increased the number of bonds the Reserve Bank could purchase without creating a bond shortage. However, higher bond issuance also increased the quantum of bond purchases needed to achieve a given degree of monetary stimulus. This is because, all else being equal, increased supply of bonds will tend to lower the price of bonds and increase their yield. It may also impact the shape of the yield curve, which would contravene the Committee's desired outcomes from the LSAP programme.

In part, this meant the level of bond purchases required to deliver the desired level of monetary stimulus was influenced by the size of total bond issuance (Figure 23). However, LSAP was firmly focused on achieving the Committee's *Remit*, rather than simply proving an offset to whatever quantity of bonds that was issued by Government.

By late 2020, the Committee's view was that inflation would fluctuate near the bottom of the target range until late in the projection period, although downside risks were easing. The need for ongoing monetary stimulus was supported by a number of indicators, including short- to medium-term inflation expectations, which had fallen significantly below 2% during most of 2020 (Figure 55).

> '...we expect an ongoing increase in unemployment as the economy adjusts. Consumer price inflation is also projected to remain at the lower-end of the remit target range for a period, and inflation expectations remain subdued. The Committee agreed that monetary policy will need to remain stimulatory for a long time to meet the consumer price inflation and employment remit, and that it must remain prepared to provide additional support if necessary.' November 2020 *MPS*

Figure 23 - Change in outstanding government bonds in NZ and LSAP purchases from February 2020



Source: RBNZ.
Note: Change in government bonds is based on nominal and inflation-indexed bonds from the RBNZ *Statistical Table D30*.

The Implementation of Monetary Policy Was Altered Given Increased Settlement Cash

From 1999, the Reserve Bank operated a 'corridor' system to implement monetary policy.[40] Up to a certain dollar amount, commercial banks received the OCR on their Exchange Settlement Account System (ESAS) balances with the Reserve Bank. If a commercial bank held ESAS balances above this amount, they received the OCR less a penalty rate. Similarly, if a bank found themselves with insufficient balances at the end of the day, they could borrow from the Reserve Bank at the OCR plus a penalty rate.

The Reserve Bank controls the Settlement Cash Level (SCL). Commercial banks can trade ESAS balances between themselves, but cannot raise or lower the total SCL by their actions.

In this system, the SCL fluctuated around $7 billion and Government cash flows in and out of the financial system were offset through Reserve Bank operations aimed at maintaining the targeted SCL. Because ESAS balances held above or below mandated credit tiers incurred penalty interest rates, banks had an incentive to trade cash in the interbank market, which helped to keep short-term market interest rates close to the level of the OCR (or within the 'corridor').

The monetary policy response to COVID-19 made it difficult for the Reserve Bank to retain a corridor system for monetary policy implementation. By deploying LSAP, the Reserve Bank increased cash in the system, which raised the SCL. Had the Reserve Bank retained credit tiers while deploying LSAP, short-term market interest rates would have likely traded towards the penalty rate, which was set 100 basis points below the OCR. In this environment, it would have also been difficult to determine a target SCL.

Had the corridor system been retained, it would have undermined the OCR, likely pushed inter-bank interest rates negative, and complicated monetary policy communication.

On 20 March 2020, the Reserve Bank removed credit tiers on ESAS accounts to support monetary policy implementation. This meant that all settlement cash balances were now remunerated at the OCR, with no penalty rates imposed. Removing the credit tiers offered additional flexibility to the Reserve Bank to keep short-term interest rates anchored near the OCR, regardless of the level of settlement cash in the system (so long as it remains above the level deemed sufficient to satisfy the liquidity and payment needs of the banking system). This alternative 'floor' system for implementing monetary policy is commonly used by other central banks.

Under this system, the Reserve Bank must ensure there is enough settlement cash in the system so that short-term market interest rates trade at the OCR. Provided settlement cash does not become scarce, the SCL can fluctuate with little impact on short-term interest rates. As such, since the shift to the floor system, active management of the SCL has not been necessary and the Reserve Bank has only partially smoothed out some of the lumpiest government cash flows that impact the SCL.

40 See Parekh (2016).

The Committee Became Increasingly Concerned About the Risk of a Severe Recession

The Committee's response to the COVID-19 crisis was predicated on severe downside risks to the economy. A deep and prolonged economic downturn would see weakening household and business finances and declining asset prices that could hamper a recovery. Declining inflation, coupled with interest rates that were already very low, would likely make it more difficult for the Committee to stimulate the economy.

With risks to inflation and employment heavily skewed to the downside, the Committee adopted a 'least regrets' approach to its decision-making. The idea was that in a world of uncertainty, the Committee would aim for a central scenario but have a bias towards minimising the worst possible outcomes that could threaten the Committee's ability to achieve its *Remit*. This involved identifying the most likely ways the economy could evolve differently to the Committee's central view, and what the *Remit* implies about the level of 'regret' should these risks eventuate.

The language of least regrets implied a bias in the level and timing of monetary policy moves. In September 2021, Deputy Governor Christian Hawkesby made a speech using the metaphor of the kotuku to capture the idea of least regrets.[41] That is, to take flight (up/down) if necessary; otherwise remain cautious and respectful.

In early 2020, the 'least regrets' approach to managing the severe anticipated economic downturn meant that the Committee would err on the side of delivering more rather than less stimulus, sooner rather than later, thus minimising the risk that the stimulus delivered would turn out to not be enough. This view was formed on the basis that if the stimulus provided proved to be too much, the Committee has the monetary tools to correct for it. Whereas, if the stimulus proved to be inadequate, monetary policy could struggle to lift the economy from a prolonged deflationary contraction.

> **'Members agreed that a 'least regrets' monetary policy approach is needed, delivering stimulus sooner rather than later, and thus minimising the risk that the stimulus delivered turns out not to be enough.'** May 2020 *MPS*

In early 2020, some other central banks – such as the Federal Reserve and the Bank of England – also outlined in speeches how the risks of doing too little outweighed the risks of doing too much, in a very similar manner to the Reserve Bank's 'least regrets' guidance. They were not, however, as deliberate and systematic within their monetary policy statements.[42]

The Reserve Bank Began Publishing Scenarios and an 'Unconstrained OCR'

The May 2020 *MPS* presented the first full set of economic forecasts incorporating the impacts of COVID-19. Economic uncertainty was pervasive at this time, with key assumptions about future

41 "Kotuku" is the Māori name for the White Heron, which is considered a rare and sacred bird in Aotearoa-New Zealand.
42 Powell (2020) and Tenreyro (2020).

mutations of the virus, on-again/off-again lockdowns, and the associated forecasts changing markedly between *MPSs* (Table 4).

In this environment, the Committee chose to consider a range of scenarios for the economic outlook, rather than treating any one scenario as central.[43] A similar approach had been used during the Christchurch earthquakes, another episode of heightened uncertainty.

Clearly stating that the Committee did not consider a central projection helped illustrate heightened uncertainty in the economic situation, while the 'least regrets' approach helped communicate the relevance of the different scenarios. Behind the scenes, forecasts were deemphasised in the Committee's discussion making and priority was given to understanding the available AMP tools and their implications.

The May 2020 *MPS* outlined three economic scenarios. In all scenarios, GDP was forecast to contract by at least 20% in the second quarter of 2020, followed by a moderate recovery thereafter (Figure 24). This sharp contraction in activity was expected to reduce inflation below target and employment below MSE for several years.

> 'The COVID-19 outbreak and the measures taken to contain it have significantly reduced economic activity in New Zealand. Households and businesses face lower incomes and considerable uncertainty about the future. We estimate the level of real GDP to be about 22 percent lower in the June quarter of 2020.' May 2020 *MPS*

In *MPSs* between May 2020 and February 2021, the Reserve Bank published an 'unconstrained OCR' projection to account for the introduction of AMP tools (Figure 25).[44] The unconstrained OCR differs from the actual OCR in that it attempted to show the broad level of monetary stimulus in place, or required in future, in OCR equivalent terms, taking into account the full range of monetary policy tools being used.

Table 4 - Evolution of key Reserve Bank assumptions and forecasts, 2020-2021

MPS	Key Assumptions	Key forecasts
May 2020	Alert Levels 3/4 for 8 weeks Alert Level 2 and border closure until March 2021 All restrictions removed in March 2021	GDP: declines by 23% in 2020Q2 Unemployment: peaks at 9% Inflation: below 1% until late 2022

43 The speed of the recovery and the duration of heavy restrictions were the core variations across the different economic scenarios considered by the Committee. An analysis by the Reserve Bank in the early stages of the pandemic estimated the economic impact of the various pandemic containment measures on the New Zealand economy. Estimates ranged from 4% lower output with minimal Level 1 restrictions to 37% lower output with severe Level 4 restrictions. The (effectively) closed border alone led to immediate reductions in tourism and international education, which combined accounted for approximately 4.5% of GDP (Stannard, Steven, & McDonald, 2020)

44 The methodology for estimating the unconstrained OCR is outlined in Section 3.1.

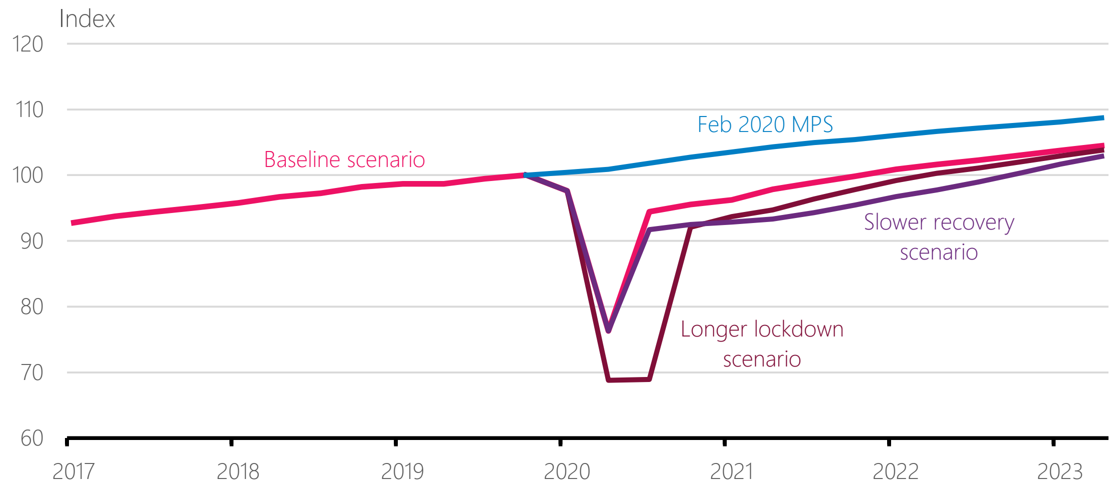
SENSITIVE

MPS	Key Assumptions	Key forecasts
Aug 2020	Avoid widespread outbreak of COVID-19 and at Alert Level 1 or lower from early June 2020 Border restrictions remain until end of 2021	GDP: annual GDP falls 5.8% in 2020 Unemployment: peaks at 8.1% Inflation: below 1% until late 2022
Nov 2020	At Alert Level 1 and border restrictions remain in place until the end of 2021	GDP: annual GDP falls 4.0% in 2020 Unemployment: peaks at 6.4% Inflation: below 1% until late 2022
Feb 2021	At Alert Level 1 or lower over the scenario period Border restrictions eased at beginning of 2022	GDP: remains around pre-COVID levels until late 2021 Unemployment: peaks at 5.2% Inflation: rise to 2.5% in mid-2021 before falling below 2% until late 2023
May 2021	At Alert Level 1 or lower over projection period Border restrictions (outside of travel bubble) eased at beginning of 2022. Majority of adults fully vaccinated by end of 2021	GDP: annual GDP growth accelerates to 3.9% by late 2022 Unemployment: peak at 5.2% Inflation: rises to 2.6% in mid-2021 before falling below 2% until mid-2023
Aug 2021	Predominantly be at Alert Level 1 or lower over projection period. Any COVID-19 outbreaks are assumed to be sporadic and quickly contained. Wider border restrictions to ease in 2022 Significant proportion of adults vaccinated by end 2021	GDP: annual growth rises to 4.0% in the December 2021 quarter Unemployment: peaks at 5.3% Inflation: rises to 4.1% in late-2021 before falling within 1-3% range by mid-2022
Nov 2021	Predominantly at Orange or Green Level restrictions over the projection, with restrictions becoming less stringent towards the latter half of the period Border restrictions are expected to begin to ease gradually in 2022	GDP: annual average GDP growth peaking at 4.7% in 2022 Unemployment: employment expected to be above, but to return towards, its maximum sustainable level over the projection horizon. Inflation: rises to 5.7% in late 2021 before falling within 1-3% range by early 2023

SENSITIVE

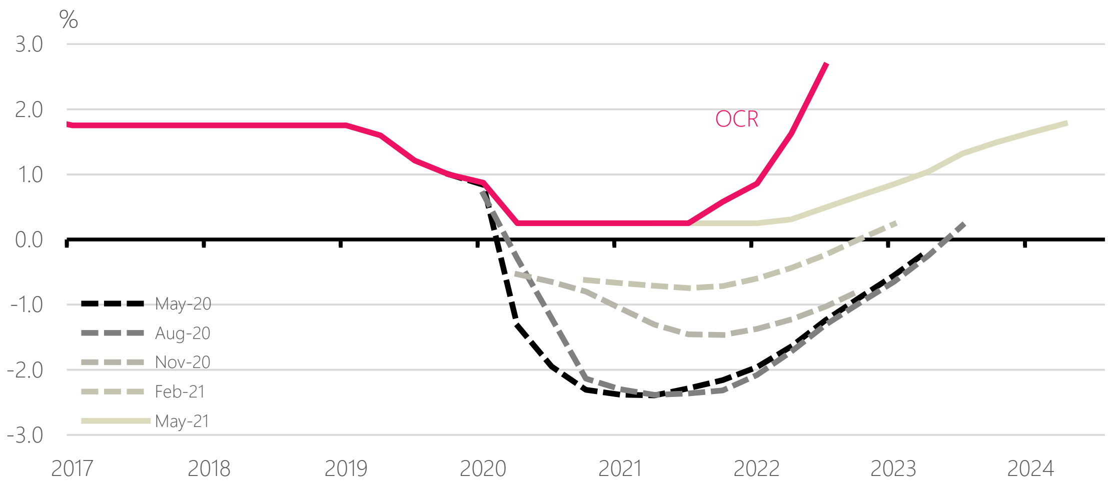
Reserve Bank estimates indicated that the unconstrained OCR needed to achieve the Committee's *Remit* was negative 1.3% in May 2020, falling to negative 2.4% by early 2021. These estimates indicated that significant additional stimulus, over and above the OCR (which was kept at 0.25%), was required. Indeed, AMP tools were required to provide at least 150 basis points of OCR equivalent monetary stimulus at the time.

Figure 24 - GDP forecast scenarios, May 2020 MPS (2019Q4 = 100)



Source: Stats NZ, RBNZ estimates.

Figure 25 - Reserve Bank (unconstrained) OCR projections, 2020



Source: RBNZ.

The Committee Expanded the Upper Limit of the LSAP Programme Further…

By late April 2020, the heaviest public health restrictions eased for the first time – around 5 weeks after being implemented – and most non-border restrictions were removed by June. As such, New Zealand went from having the heaviest restriction regime in the world to one of the lightest (Figure 18).[45] However, there remained a high degree of uncertainty over if and when restrictions would be re-imposed in response to future outbreaks of the virus. There was also no clear indication of when an effective vaccine might become widely available, or how the virus itself would evolve.

Although the economy was forecast to be less negatively impacted by COVID-19 than initially thought, and to improve relative to early 2020, the outlook remained highly uncertain. Unemployment was forecast to peak at high levels, and one- and two-year ahead inflation expectations reached record lows in June 2020, with inflation forecast to remain below-target until late 2022 (Figure 55).

With large downside risks to future employment and inflation, the Committee saw the need to provide further stimulus to ensure they achieved their *Remit* objectives. In April, the Committee increased the LSAP limit to $33 billion and broadened the programme to include purchases of Local Government Financial Authority (LGFA) debt. In May, the LSAP limit was increased to $60 billion, and the programme expanded to include New Zealand Government inflation-indexed bonds.

The inclusion of LGFA bonds and New Zealand Government inflation-indexed bonds was motivated by market functioning considerations, rather than to provide additional monetary stimulus. The market for nominal NZGBs had stabilised somewhat, but there were ongoing concerns about liquidity and market functioning in other segments of New Zealand's debt capital markets. In addition, purchasing New Zealand Government inflation-indexed bonds in similar proportions (relative to market size) to nominal bonds ensured there would be no unintended distortion of market implied inflation expectations as a result of the LSAP programme.

In August 2020, the Committee chose to increase the limit of the LSAP programme to $100 billion, which was broadly in line with market expectations at the time. While increasing the limit of the LSAP programme does not necessarily result in more bonds being purchased, it can generate an "announcement effect" and an "expected future liquidity effect" that influence expected future bond prices and yields. In any case, the combination of bond buying and programme limit increases over this time provided sufficient monetary stimulus such that financial conditions did not substantially tighten in the face of increased government borrowing.

The provision of liquidity in the markets for New Zealand government and LGFA bonds provided a bedrock of stability to allow corporate bond issuance to return to the market and thereby aid in the transmission of monetary policy through easing financial conditions to businesses. There was also a significant increase in equity capital raising in 2020 which would likely not have been possible in an environment where interest rates were not low and stable.

45 Following a mild outbreak, some moderate restrictions were imposed in Auckland during August, while mild restrictions were placed on the remainder of New Zealand. These restrictions were eased by late September/early October as the virus was eliminated again.

…and Introduced a Funding for Lending Programme

As the Committee continued to anticipate rising unemployment and below-target inflation, there was an ongoing need to provide further stimulus. At the time of the August *MPS*, the Committee agreed that "any future move to a lower or negative OCR, if complemented by a Funding for Lending (FLP) programme, could provide an effective way to deliver monetary stimulus in addition to the expanded LSAP if needed."

The FLP and a negative OCR were initially seen as a complementary 'package' of measures. This is because a negative OCR would generate negative interest income for banks on their large ESAS balances that existed as a result of the LSAP programme. Banks would also likely not have been able to pass on negative interest rates to their deposit customers. There is some evidence to suggest that this might have provided a counterproductive outcome to a negative OCR, whereby the negative impacts on bank profitably would impinge on capital generation and the ability to provide ongoing lending to the economy. Providing FLP funding at the level of the OCR can support bank lending by providing an offset to the negative interest income effect of a negative OCR.

Staff determined that the lead time for the financial system to become operationally ready for a negative OCR, in additional to the Committee's own forward guidance that the OCR would remain unchanged until March 2023, meant that such a package of tools could not be deployed in 2020. However, if deployed initially on a standalone basis, the FLP could still provide additional monetary stimulus by lowering bank funding costs, which would thereby be passed through to lower retail interest rates. Such schemes had already been deployed as part of the pandemic policy response in other jurisdictions such as the United Kingdom, the Eurozone and Australia.

At its September meeting, the Committee announced that staff had been instructed to prepare a Funding for Lending Programme (FLP) for deployment initially on a standalone basis before the end of the calendar year. In November 2020, the details of the FLP were announced. It would offer three-year funding to banks priced at the OCR in return for high quality collateral.[46] Pricing the FLP at the OCR limited the financial risk to the Reserve Bank's balance sheet as banks pay the same interest rate on FLP funding as they receive on their ESAS balances. A term of three years was chosen to ensure that the funding qualified as "core funding" for regulatory liquidity purposes and could essentially be used to replace some of the more expensive wholesale funding on commercial banks' balance sheets.

The programme started on 7 December 2020 and ran until 6 June 2022 for the initial allocations, and until 6 December 2022 for an additional allocation linked to growth in customer lending. When the FLP was introduced, unemployment was forecast to peak at 6.4% and inflation was expected to remain below 1% until late 2022. Inflation expectations up to five years ahead had dropped below 2%. On balance, there was a strong case for a more accommodative monetary policy stance to generate a faster return of inflation to the target midpoint (2%).

46 The programme started on 7 December 2020 and ran until 6 June 2022 for the initial allocations (18 months), and until 6 December 2022 for the additional allocations (an extra six months). The term for the lending is three years. The size of the programme was 4% of eligible participant's loans plus 2% for the additional allocation (Reserve Bank of New Zealand, 2020).

The FLP offered funding up to the equivalent of 4% of a participant bank's loans, plus 2% for the additional allocation. Because the FLP represents a relatively small share of the banks' total funding, the main way in which it transmits more accommodative financial conditions to the economy is by reducing, at the margin, competition for other sources of bank funding, such as retail deposits and wholesale funding. This gave banks confidence to reduce the interest rates facing households and businesses, thereby providing increased monetary stimulus.

Designing the FLP involved a trade-off between providing certainty to banks and flexibility to the Committee. To be effective, FLP funding needed to be of a similar duration to the wholesale funding on which banks usually rely for long-term funding. A total two year drawdown window was chosen to minimise the risk of a refinancing 'cliff' when FLP funding matures. Banks will need to refinance their FLP funding using other sources of funding and if many are attempting to do so in a short time horizon this can create pressure in funding markets. The maturity of the Reserve Bank of Australia's equivalent Term Funding Facility also needed to be considered as Australian and New Zealand banks both source funding from the same wholesale markets.

The duration and the size of the programme were designed in consultation with banks to ensure they could reduce interest rates with confidence that a stable funding source would be available. Some banks had expressed a preference for a longer funding duration, such as five years, or a longer drawdown window to further reduce the risk of a refinancing cliff. The parameters of the programme were chosen to balance these concerns with the need to ensure the programme did not run much longer than needed. Any loss of flexibility to the Committee from the length of the programme is partly offset by that the fact FLP is priced at the OCR, which changes in line with Committee decisions.

There were also trade-offs around the design of the FLP's additional allocation, which incentivised credit growth of eligible loans.[47] Placing restrictions on eligible loans – for example, to exclude mortgage lending given emerging signs of unsustainable house prices – would reduce the effectiveness of the programme and could be seen as 'channelling credit' to certain parts of the economy, which is not the goal of monetary policy. In addition, there is some evidence that attempting to target incentives to particular sectors is ineffective at influencing lending in those sectors, as ultimately money is fungible.[48]

In aggregate, banks used around two thirds of the available initial allocation and by late October 2022 had used less than half of the additional allocation. The reasons banks did not fully utilise the allocation include that some did not have sufficient eligible collateral to pledge in return for the funding, or that they preferred not to use the collateral for this purpose. Some banks may have chosen to continue to source funding from their traditional sources to ensure that these remained open to them on an ongoing basis, noting that FLP is only a temporary facility.

47 Eligible loans include gross resident loans and advances to households, non-financial businesses, and non-profit institutions serving households.
48 Havrylchyk (2016).

Some banks chose to draw a link between their FLP funding and specific types of lending. Lending to first home buyers, new home builds, and sustainability linked business lending were cited as examples of lending provided at lower rates as a result of FLP funding.

In early 2021, as a negative OCR became operationally feasible, an effective vaccine had been developed (though there remained uncertainty about when and to what extent it could be rolled out in New Zealand). This changed the global economic outlook as a pathway out of pandemic restrictions became visible. The arguments for additional monetary stimulus became more balanced and the Committee ultimately decided not to cut the OCR below 0.25%.

2.3. 2021 to October 2022: Above Target Inflation

The Economic Context

The Economic Outlook Improved Significantly Over 2021, Despite Delta

The domestic economic outlook improved significantly during the first half 2021, as the initial shock of the pandemic began to dissipate. Several factors supported the rebound, including reduced public health restrictions, significant ongoing monetary and fiscal policy support, and the vaccine rollout. Further, the demand for New Zealand exports was strong as trading-partner GDP growth recovered – averaging 4.3% during 2021 – due to robust responses from public health, fiscal and monetary authorities across the world.

The virus was effectively eliminated within New Zealand between May 2020 and August 2021, except for some small, localised outbreaks (primarily in Auckland). While the virus was not active in the community, the Government was able to relax economic and social restrictions, which lifted economic activity. Economic activity was robust in the first half of 2021, with quarterly output growth averaging nearly 2%. In the second quarter of 2021, annual CPI inflation breached the Committee's target-band – increasing to 3.3% – and unemployment fell back to its pre-pandemic rate of 4%.

The economic outlook continued to improve throughout late 2021, as the global vaccine roll-out gained momentum and economic indicators pointed to strong activity levels. A high vaccine uptake reduced the likelihood of future restrictions, which improved confidence.

However, the near-term outlook for global growth weakened in late 2021, due to the spread of the Delta variant of the COVID-19 virus, fuel shortages, and rising risks to the Chinese economy. When the Delta variant was detected in New Zealand in August 2021, the Government reintroduced stringent economic and social restrictions across the country. After two weeks, stringent restrictions were removed across much of the country, but remained in place in Auckland, Waikato and Northland until November/December, with an Auckland border in place until mid-December.

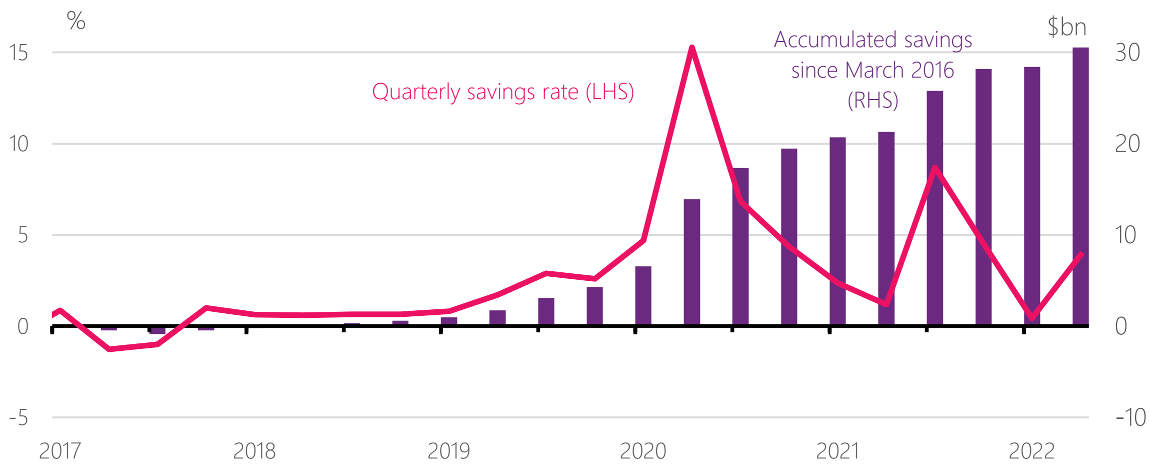
'...the near-term outlook for global growth has weakened somewhat due to the spread of the Delta variant, fuel shortages, and rising risks to the Chinese economy. Considerable uncertainty exists regarding the longer-run economic impacts of COVID-19. Global inflation has increased due to ongoing supply bottlenecks, resulting in higher costs. These supply disruptions and labour shortages are affecting productive capacity...' October 2021 *MPR*

The economy proved relatively resilient to the restrictions imposed in late 2021. During the third quarter of 2021, while restrictions were back in place, GDP declined by 3.6%. This decline was notably smaller than the GDP fall during the previous period of restrictions in early 2020 (negative 10% in 2020Q2), reflecting a shorter time in lockdown, increased adaptability of the economy, and a greater degree of flexibility in restrictions that were applied.

Ongoing fiscal support aided demand. The Government reintroduced the wage subsidy scheme when heavy restrictions were imposed in late 2021, providing significant support for business and household incomes while economic activity was low.

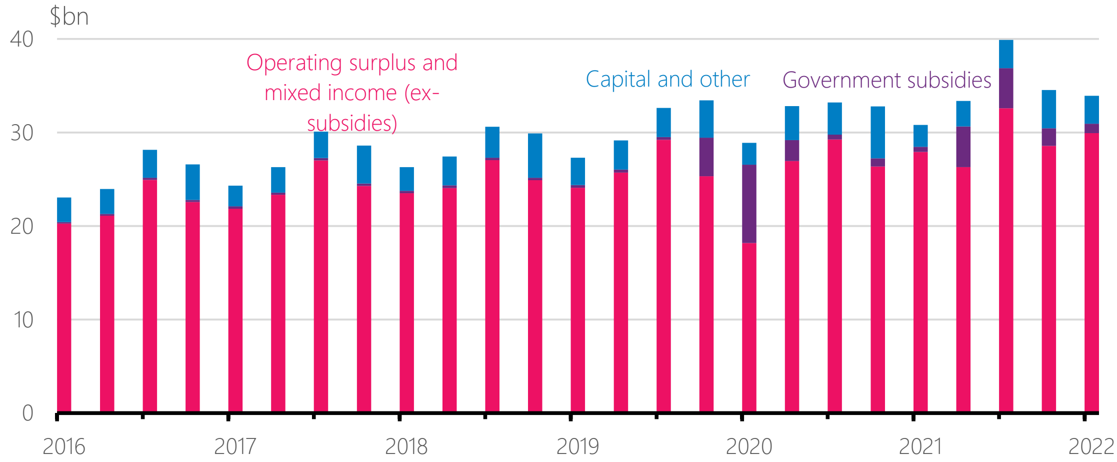
As Figure 26 shows, household savings increased significantly during the pandemic period, due to significant fiscal support and reduced discretionary spending while restrictions were in place. Business incomes dropped slightly during early 2020, although government support largely filled the temporary drop in operating income (Figure 27).

Figure 26 - Savings rate and accumulated household savings



Source: Stats NZ.

Figure 27 - Business income



Source: Stats NZ, RBNZ estimates.

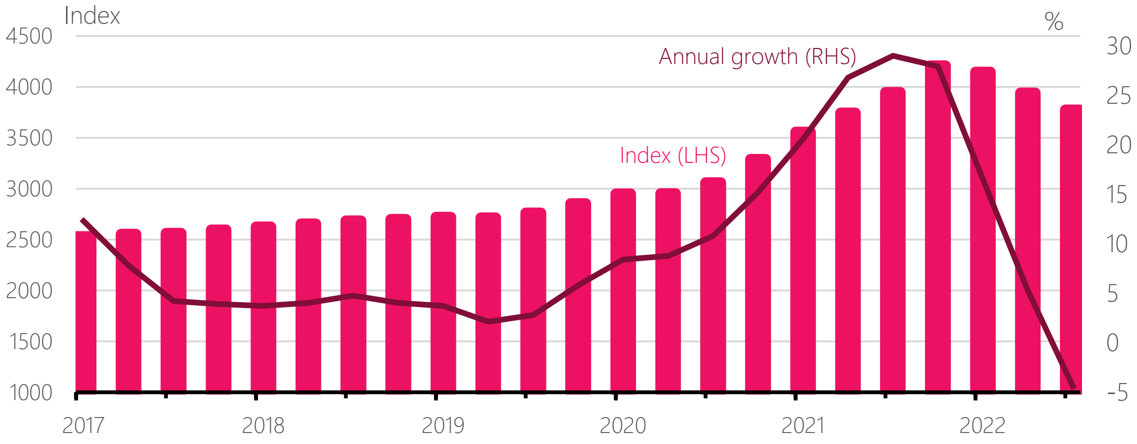
Despite these tailwinds to growth, inflation and employment, uncertainty over the economic outlook remained pervasive. During 2021, the global vaccine programme was still at a very early stage and there were concerns over the likelihood and impacts of new strains of the virus. It was also unclear how efficiently the economy could reallocate resources away from the most heavily affected sectors, particularly with the expiry of the wage subsidy and the continued absence of international tourists.

House Price Growth Peaked…

House prices grew rapidly throughout 2021, with annual house price inflation reaching 30% in mid-to-late 2021 (Figure 28). Reserve Bank analysis suggested that house prices were above their 'sustainable level' – that is, the level consistent with market fundamentals (Box B).[49] Household net wealth increased in line with rising house prices (Figure 13), supporting strong demand in the economy *via* a wealth effect. Lending growth accelerated sharply in 2021, following below average growth during 2020 (Figure 29). However, as mortgage rates increased, quarterly house price growth began to slow, before turning negative from November 2021.

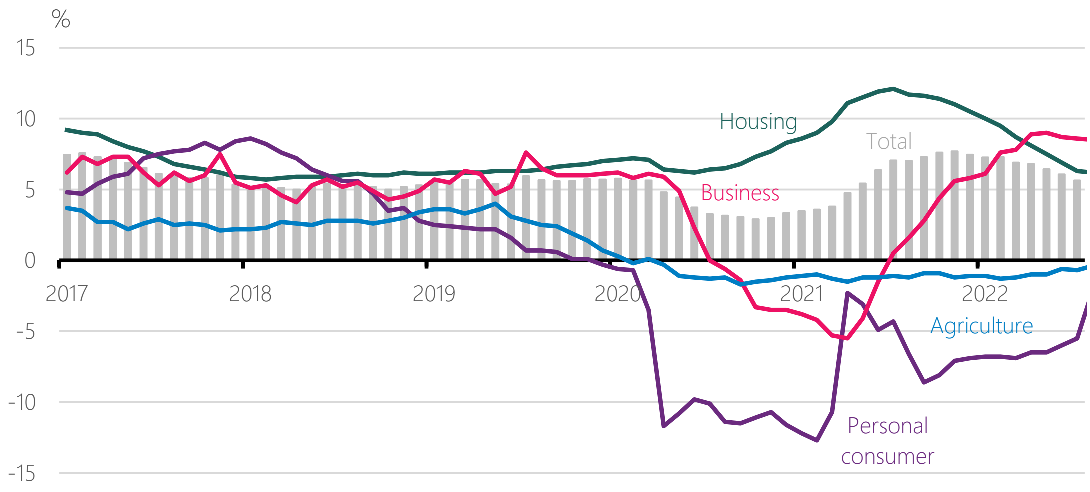
49 See Brunton (2021) and Orr (2021).

Figure 28 - House prices



Source: REINZ.

Figure 29 - Annual change in lending by sector



Source: RBNZ.

Box B – House prices in New Zealand: actual vs 'sustainable'

House prices in New Zealand experienced exceptional levels of growth over 2020 and 2021. This led to concerns of a build-up of risk in the housing market, and that house prices were deviating from market 'fundamentals'. As discussed above, a ministerial amendment to the *Remit* in 2021 required the Committee to assess the impact of monetary policy decisions on the Government's objective of supporting more sustainable house prices.

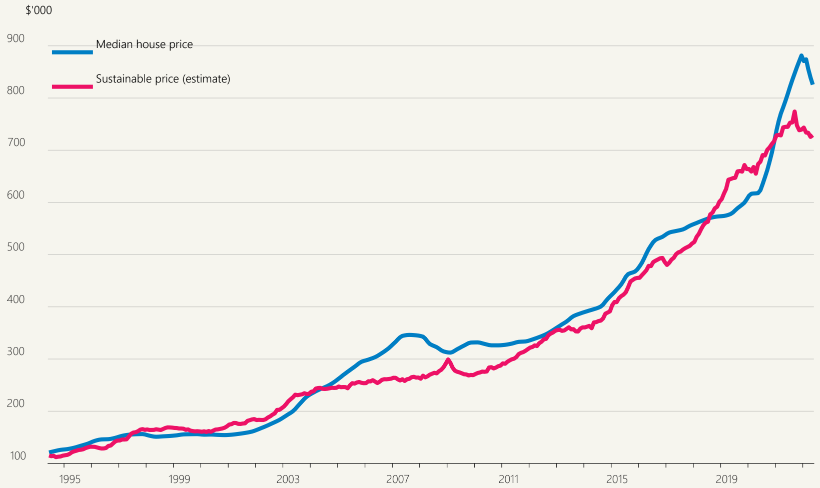
Housing costs are an important social issue for many New Zealanders. Monetary policy can affect cyclical aspects of the housing market. However, the structural drivers of the housing market that determine long-term trends are not materially influenced by monetary policy. A sustainable house price is one that aligns with the outlook of market conditions over the medium term. This is largely influenced by structural factors, although monetary policy can influence some of the medium-term conditions.

Importantly, 'sustainable' house prices are not the same as 'affordable' house prices. House prices can align with market fundamentals, but still create undesirable social outcomes. For example, restricted land supply can cause prolonged upward pressure on house prices as demand for housing increases. This can lead to high house prices that are 'sustainable' given land restrictions, while remaining unaffordable to many.

Actual house prices – which can be driven by other factors such as sentiment and housing market narratives – can deviate from this sustainable level. Such deviations cannot be sustained indefinitely, and over time prices realign with market fundamentals. However, when actual house prices are significantly above their 'sustainable' level, this realignment can be disorderly and pose risks to the financial system and broader economy.

In practice, identifying the sustainable level of house prices is difficult. There are a number of dimensions around the housing market to consider: renting versus buying, investing in property or an alternative asset, and the role of supply and demand for shelter. The Reserve Bank uses a suite of indicators based on different aspects of the housing market and uses this to make judgements around how sustainable the current level of house prices are.

Figure 30 - Median house prices and estimate of the sustainable house prices



Source: From Conway (2022). Based on REINZ and Brunton (2021).
Note: Data is until May 2022.

…While Inflationary Pressures Increased Over 2021 and into 2022

Inflationary pressures continued to strengthen. By the end of 2021, headline inflation was 5.9% – significantly above the Committee's target – and the unemployment rate had fallen to 3.2%. Short-run inflation expectations were elevated (above 3%), although medium- to long-run inflation expectations remained relatively anchored to the target midpoint (Figure 55). All of the Reserve Bank's measures of core inflation were above the target range by the end of 2021 (Figure 8).

All inflation measures increased further through 2022, with annual headline inflation hitting 7.3% in June 2022 before declining slightly to 7.2% in September 2022.

In part, inflation has been driven by unanticipated global supply shocks beyond the control of the Reserve Bank. Russia's invasion of Ukraine put strong upward pressure on key food and energy prices through its direct impact on production and the imposition of associated economic sanctions. In addition, ongoing COVID-19 lockdowns in China created bottlenecks in some supply chains, increasing shipping delays and elevating freight costs.

Through the first half of 2022, the NZD exchange rate *vis-à-vis* the USD depreciated significantly as a result of interest rate increases by other central banks, and a deterioration in the global economic outlook. A lower New Zealand dollar is expected to further increase inflationary pressures by increasing the cost of imported goods.

Price increases have been widespread and persistent and cannot be explained by temporary or international factors alone. By mid-2022, both tradables and non-tradables inflation were above 6%, reflecting a combination of global and domestic drivers (Figure 5).

Both global and domestic restrictions created short-term economic disruptions that caused cost pressures and supply-side production constraints. At the same time, aggregate demand remained strong, buoyed by fiscal support, low interest rates, strong construction activity, and high demand for New Zealand's exports. These factors boosted demand for New Zealand goods and services at a time of disrupted and limited supply. This combination of circumstances accentuated inflationary pressures.

The Monetary Policy Response

The Committee Recognised the risk of Persistent Inflation in Early 2021….

In early 2021, it was unclear whether emerging inflationary pressures would prove to be persistent or transitory. However, until mid-2021, measures of core inflation and inflation expectations suggested that emerging inflationary pressures were not widespread.

The extent to which inflation would linger was a key judgement in monetary policy formation – as outlined in Section 2 above, the *Remit* directs the Committee to "discount events that have only transitory effects on inflation". In February and May 2021, the Reserve Bank forecasted that inflation would increase to around 2.5% in mid-2021, before falling back below 2% in 2023. However, in

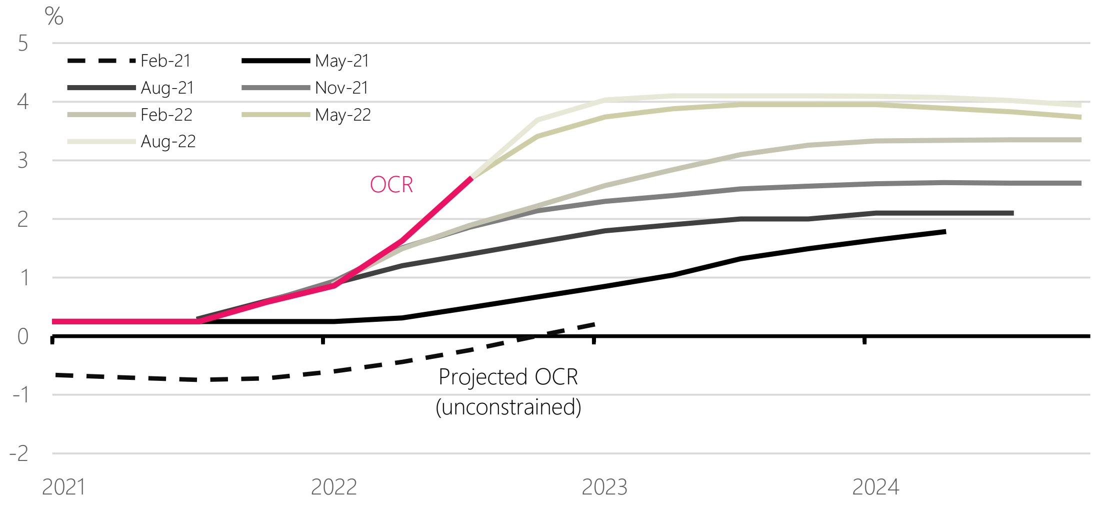
May 2021, the Committee began reporting of the risk of price changes leading to persistent inflation. This was earlier than, or in line with, most external assessments.[50]

> **'The current pressure on supply chains is assumed to result in a temporary change in prices that at least partially reverses as conditions normalise. However, there is some risk that the change in prices is more persistent and leads to ongoing inflationary pressure.'** May 2021 *MPS*

An OCR projection was reintroduced in the May 2021 *MPS*, replacing the combination of the unconstrained OCR and forward guidance that had been in place between May 2020 and February 2021. The timing naturally fell at the end of the Committee's 12-month period of having the OCR on hold at 0.25%. A negative OCR also became operationally possible at this time.

In the restored outlook, the Committee projected the OCR would remain at 0.25% until mid-2022, before slowly increasing and returning closer to the neutral OCR estimated at the time at around 2% by 2024 (Figure 31). This was the first indication from the Committee since the beginning of the pandemic of a monetary policy tightening in response to emerging inflationary pressures. However, consistent with the 'least regrets' framework, the OCR was kept on hold at this time to avoid the risks of tightening too soon.

Figure 31 - Reserve Bank OCR projection, 2021-August 2022



Source: RBNZ estimates.

50 The Treasury published a report in May 2021 cautioning that global inflation may be more persistent than central banks expected. In June 2021, ANZ signalled that inflation pressures had shifted beyond traditional definitions of 'transitory' and appeared to be more persistent. Similar assessments were made by ASB and Westpac in August 2021 that inflation was likely to be more persistent. In April 2022, following a further spate of lockdowns in China and Russia's invasion of Ukraine, the IMF reassessed the global economic prospects, after which it revised headline inflation higher and forecasted inflation to persist at elevated levels for longer.

...and Slowed Weekly LSAP Purchases to a Stop in July 2021

The weekly LSAP purchase rate was gradually reduced from $1.35 billion (August 2020) to $200 million (July 2021), partly in response to changing market conditions (Figure 32). Market feedback and internal monitoring suggested LSAP purchases were creating a scarcity in certain securities. This was reflected in increased usage of the Reserve Bank's Bond Lending Facility through which market participants could borrow particular bonds that they were unable to source in the market.

During this period, the Committee kept the maximum size limit of the LSAP programme at $100 billion. The Committee emphasised that weekly changes in LSAP purchases did not represent a change in the stance of monetary policy. This process of gradual weekly purchase reductions without an explicit change to the overall size limit of the LSAP programme allowed the purchase rate to be reduced without an adverse market reaction; there was no 'Taper Tantrum,' as previously experienced in the United States, following an earlier withdrawal of the Federal Reserve from an asset purchase programme in 2013.

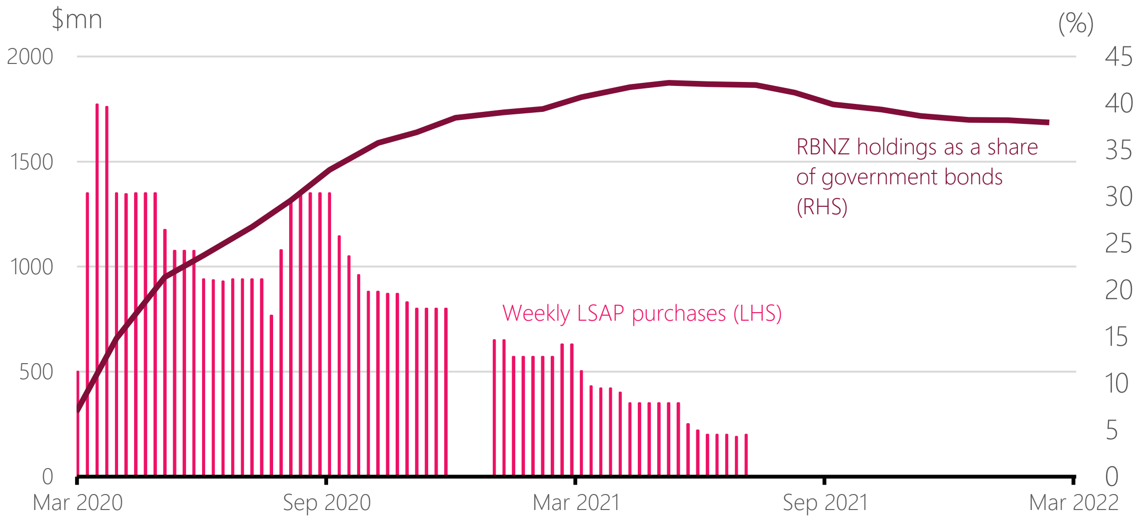
With slowing weekly bond purchases and reductions in the Government's borrowing programme in 2021, it became evident that the Reserve Bank would not need to purchase bonds up to the $100 billion limit on the LSAP portfolio. As the upper limit of purchases indemnified by the Crown was 60% of bonds on issue, the upper limit on the LSAP portfolio's size was effectively determined by the size of the Government's borrowing programme. The Committee emphasised that $100 billion was a limit, not a target, for the LSAP programme, and did not provide guidance on the expected final size of the LSAP programme.

By mid-2021, uncertainty remained around whether and how observed inflationary pressures would play out over the medium term, given offsetting factors like modest wage growth and well-anchored inflation expectations. However, with increasing domestic capacity pressures and growing labour shortages, the Committee agreed that the level of monetary stimulus should be reduced to minimise the risk of failing to meet their objectives.

By this time, it was becoming less clear that the ongoing use of AMP tools was appropriate and necessary, particularly for LSAPs that posed financial risk to the Crown. In July 2021, the Committee halted additional bond purchases under the LSAP programme, with peak-level bond holdings at just under $55 billion in April 2021 (Table 5). At this stage, markets began pricing in higher interest rates, as the end of LSAP purchases was seen as a precursor to increasing the OCR (Figure 22).[51]

51 In July 2021, market pricing for the one-year ahead OCR was 0.3%. By December 2021, this had increased to 1.55 percent. By June 2022, market pricing for the one-year ahead OCR had increased to nearly 4%.

Figure 32 - Weekly LSAP purchases



Source: RBNZ.
Note: RBNZ holding of government debt also includes bonds held for activities other than the LSAP programme, although LSAP purchases are the main contributor to this. The RBNZ holding of government debt share is calculated using *Statistical table D30* and includes nominal bonds and inflation-indexed bonds.

Table 5 - Total bond purchases under LSAP

	Purchases to March 2020	Purchases to April 2020	Purchases to June 2020	Purchases to December 2020	Purchases to June 2021
NZ Govt. Nominal Bonds	$1bn	$7.6bn	$17.3bn	$40.4bn	$50.7bn
NZ Govt. Inflation-Linked Bonds	$-	$-	$0.5bn	$2bn	$2.2bn
LGFA Bonds	$-	$0.4bn	$0.9bn	$1.7bn	$1.8bn
Total	**$1bn**	**$8bn**	**$18.6bn**	**$44bn**	**$54.6bn**

The Committee Began Increasing the OCR from Late 2021…

From July 2021, the OCR became the primary tool for calibrating the desired level of monetary policy stimulus in the economy. The Committee considered increasing the OCR in August 2021 in light of above-target inflation (at 3.3% in the June 2021 quarter) and employment at or above its maximum sustainable level. However, the night before the release of the August *MPS*, New Zealand moved into Level 4 lockdown restrictions, which was the most stringent setting in the COVID-19 Alert System.

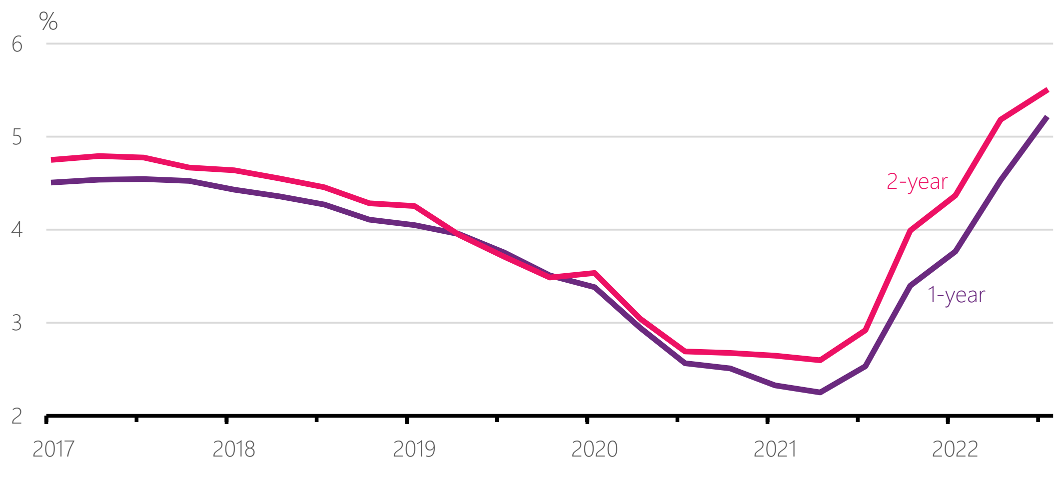
With the increase in Alert Level, and the associated uncertainty about the duration and economic impact of the restrictions, the Committee decided to hold the OCR at 0.25%. However, there was a strong signal in the tone and messaging of the August *MPS* that an increase in the OCR was forthcoming, and would have occurred had the country not been placed into Level 4. This led to increases in wholesale interest rates and a tightening in financial conditions, similar to what would have likely occurred had the OCR been increased at the August meeting.

In October 2021, the Committee lifted the OCR for the first time since the pandemic began – increasing it from 0.25% to 0.50%. In November, the Committee increased the OCR by another 0.25% to 0.75% and signalled a significantly tighter outlook for monetary policy. For the first time since the pandemic, the projected peak of the OCR increased above the estimated neutral level of interest rates.

> **'...the Committee assessed risks to their price stability and maximum sustainable employment objectives as being broadly balanced over the medium term. The Committee judged that considered steps in the OCR were the most appropriate way to continue reducing monetary stimulus for now.'** November 2021 *MPS*

The Committee increased the OCR and further lifted its forward track over the course of 2022. At the time of writing (October 2022), the OCR is at 3.5%, following five consecutive 50 basis point increases. As a result, retail interest rates across the economy have tightened considerably. At present, mortgage rates are significantly above pre-pandemic levels and around double their pandemic lows (Figure 33). While time will tell how these actions to tighten monetary policy will impact employment and inflation, the Committee remains resolute in achieving its *Remit*.

Figure 33 - Mortgage rates, 2017-2022



Source: RBNZ Income Statement survey, interest.co.nz.

...and Began to Sell Back Bonds Purchased Under the LSAP Programme in 2022

The LSAP programme remained on hold throughout the remainder of 2021, while the Committee sought staff advice on how to unwind the portfolio. At a high level, two options were considered:

- A passive unwind, which would involve allowing bonds to mature without re-investing the proceeds. To date, this has been the method of unwinding an asset purchase portfolio preferred by other central banks.
- An accelerated unwind, which, in addition to not re-investing maturities, would involve selling bonds back to New Zealand Debt Management (NZDM) or the secondary market before maturity.

In February 2022, the Committee decided to pursue an accelerated unwind of the LSAP portfolio by selling New Zealand government bonds (NZGBs) to NZDM at a rate of $5 billion per fiscal year, in addition to maturities, in order of the longest maturity bonds first. This option best satisfied the Committee's principles for monetary policy.

Selling NZGBs back to NZDM, rather than in the secondary market, reduced the chance of the Reserve Bank unintentionally impairing market functioning, and ensured that there was only one Crown entity (the NZDM) providing a supply of NZGBs to the market.

NZDM were consulted on the sales approach and any impact on net bond supply was incorporated into their issuance guidance. The Reserve Bank and NZDM continue to collaborate closely to ensure the efficient functioning of the New Zealand government bond market.

The annual sales volume of $5 billion was set to have minimal impact on monetary stimulus and to avoid market disruption. Selling down the longer-duration bonds first while letting the shorter-duration bonds mature was the fastest way to reduce Crown interest rate risk and restore the Reserve Bank's balance sheet to create future capacity to employ an LSAP or similar tools in the future, if required.

To date, the exit from LSAP purchases and the subsequent announcement of the plan to wind down the portfolio has been orderly.

The FLP Remains in Place

Although the improved economic outlook and inflationary pressures of early 2021 saw the LSAP programme begin to unwind, the Committee committed to retaining the FLP as a source of funding for banks. The initial allocations for the FLP were available to be drawn down by banks until June 2022, and the additional allocations will remain available until December 2022. The Committee has considered the FLP a commitment between the Reserve Bank and eligible participants, so it has not been possible to end the scheme early without damaging the credibility and effectiveness of the scheme, or any similar tools, in the future.

As the Committee considers the total amount of monetary policy stimulus in its decisions, the ongoing use of the FLP has not resulted in a materially lower level of total monetary policy stimulus than required. This is because when conventional monetary policy is no longer restricted by the ELB, the additional stimulus provided by the FLP will generally be offset by a higher OCR track.[52]

52 Reserve Bank forecasts also internalise the effect of the FLP on the economy when projecting the OCR track.

2.4. Lessons learned

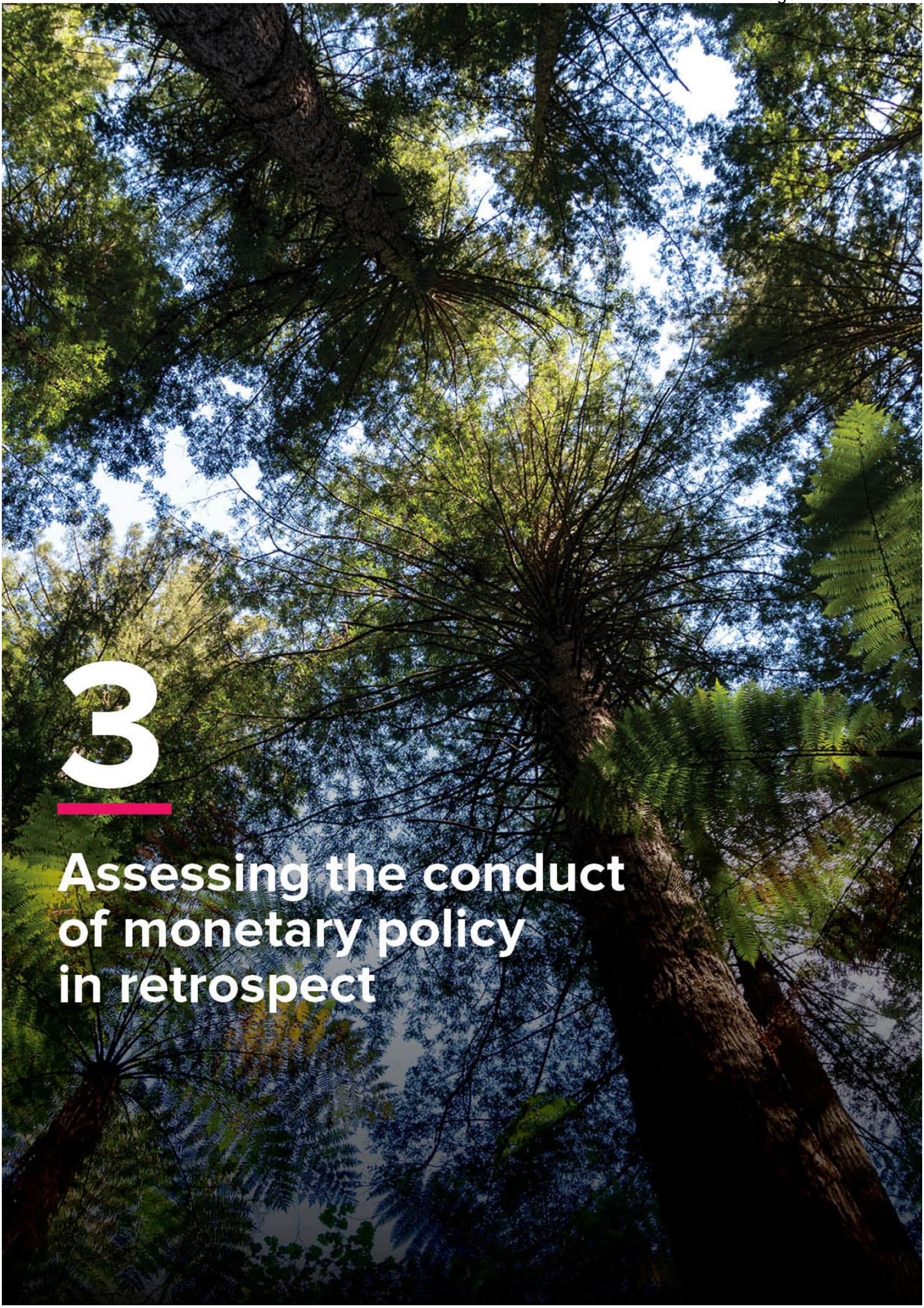
- **Agile Committee decision-making:** The Committee's decision-making processes were nimble and responsive during the initial response to the pandemic. Over the space of four weeks in early 2020, three monetary policy decisions were made in response to the evolving situation. Likewise, Reserve Bank staff worked through operational matters in a systematic and considered way, leading to a well-controlled operational risk environment and well-implemented monetary-policy decisions.

- **AMP tools were effective at restoring functionality to the financial system:** The response of the Committee and the Reserve Bank to the liquidity crisis that emerged in financial markets in early 2020 was highly effective, particularly given the environment of heightened uncertainty. The LSAP programme successfully restored functionality to financial markets, and the FLP provided additional stimulus and supported confidence in the banking system.

- **Worst-case scenarios were avoided**: In the early days of the pandemic, the Committee eased monetary policy in the knowledge that there could be some 'policy regret' in the future, depending on how the economy evolved. The downside risks to the economy were judged to outweigh the upside risks. This approach was in line with many peer central banks. In hindsight, towards the end of 2020, this approach appeared to be warranted, as worst-case scenarios were avoided.

- **A clear understanding of fiscal policy is critical:** The Reserve Bank's forecasts and decisions are conditional on government actions. In 2020, new fiscal policy tools were designed and rolled out at pace. Understanding the economic effects of these tools is key for monetary policy.

- **Monetary policy could have been tightened earlier in 2021:** Monetary policy decisions were consistent with the economic data available at the time. However, in hindsight, monetary policy could have been tightened earlier in 2021. The Committee could have supported an earlier tightening of financial conditions through explicitly endorsing a lower volume of weekly asset purchases, or reducing the overall size of the LSAP programme, or halting LSAP earlier. Likewise, in hindsight, the Committee could have raised the OCR earlier. The Committee was relatively cautious in tightening policy given significant uncertainty around the outlook for inflation, employment and growth. This cautious approach was in line with many other central banks over this period. Importantly, however, beginning the monetary policy tightening earlier in 2021 would not have fully offset the strong inflationary impulse stemming from Russia's invasion of Ukraine or the various climate-related supply shocks.



3

Assessing the conduct of monetary policy in retrospect

Section 3: Assessing the Conduct of Monetary Policy in Retrospect

The previous section gave a running commentary of monetary policy decisions made in the context of data available to decision-makers at the time. This section assesses the conduct of monetary policy over the five-year review period as a whole. It begins with an assessment of the use of additional monetary policy (AMP) tools throughout the COVID-19 pandemic and then assesses the conduct of monetary policy more broadly over the review period.

3.1. Assessing the Effects of Additional Monetary Policy (AMP)

The *goal* of monetary policy did not change over the COVID-19 pandemic: to maintain low and stable inflation and support maximum sustainable employment. In broad terms, the *transmission mechanism* of monetary policy – the way in which interest rate changes affect spending and investment decisions, and eventually inflation and employment – also remained the same over the review period.

What did change was the set of tools used by the Committee to influence interest rates. With the OCR at its 'effective lower bound' of 0.25%, the Committee was able to further influence interest rates through the purchase of Government bonds from the private sector under large scale asset purchases (LSAP). Also, to provide additional monetary policy stimulus and ensure commercial bank funding remained available so banks could confidently continue to provide credit to their customers, the Funding for Lending Programme (FLP) was deployed in late-2020.

In addition to providing monetary policy stimulus, the use of LSAPs had additional benefits during a time of economic and financial stress. Having the Reserve Bank as a known buyer of government debt from the secondary market improved liquidity and stabilised prices. This significantly reduced the Government's funding risk, and reduced the liquidity and operational risk in the government debt market.

A comprehensive review of monetary policy needs to consider the appropriate setting of monetary conditions (i.e., the level of interest rates); the appropriate choice of instruments used to influence monetary conditions, the additional net benefits of these actions on debt market functioning, and changes in Crown balance sheet duration, liquidity, and operational risk management.

The Financial Market Effects of AMP Tools

The LSAP programme had two general purposes: to provide additional monetary policy stimulus (given the OCR was constrained by the ELB) and to improve financial market functioning during a time of extreme stress. These two purposes complemented one another: well-functioning financial markets help ensure that monetary policy stimulus is transmitted effectively, while additional stimulus supports the economy and reduces financial market stress. The FLP also aimed to provide additional monetary stimulus by providing a low-cost funding source that directly and indirectly reduced banks' funding costs.

AMP Tools Alleviated Market Dysfunction…

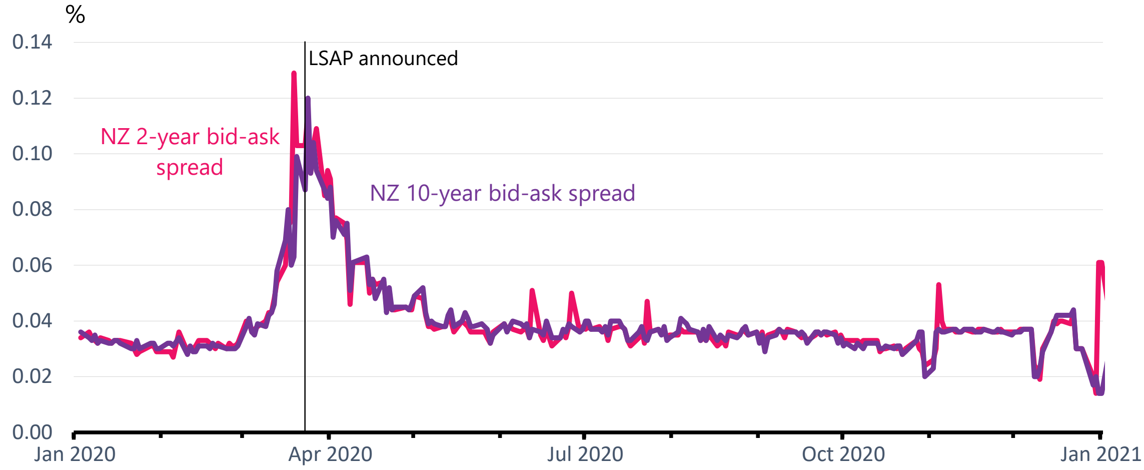
In times of extreme economic stress and uncertainty, financial markets can experience liquidity problems as willing buyers of assets become scarce. By acting as a buyer of government bonds, a central bank can provide market liquidity and alleviate market dysfunction.

In New Zealand, 'bid-ask' spreads – the difference between buy and sell prices – on government bonds increased markedly in March 2020, indicating increased financial market illiquidity and dysfunction (Figure 34). Following the LSAP programme announcement in late-March, these spreads normalised, indicating that LSAP was effective in alleviating dysfunction in the New Zealand government bond market. The restoration of market functioning at this time may have also been supported by similar bond buying programmes internationally.

Liquidity and confidence were also rapidly restored to New Zealand's broader debt market. For example, investment grade corporate bond yields spiked in March 2020 before declining after the initial LSAP announcement (Figure 35). Corporate bond yields declined further when the LSAP programme was expanded to include Local Government Funding Authority (LGFA) bonds on 7 April.

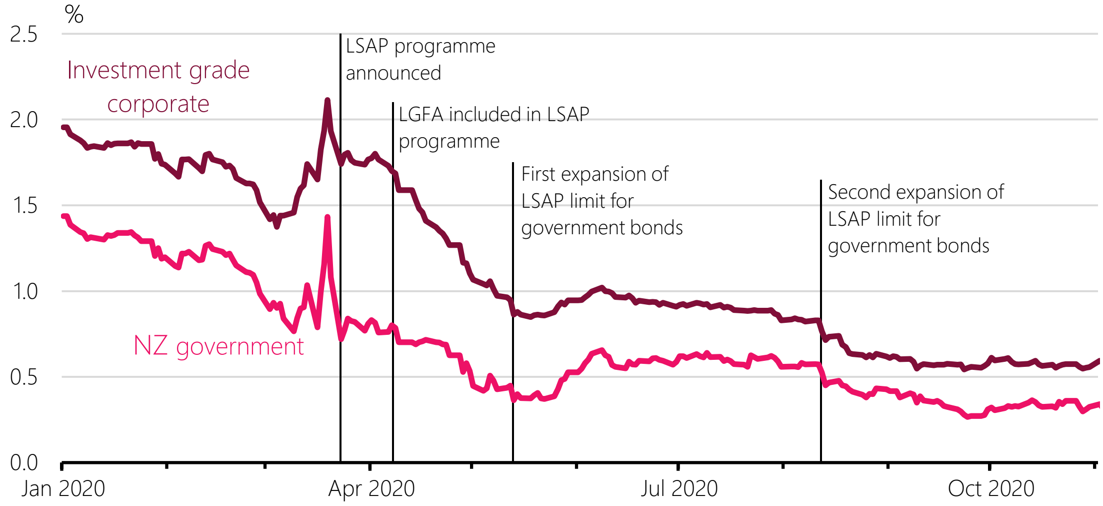
Corporate debt and equity issuance also recovered quickly, as businesses were able and willing to acquire market financing as normality returned to pricing. The restoration of financial market functioning was critical to the ability of the New Zealand economy to weather the initial period of the COVID-19 pandemic.

Figure 34 - Bid-ask spreads in 2020



Source: Bloomberg, Reserve Bank estimates.

Figure 35 - Bond yields



Source: S&P/NZX bond indices, Bloomberg.

... and Delivered Additional Monetary Stimulus

LSAPs

Following decades of use across many countries, the OCR is a well-understood instrument of monetary policy. In contrast, the use of LSAPs to influence interest rates is a relatively new development internationally, and was new to New Zealand over the COVID-19 pandemic. This entailed new measurement and operational challenges for the Reserve Bank to assess the scale of LSAP purchases necessary to achieve the appropriate level of monetary stimulus, and to communicate the intentions of the Committee.

The commencement of the LSAP programme led to lower-than-otherwise interest rates, as desired by the Committee. Having the Reserve Bank actively purchase government debt in the market increased the price of these debt instruments and, so lowered their yield. This transmitted through financial markets as the yield on government bonds is the base (near risk-free) benchmark for retail interest rate pricing.

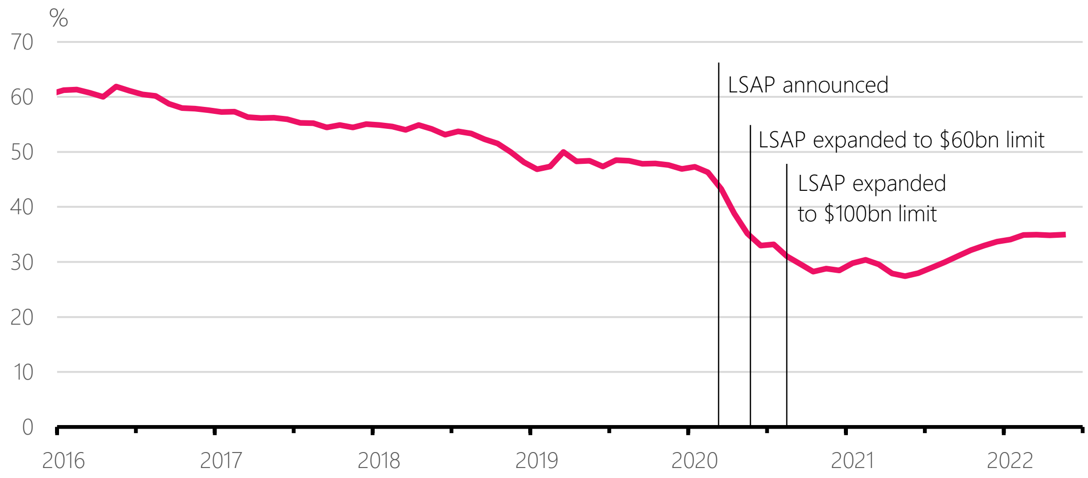
'Announcement-day effects' give an indication of the impact of the LSAP programme on monetary conditions. On the day the LSAP programme was announced, 10-year government bond yields fell 52 basis points (Table 6). The subsequent extensions to the programme saw a further 15 basis points decline, for a total effect of 67 basis points. This result is broadly consistent with the international experience (Box C).

Table 6 - Summary of LSAP announcement day changes in 10-Year Government Bond Yields and NZD TWI

Date	Announcement	Change in 10-year Government yields by end of day	Change in NZD TWI by end of day
23 March	$30bn	- 52 basis points	- 0.6%
13 May	$33bn to $60bn	- 11 basis points	- 1.3%
12 August	$60bn to $100bn	- 4 basis points	- 0.6%
Cumulative		**-67 basis points**	**- 2.5%**

Announcement-day effects are only a partial measure of the total impact of the LSAP programme on government bond yields. First, market expectations of future bond purchases under LSAP mean that government bond yields were lower than otherwise, in anticipation of future purchases. Second, the LSAP programme influenced monetary conditions via the level of the New Zealand dollar exchange rate. At the beginning of the LSAP programme in early 2020, the New Zealand debt market experienced a sharp reduction in non-resident holdings of government bonds (Figure 36). As non-residents sold out of bonds and converted their NZD holdings into foreign currency, the exchange rate depreciated. In fact, the NZD TWI fell by a cumulative 2.5% on LSAP announcement days (Table 6).[53]

Figure 36 - Share of total government bonds held by non-residents



Source: RBNZ.

53 See Bernhard & Leong (2022). The authors use three approaches to estimating the impact of AMP tools. The first approach extracts unobserved factors from asset price changes in narrow windows around the Reserve Bank's monetary policy announcements using two factors. The second approach is an extension of the first and adds a third factor to derive the change generated by the policy announcement. The third approach identifies monetary policy shocks by comparing event and non-event days with a cross-sectional approach, to exploit the typical `sensitivity' of each part of the yield curve to monetary policy shocks.

The Funding for Lending Programme (FLP)

In late 2020, the FLP was initiated to provide monetary stimulus by directly reducing the risks and associated costs of funding for commercial banks.

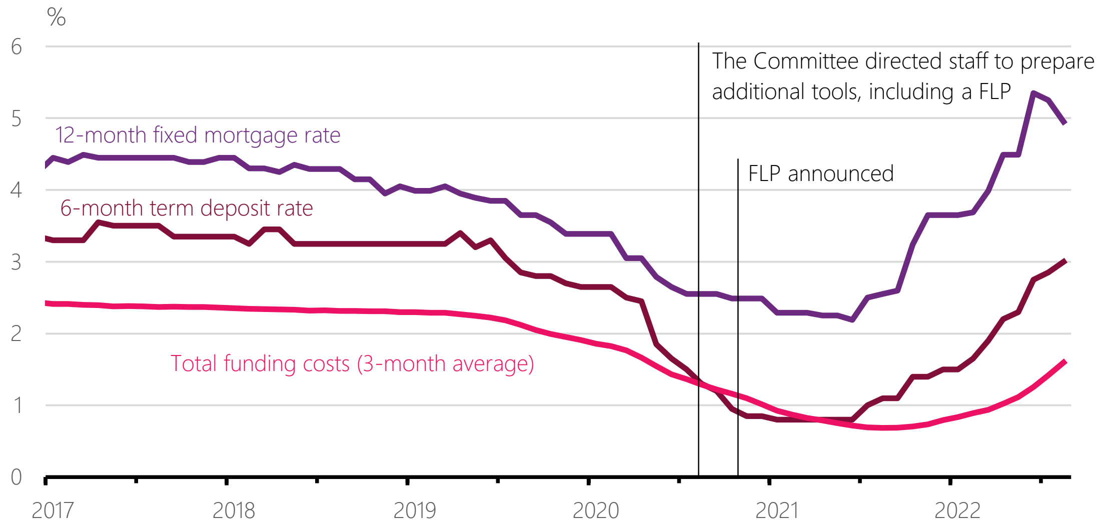
As outlined above, the FLP makes up only a small proportion of total commercial bank funding. However, as a stable source of funding priced at the OCR, the FLP acted to reduce market interest rates on other sources of bank funding, such as term deposits and bonds (Figure 37). Mortgage interest rates also declined, as lower funding costs were passed onto borrowers.

Mortgage interest rates declined following the FLP announcement, despite an increase in the cost of other bank funding channels (Figure 38). Between late 2020 and early 2021, the spread between mortgage rates and swap rates fell by around 50 basis points for the one-year and two-year terms. Subsequently, net interest margins on bank lending have remained around their historical level, consistent with ongoing pass-through of lower funding costs to lenders due to the FLP.[54]

More formal empirical work estimates that the FLP caused six-month term-deposit rates to decline by 15 basis points and mortgage rates to fall by a similar amount – appropriately adding to monetary policy stimulus.[55]

The FLP was also important for its effect on confidence. While conditions in global funding markets had improved significantly by late 2020, there was still enormous uncertainty associated with the pandemic, which meant wholesale funding markets remained fragile. Providing banks with a low-cost and virtually guaranteed (subject to collateral requirements) form of funding meant they could continue to lend and otherwise support customers throughout this highly uncertain time.

Figure 37 - Interest rates and the cost of funds

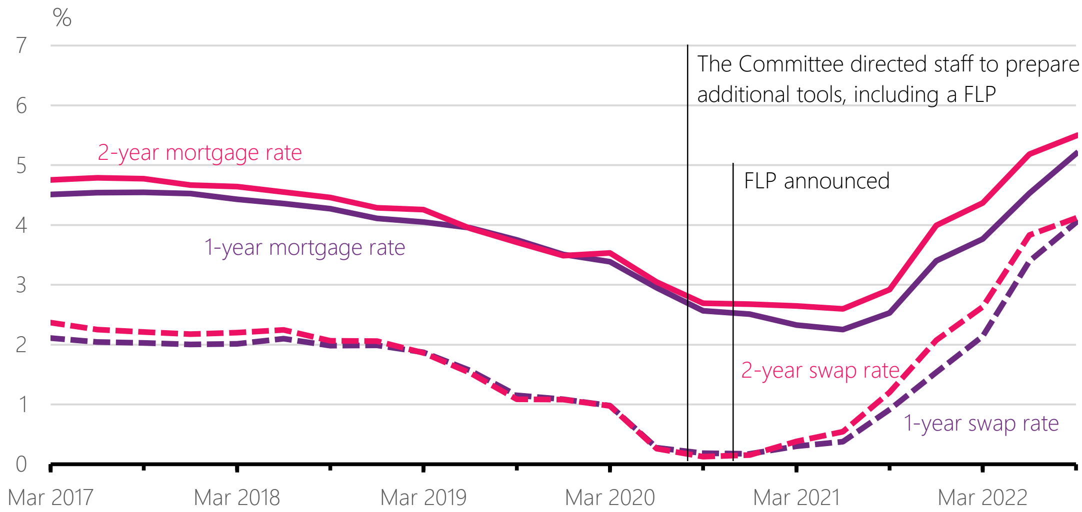


Source: RBNZ, interest.co.nz.

54 See Table 3.1 of the May 2022 *Financial Stability Report.*
55 See Nolan and Tong (2022).

SENSITIVE

Figure 38 - Mortgage and swap rates



Source: RBNZ, interest.co.nz, RBNZ estimates.

The OCR-Equivalent Impact of AMP Tools

Using multiple tools – the OCR and AMP tools – to implement monetary policy creates a challenge in communicating the overall stance of monetary policy. This challenge was recognised by many central banks globally during the recession following the Global Financial Crisis more than a decade earlier.

One method of combining the various monetary policy tools together into an 'OCR-equivalent' indicator of monetary stance is to calculate an 'unconstrained OCR'. The unconstrained OCR is an estimate of the level at which the OCR would need to be set to deliver the equivalent stimulus of *all* monetary policy tools combined. The Reserve Bank uses a suite of indicator models to inform their view of the unconstrained OCR. [56] Estimates from these models suggest that AMP tools added significant additional monetary stimulus, as intended by the Committee (Figure 39).[57]

The Reserve Bank's preferred measure of the unconstrained OCR is constructed by producing OCR-equivalent estimates of the expected impacts of unconventional monetary policy tools and subtracting these from the actual level of the OCR. The resulting estimates are broadly consistent with the (preferred) mortgage rate indicator (Figure 39). According to this approximation, at their peak influence, the OCR-equivalent stimulus stemming from the use of AMP tools was around 90 basis points (Figure 40).

56 Shadow short rate – a type of these models – have been used in a number of academic studies and, in some form, by other central banks around the world. There are different approaches for estimating shadow short rates (or unconstrained policy rates). These include shadow rates estimated from term structure modelling approaches (see Krippner (2013) and Wu & Xia (2016)) to purely statistical approaches (see Choi & Doh (2016) and Lombardi & Zhu (2018)).

57 The shadow short rates (SSR1 and SSR2) are OCRs that are consistent with long-term interest rates, given historical relationships. Similarly, the mortgage rate regression shows the OCR that would typically be consistent with prevailing mortgage rates, given the historical relationship. The principal component measure takes the average of 3-year, 4-year, 5-year mortgage rates and the 5-year and 10-year government bond yields, and project the hypothetical OCR that would typically be consistent with this average based on historical relationships.

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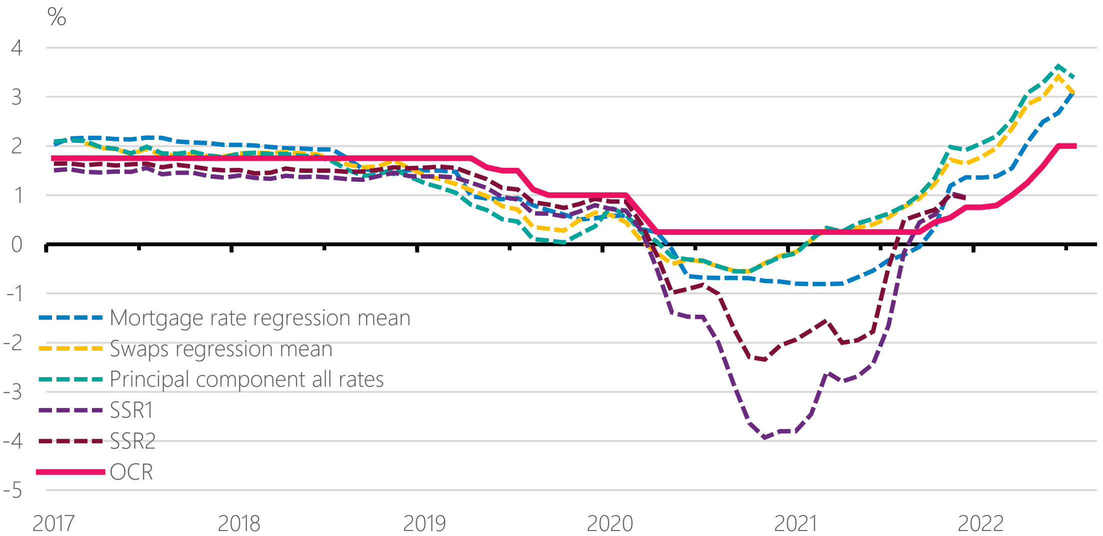
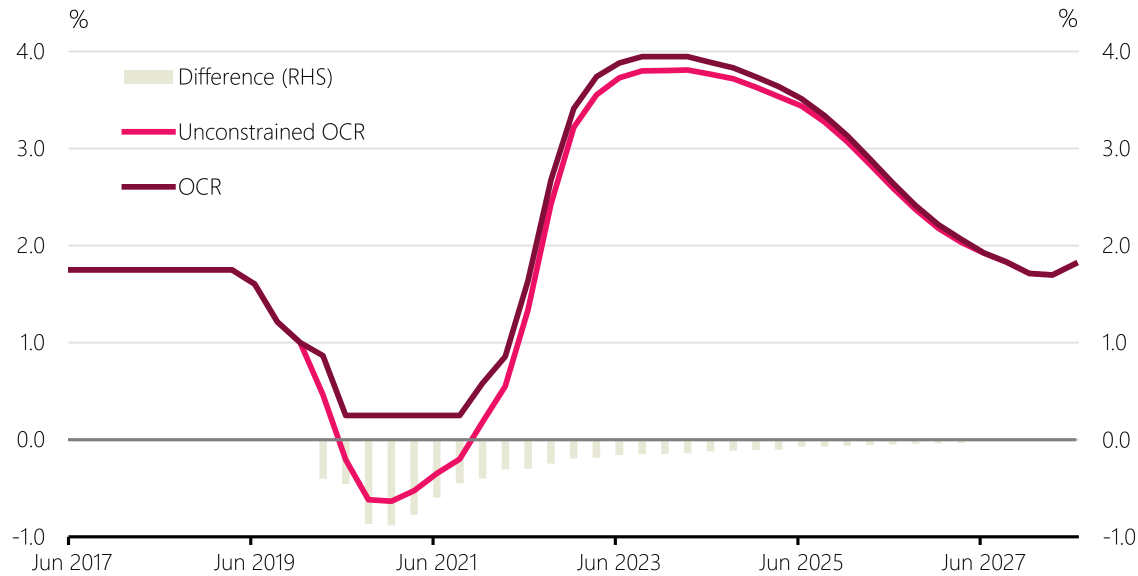
Figure 39 - Suite of indicator models



Source: Reserve Bank estimates.

Figure 40 - The OCR and unconstrained OCR (May 2022 MPS)



The Macroeconomic Effects of AMP Tools

The unconstrained OCR implies that AMP tools had a peak impact on interest rates equivalent to a cut in the OCR of around 90 basis points. Simulating the effects of a 90 basis point cut in the Reserve Bank's core macroeconomic model gives an approximate indication of the macroeconomic impacts of AMP tools.

Within this model, with all else equal, the peak impact of a 90 basis point cut in the OCR would: increase the output gap by around 0.6 percentage points, increase annual CPI inflation by around 0.5 percentage points; and reduce the unemployment rate by around 0.3 percentage points.

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Importantly, these estimated macroeconomic impacts are *peak point estimates only* and do not capture the significant cumulative effects of AMP tools over time.

In addition, this modelling exercise was done on the basis of a normal 'steady state' starting point. In contrast, as AMP tools were being deployed, the global economy and financial markets were far from a normal 'steady state'. Instead, the outlook for economic activity was extremely negative in early 2020, and financial markets were experiencing stress, illiquidity, and heightened volatility.

Similarly, the severe dysfunction being experienced in financial markets when AMP tools were deployed could have led to higher-than-otherwise interest rates and further depressed economic activity. However, the deployment of the LSAP and FLP both helped to ease monetary conditions and restore confidence to local financial market participants, commercial businesses and the government. However, it is unlikely that the positive impacts of restoring financial market function on the real economy are fully reflected in the above estimates.

More generally, lower interest rates also likely contributed to higher aggregate spending, investment, employment, profits, and tax revenue in the economy. Unemployment, business failures, welfare expenditure and long-term economic scarring were all lower than otherwise.

Finally, a full analysis of the real economy impacts of AMP tools should also capture the potential for these tools to negatively impact resource allocation in the economy. International research on the real impacts of AMP tools points to the potential for these tools to distort asset allocation by preventing creative destruction.[58] However, in the case of LSAP, this effect is likely to be limited, particularly compared to economies in which central banks have intervened to buy a broader range of assets, including equities.

The Effects of AMP Tools on the Crown Balance Sheet

The analysis in this section thus far has highlighted the benefits of AMP tools in alleviating financial market dysfunction, lowering interest rates, and providing economic stimulus during a time of extreme uncertainty. It is also important to understand any additional effects AMP tools had on the balance sheet risk faced by the Crown, given that LSAPs use Crown financial resources and change the nature of risks in the Crown balance sheet.

By helping to restore financial market confidence and promoting economic activity, AMP tools reduced the operational and liquidity risk on the Crown balance sheet. This is often overlooked, given that worst-case scenarios were avoided.

The LSAP Programme Shortened the Duration of Crown Funding

The LSAP programme also altered the duration risk, or exposure to future interest rate changes, in the consolidated Crown balance sheet by replacing fixed-rate funding with floating rate funding. When the Reserve Bank purchased government bonds under the programme, it did so by creating new settlement cash (Figure 41). There is currently little evidence suggesting that this increase in settlement cash has, in itself, contributed to inflationary pressures. Rather the LSAP programme largely contributed to inflation through lower interest rates (Box D).

58 See Favara, Minoiu, & Ander Perez-Orive (2021), Banerjee & Hofmann (2020) and Acharya et al. (2019).

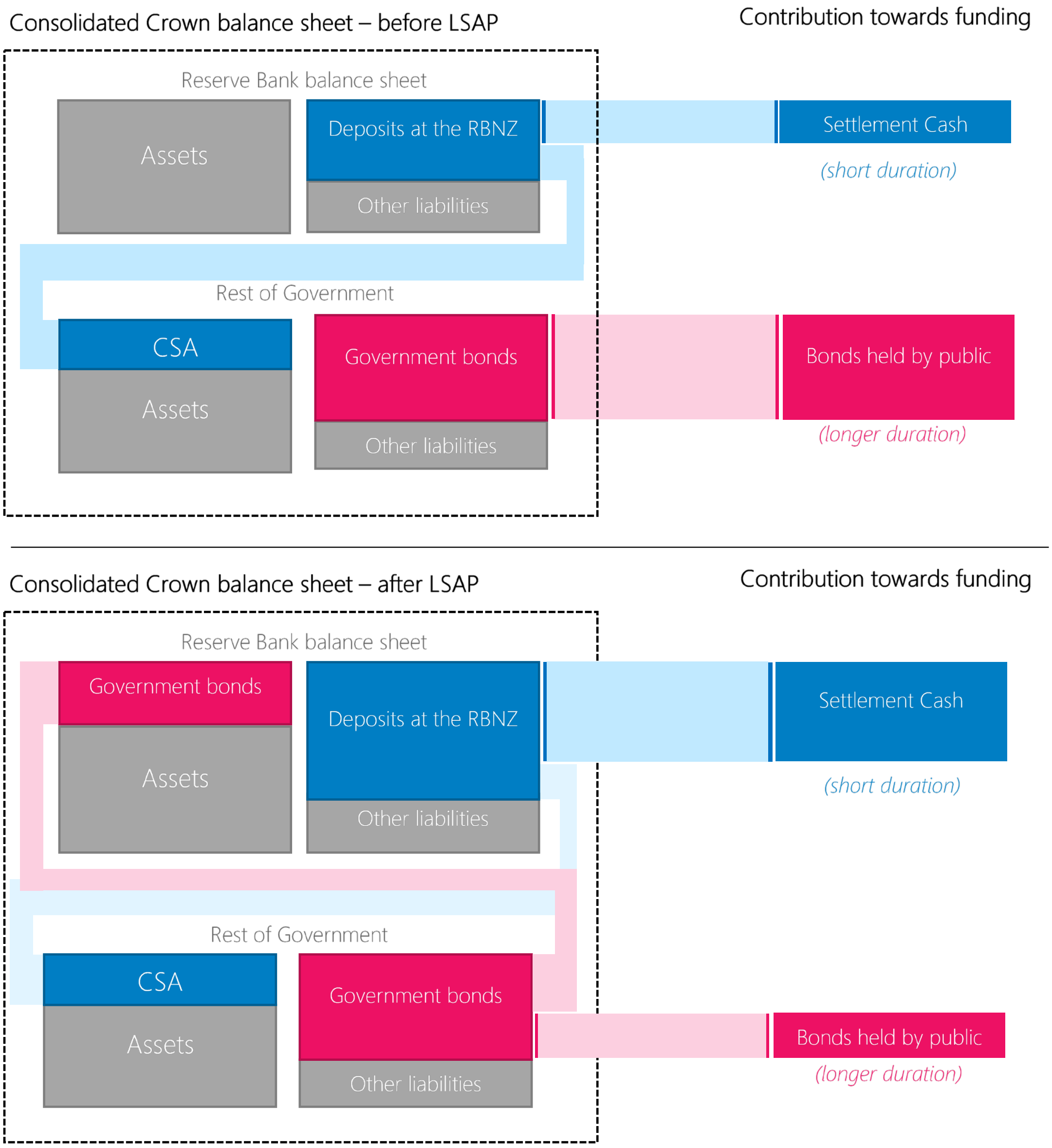
The goal of the LSAP programme was to lower government bond yields and interest rates more broadly in the New Zealand economy to ease financial conditions and achieve the Committee's *Remit*. If successful, this would increase spending and investment in the economy and thereby raise expectations of future interest rates. This would generate a 'mark-to-market' loss attributable to the LSAP portfolio on the Crown account. This highlights the fact that the Committee did not deploy LSAP with a profit motive. Instead, the objective was to help meet the Reserve Bank's monetary policy and financial stability goals.

When most LSAP purchases were undertaken, market expectations were for interest rates to remain low for a long time. Because interest rate expectations have subsequently risen, the portfolio of bonds purchased through the LSAP programme carries a mark-to-market negative valuation of around $9.5 billion as at 30 September, the bulk of which is unrealised.

The marked-to-market valuations is the *expected* future difference between the market yield that the Crown would have paid on the bonds and the OCR that the Crown instead pays *via* the Reserve Bank's settlement cash liabilities.[59] This amount is captured by the value of the LSAP indemnity (Figure 42). There has also been a smaller realised loss of $190m through the programme.[60]

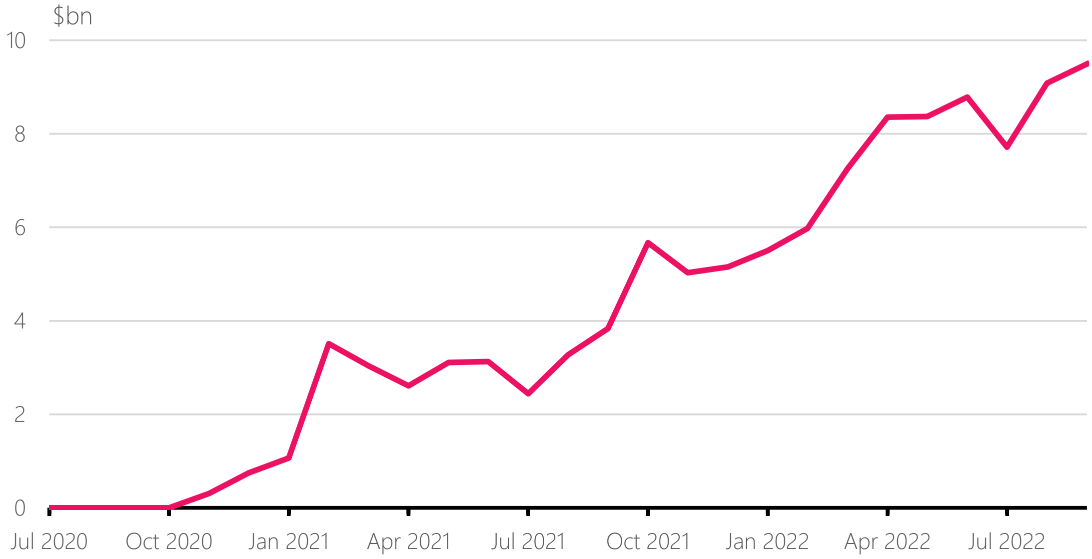
59 This figure also includes the impact of changes in the term premium, which affect the value of the bonds and would be realised if the Reserve Bank sold its bond holdings.
60 This does not include any losses that have not yet been settled between The Treasury and the RBNZ, which are included in the indemnity value reported by the RBNZ.

Figure 41 - Stylised depiction of how the LSAP programme affects Crown funding



Note: CSA is the Crown Settlement Account. 'Settlement institutions' balances' recorded in the *Statistical table R3* – the Reserve Bank's analytical accounts – reflects settlement cash held by non-Crown institutions.

Figure 42 - Value of the LSAPs indemnity on the Reserve Bank's balance sheet



Source: RBNZ.

The Broader Fiscal Impacts of AMP Tools

As outlined above, the impact of the LSAP programme on the Crown balance sheet depends on a range of factors, including the Crown's funding costs and the impact of LSAP on economic activity (and hence government revenue and spending).[61] These factors are much broader than the impacts captured in the value of the LSAP indemnity.

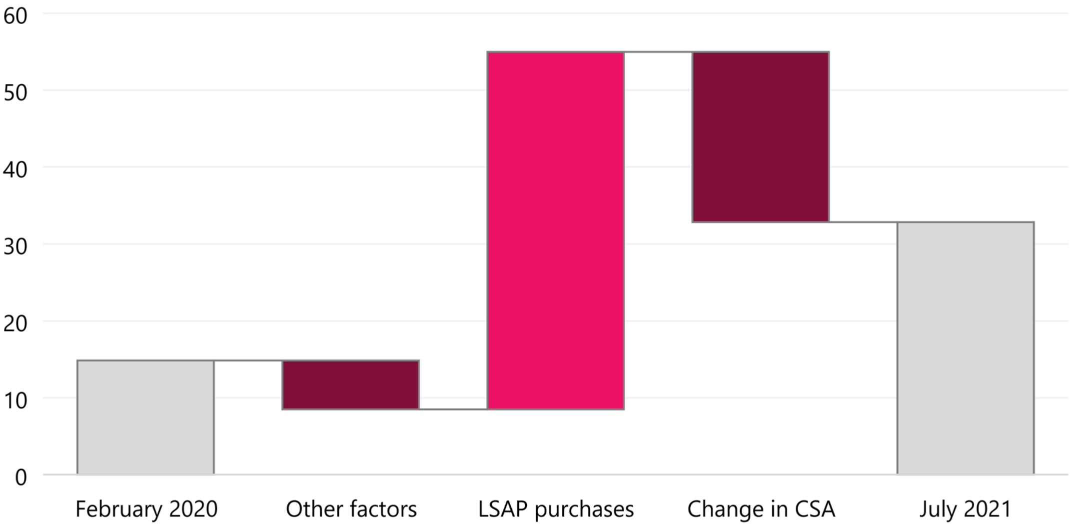
Other contextual issues are also important when reviewing the size and duration of LSAP. The LSAP programme was undertaken during a period of rising government debt, as the Government looked to shoulder much of the initial economic cost of the pandemic.

The Government issued $67 billion of debt during the LSAP period, with an average time-to-maturity of 8.5 years. This pace of government debt issuance influenced the pace of LSAP purchases.

In addition, the funding raised through the government debt issuance was not immediately spent. This increased the Crown's settlement account at the Reserve Bank, which is remunerated at the OCR. As a result, the LSAP programme had to both override the upward pressure on government bond yields from the increase in issuance, and to lower interest rates to meet the monetary policy goals (Figure 43). The full interest rate offset effect of the LSAP is thus not captured by the narrower mark-to-market valuation.

61 See Box D in Busetto et al. (2022) for a description of the impact of the Bank of England's QE programme on public accounts. The authors note that narrow accounting definitions of financial gains or losses on bond holdings do not reflect the total impact of the Bank of England's QE programmes on public sector accounts. In particular, they similarly point to the effects from lower government financing costs and economic activity on government tax and spending.

Figure 43 - Indicative share of consolidated Treasury/RBNZ funding with less than 1-year repricing (%)[62]



Source: Bloomberg, NZDM, RBNZ, RBNZ estimates.
Note: See footnote.

By lowering interest rates, the LSAP programme also enabled the Government to issue bonds at lower interest rates during a period of heightened market uncertainty and dysfunction.[63] The financial impact of this effect is significant given the large debt issuance during the LSAP period.[64]

This aspect of the fiscal benefit of LSAP can be approximated by taking the impact of the LSAP programme on government bond yields and applying it to each NZGB issued, accounting for the issuance date and the term of the bond (Figure 44).[65] This provides an estimate of cumulative interest savings resulting from lower bond yields.

This broad estimate suggests an estimated saving on government bond issuance of between $2.2 billion (using a peak yield curve impact of 50 basis points) and $4.5 billion (using a peak impact of 100 basis points). The central estimate (using a peak impact of 75 basis points) suggests an estimated saving of $3.3 billion. These estimates also do not account for the savings on borrowing costs due to the restoration of bond market functioning.

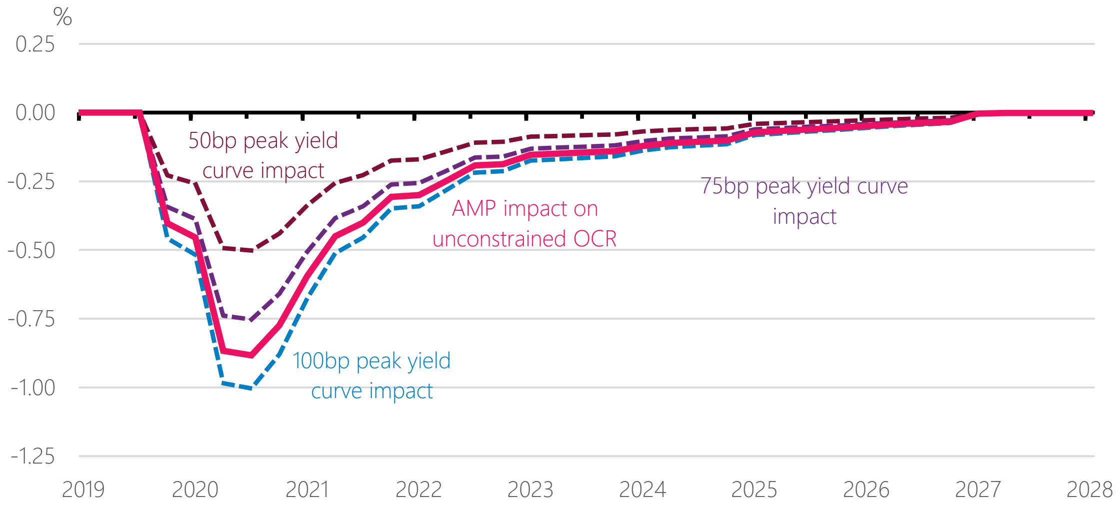
62 This chart relies on various technical assumptions and is only indicative. It includes only New Zealand government securities and settlement account balances. This does not include Kainga Ora bonds. 'Other factors' includes all other factors, including debt issuance and maturity, the passage of time, changes in market values and other influences on settlement cash. This includes the impact of Reserve Bank liquidity management operations, the FLP, the Term Lending Facility and LGFA bond purchases, which affect settlement cash but are matched by corresponding changes in assets. The contribution of these factors is -0.8 percentage points. The LSAP bar excludes LGFA bond purchases. 'Change in CSA' is the change in the Crown Settlement Account (CSA) between February 2020 and July 2021, and is assumed to reflect a higher-than-otherwise value of >1 year bonds outstanding.

63 The Government has a range of exposures to interest rates aside from NZGB issuance costs. However, this section focuses on savings on NZGBs issued through COVID-19.

64 In the case of the United States, research from the Federal Reserve found that, even when ignoring employment and inflation effects from their LSAP programme, the net fiscal benefit to the Federal government remained marginally positive in large part due to the benefits from reduced government borrowing costs. See Clouse et al (2013).

65 This time profile is based on the time profile of our estimate of the OCR-equivalent impact of all AMP instruments, as shown in Figure 40. As it is difficult to separate the OCR-equivalent impact over time of LSAPs alone, this time profile will be affected by the other AMP instruments. The yield curve impact is also assumed to be constant across bond terms.

Figure 44 - Estimate of how AMP influenced interest rates over time



Source: Reserve Bank estimates.

Higher real economic activity from the LSAP programme would also lift consumption, employment and incomes – all of which contribute to higher Government tax revenue and/or lower welfare spending.

As noted earlier, the use of AMP tools is estimated to have increased inflation through lower interest rates. To the extent that it takes time for nominal expenditures to adjust for inflation, it is likely that the portion of inflation arising from the LSAP programme provided short-term support to the fiscal position. An increase in the price level can also reduce the real value of the Government's stock of debt, and make the nominal value of outstanding debt smaller relative to the government's revenue or the economy's GDP.

Overall Fiscal Effects of the LSAP Programme

The LSAP programme generated fiscal costs as interest rates rose. However, in terms of the Crown's finances, these direct mark-to-market losses have been offset by: reduced borrowing costs and the fiscal impacts of higher nominal and real economic activity than otherwise (Table 7). The mark-to-market fiscal position of the LSAP would only be positive now if the programme had failed to sufficiently support economic activity.

The overall impact of the LSAP programme on *ex-ante* Crown financial risk depends on (a) the interest-rate sensitivity of Crown funding, and (b) the counterfactual duration of Crown funding without the LSAP programme.

In practice, the appropriate funding mix for the Crown is complex and incorporates a much wider set of objectives than simply reducing the volatility in the Crown's net income. Other objectives include minimising funding costs, diversifying the investor base for New Zealand Government Securities, and supporting the development and functioning of financial markets.[66]

66 See the New Zealand Debt Management (2022) for a summary of the funding strategy for Government debt.

Note that many of the Crown balance sheet funding effects result in a transfer of wealth between people. For example, higher taxes and lower government spending now can mean lower government debt and taxes or higher spending in future. Determining how, and whether, these transfers translate into economic costs or benefits depends on many complex assumptions that are beyond the scope of this Review.

Table 7 - The effects of monetary stimulus delivered via AMP tools (LSAP and FLP)

	Financial markets	Real economy	Fiscal
Impact can be measured	Lowers interest rates (LSAP & FLP)		Shortens Crown balance sheet duration Generates marked-to-market losses given a higher OCR Reduces debt servicing costs via lower govt. bond yields
Impact can be estimated		Increases output and inflation. Reduces unemployment.	Increases govt. tax take and reduces welfare expenditure
Impact is difficult to quantify	Corrects financial market dysfunction (LSAP)	May distort resource allocation	Reduces govt. real debt (via higher inflation)

Box C – International evidence of the impact of AMP on interest rates

Research on the use of asset purchase programmes in other advanced economies suggests that asset purchases equivalent to 10% of GDP reduces government bond yields by around 50 basis points on average, with a range between 20 and 130 basis points depending on the study and economy.[67] Another study has found that, based on a set of 37 studies, the effect of asset purchases on government and corporate bond yields ranged from slightly positive to reductions of more than 100 basis points.[68]

The New Zealand experience with LSAP is consistent with these estimates of the impacts of asset purchases programmes on government bond yields. The initial purchase limit of the LSAP programme was around 9% of GDP. By June 2021, the total value of bonds purchased was around 15% of GDP, while the value of the total limit on LSAP purchases was around 30% of GDP.[69] The changes in 10-year government bond yields on LSAP announcement days translates into a 58 basis point fall in yields per 10% of GDP of bond purchases with the initial programme, and a 45 basis point decline per 10% of GDP with the total amount purchased.[70]

Other studies estimate how much you would need to reduce the policy rate to get the same amount of stimulus as an asset purchase programme. There is a wide variation in estimates produced through this policy-rate equivalence approach in the international literature. For example, one study suggests that providing the same stimulus as a 25 basis points cut in the policy rate requires government bond purchases of 1.5% of GDP.[71] However, other studies suggest that bond purchases equivalent of 10% of GDP provide stimulus equivalent to a 25 basis points cut in the policy rate.

The international literature on term lending programmes generally suggests that they are effective at raising real economic activity and inflation, by reducing bank funding costs. For example, a Bank of England study of its 2012-2014 term lending programme found that the scheme was effective at reducing bank-funding spreads, which lifted GDP by up to 0.8 percentage points and inflation by up to 0.6 percentage points.[72]

The RBA implemented a term funding facility during the pandemic with similar design features and principles to the FLP. This similarly contributed to a fall in banks' funding costs, which has led to lower borrowing costs in Australia.[73]

67 Gagnon (2016) provides a survey of research on the impacts of QE in the United States, Unitied Kingdom and the euro area.
68 Bank for International Settlements (2019).
69 Given the volatility in GDP over this period, the level of bond purchases as a percentage of GDP is quite dependent on the time period chosen.
70 Or around 22 basis points per 10% of GDP of bond purchases announced (as opposed to actually purchased).
71 Guttmann, Lawson, & Rickards (2020).
72 See Churm, Joyce, Kapetanios, & Theodoridis (2015).
73 Gagnon and Sack (2018).

Box D – Settlement cash and inflation

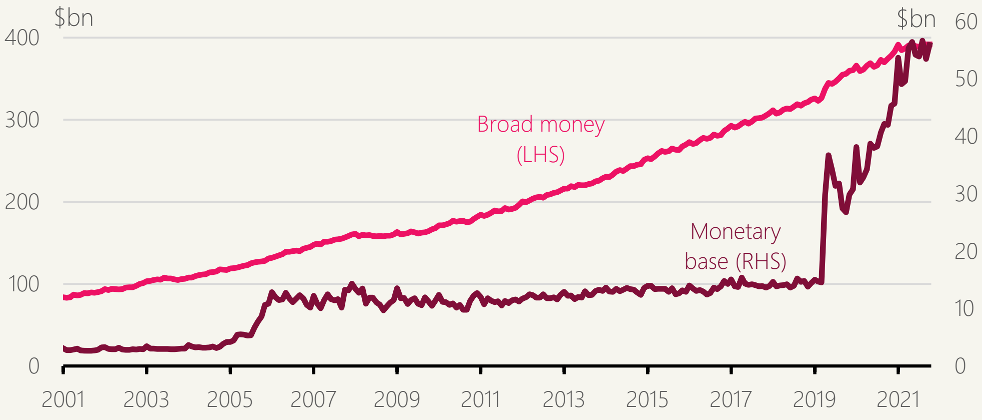
When the Reserve Bank purchases bonds under the LSAP programme and extends loans through the FLP, it credits settlement cash balances that commercial banks hold with the Reserve Bank. There is, however, currently little evidence suggesting that a higher monetary base has contributed to inflationary pressures.[74]

Changes in how central banks implement monetary policy over the 1980s and 1990s have meant that the amount of 'broad money' – a more accurate representation of the money in the economy that is available to households and businesses – is no longer directly influenced by the monetary base.

Prior to these changes, the monetary base acted as a constraint on bank lending. At this time, central banks controlled the level of base money and imposed rules around base money holdings relative to broad money creation so as to influence bank lending (known as 'reserve requirements').

In New Zealand, the Reserve Bank has not used this approach to monetary policy for decades. Instead, commercial banks may hold a range of liquid assets to meet their liquidity needs. As such, broad money is now largely influenced by bank lending. Because changes to the monetary base no longer, by themselves, materially change the incentives for bank lending, the monetary base does not directly influence the amount of broad money in the economy (Figure 45).

Figure 45 - Monetary base and broad money 2001-2022, both in NZ$ billion



Source: RBNZ.

The volume of commercial bank lending is determined by several factors, including customer demand for loans, banks' appetite for risk, and prudential requirements on banks' assets and funding. While AMP tools have supported bank funding and liquidity positions, there is currently little evidence that these are directly impacting lending activity over and above their impact on interest rates.

As AMP tools wind down, the level of settlement cash will decline to a lower level. It is not expected that this reduction in settlement cash will have a material impact on the economy.

3.2. Assessing Monetary Policy Over the Review Period

This section assesses the broad conduct of monetary policy over the five-year review period as a whole.

Monetary Policy Settings and the Mandate

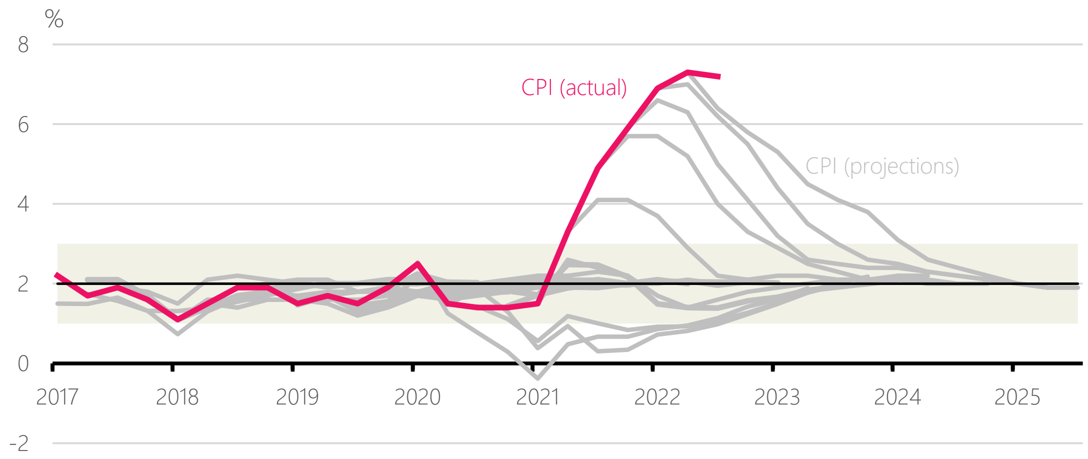
Were the monetary policy decisions made by the Governor from 2017 to 2018 and by the Committee from 2019 to 2022 consistent with the objectives of price stability and supporting maximum sustainable employment (MSE)? Answering this question requires more than simply assessing inflation and labour market outcomes relative to target.

First, monetary policy is forward-looking, given that the real economy and inflation respond to changes in policy interest rates with long and variable lags. Because central banks do not have perfect foresight, unanticipated events influence how inflation and employment outcomes evolve over the medium term. Second, central banks have flexibility around the speed at which they aim to return inflation to target, so as to avoid unnecessary instability in the economy, or to discount events expected to have only transitory inflationary effects.

Monetary policy Actions Were Consistent with Inflation Returning to Target in the Medium Term...

Reserve Bank forecasts over the review period show that future inflation was always expected to settle within the 1-3% target range (Figure 46). While some forecasts showed a slower return to target than others (Figure 47), the Governor and the Committee have, on average, set monetary policy such that forecast inflation returned to the target midpoint.

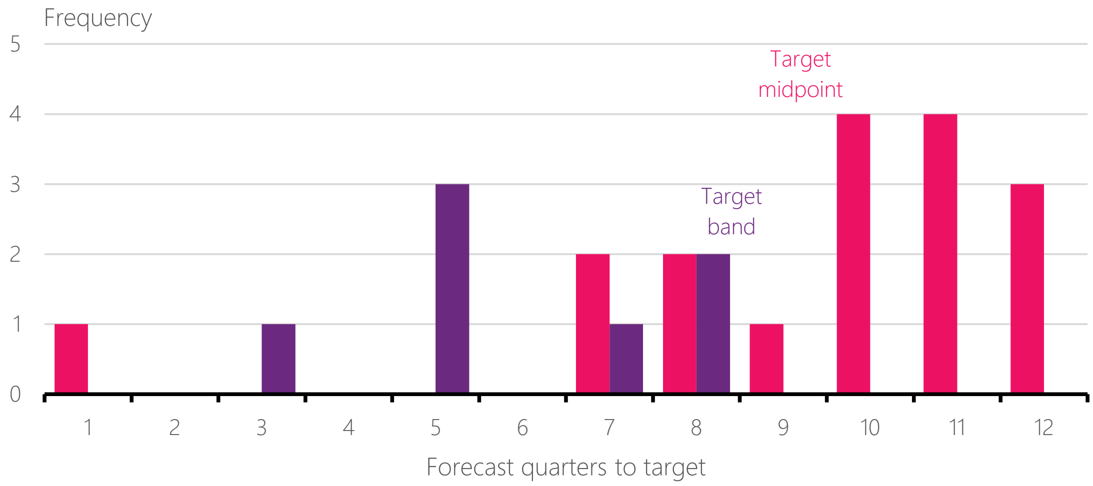
Figure 46 - Annual CPI inflation projections



Source: Stats NZ, RBNZ estimates. Projections and data as at the August 2022 *MPS*.

74 This box draws on material from Silk (2022).

Figure 47 - Time expected for annual CPI inflation to return to target



Source: RBNZ estimates.
Note: The forecasts end after 13 quarters. The graph does not display where in the target band inflation already was at the beginning of the forecast period.

...and with Supporting Maximum Sustainable Employment

Unlike the inflation target, which has a specified numerical range in the *Remit*, it is more difficult to assess whether Reserve Bank's labour market forecasts were consistent with the objective of supporting MSE. As recognised in the Committee's *Remit*, MSE is not directly measurable and is largely determined by non-monetary factors affecting labour market structure and dynamics.

The *Remit* directs the Committee to "consider a broad range of labour market indicators to form a view of where employment is relative to its maximum sustainable level". The Reserve Bank has explored 44 indicators of MSE to capture a detailed view of the labour market. These indicators capture four interrelated aspects of the labour market: labour supply, labour demand, labour market tightness, and wage growth.

These measures are derived from both formal econometric models using aggregate macroeconomic data, and more granular information on various segments of the labour market.[75] To assess how close the labour market is to MSE, the Reserve Bank compares how labour market indicators have evolved over time, with reference to the strength of these indicators in December 2019 when employment was considered to be around its maximum sustainable level (Figure 48).

[75] See Culling, Price & Robinson (2019).

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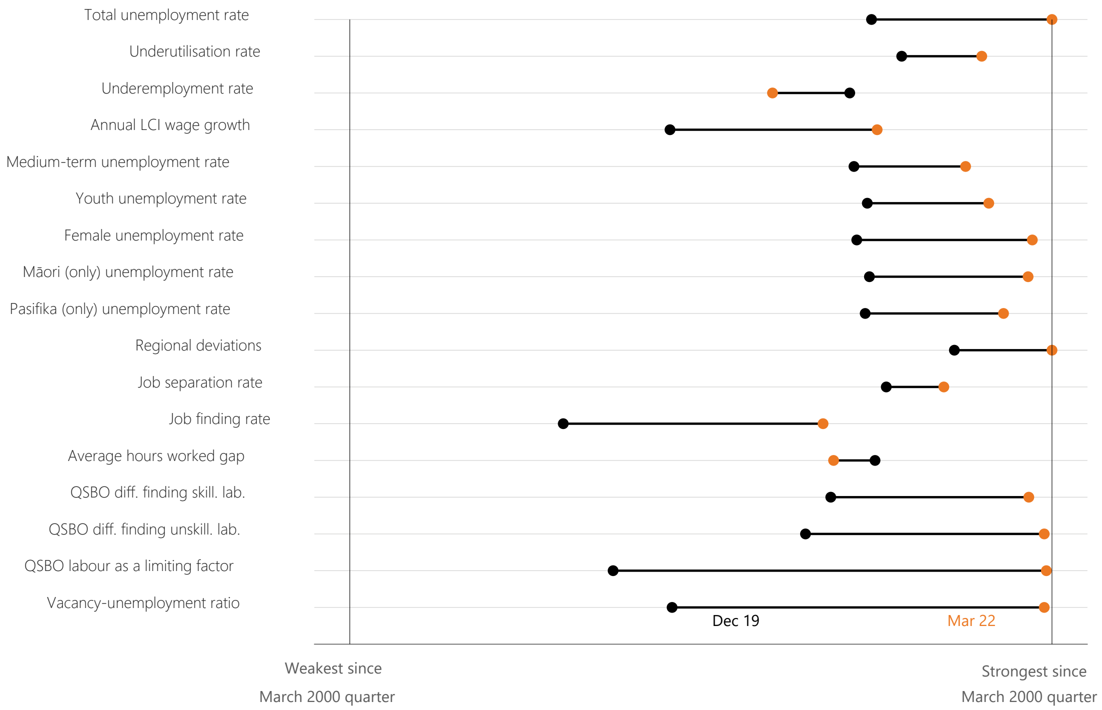
Figure 48 - MSE indicator suite (May 2022 MPS)



Source: NZIER, Stats NZ, MBIE, ANZ Bank, RBNZ estimates. Based on data available at the May 2022 *MPS*.
Note: The Reserve Bank uses a range of indicators when assessing MSE and regards the December 2019 quarter as a period when this selection of indicators pointed to employment being at MSE. However, current outturns should not be directly compared to December 2019 quarter as the level of MSE is likely lower. The vertical lines on the left and right-hand sides represent the lowest and highest data outcomes since 2000. An orange dot to the right of a black dot means that the latest data outcome was stronger than in the December 2019 quarter.

The Reserve Bank defines MSE as the highest level of labour utilisation that can be maintained over time without generating an acceleration in inflation. This is akin to the concept of the Non-Accelerating Inflation Rate of Unemployment (NAIRU) that is well established in the academic literature. For this review, it follows that the NAIRU can be considered a theoretical summary of MSE in the unemployment space.

Since 2018, successive *MPS*s have forecast that unemployment will move towards the level consistent with MSE in the medium term (Figure 49). This is in line with the requirement in the *Remit* that monetary policy supports MSE.

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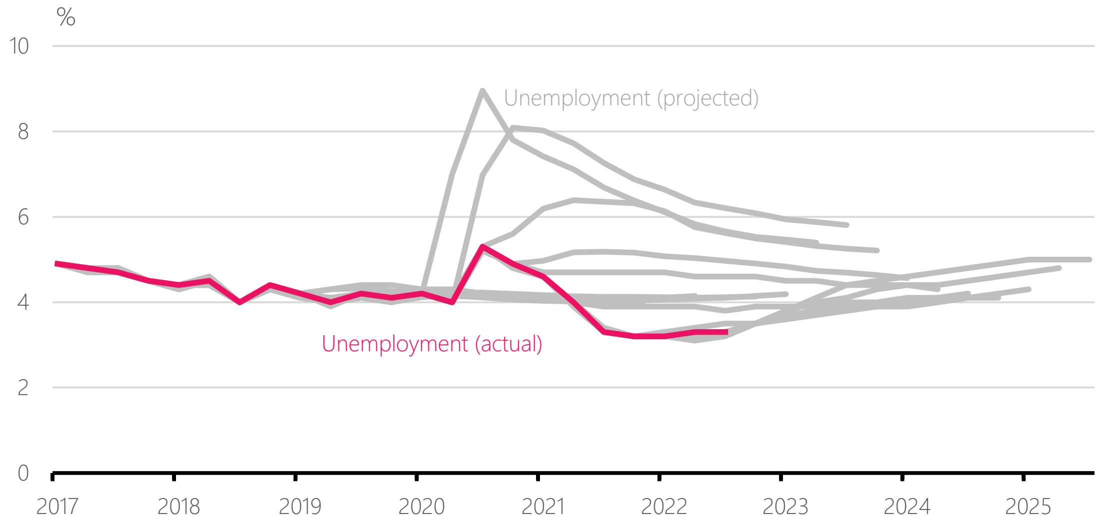
Figure 49 - Unemployment projections



Source: Stats NZ, RBNZ estimates.

The Reserve Bank's Forecasts were Relatively Good Overall...

To some extent, it is not surprising that Reserve Bank's inflation forecasts return to the 2% target midpoint, and the unemployment forecasts revert to a level close to the estimates of MSE respectively. It is the nature of the Reserve Bank's forecasting framework that these variables return to equilibrium over time (Box A).[76]

More interesting is the degree to which these forecasts were credible and reasonable. Because monetary policy operates with long and variable lags, the Reserve Bank's forecasts are a crucial input into the Committee's decision-making.

Bohm and Sing (2022) have conducted a comprehensive review of the Reserve Bank's forecasts from 2002 to 2021. They found that, for the most part, the Reserve Bank responded reasonably to new information. In particular:

- Reserve Bank forecasts outperform forecasts generated from a naïve statistical model (AR(1) model), though this outperformance diminishes at longer forecast horizons.
- Reserve Bank forecasts for inflation, unemployment, and GDP are statistically unbiased over the forecast horizon.
- For the most part, the Reserve Bank has corrected a historical tendency to underestimate the trade-weighted index exchange rate by shifting to the assumption of 'flat forecasts'.[77]
- In general, the Reserve Bank has tended to overestimate short-term interest rates, and to underestimate house prices.

76 See also Austin & Reed (2017) and Kamber et al (2016).
77 See Reid (2016) and Lees (2016).

...But May have Misjudged Movements in the Neutral Interest Rate....

The Reserve Bank's tendency to over-estimate short-term interest rates may reflect uncertainty in calculating the neutral interest rate. As noted above, the neutral interest rate is the rate at which monetary policy is neither expansionary nor contractionary. It is determined by inflation expectations, and long-run global savings and investment behaviours. The neutral rate is not directly observable and estimates are prone to uncertainty and revisions in light of new data.

If, while easing the OCR, the Governor or the Committee perceived the neutral interest rate to be higher than it actually was, then monetary policy settings would likely be less stimulatory than intended. While the OCR remained below neutral from 2016, there were times – particularly during 2017 and 2018 – when ex-post analysis indicates that the neutral OCR was falling further than policy-makers believed to be the case at the time. As a result, monetary policy was, in effect, somewhat tighter than intended. This may have contributed to the subdued inflation that New Zealand experienced through the first half of the review period.

....and the Impact of Fiscal Policy During the Onset of COVID-19

Not surprisingly, Bohm and Sing (2022) find that the Reserve Bank's forecasting performance deteriorates during crisis periods, particularly over the COVID-19 pandemic. However, *MPS* forecasts over the pandemic were in the ballpark of forecasts from other agencies.

For example, Figure 50 shows how Reserve Bank forecasts for unemployment and annual CPI inflation for 2021Q4 evolved through time in comparison to forecasts from New Zealand's major commercial banks. As is apparent from the figure, the swift recovery of economic activity from late 2020 surprised all forecasters. Better-than-expected health outcomes enabled a faster normalisation of activity, and international demand for New Zealand's goods exports was also relatively strong.

Household and business balance sheets were also more resilient than anticipated from 2020. This was largely due to the effectiveness of the Government's wage subsidy scheme. The efficacy of this scheme in keeping people attached to the labour market and supporting household incomes was underestimated by the Reserve Bank and other forecasters over 2020. This may be because historical estimates of fiscal spending multipliers have been small, and in the past, fiscal policy has faced long decision and implementation lags.

In contrast, the fiscal response to COVID-19 was implemented rapidly. As new data emerged, and the effectiveness of the wage subsidy became apparent, the unemployment forecasts for late 2021 were progressively revised downwards.

Because aggregate demand was expected to be severely constrained during the pandemic, inflation forecasts made in 2020 for late-2021 were decidedly weak, and close to the lower end of the target band. However, the combination of higher wage pressures in a tightening labour market and COVID-related bottlenecks in global supply chains, lifted actual inflation in New Zealand, leading to a series of upward revisions to the inflation forecast across all forecasters.

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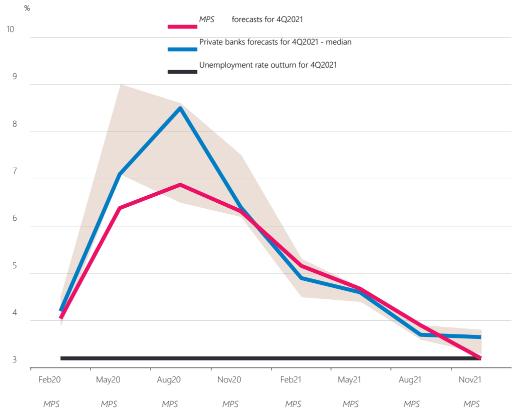
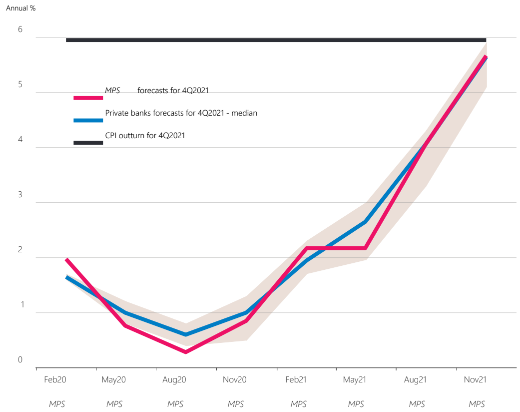
Figure 50 - Unemployment and inflation forecasts for 2021Q4

Unemployment rate



CPI inflation



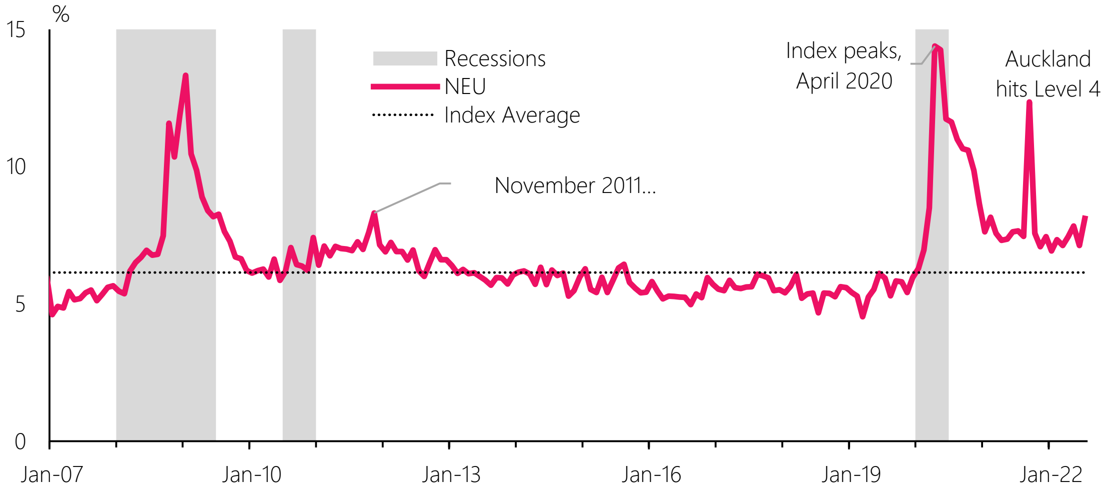
Note: The shaded area shows the range of the commercial banks forecasts. For each *MPS* listed on the horizontal axis and correspondingly for the commercial banks' forecasts, the forecast for 2021Q4 is presented. The black bold horizontal line is the outturn for 2021Q4.

In line with the Reserve Bank, the International Monetary Fund (IMF) and the OECD also projected higher unemployment and lower inflation for New Zealand during 2020-21. These forecasts were also revised progressively as the pandemic continued.

Even though forecasts for unemployment and overall economic activity improved over the pandemic period, considerable uncertainty prevailed about the speed of the global vaccine roll-out, the efficacy of the vaccines, and the likely impacts of the virus on supply chains and the labour market.

Figure 51 shows that economic uncertainty in New Zealand rose to very high levels during 2020-21, and remained above its historical average at the end of the review period. Elevated uncertainty was a key reason why the Committee persevered with highly stimulatory monetary policy. Relatively easy monetary conditions, even as it supported economic activity, contributed to higher house prices and stronger inflationary pressures.

Figure 51 - The New Zealand economic uncertainty (NEU) index after the Global Financial Crisis



Note: The NEU index is constructed by Sense Partners using text-analytical methods. It measures the percentage of articles in the New Zealand media that includes terms related to economic uncertainty. The sample period begins in 1995. See Sense Partners (2020).

Judging the Persistence of Inflation in Real Time has been Difficult

In line with previous *PTA*s, the Committee's *Remit* includes a requirement to set monetary policy with a medium-term focus by discounting events that have only transitory effects on inflation.

Because interest rates take time to influence inflation, monetary policy should not attempt to offset temporary inflation shocks, such as the first-round impacts of increases in fuel prices or changes to the Goods and Services Tax. Responding to these types of shocks would create unnecessary volatility in activity, the exchange rate, and interest rates.

During the first half of 2021, the Committee considered that inflationary pressures emerging from international sources were likely to be transitory. For much of 2021, central banks globally struggled to determine whether global inflationary pressures were likely to be transitory or more persistent. This assessment was complicated by repeated pandemic-related shocks and the repercussions of the war in Ukraine in 2022. Like the Reserve Bank, none of the other main forecasters in New Zealand foresaw the strong inflation increases that have occurred since early 2022.

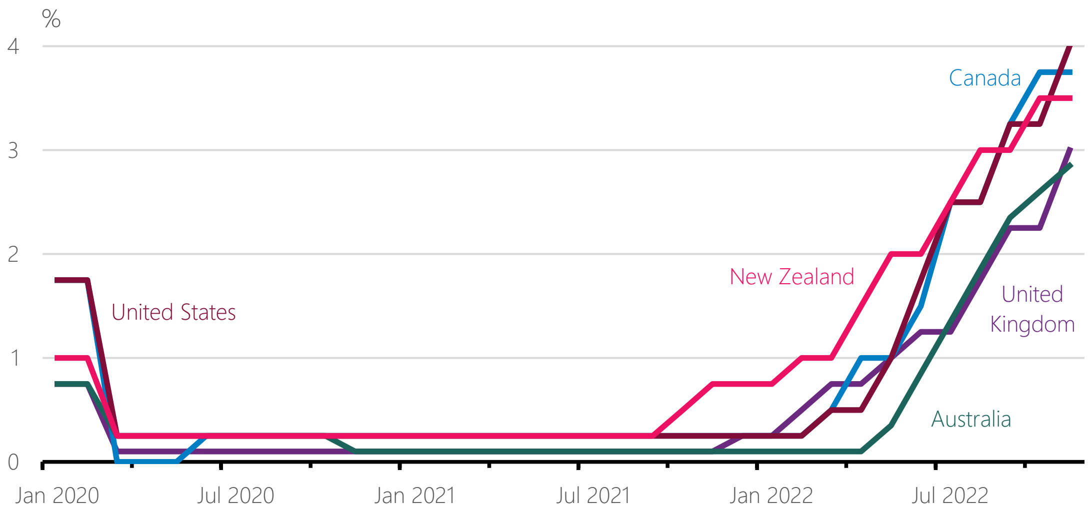
As early as May 2021, the Committee began reporting on the risk of relative price changes leading to persistent inflation. This was earlier than most other agencies that made similar assessments.[78] However, the Committee only stopped assuming inflationary pressures would be temporary in November 2021, and explicitly stated that price pressures were expected to persist in February 2022.

The Committee responded to the risk of persistent inflation pressures by reducing monetary policy stimulus sooner than many peer central banks. It agreed to halt additional asset purchases under the LSAP programme by 23 July 2021 and raised the OCR by 25 basis points in October 2021. In

78 See footnote 50 on page 63.

doing so, it became the first Anglosphere country to raise its official policy rate in response to elevated inflation pressures (Figure 52).

Figure 52 - Anglosphere central bank policy rates over the COVID-19 era



Source: RBNZ, Bank of England, Federal Reserve, Reserve Bank of Australia, Bank of Canada.

Price Stability and Employment Objectives were Not Conflicted Over the Review Period

Adding the objective of supporting MSE in 2018 formalised the Reserve Bank's existing strategy of stabilising real economic activity in targeting inflation. Recent research has found that, even prior to the MSE amendment, monetary policy had responded to changes in both economic activity and inflation in a similar way to the Federal Reserve, which has had dual objectives since 1977.[79]

In the long term, returning inflation to target is consistent with employment being at its maximum sustainable level. It follows that the best contribution monetary policy can make to supporting MSE is to set policy such that inflation is low and stable.

However, in the short to medium term, situations could arise in which monetary policy faces a trade-off between maintaining price stability and supporting MSE. For example, inflation could increase for reasons that have little to do with the underlying level of demand in the economy, such as an increase in global oil prices.

Such 'cost-push' shocks can reduce output and employment while putting upward pressure on inflation. If policy-makers respond by tightening monetary policy to reduce inflation, output and employment outcomes may suffer even more. Conversely, if inflation was to fall below target because of declining global inflation while economic activity was expanding, looser monetary policy could cause the economy to overheat.

Overall, during the period in which MSE has featured in the Reserve Bank's objectives (2018 to 2022), there has been no obvious trade-off between the inflation and employment objectives

79 See Jacob & Wadsworth (2018).

specified in the *Remit*. Table 8 shows that inflation and employment generally moved in similar directions over the review period, implying little trade-off for monetary policy in achieving its objectives.

Table 8 - Trade-offs between the employment and inflation objectives for monetary policy

Time period	Employment outlook	Inflation outlook	Committee decision
2018	⇨ around its maximum sustainable level	⇩ inflation below target mid-point	Kept the OCR at an expansionary level
2019	⇩ global economic activity continued to weaken, expected to lower employment and inflation		Continued to reduce OCR to meet employment and inflation objectives
Early 2020	⇨ at or slightly above its maximum sustainable level	⇨ consumer price inflation was close to the 2 mid-point of the target range	Agreed that low interest rates remained necessary to keep employment and inflation around target
March 2020	⇩ global economic disruption caused by COVID-19 was expected to lower employment, and inflation		Reduced the OCR to a record low level of 0.25%, and introduced AMP
Mid-2021 to present	⇨ at or above its maximum sustainable level	⇧ near-term consumer price inflation was expected to rise above its target range due to higher oil prices, supply shortfalls, and rising transport costs	Agreed that the OCR would need to be progressively increased

Economic Volatility was Low Until the Pandemic...

The Committee's *Remit* requires it to not cause unnecessary instability in output, interest rates, and the exchange rate. This requirement was also specified in the 2018 *PTA*.[80] It is difficult to define "unnecessary" economic instability. While excessive instability in output, interest rates, and the exchange rate would be inefficient, some volatility in these variables is 'necessary' and unavoidable when changing interest rates to achieve the primary goals of monetary policy.

Since inflation targeting began in New Zealand, output, interest rates, and the exchange rate were at their least volatile between 2017-2019 (Table 9). Not surprisingly, economic volatility increased following the outbreak of COVID-19. Note, however, that volatility of GDP growth – which is a useful summary indicator of economic instability – was in line or lower than that observed for other Anglosphere countries during the review period (Figure 53).

80 See Bollard & Karagedikli (2006) for more on the trade-offs between inflation and output volatility, and why the Reserve Bank has regard to macroeconomic volatility.

Monetary policy could meet its primary targets more quickly at the expense of creating more economic volatility, and vice-versa. Figure 54 shows that over history, including the review period, the OCR has usually been left unchanged in monetary policy decisions. When the OCR has been changed over a tightening or an easing cycle, small increments have been preferred to large changes. Smoother moves in the OCR have helped to avoid unnecessary interest rate instability.

Monetary policy has limited ability to affect the exchange rate beyond the near term, and there can be significant costs in attempting to stabilise the exchange rate.[81, 82] The Reserve Bank has an exchange rate intervention policy that is only invoked in exceptional circumstances to lean against the peaks and troughs of the exchange rate cycle.[83] Such intervention has not been necessary over the review period.

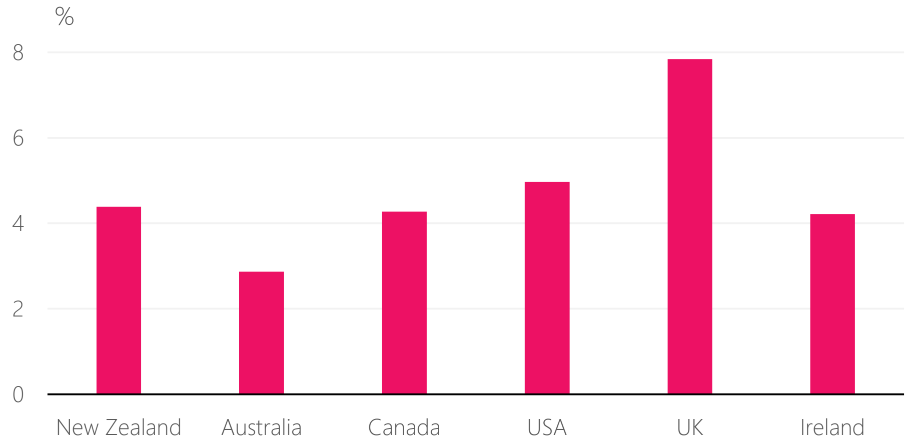
Table 9 - Interest rate, output, and exchange rate volatility

Time period	Interest rate volatility	GDP volatility	Exchange rate (real, effective) volatility
1990s	-	2.7%	6.9%
2000s	2.3%	2.2%	10.8%
2010s	1.1%	1%	5.3%
2017-2019	0.4%	0.4%	3.4%
2017-2022Q1	0.9%	4.7%	3.6%

Note: Volatility is measured by the standard deviation. Exchange rates are BIS effective exchange, interest rates are two-year swap rates, and GDP is measured with the expenditure approach, seasonally adjusted, year-on-year growth (Source: Haver Analytics).

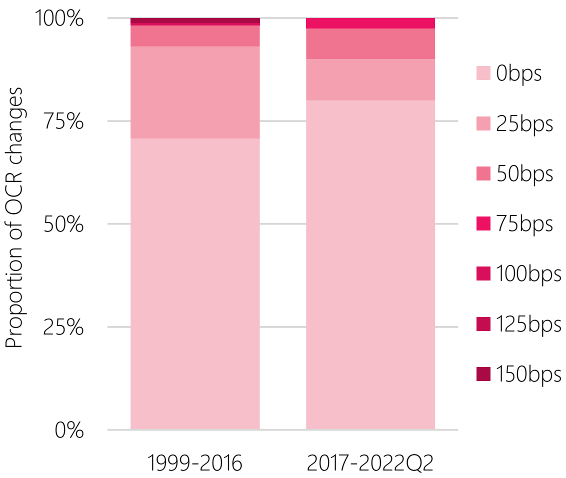
81 See Monetary Policy Handbook.
82 The evidence in the literature is mixed. Audzei and Brázdik (2015) report that exchange rate volatility responds to monetary policy actions, though is more affected by shocks unique to the exchange rate. West (2003) found that monetary policy could decrease exchange rate volatility in New Zealand, at the cost of creating more output, inflation, and interest rate volatility.
83 The Reserve Bank's exchange rate intervention policy is being updated to reflect the new Foreign Reserve Coordination Framework.

Figure 53 - GDP growth volatility in the Anglosphere countries



Source: Haver Analytics.
Note: Standard deviations computed from annual percentage changes in real expenditure GDP during 2017Q1-2022Q2

Figure 54 - Size of changes to the OCR



Source: RBNZ.

Long-Run Inflation Expectations are Anchored and Monetary Policy Remains Credible

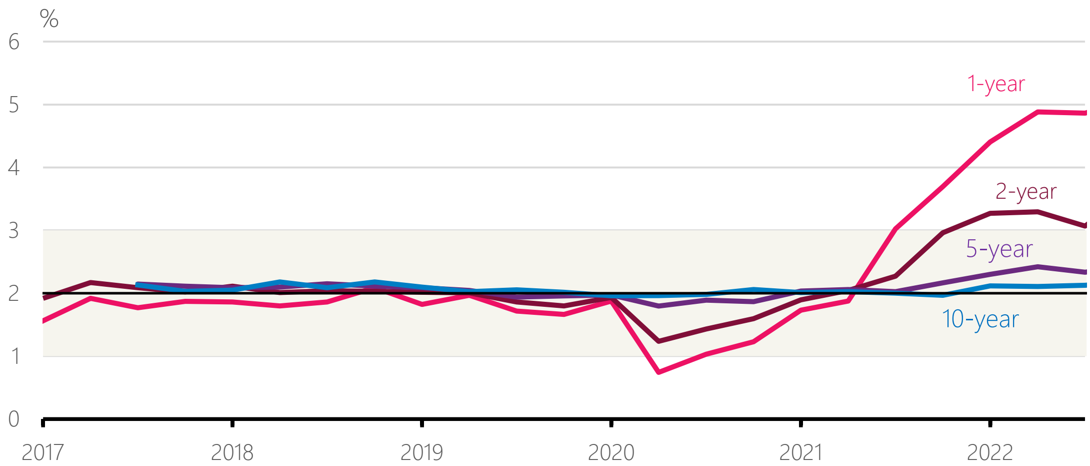
Explaining and justifying monetary policy decisions is imperative if central banks wish to remain credible and legitimate. In the long run, central bank credibility is supported by monetary policy decisions that are demonstrably unbiased and effective. If the public believes the Reserve Bank has the will and capability to manage inflation over the medium term, monetary policy will need to react less forcefully to shocks than it would otherwise.

An indicator commonly used to assess central bank credibility is the extent to which inflation expectations – particularly long-term expectations – are anchored to the central bank's inflation target. This is because actual inflation is influenced by inflation expectations, as well as movements in aggregate demand.[84]

If inflation expectations are well anchored at the target rate, monetary policy can move inflation to target with less volatility in the real economy. It has been suggested that, prior to the pandemic, the decline in New Zealand's inflation rate, inflation volatility, and output volatility may be partly explained by enhanced monetary policy credibility.[85]

Figure 55 shows that the one-year ahead survey measure of expected inflation is relatively volatile, and shows a higher correlation with actual inflation. The one-year and the two-year expectation measures rose rapidly between 2021 and mid-2022, along with headline inflation. The longer the horizon over which expectations are formed, the more they appear to sit around the 2% mid-point of the medium-term target inflation range. The 10-year ahead measure has ben steady around the 2% inflation target.

Figure 55 - Inflation expectations in New Zealand



Source: RBNZ survey of expectations (businesses).

The stability of longer-term inflation expectations is also reflected in Figure 56, which presents the 'perceived target focus'. This is a model-based estimate of the point at which inflation expectations converge to in the long run. The perceived target focus has shifted over time as the target band has been adjusted, and as the 2% mid-point target was introduced. Towards the end of the review period, as inflationary pressures gained strength, the perceived target focus has risen to slightly above 2%. However, it remains within the range of movements seen previously, and within the target band for inflation (1-3%). This indicates that longer-term inflation expectations remain anchored.

A survey recently commissioned by the Reserve Bank also raised questions about the likelihood of inflation returning to the target band by 2024.[86] The survey (from a representative sample of 1,000

84 See Karagedikli & McDermott (2016).
85 See Buckle (2018).
86 See RBNZ (2022).

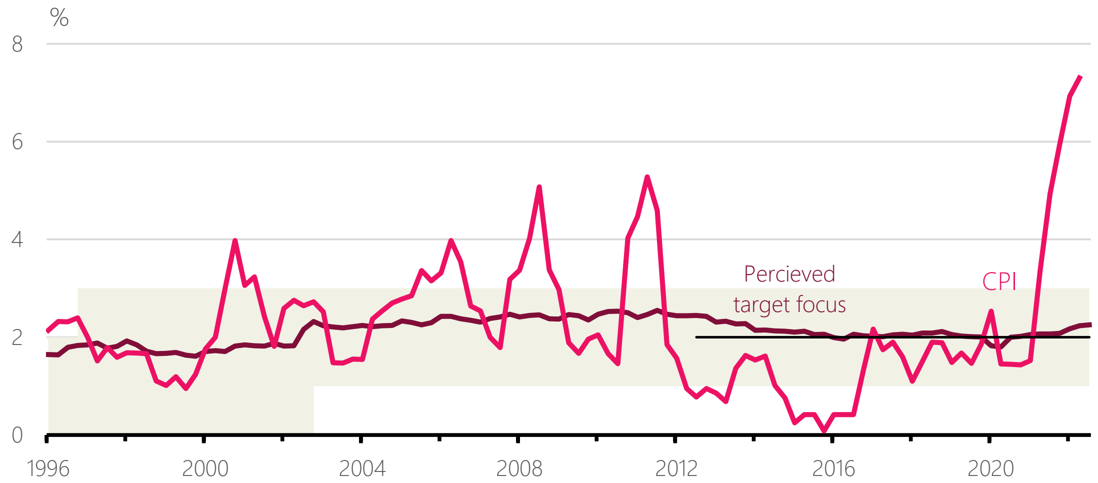
people) showed that the majority had little or no confidence in the Reserve Bank's ability to bring inflation within the target band by 2024.

Table 10 lists reasons cited by survey respondents as to why inflation is unlikely to be back in the target range by 2024. The final column of the table records the Reserve Bank's responses to each of the respondents' concerns.

The inflation expectations data in Figure 55 are drawn from surveys of businesses, which are price-setters. The survey results in Table 10 are consolidated from the views of a broader cross-section of society, who may not have closely followed the Reserve Bank's track record of stabilising inflation.

In any case, both sources question the Reserve Bank's ability to contain inflation over the next one to two years. Somewhat reassuringly, longer-term inflation expectations, which are better measures of central bank credibility, remain close to the Reserve Bank's inflation target.

Figure 56 - Perceived target focus



Source: RBNZ estimates.
Note: The perceived target focus is based on a yield curve modelling-type approach that allows us to assess whether expectations are anchored at the 2% target in the medium term. The blue line shows that expectations are converging to a point slightly above 2%. See Lewis (2016).

Table 10 - RBNZ (2022) survey results

Reason	Examples	Response
External reasons	Global factors continuing (COVID-19 restrictions, the war in Ukraine, supply shocks, influences of trading partners).	Factors outside of the Reserve Bank's control will always impact short-term expectations and uncertainty will always be an issue for the Committee as external events affect the stance of monetary policy.
	Government spending, debt, and policy (e.g. COVID-19 restrictions, supermarket duopoly).	Being transparent as to the 'why' of policy making draws focus to the conditionality of the decisions and is therefore important in influencing credibility. The volume of communication surrounding external factors has been

Reason	Examples	Response
		strong. Recent *MPS*s have given focused attention to risks to the global outlook arising from uncertainty.
Lack of trust and/or understanding	Perception that inflation is too out of control to rein in, particularly without causing instability. Lack of trust in the Reserve Bank or understanding of the mechanisms used to reduce inflation.	In the past communication has been targeted at a far more technical audience than the general public. The website refresh, Committee handbook, tiered approach to the *MPS*, more publications intended for the public, and OIA request procedures all work to strengthen public trust, transparency, and understanding. This process is ongoing.
Reserve Bank's decision making	The Reserve Bank is acting too late. Objectives other than inflation targeting have distracted the Reserve Bank from its price stability objective.	Times of uncertainty are inherently difficult to respond to. Context at the time of decisions (e.g. a nation-wide lockdown a day prior to an expected OCR increase in August 2021) can be looked through in hindsight but is an important factor at decision time. RBNZ has been considered a leader in monetary policy tightening globally. Supporting MSE is a Reserve Bank objective and cannot be discounted without legislative changes.

Monetary Policy has Consistently Shown Regard for the Financial System…

The Committee must have regard to the soundness and efficiency of the financial system, while pursuing its primary objectives.[87] Monetary policy can affect financial system stability in many ways. For example, sudden interest rate increases can stress the balance sheets of borrowers, low interest rates can contribute to the build-up of financial imbalances, and the use of AMP tools can have wide-ranging impacts throughout the financial system.

Housing market dynamics can also contribute to instability. Because of the shock of the pandemic, house prices were expected to fall by around 9% over 2020. Instead, house prices increased rapidly over the second half of 2020, with increased monetary stimulus likely to have played a key role.

> 'We expect lower population and household income growth to cause house prices to fall, despite lower construction activity, lower interest rates, and the easing of loan-to-

87 Financial system soundness and efficiency is about the continuity in the provision of financial services and ensuring that a combination of regulatory and commercial incentives supports the efficient allocation of credit, risk, and financial services. Financial system soundness and efficiency can be impeded if financial institutions fail. However, the failure of a large financial institution is not the only risk. Soundness and efficiency are compromised whenever overall market conditions disrupt the provision of financial services or weaken competitive incentives.

value ratio restrictions. Our baseline scenario assumes house prices will fall by around 9 percent over the remainder of 2020.' May 2020 *MPS*

The rapid acceleration of house prices from already elevated levels took forecasters by surprise. Extremely high house prices can pose financial stability risks.[88] The Committee recognised that in most instances, prudential policy is more effective in limiting financial stability risks from rising house prices than monetary policy.[89] The balance of views in the academic literature suggests that the output and employment costs of setting interest rates higher than otherwise to reduce risks to financial stability from high house prices outweigh the benefits.

… Including Through use of AMP Tools

The LSAP programme was designed to deliver additional monetary stimulus and correct dysfunction in financial markets. The size of LSAP was limited in order to avoid disrupting the markets of the assets purchased.[90] LGFA bonds were added to the programme to support the reopening of corporate bond markets more generally.[91]

The introduction of the FLP in late 2020 aimed to provide certainty to financial institutions planning their funding needs, and to lower the financial system's funding costs.[92] Throughout 2020, the timeline for implementing negative interest rates was delayed to support bank resilience.[93]

These monetary policy actions complemented other steps taken by the Reserve Bank to maintain the ongoing provision of credit to the economy, and to promote financial stability. For example, dividend payments were put on hold, the core funding ratio was relaxed from 75% to 50%, LVR restrictions were removed on all residential mortgage lending, and the bank capital review was delayed.[94] The monetary and prudential policy initiatives from the Committee and the Reserve Bank, in addition to the Government's fiscal programme, helped the financial sector, firms and households to dedicate their resources to responding to the pandemic.

In December 2020, as house prices accelerated and financial stability again appeared under threat, the Reserve Bank began consulting about re-instating loan-to-value ratio (LVR) restrictions on high-risk lending. These restrictions came into effect from 1 March 2021.[95] Soon after, the Committee stopped increasing monetary stimulus, beginning with a halt on further LSAP purchases in July 2021.

88 See Deghi et al 2020.
89 See May 2021 *MPS*. Papers which consider both macro-prudential tools and monetary policy tools together tend to find that when macro-prudential tools are available, monetary policy is best focussed on inflation and employment or output (Brandao-Marques et al 2020). See Dunstan (2014) for a more detailed discussion on the interaction of monetary and macro-prudential tools. There is also scope for macro-prudential tools and monetary policy to co-ordinate where required. For example, if the inflation outlook is below target, the Committee would likely need to loosen monetary policy. This could precipitate credit and asset prices growth, potentially contributing to a build-up of financial imbalances. In this case, macro-prudential policy could be used in tandem to mitigate some of the risks from these financial imbalances.
90 See Hawkesby (2020).
91 See Hawkesby (2020).
92 See RBNZ (28 February 2022).
93 See RBNZ (7 May 2020).
94 See RBNZ Financial Stability Report (November 2020).
95 RBNZ (11 November 2020).

The Committee has Assessed the Impact of Monetary Policy on the Housing Market

Since April 2021, the *Remit* has required the Committee to assess the effect of monetary policy on the Government's policy to support sustainable house prices.[96] Although this new clause does not require the Committee to consider house price sustainability in its policy decisions, it has reinforced the need for the Reserve Bank to research how monetary policy affects the sustainability of house prices, and to discuss it during monetary policy deliberations.

Over the review period, Reserve Bank staff have dedicated substantial effort to understanding the housing market, particularly the effects of monetary policy and interest rates.[97] A key way in which monetary policy influences activity is *via* mortgage lending rates and their flow-on effects on residential construction and household wealth through changes in house prices.[98] However, the impact of interest rates on house prices critically depends on housing supply: in a more flexible market, higher housing demand stimulates a larger and faster response in home building, dampening the impact on prices.[99]

House prices were already very high relative to incomes before the rapid acceleration in 2020. Along with supply constraints in the New Zealand housing market, the long-run decline in global real interest rates was key in pushing the house prices-to-income ratio higher.[100]

The Committee recognises the two-way interaction between the housing market and monetary policy. Housing market dynamics influence monetary policy decisions to the extent that they affect price stability and MSE. On the other hand, the stance of monetary policy also impacts the housing market through its effect on aggregate demand. The Committee assesses and communicates the impact of monetary policy on the housing market, including the sustainability of house prices, by using:

- **Central economic forecasts**: Given the prominent role of the housing market in New Zealand, the economic forecasts produced by Reserve Bank staff internalise the relationships between house prices and the economy, including the role of construction costs and rents in driving consumer price inflation, and the effects of changes in housing wealth on consumption demand.
- **Risks and uncertainty assessments**: Unsustainable house prices can threaten financial stability and economic growth, as demonstrated through the experience of the GFC. In setting monetary policy, the Committee also considers the risks associated with house prices to the extent that they affect the balance of risks to its economic forecasts, or the soundness and efficiency of the financial system.

96 Specifically, subclause 2(2)(d) of the *Remit* states the Committee shall "assess the effect of its monetary policy decisions on the Government's policy set out in sub-clause (3).(3) The Government's policy is to support more sustainable house prices, including by dampening investor demand for existing housing stock, which would improve affordability for first-home buyers."
97 See Brunton (2021), Bernhard, Graham & Markham (2021), Aguiar-Carvalho, Baker & Farquharson (2022), Brunton & Jacob (2022), Chadwick & Nahavandi (2022), Chadwick, Dasgupta & Jacob (2022), Fitchett & Jacob (2022) and Housing Technical Working Group (2022). See Conway (2022) for an overview of the Reserve Bank's recent research on the New Zealand housing market.
98 See Monetary Policy Handbook.
99 See Chadwick, Dasgupta & Jacob (2022).
100 See Brunton & Jacob (2022) and Housing Technical Working Group (2022).

Reserve Bank Communications have Evolved Over Time

The *MPS* was reviewed in 2018 to ensure it engaged effectively with: financial markets, economic analysts, businesses, journalists, government, and the general public. As a result of this review, the *MPS* was restructured, with high-level discussions of the policy assessment and key judgements provided in chapters 1 and 2, followed by content aimed at the traditional technical audience. A visual summary of the OCR stance, as well as the supporting macroeconomic reasoning, were produced as 'snapshots' alongside the *MPS*.

The *MPS* was reviewed again in 2019. A Special Topics section was introduced, highlighting the content of Committee discussions for a broader pool of readers. For example, in the *Special Topics* section of the August 2019 *MPS*, weaker global conditions, drivers of low business investment, and weak nominal wage growth were discussed in detail.

These changes were motivated by changes in the decision-marking structure – from the 'single decision maker' model in 2018 to the Committee in 2019 – and change in the monetary policy mandate. The addition of the objective to support MSE prompted significant growth in labour market research at the Reserve Bank, and *MPS*s began presenting more content on labour market dynamics.

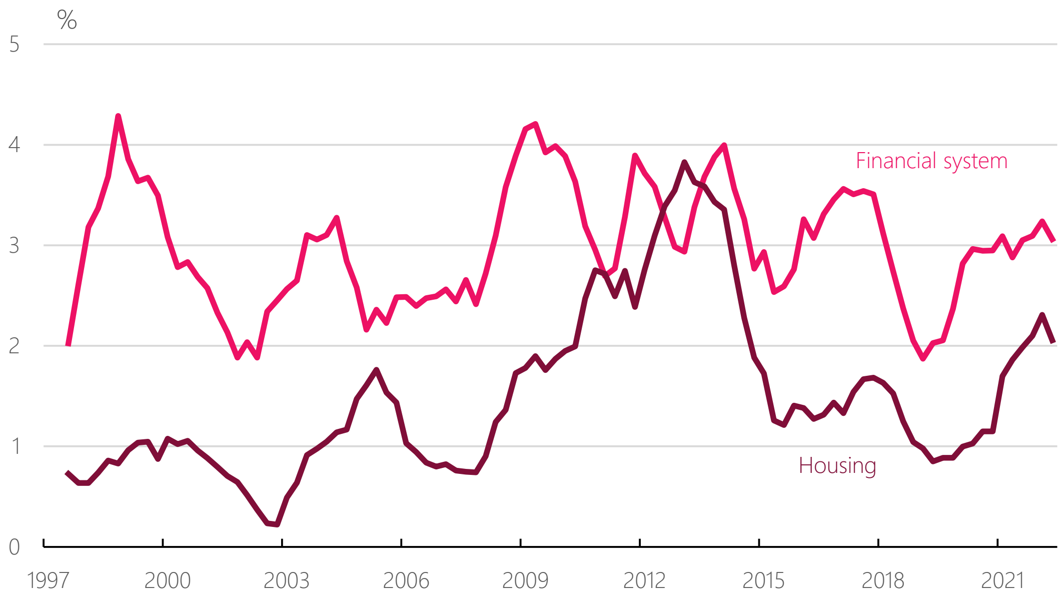
Similar changes can also be seen in the MPS content that is related to other aspects of the mandate. Figure 57 shows that finance-related topics have received steady attention in *MPS*s, even before the GFC. Since then, references to finance-related themes have mostly remained at elevated levels.[101] This indicates a clear regard for the financial system, even though the references may not necessarily be specifically related to soundness and efficiency.

On the other hand, discussions of the housing market have featured prominently in *MPS*s, particularly in the period around the GFC. [102] The frequency peaked around 2013, trended down, before increasing from around 2019.

101 Words related to the financial sector include the following and their variations: 'financial', 'banks', 'systemic risk', 'contagion', 'bubble', 'misalign', 'credit', 'insurer', 'hedge fund', 'investment fund', 'securities', 'lever', 'capital', 'derivative', 'off-balance', 'special purpose vehicle', 'payment system', 'settlement system', 'deposit', 'loan', 'currency', 'collateral', 'exchange rate', 'liquid', 'debt', 'TWI', 'bond', 'swap', 'volatility', 'uncertain'.

102 Words related to the housing market include the following and their variations: 'home', 'first-home', 'consents', 'residential' (often 'residential investment'), 'construction', 'building'. Exclusion: 'household'.

Figure 57 - Percentage of words related to the financial system and housing in Chapters 1-2 of the MPS (1997-2022)



Source: RBNZ estimates.
Note: A five-quarter moving average has been fitted over the data.

The tradition of senior Reserve Bank leaders speaking to the wider public on monetary policy-related issues continued during the review period. Speeches and media interviews support transparency, often complementing and enriching the narrative provided in the *MPS*. They are particularly useful at clarifying the thinking behind policy frameworks and strategic choices for diverse communities, which may stretch beyond financial market participants. The speeches given during the review period have dealt with different aspects of monetary policy, including strategy, tools, transmission and changes to the monetary policy mandate. Table 11 lists the monetary policy-related speeches given at domestic and international forums over the review period.

Table 11 - Speeches related to monetary policy given during the review period

Category	Speaker (year)
Macroeconomic environment and monetary policy implications	Wheeler (2017); McDermott (2017b); Spencer (2017); Hawkesby (2019a); Hawkesby (2020); Orr (2019b); Orr (2020a); Orr (2020b); Orr (2020c); Orr (2022)
Monetary policy formulation	McDermott (2017a)
Monetary policy framework	McDermott and Williams (2018); Orr (2019a); Hawkesby (2019c)
Monetary policy strategy	Hawkesby (2019b); Hawkesby (2021)

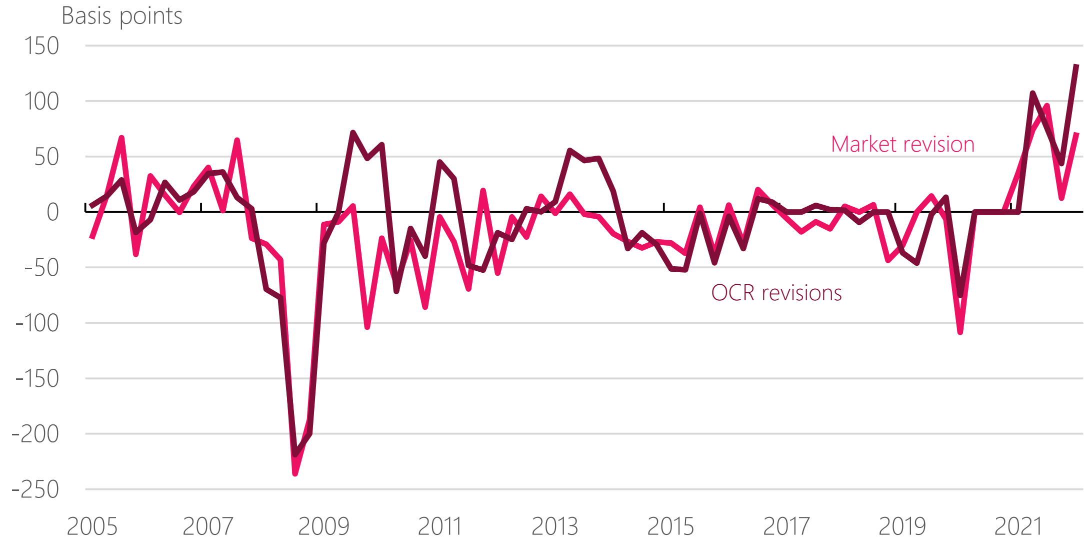
Category	Speaker (year)
Sustainable house prices and monetary policy	Orr (2021); Conway (2022)

The outlook for the OCR presented in the *MPS* plays a central role in the monetary policy communications framework in New Zealand. It is the outcome of continuous and rigorous analysis of the current and expected future states of the New Zealand economy, and the internal debate that it informs. The projection summarises the Committee's best estimate of the future trajectory of the OCR necessary to achieve the economic objectives of price stability and supporting MSE. Changes in the OCR projection between *MPS*s indicate how the stance of monetary policy shifts as new information becomes available.

One metric to assess the efficacy of communicating the OCR outlook, is the alignment of changes in the projected OCR path between *MPS*s, and the changes in financial market expectations.[103] If the Reserve Bank communicates effectively and financial markets are able to anticipate the policy implications, markets should then respond to information from new economic data as it occurs, rather than waiting for an announcement from policymakers.

Figure 58 shows the change in one-year ahead market expectations for 90-day interest rates between the *MPS*s compared to the change in the Reserve Bank's own one-year ahead interest rate forecasts. The series are reasonably well aligned, including over the COVID-19 pandemic. This indicates that, the Reserve Bank's communication on the monetary policy outlook has been effective.

Figure 58 - Changes in one-year ahead interest rates between Monetary Policy Statements



Source: RBNZ estimates.

103 See Hawkesby (2019b).

Communicating the Employment Objective has been Challenging

The objective for monetary policy in the 2018 *PTA* was to "…contribute to supporting maximum sustainable employment within the economy". The 2019 *Remit* stipulates that monetary policy should 'support maximum sustainable employment', while explicitly acknowledging that this is not directly measurable and is affected by non-monetary factors in the labour market. In accordance with the Remit, the Committee uses a range of indicators to inform its assessment of MSE (Figure 48).

The lack of precision and measurability of the employment objective stands in contrast to the precision of the inflation target. The language requiring monetary policy to maintain "future annual CPI inflation between 1 and 3 percent over the medium term", is generally interpreted to imply returning annual CPI inflation to the target band in the second half of a three-year horizon.

MSE is affected by, among other things, demographics, the match between workers' skills and firms' needs, and labour market policy. Most of these factors are independent of monetary policy. The suite of indicators that support the Reserve Bank's assessment of MSE is wide, but imperfect, and judging whether the labour market is above or below MSE remains challenging.

The survey that was recently commissioned by the Reserve Bank, earlier cited in the context of monetary policy credibility, found that almost three-quarters of the representative sample had not heard of MSE before. The Committee continues to refine its processes around assessing and communicating MSE.

3.3. Lessons Learned

- **LSAPs supported market functioning and provided monetary stimulus:** The LSAP programme was successful in restoring market functioning and put significant downward pressure on government bond yields and the exchange rate during the pandemic. It was also instrumental in working to correct financial market dysfunction. In line with international evidence, Reserve Bank research suggests the LSAP programme was effective at reducing long-term interest rates by 50 to 100 basis points. However, the additional effect of each expansion of the upper limit of the LSAP programme appears to have reduced over time.
- **The FLP lowered interest rate costs:** Reserve Bank research suggests the FLP was effective at reducing bank-funding costs and retail interest rates by at least 10 to 20 basis points, and likely more. While pass-through from funding costs to mortgage rates appeared slow, and the transmission channel involves some uncertainty, mortgage rates likely declined by 10 to 20 basis points over time due to the FLP.
- **The FLP could have been more flexible:** An effective FLP requires a long time-commitment to ensure that banks have confidence that a stable funding source is available. Since activity improved much faster than anticipated, in hindsight the FLP could have been designed with more flexibility. For example, the inclusion of an early termination clause with reasonable notice in the event of changed economic conditions may have been included, although such an amendment could potentially reduce the effectiveness of the FLP.

- **AMP tools increased economic activity and inflation, consistent with monetary policy objectives:** While AMP tools contributed to the Committee's objectives, given a high level of uncertainty over the strength of the transmission channels, these impacts are difficult to accurately measure.
- **The inflation and employment outlook has been consistent with the Committee's targets:** Over the review period, the Reserve Bank forecast that future inflation would settle within its target range, and since 2018, that employment would be at its maximum sustainable level in the medium term.
- **The Committee's inflation and MSE objectives have not been in conflict:** During periods when the inflationary outlook was weak, employment was not above its maximum sustainable level. During periods when there were strong inflationary pressures, employment was considered above its maximum sustainable level.
- **Prudential policy is the best way to limit financial stability risks the housing market:** As house prices rose, the Committee recognised that in most instances any associated financial stability risks should be dealt with through prudential policy rather than monetary policy. Over the review period, the Reserve Bank has undertaken a large amount of research around the impact of monetary policy changes on house prices.
- **Providing credible and clear communication are critical in monetary policy implementation:** Clearly explaining and justifying monetary policy decisions is imperative in retaining credibility. Relatively stable long-run inflation expectations indicate strong Reserve Bank credibility. Some aspects of the Reserve Bank's work – such as supporting maximum sustainable employment – appear to not be well understood by the public, suggesting an ongoing need for strong communications.

Conclusion

This paper reviews and assesses the formulation and implementation of monetary policy in New Zealand from 2017 to mid-2022. Over this period, monetary policy was assigned the additional objective of supporting employment at its maximum sustainable level, and the single decision-maker model was replaced by the Committee.

The New Zealand economy entered the review period following a prolonged expansion after the Global Financial Crisis and with very low inflation. Soon after its inception in 2018, the Committee was confronted with a global public health crisis that triggered the most abrupt and deepest fall in economic activity in modern history.

At the time, the New Zealand economy was facing enormous downside risks. In response, the Committee lowered the OCR to a historic low of 0.25%, and initiated the use of AMP tools for the first time in New Zealand's economic history.

As activity rebounded, war in Ukraine broke out in early 2022. This worsened supply-chain bottlenecks and added to inflationary pressures. By mid-2022, headline CPI inflation in New Zealand was well above the Committee's target band.

The Committee, and the wider Reserve Bank, have learned a great deal from the experience of supporting the New Zealand economy during the pandemic, Russia's invasion of Ukraine, and the macroeconomic uncertainty that these events have brought to bear. The lessons learned over the review period have been wide-ranging.

Of course, lessons are only useful to the extent that they lead to future improvements. With this in mind, and to conclude this review and assessment, nine areas for improvement, based on the Reserve Bank's experience in formulating and implementing monetary policy over the past five years, are listed in the Executive Summary.

The Reserve Bank embraces continuous refinements in its policy frameworks, analysis, and actions. These improvements will support the Committee in continuing to fulfil its *Remit*, and in maximising the Reserve Bank's contribution to economic well-being in New Zealand.

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Appendix A: The Monetary Policy Committee Charter and Remit

Monetary Policy Committee Charter

The MPC is responsible for formulating monetary policy directed at achieving the economic objectives of price stability and support of maximum sustainable employment, as set out in Section 8 of the Reserve Bank of New Zealand Act (1989) (the Act) and in accordance with the *Remit*. This charter aims to facilitate effective decision-making by the MPC and ensure transparency of these decisions and the decision-making process, to aid the effectiveness of monetary policy and hold the MPC accountable.

1) Decision-making

a. MPC members are tasked to abide by the code of conduct and engage constructively with each other to achieve informed and timely monetary policy decisions. The MPC's decision-making is enhanced by embracing diverse opinions that reflect, for example, members' unique personal and professional experiences and educational backgrounds. Members will respect each other's contributions and embrace any difference in view as a benefit of a diverse committee.

b. The MPC will seek consensus in decision-making. This is to ensure that the MPC engages in in-depth discussions and a true exchange of perspectives regarding monetary policy strategy—including consideration of the expected time taken to achieve operational objectives, any trade-offs that arise, and communication of this strategy—before specific decisions are taken.

c. When consensus cannot be reached, specific policy decisions will be determined by a simple majority vote as described in Clause 44 of Schedule 2 of the Act (which includes that the Governor, as chairperson, has a casting vote if required).

2) Transparency and accountability

a. The MPC will publish each monetary policy decision promptly on our website. The announced decision of the MPC will include a summary record of the MPC meeting that includes an overview of the economic outlook, the risks and policy options discussed, any material differences of view or judgement and an unattributed record of any vote taken.

b. On a quarterly basis, the announced decision will also be accompanied by a Monetary Policy Statement that will, in addition to the requirements set out in Section 15C of the Act:

    ii. explain how the MPC has sought to meet the requirements of Section 2(2) in the remit

    iii. when inflation outcomes and/or expected inflation outcomes are outside of the target range, explain the reasons for this

    iv. explain how the current monetary policy decisions contribute to supporting maximum sustainable employment within the economy

If the MPC decides that we should intervene in financial markets, it shall also consider whether prompt publication of decision details would impede the achievement of the intervention's purpose.

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If so, the MPC may withhold such details until it deems that publishing them is no longer likely to create such impediment.

3) External communication

a. The MPC's communications—both collective and individual—should contribute to the overall effectiveness of the monetary policy decision, the public's understanding of monetary policy and the accountability of the MPC.

b. The Governor (or another member of the MPC with the Governor's permission) will be the sole spokesperson for the official announcement of the decision.

c. In any public remarks regarding the MPC's policy strategy and decision, members are to draw on the MPC's official communications and on the Governor's media conference remarks where appropriate. Any non-public remarks on monetary policy or the economic outlook must be consistent with the MPC's official communications to avoid providing, or appear to be providing, new information to a subset of individuals. An MPC member who wishes to publicly express his or her view around the balance of risks and/or economic outlook may, but should do so with respect for other members and the MPC as a whole. Members are to consult with the MPC within a reasonable timeframe in advance of any public communication, refrain from characterising the individual views of other MPC members, and ensure such communication is publicly advised in advance and on the record (on our website) in real time.

d. Given financial market sensitivities, MPC members must refrain from any public communications relevant to monetary policy following receipt of MPC briefing papers and prior to the decision being announced.

Remit for Monetary Policy Committee

1) Monetary policy objectives

Under Section 8 of the Act, the Reserve Bank, acting through the Committee, is required to formulate monetary policy with the goals of maintaining a stable general level of prices over the medium term and supporting maximum sustainable employment.

2) Operational objectives

1. For the purpose of this remit, the Committee's operational objectives shall be to:

    (a) keep future annual inflation between 1% and 3% over the medium term, with a focus on keeping future inflation near the 2% midpoint. This target will be defined in terms of the All Groups Consumers Price Index, as published by Statistics New Zealand

    (b) support maximum sustainable employment. The Committee should consider a broad range of labour market indicators to form a view of where employment is relative to its maximum sustainable level, taking into account that the level of maximum sustainable employment is largely determined by non-monetary factors that affect the structure and dynamics of the labour market and is not directly measurable.

2. In pursuing the operational objectives, the Committee shall:

   (a) have regard to the efficiency and soundness of the financial system

   (b) seek to avoid unnecessary instability in output, interest rates and the exchange rate

   (c) discount events that have only transitory effects on inflation, setting policy with a medium-term orientation

   (d) assess the effect of its monetary policy decisions on the government's policy set out in subclause (3).

The government's policy is to support more sustainable house prices, including by dampening investor demand for existing housing stock, which would improve affordability for first-home buyers.

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Appendix B – Selected Economic Data, New Zealand 2017-2021

	2017	2018	2019	2020	2021
GDP[1]	3.9	3.5	2.4	0.3	3.1
GDP per capita	1.9	1.7	0.4	-1.2	2.7
CPI	1.6	1.9	1.9	1.4	5.9
Core inflation[2]	1.4	1.7	2	2.2	3.8
Unemployment rate	4.5	4.4	4.1	4.9	3.2
Wage growth[3]	3.3	3.8	2.5	4.6	4.1
House prices[4]	3.9	2.6	4.4	16.9	28
Exports to GDP	29.1	29.1	28.9	25.8	23.8
Housing lending growth[5]	5.9	6.1	7	8.3	10.5
TWI[6]	-5	-0.4	-2.9	2.2	1.9
Trading partner GDP	3.9	3.3	2.8	0.2	4.3
OCR	1.75	1.75	1	0.25	0.75

Notes

1. Real Production GDP, annual percent change
2. Sectoral factor model
3. Quarterly employment survey average hourly earnings, annual percent change
4. CoreLogic house price index, annual percent change
5. Annual growth rate
6. Annual growth to 31 December

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Appendix D: Timeline of pandemic from a monetary policy perspective (2020)

Jan-27	Border restrictions imposed on travellers who had been in China in previous 14 days
Feb-28	First COVID-19 case detected in New Zealand
Mar-14	Government announced that anyone entering New Zealand must self-isolate for 14 days (except those arriving from the Pacific)
Mar-16	OCR reduced from 1.% to 0.25%, with forward guidance it will remain at that level for 12 months
Mar-17	Government announced initial COVID-19 stimulus package of $12.1 billion
Mar-19	Government closed the border to all travellers except New Zealand citizens and permanent residents
Mar-21	Government announced its first iteration of the Alert Level System New Zealand is immediately moved up to Alert Level 2 (for two days)
Mar-23	LSAP scheme of up to $30 billion announced by RBNZ
Mar-23	New Zealand moved up to Alert Level 3 (for 2 days)
Mar-25	New Zealand moved up to Alert Level 4 (for 33 days)
Apr-7	LSAP limit increased from $30 billion to $33 billion
Apr-27	New Zealand moved down to Alert Level 3 (for 16 days)
May-13	New Zealand moved down to Alert Level 2 (for 26 days)
May-13	LSAP limit increased from $33 billion to $60 billion
May-14	Government released Budget 2020, which included a $50 billion Covid-19 stimulus package
Jun-8	New Zealand moved down to Alert Level 1
Aug-12	LSAP limit increased from $60 billion to $100 billion and RBNZ indicates preparations for FLP and negative OCR
Nov-11	FLP announced with implementation date of Dec-7

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BUDGET-SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: October Baseline Update 2022

Date:	3 November 2022	**Report No:**	T2022/2226
		File Number:	BM-2-3-2022-2

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Sign and date** the attached letters, which exclude Vote Finance and Vote Sport and Recreation	7 November 2022
Associate Minister of Finance (Hon Dr Megan Woods)	**Sign and date** the attached Vote Finance and Vote Sport and Recreation letters	7 November 2022

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Yao Yu	Graduate Budget Support Specialist, Budget Management	s9(2)(k)	N/A (mob)	✓
Claire Howard	Team Leader, Budget Management		N/A (mob)	

Minister's Office Actions (if required)

Office of Hon Grant Robertson

Send the signed and dated letters (excluding Vote Finance and Vote Sport and Recreation) to Ministers.

Return the signed report and copies of letters to the Treasury.

Send the copies of countersigned letters from Ministers that were asked to countersign to the Treasury by 14 November 2022.

Office of Hon Dr Megan Woods

Send the signed and dated Vote Finance and Vote Sport and Recreation letters to the Minister of Finance.

Return the signed report and copies of the Vote Finance, and Vote Sport and Recreation letters to the Treasury.

Note any feedback on the quality of the report	

Enclosure: **Yes (attached)**

Treasury Report: October Baseline Update 2022

Purpose of Report

1. This report seeks your approval of changes to baselines submitted by appropriation Ministers in the October Baseline Update (OBU). It is important these changes are agreed and processed in time to inform the Half Year Economic and Fiscal Update (HYEFU).

2. The changes to baselines at the OBU are generally non-contentious as they are technical in nature. Response letters advising appropriation Ministers of your decisions on their OBU submissions are attached for your approval. These letters assume you agree with the Treasury's assessment of submitted baseline updates.

3. The Associate Minister of Finance has responsibility for approving the OBU submissions for the portfolios for which you are the responsible Minister (Vote Finance, and Vote Sport and Recreation).

4. This report also outlines options for the fiscal management of items related to this baseline update, namely COVID-19 underspends, Education forecast changes, and Software as a Service (SaaS) baseline adjustments.

Baseline Updates

5. Baseline updates are technical in nature and are a means of approving technical changes between Joint Ministers, as prescribed in Cabinet Office Circular CO (18) 2. Any changes to baselines that involve significant policy decisions or new funding should be submitted to Cabinet or progressed through the Budget process.

6. Baseline updates consist of the following technical changes:

   a fiscally neutral adjustments (FNAs);

   b expense and capital transfers (ECTs);

   c updates to forecast items;

   d retentions of underspends (ROUs);

   e technical adjustments to baselines (such as asset valuations); and

   f returning savings to the Crown.

7. Baseline updates are also an opportunity for agencies to seek agreement to certain matters that only the Minister of Finance has the authority to approve under the Public Finance Act 1989 (PFA). These include the establishment of multi-category appropriations, retentions of surpluses and exemptions from performance information reporting for appropriations that meet the criteria set out in the PFA.

8. Information explaining the most significant baseline changes will be provided to you next week in an annex attached to *Treasury Report: Half Year Economic and Fiscal Update 2022 – Preliminary Fiscal Forecasts*.

Fiscal management of items related to this baseline update

9. There are three items related to this baseline update that require your decision for how to treat their fiscal impact, specifically the impact on OBEGAL and the Budget 2023 operating allowance. Two of these items have a positive impact, i.e the return of COVID-19 underspends and the impact of Education forecast changes, whereas the third, Software as a Service (SaaS) baseline adjustments, has a negative impact.

10. For items with a positive fiscal impact, you have choices in how to manage them. These fiscal management options include:

    a Looking through the fiscal impact which improves OBEGAL (and net debt), and be reflected in HYEFU

    b Charge the impact now as a positive pre-commitment against the Budget 2023 allowance (which increases the gross spending available to allocate in Budget 2023), and will be reflected in a higher unallocated Budget 2023 operating allowance in the HYEFU. Given likely pressures on the Budget 2023 allowances, we recommend this option to provide some additional headroom.

    c Consider using these fiscal savings later in the Budget 2023 process when more information is available about the pressures the Budget 2023 allowances are under.

11. For the item with a negative fiscal impact, the same options apply. However, looking through to OBEGAL will have a negative impact and therefore we recommend managing this fiscal impact by charging the item as a pre-commitment against Budget 2023 operating allowance.

12. These items have been reflected in the preliminary fiscal forecasts. Any decisions to charge the positive impacts as pre-commitments against allowances will therefore impact on the key fiscal indicators that were communicated to your office on Thursday 3 November.

COVID-19 underspends ($403.446 million positive impact)

13. As part of this baseline update, agencies have been requested to identify and return underspends related to time-limited funding in response to COVID-19. A total of $1,061.576 million underspends over 2022/23 and 2023/24 were identified in this OBU. The majority of these underspends relate to the Small Business Cashflow Scheme and the closure of MIQ.

14. These underspends are offset by the extension of the reduction in the fuel excise duty and Road User Charges from August 2022 to January 2023, costing $658.130 million. The net total of $403.446 million in underspends are being returned in this OBU. Managing this as a positive pre-commitment will increase the available Budget 2023 operating allowance by $100.9 million per annum.

15. Further information on COVID-19 Response and Recovery Fund (CRRF) underspends is in annex one attached to this Treasury report.

Education forecast changes ($425.922 million positive impact)

16. The Ministry of Education has made fiscally positive forecast changes in the 2022 calendar year of $425.944 million, which is the net impact of forecast changes across the March Baseline Update (MBU) 2022 and OBU 2022. In previous budgets, Ministry of Education in-year forecast changes have been managed against budget allowances. Managing this as a positive pre-commitment will increase the available Budget 2023 operating allowance by $106.5 million per annum.

Software as a Service (SaaS) baseline adjustments (estimated $30 million per annum negative impact)

17. As part of Budget 2022, Cabinet has agreed any reduction in depreciation expenses due to the change in accounting treatment for SaaS will result in a reduction in departmental baselines and a corresponding reduction in Crown funding (CAB-22-MIN-0129 refers). The previous best estimate of $200 million across the forecast period was counted as savings as part of Budget 2022.

18. Through OBU, agency baselines were reduced to reflect this decision, but only a total of $55.316 million across the forecast period were returned. Considering that Vote Health will complete this exercise in MBU 2022, there is at least a $150 million ($30 million per annum) difference between what was allocated (based on what was estimated to be returned) and what has been returned. As noted in paragraph 11, we recommend you manage this fiscal impact ($30 million per annum) as a pre-commitment against Budget 2023. Alternatively, you could look through this fiscal impact, noting the original estimate of savings in Budget 2022 was based on the best information available at that time.

Significant Issues Reflected in the Minister of Finance's Reply Letters

19. There are five items, outlined below, that were included in the baseline submission that we wish to draw to your attention. The first two are outlined for your information, whereas the last three recommend changes to the original OBU submission and the response letters attached include content to reflect this.

Vote Business, Science and Innovation – Reducing the appropriation that was increased due to a technical error

20. A past error by the Ministry for Business, Innovation and Employment incorrectly increased the appropriation *Research and Development Growth Grants* in Vote Business, Science and Innovation. Figures from 2023/24 onwards have already been reduced, and the last component of almost $80 million for 2022/23 is being reduced in this OBU. Due to this being an administrative error, not a policy decision, this reduction in appropriation should not be used to offset allowances.

Transfer of assets to Health New Zealand (HNZ)

21. The $874.481 million increase to the *Health Capital Envelope MCA* sought in Vote Health OBU submission enables a non-cash transaction to transfer non-departmental assets from the Ministry of Health to Te Whatu Ora | Health New Zealand. This transaction does not have a fiscal impact from a whole of Government perspective, however it will reduce the net assets administered by the Ministry of Health on behalf of the Crown. As this is a non-cash transaction, the increase in the appropriation does not allow the Ministry of Health to draw down additional cash against the Health Capital Envelope.

Declining a transfer of underspend for Vote Justice

22. The Vote Justice OBU submission proposed to transfer an underspend of $4.181 million from 2021/22 to 2022/23 in the *Justice and Emergency Agencies Property and Shared Services* appropriation.

23. We advise that this request be declined on the basis the Ministry's forecasts of expenditure for this appropriation for the current and following year show the appropriation will generate small surpluses.

Agreeing a smaller in-principal expense transfer for Vote Social Development

24. The Vote Social Development OBU submission proposed to transfer $49.456 million from 2021/22 to 2022/23 for the Care in the Community welfare response, subject to Ministerial decisions on the future of this scheme.

25. Since the submission letter was drafted, a paper has been provided to ministers to seek decisions on Care in the Community (ROB-3292 refers).

26. We recommend you agree to confirm a smaller in-principle expense transfer of $13 million to align with the preferred option to continue but tighten the Care in the Community welfare response.

Software as a Service baseline adjustments

27. As mentioned in paragraphs 17-18, this OBU included a one-off exercise for agencies to reduce baselines to reflect changes in SaaS accounting treatment. For agencies that did not amend their baselines correctly ahead of OBU submission, this was picked up through the Treasury review and incorporated in the response letters.

Approval Process and Next Steps

28. Baseline updates are designed so that Joint Ministers can jointly approve most changes under authority delegated by Cabinet, in one exercise.

29. Following the Minister of Finance's and Associate Minister of Finance's approval of these submissions, the relevant appropriation Ministers are notified of the outcome and the OBU exercise is complete.

30. Reply letters containing decisions not included in the original submission letter will need to be countersigned and sent to the Treasury for audit and controller purposes.

Recommended Action

We recommend that you:

Minister of Finance

OBU response letters

a **agree** the changes for all Votes as set out in the attached response letters, except for Vote Finance and Vote Sport and Recreation

Agree / disagree

b **agree** that all changes for 2022/23 referred to in recommendation (a) be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases in expenses and/or capital expenditure and/or departmental capital injections be met from Imprest Supply

Agree / disagree

c **sign and date** the attached letters to Ministers responsible for appropriations outlining the status of their OBU submissions, except for Vote Finance and Vote Sport and Recreation

Fiscal management of items with a positive impact

d **note** there has been a net total of $403.446 million COVID-19 Response and Recovery Fund (CRRF) underspends returned at OBU

e **note** Ministry of Education has made fiscally positive forecast changes totalling $425.944 million for MBU 2022 and OBU 2022

f **agree** to one of the three options on how to manage the fiscal implications of the items in recommendations (d) and (e)

CRRF underspends (d)	**Education forecast changes (e)**
EITHER: *let this underspend flow through to improve the Government's fiscal position (OBEGAL)*	
Agree / disagree	*Agree / disagree*
OR: *charge this amount as a positive pre-commitment against the Budget 2023 operating allowance and increase the allowance balance being published at HYEFU* ***(Treasury recommended)***	
Agree / disagree	*Agree / disagree*
OR: *consider this underspend later in the budget process when more information is available*	
Agree / disagree	*Agree / disagree*

g **note** decisions to charge these items against allowances will impact the key fiscal indicators communicated to you in the preliminary fiscal forecasts.

Software as a Service (SaaS) baseline adjustments

h **note** savings counted towards allowances at Budget 2022 included $50 million per annum for estimated baseline adjustments for reduction in depreciation expenses due to the change in accounting treatment of SaaS

i **note** there is a difference of $30 million per annum between savings estimated at Budget 2022 related to SaaS, and what has been returned at OBU

j **agree** to charge this difference as a pre-commitment against the Budget 2023 operating allowance (Treasury recommended); or **disagree** noting this fiscal impact will negatively affect OBEGAL.

Agree / disagree

Associate Minister of Finance

k **agree** all changes for Vote Finance, and Vote Sport and Recreation as set out in the attached response letters for these Votes

Agree / disagree

l **agree** that all changes for 2022/23 referred to in recommendation (k) be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases in expenses and/or capital expenditure and/or departmental capital injections be met from Imprest Supply, and

Agree / disagree

m **sign and date** the attached Vote Finance and Vote Sport and Recreation letters.

Claire Howard
Team Leader, Budget Management

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance

Annex one: Report back on COVID-19 Response and Recovery Fund Underspends

Purpose

1. This annex provides information on underspends from the COVID-19 Response and Recovery Fund (CRRF)-funded initiatives that have been identified and incorporated in the 2021/22 Financial Statements of the Government. It also provides additional details on the underspends identified and returned in this OBU.

Underspends from the CRRF

2. Table 1 outlines underspends from CRRF-funded initiatives that have been identified in recent months. The appropriated amounts are from the 2021/22 Supplementary Estimates, and the underspends are relative to those appropriations.

3. A total of $1,811.957 million in CRRF underspends were reported in the 2021/22 Financial Statements of the Government. A further $1,061.576 million over 2022/23 and 2023/24 have been identified. The return of these underspends to the centre is reflected in this OBU[1]. Most of the underspends relate to the lower than expected take-up of the Small Business Cashflow Scheme and the closing of MIQ.

4. In July 2022, Cabinet noted that the impact on the operating balance and net debt from the $658.130 million cost of the extension of the reduction in the Fuel Excise Duty and Road User Charges from August 2022 to January 2023 would be broadly neutral over the current and next fiscal year, as a result of declined transfer of unused appropriations in 2021/22 [CAB-22-MIN-0263 refers]. Therefore, relative to the 2021/22 Supplementary Estimates, the net total of underspends over 2022/23 and 2023/24 is $403.446 million.

5. Further detail on underspends is provided at the end of this annex.

Table 1: Underspends from CRRF-funded initiatives (excludes IPECTS; includes capital)

$ millions

Vote	Initiative	2021/22		2022/23 and beyond	
		Appropriated	Underspend	Appropriated	Underspend
Revenue	Small Business Cashflow Scheme	1,492.000	954.455	1,000.000	535.000
Revenue	Fair value write-downs of small business cashflow loans	639.000	408.931	428.000	176.000
Social Development	Care in the Community	269.200	36.457	123.200	-
Social Development	Leave Support Scheme	660.795	-	235.000	-
Social Development	Frontline FTEs	119.065	-	166.461	40.000
Social Development	Business support subsidy	4,870.000	166.226	-	-
Business, Science and Innovation	Event Transition Support Programme	200.000	109.150	150.000	-

[1] Except for $40 million for Frontline FTEs in the Ministry of Social Development which will be returned in the March baseline Update.

Vote	Initiative	2021/22		2022/23 and beyond	
		Appropriated	Underspend	Appropriated	Underspend
Building and construction	MIQ	853.378	66.180	282.471	229.158
Business, Science and Innovation	MIQ capital	13.423	-	-	10.601
Health	MIQ	130.248	35.457	45.015	-
Health	Care in the Community	594.510	5.526	186.155	-
Police	MIQ	9.899	-	1.449	1.449
Transport	MIQ	16.460	-	16.890	16.890
Prime Minister and Cabinet	All of Government Response	80.907	19.741	37.990	-
Customs	Traveller Health Requirement	5.700	1.700	6.400	6.400
Customs	Maritime Border Order	31.470	8.134	31.550	26.173
Customs capital return	Revenue shortfalls	-	-	162.011	19.905
Arts, Culture and Heritage	Cultural sector response	134.782	26.874	112.000	-
Sub-total		**10,120.837**	**1,838.831**	**2,984.592**	**1,061.576**
Transport	Road User Charges and Fuel Excise Duty reduction extension	-	-	-	(658.130)
Total (net)		**10,120.837**	**1,838.831**	**2,984.592**	**403.446**

CRRF underspends transferred or reforecast through OBU

6. A total of $1,920.862 million of CRR-related in-principal expense and capital transfers (IPECTs) have been confirmed already or sought for confirmation through OBU. These amounts represent potential CRRF underspends from 2021/22 but for which agencies have identified there is still a need for funding in the current financial year.

Table 2: CRRF-funded In-Principle Expense and Capital Transfers

$ millions

Vote	Initiative	IPECT	Comment
Health	Care in the Community	186.155	IPET from 2021/22 to 2022/23 confirmed early to continue the programme as long as self-isolation was required.
Health	COVID-19 Health System Response	16.000	IPET from 2021/22 to 2022/23 confirmed early to continue the response programmes.
Health	Laboratory Services	29.504	IPET from 2021/22 to 2022/23 confirmed early to continue the processing of PCR tests.
Health	Māori and Pacific Response	7.400	IPET from 2021/22 to 2022/23 confirmed early to continue provider contracts and support Māori and Pacific communities.
Health	Personal Protective Equipment	132.288	IPET from 2021/22 to 2022/23 confirmed early to ensure forward orders could continue to maintain pandemic stock levels.

Vote	Initiative	IPECT	Comment
Health	Testing	550.000	IPET from 2021/22 to 2022/23 confirmed early, primarily to complete agreed RAT purchasing and expense on hand stock once distributed.
Health	Vaccine Purchasing and Programme	479.508	IPET from 2021/22 to 2022/23 confirmed early to continue the vaccine programme, primarily for vaccine expensing following receipt of doses and vaccination related costs.
Social Development	Care in the Community	84.400	IPET from 2021/22 to 2022/23. $71.400 confirmed early; $13 million confirmed in OBU.
Social Development	Leave Support Scheme	189.394	IPET from 2021/22 to 2022/23. $75 million confirmed early $114.394 million confirmed in OBU.
Social Development	Apprentice Support	24.962	IPET from 2021/22 to 2022/23.
Social Development	Flexi-Wage	68.786	IPET from 2021/22 to 2022/23.
Social Development	Mana in Mahi	7.637	IPET from 2021/22 to 2022/23, as agreed in SWC-21-MIN-0225.
Arts Culture and heritage	Cultural sector response	35.000	IPET from 2021/22 to 2022/23.
Business, Science and Innovation	Kanoa Projects	57.848	IPET from 2021/22 to 2022/23
Business, Science and Innovation	Event Transition Support Programme	50.000	IPET from 2021/22 to 2022/23 confirmed early.
Internal Affairs	Digital skills programme	1.980	IPET from 2021/22 to 2022/23.
Total		**1,920.862**	

7. The following CRRF funding in a Multi-Year Appropriation (MYA) was underspent in 2021/22 and was automatically reforecast over the remaining period of the MYA.

Vote	Initiative	MYA underspend	Comment
Transport/Finance	Shovel ready transport projects	239.191	There were significant delays in projects in 2021/22 and some project owners were slow in claiming funds. Unspent funds are still required for projects.
Total		**239.191**	

s9(2)(f)(iv)

[redacted]

BUDGET-SENSITIVE

s9(2)(f)(iv)

[redacted]

BUDGET-SENSITIVE

BUDGET-SENSITIVE

s9(2)(f)(iv)

[redacted]

BUDGET-SENSITIVE

s9(2)(f)(iv)

[redacted]

BUDGET-SENSITIVE

s9(2)(f)(iv)

[redacted]

BUDGET-SENSITIVE

s9(2)(f)(iv)

[redacted]

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet Environment, Energy and Climate Committee 10 November 2022

Date:	4 November 2022	**Report No:**	T2022/2408
		File Number:	

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury officials.	Monday 7 November 11:00am

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Callum Lo	Analyst, Climate Change	s9(2)(k)	s9(2)(g)(ii)	✓
Nicky Lynch	Manager, Climate Change			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet Environment, Energy and Climate Committee 10 November 2022

The Treasury is aware of four items on the Cabinet Environment, Energy and Climate Committee agenda for 10 November 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury has no comments on the following papers on the agenda:

- Fisheries Amendment Act 2022: Consultation on Regulations to Support Implementation.
- Delegation of Authority to Release Consultation Papers on Proposals Relating to Product Energy Efficiency Measures.
- Implementing the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021

Proposed new waste strategy: final approval

Hon David Parker, Minister for the Environment
Treasury contact: Guy Bennett-Longley s9(2)(k) [redacted]
Sign out contact: James Haughton s9(2)(k) [redacted]

Description: This paper seeks Cabinet approval for release of the new waste strategy, *Getting Rid of Waste for a Circular Aotearoa New Zealand*.

Comments: Treasury is broadly supportive of this paper to set the strategic direction for the waste work programme across both central and local government.

We understand that the Minister for the Environment intends to take approximately six waste papers to ENV on 23 November. Four papers will seek decisions on the content of the new waste legislation, including overarching provisions, governance, measures to regulate how waste is managed, and collection and administration of the waste disposal levy.

Two substantive policy papers will seek agreement to implement a New Zealand container return scheme and to develop national standardised kerbside recycling and business food waste systems.

s9(2)(f)(iv) [redacted] We would also like to better understand some of the fiscal and regulatory implications resulting from the proposals. We are yet to receive the regulatory impact statement for these proposals.

We intend to provide you with advice across the suite of papers through a Treasury Report in the following week.

Fiscal Implications: There are no direct financial implications arising from this paper. However, release of the strategy commits Government to a strategic direction for managing waste in New Zealand, which we expect to be funded first from the waste levy, and otherwise through reprioritisation of baselines or the Budget process.

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00am on Monday 7 November.

Nicky Lynch
Manager, Climate Change

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

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Hon Kiri Allan
Associate Minister of Finance

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IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Social Wellbeing Committee Wednesday 9 November 2022

Date:	4 November 2022	**Report No:**	T2022/2409
		File Number:	MS-5-3-SWC

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	PreCab 11:00am Monday 7 November

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Olivia Silverwood	Senior Analyst, Communities, Learning and Work	s9(2)(k)	s9(2)(g)(ii)	✓
Thomas Parry	Manager, Communities, Learning and Work			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Social Wellbeing Committee Wednesday 9 November 2022

The Treasury is aware of twelve items on the Social Wellbeing Committee agenda for Wednesday 9 November 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury **supports** the following papers, with briefings below:

- Highest Needs Review: report back to Cabinet
- Ministry of Social Developments Policy Advice Appropriation
- Extending the Benefits of the Pay Equity Settlement for Social Work in the Funded Sector
- Contingency for Settlement of Pay Equity Claims
- s9(2)(f)(iv) [redacted]
- s9(2)(f)(iv) [redacted]

The Treasury has **no comments** on the following papers on the agenda:

- Adopting a revised Policy for Government's Management of its Cultural Heritage Places
- Consideration of Ex-Gratia Payment for Damages to Oranga Tamariki Caregiver
- Oral Item: Social Wellbeing Board Update
- Oral Item: Update on Gloriavale Engagement
- s9(2)(h) [redacted]
- Reforms to the Sale and Supply of Alcohol Act 2012: Licensing procedures

Ministry of Social Development's Policy Advice Appropriation

Hon Carmel Sepuloni, Minister for Social Development and Employment

Treasury contact: James Adams s9(2)(g)(ii)

Sign out contact: Keiran Kennedy s9(2)(g)(ii)

Description: This paper seeks agreement to increase MSD's Policy Advice appropriation by $5.635 million per annum from 2023/24 onwards, funded by a fiscally neutral adjustment (FNA) from within Vote Social Development.

In recent years Ministers have agreed a series of one-off FNAs during the financial year to address the pressure on MSD's Policy Advice appropriation. The proposal in this paper represents a more enduring option for addressing the pressure.

Comments: The paper follows a joint report prepared by MSD and the Treasury to the Minister of Social Development and Employment and the Minister of Finance in September on this matter (T2022/1945 refers).

In that joint report, Ministers chose a preferred funding level for MSD's Policy Advice appropriation, agreed that the increase should be met through an FNA, and asked for a Cabinet paper to be prepared to give effect to this. This paper responds to that request.

Treasury Recommendation: The Treasury **supports** this paper.

Fiscal Implications: This paper has no fiscal implications. The proposed $5.635 million per annum increase in funding for the MSD Policy Advice appropriation from 2023/24 onwards would be met through an FNA from the "Administering Income Support" category of the "Improved Employment and Social Outcomes Support" Multi Category Appropriation in Vote Social Development.

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Highest Needs Review: report back to Cabinet

Hon Jan Tinetti, Associate Minister of Education (School Operations)

Treasury contact: Ian Moore s9(2)(k)

Sign out contact: Laura King s9(2)(k)

Description: The paper seeks agreement to the direction of travel for an improved system of Learning Support, and the development of an underpinning Business Case to identify required levels of investment.

Comments: The Treasury supports the paper's aims and recommendations.

The direction of travel and seven "building blocks" for change appear a reasonable response to the challenges in the current system. However, this is a large and challenging potential work programme, with significant interdependencies with other major reforms. The implementation of reforms will need to be sequenced carefully to avoid overstretching the sector and the Ministry itself.

The paper does not have any direct fiscal implications. However, it indicates that the additional funding requirements beyond current funding levels are likely to be significant s9(2)(f)(iv) These costs will be subject to further analysis in the proposed Business Case process, with the Business Case due to be presented to Cabinet at the next report back in July 2023.

Treasury Recommendation: Support

Fiscal Implications: There are no direct fiscal implications at this stage, but this is likely to involve significant additional funding requests s9(2)(f)(iv)

Extending the benefits of the pay equity settlement for social work in the Funded Sector

Hon Chris Hipkins, Minister for Public Service

Hon Jan Tinetti, Minister for Women

Treasury contact: David Harrison s9(2)(g)(ii)

Sign out contact: Thomas Parry s9(2)(g)(ii)

Description: The paper seeks agreement to extend the benefits of the recently settled 5 NGO social work claim to the remainder of the NGO social work sector.

Comments: If agreed, this will be the first instance of the Government proactively extending the benefits of a funded sector pay equity claim under the funded sector framework.

The Government is under no direct legal obligation to meet the costs of pay equity claims in the funded sector, nor is it obliged to extend the benefits of the claim to the wider sector proactively. However, in this instance there are compelling reasons why it is appropriate to do so:

1. The NGO social worker sector is predominantly not-for-profit and relies significantly on Government funding. Failing to fund will result in service failures and/or NGO insolvencies; and
2. A proactive extension (in a reasonable timeframe) is appropriate to prevent distortion of wages across the sector and reflects that further pay equity claims would be highly likely to achieve the same outcome.

The funded sector framework requires four criteria to be met before a claim is considered for wider application. We agree that these criteria have been met.

s9(2)(f)(iv)

Treasury Recommendation: We recommend you **support** the paper.

Fiscal Implications: The only direct fiscal implication is drawing down **$0.98 million from the Between Budget Contingency** to support a mapping of the social work sector workforce outside the scope of registered social workers

	$m – increase/(decrease)					
SWRB One-off project from **2022/23 Between Budget Contingency**	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears	**5-year total**
	0.98	0.00	0.00	0.00	0.00	0.98

s9(2)(f)(iv)

Contingency for Settlement of Pay Equity Claims

Hon Chris Hipkins, Minister of Education

Treasury contact: Olivia Silverwood s9(2)(k) [redacted]

Sign out contact: Thomas Parry s9(2)(g)(ii) [redacted]

Description: This paper seeks agreement to establish a tagged operating contingency of up to s9(2)(j) [redacted] so that the Ministry of Education (MoE) can enter good faith bargaining with the NZEI Te Riu Roa to settle the Librarians' and Library Assistants' Pay Equity Claim (LPEC) and Science Technicians' Pay Equity Claim (SPEC).

Comments: The Treasury has been consulted on this paper and is supportive of it.

s9(2)(j) [redacted]

Treasury Recommendation: Support.

s9(2)(j) [redacted]

The final funding amount to be drawn down will be provided for Cabinet's consideration once the bargaining process has concluded.

s9(2)(j) [redacted]

IN-CONFIDENCE

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

[redacted]

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00am on Monday 7 November 2022.

Thomas Parry
Manager Communities, Learning and Work

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

RESTRICTED

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet Economic Development Committee 9 November 2022

Date:	4 November 2022	**Report No:**	T2022/2435
		File Number:	MS-5-4-DEV

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiritapu Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11:00am-11:45am Monday 7 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Giles Bollinger	Senior Analyst, Economic Strategy	s9(2)(k)	s9(2)(g)(ii)	✓
Chris Nees	Acting Manager, Economic Strategy			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet Economic Development Committee 9 November 2022

The Treasury is aware of 10 items on the Cabinet Economic Development Committee agenda for 9 November 2022. This report provides the Treasury's comments and recommendations and identifies any relevant fiscal impacts for three items on the agenda:

- s9(2)(f)(iv)
- Final Forestry and Wood Processing Industry Transformation Plan: Public Release
- s9(2)(f)(iv)

The Treasury has no comments on the following papers on the agenda:

- New Zealand Emissions Trading Scheme: Market Governance: Release of Discussion Document for Targeted Engagement
- Financial Market Infrastructures Act 2021: Proposed Regulations
- Future of Petroleum Block Offer Announcement
- Oral Item: Events Transition Support Payment Scheme: Second Assurance Review
- Aotearoa New Zealand Public Media Bill: Proposed Amendments
- Health and Safety in Employment (Pipelines) Regulations 1999: Proposed Updates to Standards
- Review of Geographical Indications Regime to Implement the EU-NZ Free Trade Agreement: Release of Discussion Document

The Treasury also understand that the following papers may be lodged, but does not have comments:

- Establishing the Framework for Congestion Charging in New Zealand
- Scope of Telecommunications Development Levy Liability Requirements under the Telecommunications Act 2002: Release of Discussion Document

RESTRICTED

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

[redacted]

Final Forestry and Wood Processing Industry Transformation Plan: Public Release

Hon Stuart Nash, Minister of Forestry

Treasury contact: Guy Bennett-Longley s9(2)(k)

Sign out contact: James Haughton s9(2)(k)

Description:

This paper seeks agreement to publicly release the final Forestry and Wood Processing Industry Transformation Plan (ITP).

Comments:

Treasury broadly supports this paper, although we think the paper would benefit from providing greater clarity around the quantum of future Crown investment that may be required to achieve the objectives of the ITP. s9(2)(f)(iv) However, we note there is no opportunity for new funding to be sought through the Natural Resources Cluster, outside of agreed exceptions, until 2025.

Forestry initiatives received substantial funding as part of Budget 2022. Te Uru Rākau (TUR) received $27 million over four years in Budget 2022 to support implementation of the ITP. In addition, $347 million was allocated to forestry initiatives through the Climate Emergency Response Fund (CERF) in Budget 2022 which will support achieving outcomes of the ITP. Successful drawdown of tagged contingencies across CERF initiatives would increase Vote Forestry's appropriation limit by approximately 52% for 2023/24, and 69% for 2024/25, both relative to the 2022/23 financial year.

s9(2)(f)(iv)

Treasury Recommendation: Support releasing the ITP, acknowledging potential opportunities for savings and reprioritisation due to risks associated with delivery of ITP outputs.

Fiscal Implications:

This paper has no direct fiscal implications.

Budget 2022 provided $27 million for implementation of the ITP and $347 million in new funding for CERF initiatives that will help to deliver actions out of the ITP.

We note there is no opportunity to seek new funding through the Natural Resources Cluster, outside of agreed exceptions, until 2025.

s9(2)(f)(iv) and 9(2)(j)

[redacted]

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00am on Monday 7 November 2022.

Chris Nees
Acting Manager, Economic Strategy Team

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiritapu Allan
Associate Minister of Finance

_____/_____/_______

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet 07 November 2022

Date:	04 November 2022	**Report No:**	T2022/2433
		File Number:	CO-6-2-3-5

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11:00 am Monday 7 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ash Ratnayake	Team Coordinator and support, Governance and Accountability	s9(2)(k)	N/A (mob)	
Rose Austen	Team Leader, Governance and Accountability		N/A (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

IN-CONFIDENCE

Treasury Report: Briefing for Cabinet 07 November 2022

The Treasury is aware of three substantive items and two oral items on the Cabinet agenda for 7 November 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury **supports** the following papers with briefings below:

- Natural and Built Environment Bill and Spatial Planning Bill: Approval for Introduction
- Highest Needs Review: report back to Cabinet

The Treasury has **no comments** on the following papers on the agenda:

- New Zealand Income Insurance: Decisions on Outstanding Policy Questions
- Progressing Work to Address Incitement of Hatred, Hate Crime and Discrimination

Natural and Built Environment Bill and Spatial Planning Bill: Approval for Introduction

Hon David Parker, Minister for the Environment

Treasury contact: Caitlin Daugherty-Kelly s9(2)(k) [redacted]

Sign out contact: Geraldine Treacher s9(2)(k) [redacted]

Description: This paper seeks agreement to introduce the Spatial Planning (SPA) Bill and Natural Environment (NBA) Bill to the house.

Comments: We support this paper. Based on the most recent draft of the Bills we have seen:

- the purpose of the Freshwater Working Group has been updated. s9(2)(f)(iv) [redacted] In our view, the scope of the working group mandate should allow for consideration of a wide range of options
- the outcomes section of the NBA has been amended to better reflect the intent behind the Avoidance of Doubt clause drafted by Ministers Parker and Twyford. We have engaged with MfE and MHUD officials on the updated draft and requested further changes to ensure the importance of ensuring flexible land supply is given appropriate weighting. We understand that Minister Parker's Office is considering these changes and how they could be integrated into the Bill

We have not yet sited the direction the Select Committee will receive for their review of the Bills. We are working with MfE to inform this, especially as it relates to the enabling development objective, including the Section 6 alternative mechanism put forward by the Panel and supported by Te Waihanga.

Treasury Recommendation: We **support** this paper, but we recommend the following underlined text is removed from Clause 690 – "*The purpose of the Working Group is to produce a report that considers and makes recommendations (a) on matters relating to freshwater allocation <u>under this Act</u>*" [emphasis added]

Fiscal Implications: N/A

Highest Needs Review: report back to Cabinet

Hon Jan Tinetti, Associate Minister of Education (School Operations)

Treasury contact: Ian Moore s9(2)(k)

Sign out contact: Laura King s9(2)(k)

Description: The paper seeks agreement to the direction of travel for an improved system of Learning Support, and the development of an underpinning Business Case to identify required levels of investment.

Comments: The Treasury supports the paper’s aims and recommendations.

The direction of travel and seven “building blocks” for change appear a reasonable response to the challenges in the current system. However, this is a large and challenging potential work programme, with significant interdependencies with other major reforms. The implementation of reforms will need to be sequenced carefully to avoid overstretching the sector and the Ministry itself.

The paper does not have any direct fiscal implications. However, it indicates that the additional funding requirements beyond current funding levels are likely to be significant (the paper estimates costs in the hundreds of millions of dollars per year). These costs will be subject to further analysis in the proposed Business Case process, with the Business Case due to be presented to Cabinet at the next report back in July 2023.

Treasury Recommendation: Support

Fiscal Implications: There are no direct fiscal implications at this stage, but this is likely to involve significant additional funding requests (for several hundreds of millions of dollars per year) at future Budgets.

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11am Monday 7 November 2022.

Rose Austen
Team Leader, Governance and Accountability

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2428 CM-1-3-112-1

Date: 9 November 2022

To: Minister of Finance (Hon Grant Robertson)
Minister Responsible for the Earthquake Commission
(Hon Dr David Clark)

Deadline: None
(if any)

Southern Response - Call on Uncalled Capital Facility for Q2 FY2022-23

This aide memoire is to inform you of Southern Response Earthquake Services Limited's (Southern Response's) call for $35 million in Q2 FY2022/23 under the Crown Support Deed (and its subsequent amendments and restatements). It also provides an update on Treasury's work regarding the future options for Southern Response.

Southern Response call

Under the terms of the Crown Support Deed (originally signed in April 2011 and subsequently amended and restated) Southern Response has issued, and the Crown subscribed for, $980 million uncalled ordinary shares with an issue price of $1.00 per share. At present $89 million remains uncalled under this facility.

On 28 October 2022, the Board of Southern Response approved a call notice for $35 million in uncalled ordinary shares, payable by 22 November 2022.

You have delegated the authority to "the Secretary to the Treasury" to receive notices and make payments in relation to future call notices up to $50 million (per individual call notice) on the uncalled ordinary shares facility held by the Crown, up to a total aggregate sum of $139 million [T2020/3560 refers].

Accordingly, the Secretary to the Treasury will be finalising arrangements under the Crown Support Deed for payment of the $35 million call amount to Southern Response on Tuesday, 22 November 2022. After this transaction, $54 million in uncalled ordinary shares will remain available to be called by Southern Response. This call and forecast future calls outlined in Figure 1.

Figure 1: Opening balance FY23 and projected quarterly calls on uncalled ordinary shares

Quarter beginning	Call in quarter ($m)	Cumulative calls ($m)	Balance remaining ($m)
Jul-22		891	89
Oct-22	35	926	54
Oct-23	18	944	36
Jan-24	20	964	16
Apr-24	10	974	6
Apr-25	6	980	0

Future of Southern Response

As requested by shareholding Ministers [T2022/1598 refers], the Treasury has begun exploring the future options for Southern Response in more depth. s9(2)(f)(iv) [redacted]

Zac Gadsby, Graduate Analyst, Commercial and Institutional Performance, s9(2)(k)
David Stanley, Acting Manager, Commercial and Institutional Performance, s9(2)(k)

COMMERCIAL-IN-CONFIDENCE

T2022/2392 Commercial and Institutional Performance State of Play as at 9 November 2022

To: Minister of Finance (Hon Grant Robertson)

Associate Minister of Finance, Acting Minister for State Owned Enterprises (Hon Dr Megan Woods)

Associate Minister of Finance, Acting Minister for State Owned Enterprises (Hon David Parker)

Minister for State Owned Enterprises, Minister Responsible for the Earthquake Commission (Hon Dr David Clark)

From: Olivia Paterson, Principal Advisor, Commercial and Institutional Performance

Ann Webster, Manager, Commercial and Institutional Performance

This report provides an update on current issues in relation to commercial entities and public benefit entities within the Crown portfolio. Please tick a box if you would like more information on a topic.

1. New and notable issues

Crown portfolio – Commercial entities

More info?	Entity / Issue	Update
□	**Quotable Value (QV) – Dividend and Rating Rules update** *(Catalina De Mendoza)*	On 28 October 2022, QV paid a dividend of $523,000 for its FY22 result. The dividend was higher than the $380,000 budgeted in QV's Statement of Corporate Intent. The Board decided to increase the dividend given QV's FY22 results were ahead of budget, and it is in a comfortable cash position s9(2)(b)(ii) [redacted] and has no bank debt on its balance sheet. QV's commercial valuation has increased from a low point in FY20 at $13.3m to almost double in FY22 at $26.7m. However, there are challenges ahead, s9(2)(b)(ii) [redacted] The review of the Rating Valuation Rules has been delayed. The expectation was for the process to start in 2022, however, due to the limited availability of the Office of Valuer-General, the timeline is still to be agreed. s9(2)(b)(ii) [redacted] The Treasury will keep shareholding Ministers updated on the timeline of the Rating Valuation Rules review and any impacts on QV and its mitigation strategies.
□	**Wellington 'Science City' Property Project – MetService and the Crown Research Institutes (CRIs)** *(Catalina De Mendoza)*	MBIE commissioned work on a Wellington "Science City" Proposal to explore co-location and collaboration opportunities for CRIs and other science entities in the Wellington region. The panel members appointed to lead the work programme are Steve Maharey (Chair), Dr Charlotte Severne and Professor Peter Hunter. The panel completed a mid-term review and proposed an addendum to the terms of reference. The addendum recommends that participant organisations fully explore collocation in three centres: • Centre 1: Health and Wellbeing centre s9(2)(ba)(i) and 9(2)(f)(iv) [redacted] • Centre 2: Oceans, climate and hazards s9(2)(ba)(i) and 9(2)(f)(iv) [redacted] • Centre 3: Advanced manufacturing and biotech with the centre s9(2)(ba)(i) and 9(2)(f)(iv) [redacted]

More info?	Entity / Issue	Update
		Each centre will produce a report by the end of 2022 which assesses co-location risks and benefits. The panel estimated contributions from the Crown would be approximately s9(2)(f)(iv) [redacted] s9(2)(f)(iv) and 9(2)(g)(i) [redacted] The panel chair met with the Minister of Research, Science, and Innovation on 8 November 2022 to discuss the panel midway guidance. We will keep shareholding Ministers updated on the programme an on s9(2)(f)(iv) [redacted] involvement.

Crown portfolio – Public benefit entities

More info?	Entity / Issue	Update
☐	**Stockton AMD project – update** *(Dave Hendle)*	s9(2)(f)(iv) and 9(2)(j) [redacted]

COMMERCIAL-IN-CONFIDENCE

2. Upcoming reports/Cabinet papers

Company	Report No.	Subject	Date
Project Korimako	T2022/1852	Proactive release of advice	10 November 2022
Central Crown Infrastructure Delivery	T2022/2371	Establishing a CCID - next steps	10 November 2022
Project Korimako	T2022/2462	Completion documents for execution	10 November 2022
Kiwi Group Capital	T2022/2342	Kiwi Group Capital shareholding	14 November 2022
Kiwi Group Capital	T2022/2458	Letter of Expectations	17 November 2022
Crown companies and entities	T2022/2328	Letters of Expectations for 2023/24	23 November 2022
The Lotteries Commission	T2022/2376	Letter of Expectations for 2023/24	23 November 2022
Education Payroll, Network for Learning	T2022/2378	Letters of Expectations for 2023/24	23 November 2022

3. Upcoming Governance and Appointments reports

Company	Report No.	Subject	Date	Minister
Kiwi Group Capital	T2022/2127	Aide Memoire for appointments at APH 16 November	10 November 2022	Minister of Finance Acting Minister for State Owned Enterprises (Clark)
SOE Portfolio: Kordia and MetService	T2022/2411	Update after due diligence interviews and recommended candidates	16 November 2022	Minister of Finance Minister for State Owned Enterprises

4. Official Information Act (OIA) requests under action

Ministerial OIAs (MOIAs) under action

Company	Requestor	Report No, Subject	Draft reply due to office	Final reply due to requester	Minister
SOEs	s9(2)(a)	**20220442; DC-90-2022** Request for information on any Section 7 agreements the Government has in place with State-owned enterprises	21 November 2022	28 November 2022	Minster for State Owned Enterprises
NZ Post		**20220467; OIA22-176** A copy of four NZ Post reports from 2021-2022 as mentioned in the answer to Parliamentary Written Question 39363 (2022)	23 November 2022	30 November 2022	Acting Minster for State Owned Enterprises (Woods)
KiwiRail		**20220474; DC-97-2022** All reports including the final report tendered to the Minister regarding the recent investigation into the entity form of KiwiRail	25 November 2022	2 December 2022	Minster for State Owned Enterprises

COMMERCIAL-IN-CONFIDENCE

Company	Requestor	Report No, Subject	Draft reply due to office	Final reply due to requester	Minister
RBNZ	s9(2)(a)	**20220479; 5862** Copies of all material relating to the decision to reappoint Adrian Orr as Governor of the Reserve Bank	29 November 2022	6 December 2022	Minister of Finance

Treasury OIAs (TOIAs) under action

Company	Requestor	Report No, Subject	TOIA Inform due to office	Treasury reply due to requester	Minister receiving Inform
Electricity Corporation of New Zealand	s9(2)(a)	**20220462** Request for information on the current status of ECNZ, including Minister(s) responsible, Board, Treasury contacts, queries received regarding ECNZ, and likely wind-up date	17 November 2022	25 November 2022	Minster for State Owned Enterprises
RBNZ		**20220480** Copies of any and all analysis and advice provided to the Minister of Finance or his office, or to the Board of the Reserve Bank, relating to potential (now actual) reappointment of Adrian Orr as Governor of the Reserve Bank	28 November 2022	6 December 2022	Minister of Finance

Olivia Paterson
Principal Advisor, Commercial and Institutional Performance

Ann Webster
Manager, Commercial and Institutional Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance
Acting Minister for State Owned Enterprises

Hon David Parker
Associate Minister of Finance Acting
Acting Minister for State Owned Enterprises

Hon Dr David Clark
Minister for State Owned Enterprises
Minister Responsible for the Earthquake Commission

Annex One: Entities covered by this State of Play*

Crown portfolio, excluding public benefit entities

Entities	Shareholding or Responsible Ministers
State owned enterprises	
KiwiRail New Zealand Railways Corporation	- Minister for State Owned Enterprises - Minister of Finance
Airways AsureQuality Kordia MetService Quotable Value	- Minister for State Owned Enterprises - Minister of Finance *delegated to Associate MoF (Hon Dr Megan Woods)*
Electricity Corporation of New Zealand Landcorp Transpower	- Minister for State Owned Enterprises - Minister of Finance *delegated to the Associate MoF (Hon David Parker)*
New Zealand Post	- Acting Minister for State Owned Enterprises (*Hon Dr Megan Woods*) - Minister of Finance *delegated to the Associate MoF (Hon David Parker)*
Orillion (Animal Control Products)	- Minister of Finance *delegated to Associate MoF (Hon Dr Megan Woods)* - Minister for Biosecurity
Mixed ownership model companies	
Air New Zealand	- Minister of Finance
Genesis Energy Mercury NZ Meridian Energy	- Minister for State Owned Enterprises - Minister of Finance
Airports	
Christchurch International Airport Dunedin International Airport Hawke's Bay Airport	- Minister for State Owned Enterprises - Minister of Finance
Crown entity companies	
Television New Zealand	- Minister of Finance - Minister for Broadcasting and Media
Statutory entities	
Public Trust	- Minister of Justice *delegated to Associate Minister of Justice (Hon Aupito William Sio)*
Other Crown-owned companies	
Kiwi Group Holdings	- NZ Post majority shareholder

Crown portfolio – Public benefit entities

Entities	Shareholding or Responsible Ministers
Crown entity companies	
Radio New Zealand	- Minister of Finance - Minister for Broadcasting and Media
Crown Irrigation Investments	- Minister of Finance - Minister of Agriculture
Schedule 4A entities	
Crown Infrastructure Partners	- Minister for State Owned Enterprises - Minister of Finance
Education Payroll	- Minister of Finance *delegated to Associate MoF (Hon Dr Megan Woods)* - Minister of Education
Network for Learning	- Minister of Finance *delegated to Associate MoF (Hon David Parker)* - Minister of Education
Ōtākaro	- Minister of Finance *delegated to Associate MoF (Hon Dr Megan Woods)* - Minister for Land Information
Southern Response Earthquake Services	- Minister Responsible for the Earthquake Commission - Minister of Finance
Statutory entities	
Te Waihanga	- Minister for Infrastructure
The New Zealand Lotteries Commission	- Minister of Internal Affairs

**The Treasury is the secondary monitor of Schedule 4A entities Research and Education Advanced Network New Zealand and City Rail Link Limited, and Crown Research Institutes (Institute of Environmental Science and Research, Landcare Research New Zealand, The New Zealand Institute for Plant and Food Research, National Institute of Water and Atmospheric Research, GNS Science International, AgResearch and Scion Group). The advice and commercial performance overview of these entities is provided to you by the Ministry of Business, Innovation and Employment or Ministry of Transport and is not included in the scope of this State of Play.*

BUDGET-SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Half Year Economic and Fiscal Update 2022 - Preliminary Fiscal Forecasts

Date:	Thursday 10 November	**Report No:**	T2022/2426
		File Number:	BM-1-2-3-2022-2

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the contents of this report	None

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Hannah Singleton	Senior Government Reporting Accountant, Fiscal Reporting	s9(2)(k)	N/A (mob)	✓
Kamlesh Patel	Deputy Chief Government Accountant, Fiscal Reporting		N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

BUDGET-SENSITIVE

Treasury Report: Half Year Economic and Fiscal Update 2022 - Preliminary Fiscal Forecasts

Executive Summary

This report provides a summary of the Treasury's *Half Year Economic and Fiscal Update 2022 (Half Year Update)* preliminary fiscal forecasts completed on 3 November 2022.

The fiscal outlook is still expected to improve over the forecast period, however at a slower pace when compared to the Budget Economic and Fiscal Update 2022 (*Budget Update).* This change is partly driven by the updated economic outlook, which most notably expects a much higher interest rate outlook. This has impacted on both revenue and expenses; however, the overall impact has adversely impacted on the fiscal outlook.

In addition, judgements around assumptions such as the operating top-down adjustment and estimates for pay-equity settlements have impacted the core Crown expense track over the forecast period.

Table 1 – Summary of the key fiscal indicators

Year ended 30 June	**2022 Actual**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**
$ billion						
Core Crown tax revenue	108.5	116.0	123.9	130.8	139.9	148.5
Core Crown revenue	117.5	127.6	135.4	142.5	151.7	160.1
Core Crown expenses	125.6	129.4	133.7	139.2	144.0	147.1
Total Crown OBEGAL	(9.7)	(6.1)	(1.2)	0.9	5.4	11.0
Core Crown residual cash	(27.0)	(27.0)	(17.5)	7.8	4.0	8.5
Net debt	61.9	80.3	89.5	83.3	77.7	62.9
Net core Crown debt	128.9	156.4	174.0	165.7	160.5	150.3
Total borrowings	204.0	229.4	239.6	254.3	251.5	256.1
Gross debt	119.0	138.8	158.1	178.6	179.8	185.8
Total Crown operating balance	(16.9)	(2.2)	4.5	6.8	11.8	17.8
Net worth attributable to the Crown	167.0	164.3	168.8	175.6	187.4	205.1
% of GDP						
Core Crown tax revenue	30.2%	29.7%	30.0%	30.0%	30.5%	30.7%
Core Crown revenue	32.7%	32.6%	32.7%	32.7%	33.1%	33.1%
Core Crown expenses	35.0%	33.1%	32.3%	31.9%	31.4%	30.4%
Total Crown OBEGAL	(2.7%)	(1.6%)	(0.3%)	0.2%	1.2%	2.3%
Core Crown residual cash	(7.5%)	(6.9%)	(4.2%)	1.8%	0.9%	1.8%
Net debt	17.2%	20.5%	21.6%	19.1%	16.9%	13.0%
Net core Crown debt	35.9%	40.0%	42.1%	38.0%	35.0%	31.0%
Total borrowings	56.8%	58.7%	57.9%	58.4%	54.8%	52.9%
Gross debt	33.1%	35.5%	38.2%	41.0%	39.2%	38.4%
Total Crown operating balance	(4.7%)	(0.6%)	1.1%	1.6%	2.6%	3.7%
Net worth attributable to the Crown	46.5%	42.0%	40.8%	40.3%	40.8%	42.4%

The **operating balance before gains and losses (OBEGAL)** continues to be in deficit in the near term, before returning to a small surplus of $0.9 billion in the 2024/25 year.

The improvement in OBEGAL across the forecast is reflective of a decline in the level of growth in core Crown expenditure, largely from the ending of most COVID-19 spending, while growth in tax revenue remains stable. The improvement in OBEGAL is at a slower pace than previously expected, reflecting the impact of a higher interest rate outlook and [redacted] s9(2)(j)

Core Crown tax revenue grows broadly in line with the economy and so as a percentage of GDP, is expected to remain fairly flat at around 30%. The stronger starting position from the results to 30 June 2022 is somewhat offset by the weaker macroeconomic outlook, which has meant that overall core Crown tax revenue is slightly higher than previously expected.

Core Crown expenses are expected to steadily increase over the forecast period. When excluding COVID-19 related expenditure, core Crown expenditure is forecast to increase significantly in the current year. This has contributed to the higher-than-normal top-down adjustment of $6.5 billion in the 2022/23 year.

Outside of the core Crown, results have been largely driven by ACC, who are forecasting an average OBEGAL deficit of $2.9 billion per year of the forecast period. However, this is much lower than previously expected, primarily owing to the changes in the outlook for interest rates.

Core Crown residual cash is expected to be in deficit in the first two years of the forecast period, before returning to a surplus of $7.8 billion in 2024/25, largely following the trend of OBEGAL.

Net debt is expected to peak in 2023/24 at 21.6% of GDP and decline to 13.0% of GDP by the end of the forecast period. This near-term increase is in part due to the residual cash deficits and an increase in Crown entity borrowings. Compared to the *Budget Update* net debt is expected to be higher across all years, reflecting the weaker outlook for OBEGAL and the weaker starting position of the New Zealand Superannuation Fund's financial portfolio due to weak market conditions.

Gross debt is expected to increase significantly in the first half of the forecast period, an average of $20 billion per year to 2024/25. This is largely due to higher levels of Government bonds due to the impact of managing down the Reserve Bank's LSAP portfolio.

The change in the outlook of interest rates have significantly impacted our fiscal outlook for the preliminary fiscal forecasts. Going forward if changes in interest rates differ to our expectations this will impact on both revenues and expenses as well as the value of assets and liabilities on the Crown's balance sheet. In particular, recent increases to interest rates have had a significant impact on net finance costs since the *Budget Update,* directly impacting OBEGAL.

The fiscal forecasts for inclusion in the *Half Year Update* are due to be finalised on 25 November 2022 and will include the impact of the final economic forecasts and any other decisions or material developments. These factors could potentially materially change the fiscal outlook and are outlined further in the risks to the fiscal forecasts section of this report. We will provide a report on our final fiscal forecasts in the week ending 2 December 2022.

Recommended Action

We recommend that you:

a **note** that the Treasury's preliminary fiscal forecasts for the *Half Year Economic and Fiscal Update 2022 (Half Year Update)* were finalised on 3 November 2022;

b **note** that the operating balances before gains and losses (OBEGAL) is expected to return to a small surplus of $0.9 billion in the 2024/25 year, while net debt starts falling in both nominal terms and as a share of the economy from 2023/24;

c **note** that overall, the preliminary fiscal outlook is weaker than forecast at the *Budget Update,* with net debt now expected to be higher and OBEGAL surpluses expected to be smaller than previously forecast;

d **note** that the Treasury's final fiscal forecasts for the *Half Year Update* are due to be finalised on 25 November 2022 and there will be a number of factors, such as updated economic conditions and the incorporation of any new decisions or information since 31 October 2022, that will impact these forecasts;

e **note** that rising interest rates have a pervasive impact across the fiscal forecasts, including higher net finance costs which impact on OBEGAL;

f **note** that this report covers information explaining significant baseline changes mentioned in the October Baseline Update 2022 Treasury report, and an annex on this information is not provided separately.

g **note** that a report on the final fiscal forecasts will be provided to you in the week ending 2 December 2022.

Kamlesh Patel
Deputy Chief Government Accountant

Hon Grant Robertson
Minister of Finance

Purpose of Report

1. The preliminary fiscal forecasts for the 2022 Half Year Economic and Fiscal Update (*Half Year Update)* were completed on 3 November 2022. They capture the fiscal impact from the preliminary economic forecasts completed on 4 October 2022, government decisions up to 31 October 2022, the requested changes sought through the October Baseline Update and any probable decisions or matter that are more likely than not to occur.

2. This report covers the following:
   - an overview of the preliminary fiscal forecasts and the key changes since the *Budget Economic and Fiscal Update 2022 (Budget Update);*
   - the key risks ahead of completing our final fiscal forecasts;
   - impacts of rising interest rates on the fiscal forecasts; and
   - an update on the key assumptions used in the preliminary fiscal forecasts.

Half Year Update Preliminary Fiscal Forecasts

3. The fiscal outlook continues to show an improvement across all key fiscal indicators. The operating balance before gains and losses (OBEGAL) is expected to return to surplus in the 2024/25 year, while net debt starts falling in both nominal terms and as a percentage of GDP from 2023/24. A summary of the key fiscal indicators is outlined in Table 2.

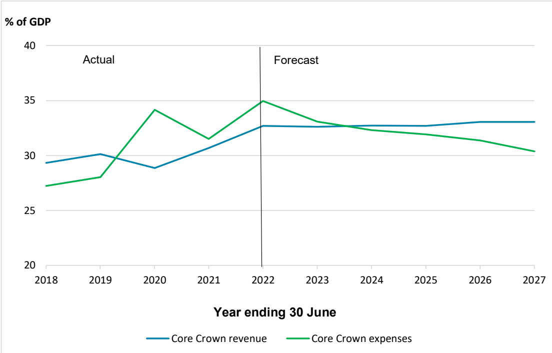
Table 2 – Summary of the key fiscal indicators

Year ended 30 June	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
$ billion						
Core Crown tax revenue	108.5	116.0	123.9	130.8	139.9	148.5
Core Crown revenue	117.5	127.6	135.4	142.5	151.7	160.1
Core Crown expenses	125.6	129.4	133.7	139.2	144.0	147.1
Total Crown OBEGAL	(9.7)	(6.1)	(1.2)	0.9	5.4	11.0
Core Crown residual cash	(27.0)	(27.0)	(17.5)	7.8	4.0	8.5
Net debt	61.9	80.3	89.5	83.3	77.7	62.9
Net core Crown debt	128.9	156.4	174.0	165.7	160.5	150.3
Total borrowings	204.0	229.4	239.6	254.3	251.5	256.1
Gross debt	119.0	138.8	158.1	178.6	179.8	185.8
Total Crown operating balance	(16.9)	(2.2)	4.5	6.8	11.8	17.8
Net worth attributable to the Crown	167.0	164.3	168.8	175.6	187.4	205.1
% of GDP						
Core Crown tax revenue	30.2%	29.7%	30.0%	30.0%	30.5%	30.7%
Core Crown revenue	32.7%	32.6%	32.7%	32.7%	33.1%	33.1%
Core Crown expenses	35.0%	33.1%	32.3%	31.9%	31.4%	30.4%
Total Crown OBEGAL	(2.7%)	(1.6%)	(0.3%)	0.2%	1.2%	2.3%
Core Crown residual cash	(7.5%)	(6.9%)	(4.2%)	1.8%	0.9%	1.8%
Net debt	17.2%	20.5%	21.6%	19.1%	16.9%	13.0%
Net core Crown debt	35.9%	40.0%	42.1%	38.0%	35.0%	31.0%
Total borrowings	56.8%	58.7%	57.9%	58.4%	54.8%	52.9%
Gross debt	33.1%	35.5%	38.2%	41.0%	39.2%	38.4%
Total Crown operating balance	(4.7%)	(0.6%)	1.1%	1.6%	2.6%	3.7%
Net worth attributable to the Crown	46.5%	42.0%	40.8%	40.3%	40.8%	42.4%

4. OBEGAL in the current year is forecast to be a deficit of $6.1 billion, an expected improvement of $3.6 billion from the deficit recorded at 30 June 2022. The OBEGAL deficit is forecast to continue to reduce over the following year, with a deficit of $1.2 billion expected in 2023/24. By 2024/25, an OBEGAL surplus of $0.9 billion is forecast, which is then forecast to grow, reaching a surplus of $11.0 billion by 2026/27.

5. The improvement in OBEGAL across the forecast is reflective of declining growth in core Crown expenditure, as temporary COVID-19 spending is expected to fall away after 2022/23 and smaller levels of funding are set aside for future Budget allowances. In contrast, growth in tax revenue remains relatively stable over the forecast period. Combined, this results in much of the expected improvement in OBEGAL (Figure 1).

Figure 1 – Core Crown revenue and core Crown expenses as a percentage of GDP

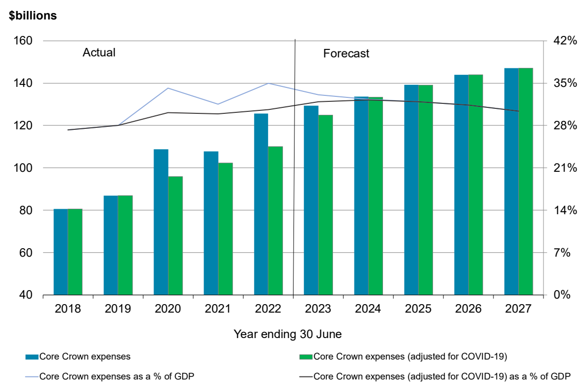


6. **Core Crown tax revenue** is expected to increase broadly in line with the economy over the forecast period meaning that, as a percentage of GDP, core Crown tax revenue is expected to remain fairly flat. Core Crown tax revenue is forecast to be 29.7% of GDP in 2022/23, growing to 30.7% by 2026/27.

7. This is partially reflective of a stronger starting point as the results to 30 June 2022 were $4.7 billion higher than expected. However, the stronger starting point does not persist through the forecast period as it is largely offset by the weaker macroeconomic outlook in the near term [T2022/2191 refers]. In 2022/23, core Crown tax revenue is expected to fall to 29.7% reflecting a drop in terminal tax revenue. By the end of the forecast period, core Crown tax revenue is expected to gradually increase to 30.7% of GDP, mainly owing to the effects of fiscal drag, excise rate indexation and recovery in macroeconomic drivers.

8. While **Core Crown expenses** are expected to increase nominally across the forecast period, as a percentage of GDP they fall from 35.0% of GDP in 2021/22 to 30.4% by 2026/27. As shown in Figure 2, a significant portion of the drop occurs in the current year owing to the drop off from COVID-19 related expenditure (e.g., the expectation of no further payments under the wage subsidy scheme and resurgence support).

Figure 2 – Core Crown expenses and core Crown expenses excluding COVID-19 costs



9. When excluding COVID-19 related expenditure, core Crown expenses show a different trend. The baseline expenditure of the core Crown (excluding COVID-19) is forecast to increase significantly in the first year of the forecast, with an increase of $13.6 billion (or 12.7%) expected from the 2021/22 actual results. Over the remaining forecast period, the growth is minimal, averaging just 0.7% growth per annum from 2022/23, as illustrated in Table 3 below.

10. The increase in baseline expenses in 2022/23 is significantly higher than historic trends, even when excluding the impact of COVID-19 on expenses. When looking through COVID-19, the average uplift in expenses over the previous 5 years is around 8.6%, compared to the 12.7% uplift expected for 2022/23 in these preliminary fiscal forecasts. This has contributed to the higher-than-normal top-down adjustment in the 2022/23 year (refer Table 3), which brings the total core Crown expenses track down to a more achievable profile, given constraints in the economy.

Table 3 – Breakdown of core Crown expenses over the forecast period

$millions	2021/22 Actual	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Total core Crown expenses	125,641	129,369	133,663	139,156	143,997	147,149
Less significant COVID-19 expenditure	15,546	4,411	308	24	12	15
Less Finance costs	2,884	5,559	6,925	7,681	7,764	7,757
Less Forecast new operating spending	-	5,045	6,572	10,996	14,112	16,148
Less Top-down adjustment	-	(6,500)	(1,900)	(1,300)	(1,400)	(1,000)
Baseline expenditure (excluding COVID-19 expenditure)	**107,211**	**120,854**	**121,758**	**121,755**	**123,509**	**124,229**

11. The increase in baseline expenditure (excluding COVID-19) between 2021/22 and 2022/23 has primarily been driven by the following:

- $6.8 billion of new funding allocated through Budget 2022, impacting the 2022/23 year (this covers both the core Budget package and climate change new spending). The largest areas by expense functional classification include around $2.0 billion for Health, $1.0 billion for Social Development, $0.7 billion for Education and $0.5 billion for each of Transport and Environmental Protection.
- $2.1 billion of operating expense transfers from 2021/22 (excluding COVID-19 related transfers);
- $1.7 billion increase in New Zealand Superannuation payments, which increase as they indexed to wage growth and changes in demographics;
- $0.8 billion for the Cost-of-Living payments, announced at Budget 2022; and
- $0.7 billion increase in ETS expenses, driven by increases in the forecast number of NZ units to be allocated to market participants for free.

12. Beyond 2022/23, baseline expenditure is expected to remain relatively flat on a nominal basis as COVID-19 expenditure drops away. Future new spending decisions are reflected through the ‘forecast new operating spending’ line in Table 3 which incorporates the remaining operating Budget allowances, tagged contingencies and pay equity forecasts.

13. A significant lift in core Crown finance costs is expected from $2.9 billion reported in the 2021/22 year to $7.8 billion by 2026/27, primarily reflecting the impact of higher interest rates. Further discussion on the impact of interest rates on the forecast are outlined on pages 12-13.

14. Outside of the core Crown, **the results of Crown entities and SOE's** (including eliminations) are expected to be an OBEGAL deficit of $4.3 billion in 2022/23, narrowing to a deficit of $2.0 billion by 2026/27. These results have been largely driven by ACC, who are forecasting an average OBEGAL deficit of $2.9 billion per year of the forecast period, driven by high insurance expenses. Inflation is a large driver of these increased costs, alongside other factors, including growing claim numbers.

15. A **core Crown residual cash** deficit is expected in the first two years of the forecast period, before returning to a surplus of $7.8 billion in 2024/25. The overall cash deficit across the forecast period is $24.1 billion, with the cash shortfall largely being funded through additional borrowing and using financial assets.

16. The trend in cashflows from operating broadly follows a similar trend to the OBEGAL forecast, with deficits forecasts in the near term, before returning to surplus in the latter years as growth in tax receipts outpaces growth in operating payments. Overall, cashflows from operating are expected to generate around $29.4 billion of cash over the forecast period.

17. Overall net capital cashflows total $53.5 billion across the forecast period so have a significant impact on the residual cash track. In the near-term net capital cashflows are significantly high but are much smaller over the last few years of the forecast period, primarily reflecting the trend in the Funding for Lending Programme.

18. Net capital cashflows can be spilt into investments for non-financial assets (that impact on net debt) and financial assets (neutral on net debt). Notable increases in non-financial assets over the forecast period include:

    - Net purchase of investments totalling $24.5 billion over the forecast period. This includes the Government acquisition of Kiwibank's parent company, Kiwi Group Holdings (KGH), which has a net cost of $1.4 billion in 2022/23 in these preliminary fiscal forecasts. This is based on a transaction price of $2.1 billion, partially offset by the receipt of a special dividend of $0.7 billion from NZ Post [T2022/2242 refers]; and
    - Net purchase of physical assets totalling $17.2 billion over the forecast period; and
    - Forecast for future new capital spending of $7.8 billion over the forecast period, which primarily reflects capital tagged contingencies and the majority of the remaining Multi-Year Capital Allowance (MYCA).

19. Cashflows associated with financial assets (e.g advances) do not impact on the net debt level but do continue to impact the residual cash forecasts. For example:

    - The Reserve Bank's Funding for Lending Programme (FLP) forecasts $6.5 billion of advances issued in the current year (reaching a peak of $19.0 billion of issued loans in 2022/23) before being fully repaid by 2025/26.
    - The decision for Kāinga Ora borrowings to be through the Crown rather than the private market going forward, has added around $14.0 billion to the residual cash deficit over the forecast period;

20. **Net debt** is also expected to increase in the near term, partially due to the residual cash results and partly due to increases in Crown entity borrowings. Net debt is expected to peak in 2023/24 at $89.5 billion or 21.6% of GDP and decline to 13.0% of GDP ($62.9 billion) by the end of the forecast period, reflecting the improvement in cashflows from operating and steady growth in the financial portfolio of the New Zealand Superannuation Fund. Refer to Table 4 below for the reconciliation between net debt and net core Crown debt.

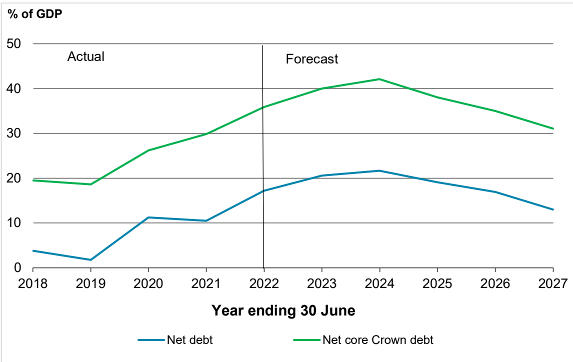
Table 4 – Reconciliation between net debt and net core Crown debt

HYEFU 22 - prelim forecasts

$millions	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Net debt (incl. NZS Fund)	**80,281**	**89,482**	**83,261**	**77,749**	**62,926**
Less NZS Fund net financial assets	58,822	64,985	70,355	76,159	82,504
Less FLP advances	19,049	16,009	6,717	-	-
Less other core Crown advances	17,670	22,778	25,544	27,482	26,605
Less Crown entity borrowings	(19,456)	(19,280)	(20,158)	(20,924)	(21,755)
Net core Crown debt	**156,366**	**173,974**	**165,719**	**160,466**	**150,280**

21. The residual cash results mentioned above flow through to **net core Crown debt** which is expected to grow up to 2023/24, peaking at $174.0 billion (42.1% of GDP) before declining over the remaining forecast as the residual cash position returns to surplus. By 2026/27 net core Crown debt is expected to fall to $150.3 billion or 31.0% of GDP. Figure 3 below shows the tracks for both net debt and net core Crown debt over the forecast period.

Figure 3 – Net debt and net core Crown debt



22. **Gross debt** is expected to increase significantly, from $119.0 billion in 2021/22 to $185.8 billion by 2026/27. The majority of the increase occurs in the first half of the forecast period, as gross debt is expected to increase by an average of $20 billion per year to 2024/25, before levelling off over the remaining years. This increase has been driven by:

- Higher levels of Government bonds due to the impact of exiting the Reserve Bank's Large Scale Asset Programme (LSAP). The issuance of Government bonds is expected to increase gross debt by $113.7 billion over the forecast period. Although repayments of Government bonds of $101.1 billion are expected over the forecast period, a portion of these repayments will relate to purchasing the Reserve Bank's LSAP portfolio. As the expected repayments to the Reserve Bank are within the Crown, they do not flow through to reduce the balance of gross debt over the forecast period. However, this increase in Government bonds are largely offset by reductions in settlement cash held by the Reserve Bank, which does not form part of gross debt.

- Increases to the bond programme to reflect Kāinga Ora borrowings now being funded by the Crown rather than through private markets (around $14.0 billion).

23. By the end of the forecast period, **net worth attributable to the Crown** is forecast to be $205.1 billion, or $38.1 billion higher than the audited results at 30 June 2022. The overall increase mainly reflects the forecast total Crown operating balance surplus (totalling $38.7 billion across the forecast period), which includes the OBEGAL results as well as other external factors impacting gains and losses. However, when looked at as a percentage of GDP, net worth attributable to the Crown is expected to be 42.4% of GDP in 2026/27, around 4.1 percentage points lower than at 30 June 2022.

Changes in the fiscal forecast since the *Budget Update*

24. Overall, most key fiscal indictors are now expected to be weaker than forecast at the *Budget Update,* by the end of the forecast period. A comparison of the key fiscal indicators to the *Budget Update* forecasts is included in Table 5 below.

Table 5 – Changes in key fiscal indicators compared to the *Budget Update*

Year ended 30 June $ billion	Actual 2021/22	Forecast 2022/23	2023/24	2024/25	2025/26	2026/27
Core Crown tax revenue - Half Year Update 2022 - preliminary	**108.5**	**116.0**	**123.9**	**130.8**	**139.9**	**148.5**
Core Crown tax revenue - Budget Update 2022 - final	108.5	116.1	122.7	129.9	138.5	
Total Change		**(0.1)**	**1.2**	**0.9**	**1.4**	
Core Crown expenses - Half Year Update 2022 - preliminary	**125.6**	**129.4**	**133.7**	**139.2**	**144.0**	**147.1**
Core Crown expenses - Budget Update 2022 - final	125.6	127.1	131.1	134.1	138.2	
Total Change		**(2.3)**	**(2.6)**	**(5.1)**	**(5.8)**	
OBEGAL - Half Year Update 2022 - preliminary	**(9.7)**	**(6.1)**	**(1.2)**	**0.9**	**5.4**	**11.0**
OBEGAL - Budget Update 2022 - final		(6.6)	(2.6)	2.6	7.0	
Total Change		**0.5**	**1.4**	**(1.7)**	**(1.6)**	
Residual cash - Half Year Update 2022 - preliminary	**(27.0)**	**(27.0)**	**(17.5)**	**7.8**	**4.0**	**8.5**
Residual cash - Budget Update 2022 - final		(29.3)	(9.3)	7.9	17.7	
Total Change		**2.3**	**(8.2)**	**(0.1)**	**(13.7)**	
Net core Crown debt - Half Year Update 2022 - preliminary	**128.9**	**156.4**	**174.0**	**165.7**	**160.5**	**150.3**
Net core Crown debt - Budget Update 2022 - final		163.7	173.3	165.4	147.9	
Total Change		**7.3**	**(0.7)**	**(0.3)**	**(12.6)**	
Net debt[1] - Half Year Update 2022 - preliminary	**61.9**	**80.3**	**89.5**	**83.3**	**77.7**	**62.9**
Net debt[1] - Budget Update 2022 - final		75.0	83.6	76.4	69.5	
Total Change		**(5.3)**	**(5.9)**	**(6.9)**	**(8.2)**	
% of GDP, June years						
Net core Crown debt - Half Year Update 2022 - preliminary	**35.9**	**40.0**	**42.1**	**38.0**	**35.0**	**31.0**
Net core Crown debt - Budget Update 2022 - final		40.8	41.2	37.5	31.9	
Net debt[1] - Half Year Update 2022 - preliminary	**17.2**	**20.5**	**21.6**	**19.1**	**16.9**	**13.0**
Net debt[1] - Budget Update 2022 - final		18.7	19.9	17.3	15.0	

1 Net debt is the 'new' net debt fiscal indicator which includes core Crown advances, Crown entity borrowings and the NZS Fund.

25. **OBEGAL** forecasts are slightly stronger in the near term compared to the *Budget Update* but is then weaker than previously forecast for the remaining forecast period. OBEGAL is expected to return to a small surplus of $0.9 billion in 2024/25, the same year as expected at the *Budget Update.*

26. The near-term improvement has been driven by a combination of higher tax revenue forecasts, our judgements around the top-down adjustments and stronger ACC results (mainly from lower expenditure due to interest rate changes), but in the later years of the forecast this improvement has been more than offset by the impact of higher finance costs, benefit expenses and s9(2)(j)

27. **Core Crown tax revenue** is expected to be in line with the *Budget Update* for the current year and is then expected to be higher than previously forecast by an average of $1.2 billion per annum for the remaining forecast period. Although the updated economic conditions were weaker than previously expected, a stronger starting position (from the results to 30 June 2022) has resulted in marginal increases to tax revenue forecasts.

28. **Core Crown expenses** have increased by around $2.5 billion per annum in the near term, but this widens to over $5.0 billion higher than the *Budget Update* from 2024/25, which exceeds the increase in tax revenue discussed above. The main drivers of the increase in order of magnitude are:

- *Core Crown finance costs* have increased by an average of $2.3 billion per annum over the forecast period when compared to the *Budget Update*. This is driven by higher yields on issuance, CPI Indexation increase and a larger bond programme due to increased lending to Kāinga Ora. This increase is partially offset by higher interest revenues, refer to the impact of interest rate changes on the fiscal forecast section of this report for further details of the changes.
- s9(2)(j) [redacted]
- *Expenses from the Emissions Trading Scheme (ETS)* are forecast to increase by a total of $1.3 billion. The change is mainly owing higher forecast levels of free allocations of NZ Units as well as an increase in the market price of New Zealand Units (NZUs) from $75.90 per unit used in the *Budget Update* to $78.00 per unit used for the preliminary fiscal forecasts (based on the market price at 30 September 2022). This has been partially offset by higher ETS revenues of $0.4 billion from the surrendering of NZUs.
- *Benefit expenses* have marginally increased by a total of $0.2 billion, largely owing to a stronger wage track (as most benefits are indexed to wage growth), partially offset by a decrease in recipient numbers.

29. Outside of the core Crown, **ACC's results** were on average $1.2 billion per annum better than forecast at the *Budget Update.* This is primarily owing to increases in interest rates since the *Budget Update,* that have impacted on the discount rates used to value the ACC outstanding claims liability. The impact of changes in discounts rates has reduced the liability and therefore led to a reduction in expenses compared to the *Budget Update*. Refer to the impact of interest rates section of this report for further details of how increasing interest rates impact the fiscal forecasts. In addition, revenue forecasts have increased from increased liable earnings in Work and Earners' Accounts due to increased workforce participation and increased salaries and wages.

30. **Core Crown residual cash** deficits are cumulatively $19.7 billion higher than the *Budget Update*, which is partly owing to the same drivers as OBEGAL as discussed above (with the exception of ACC results). In addition, around half of the change is driven by capital investments, in particular:
    - the decision for Kāinga Ora borrowings to be through the Crown rather than the private market going forward, has added around $14.0 billion to the residual cash deficit over the forecast period;
    - partially offset by the forecast for the Funding for Lending programme (FLP) has been reduced by around $3 billion reflecting lower expectation around the take-up of the programme.

31. Both of the changes in capital investments mentioned above impact on financial assets that are included in the calculation of net debt, therefore will not flow through to impact on forecast of net debt.

32. **Net debt** is initially around $5.3 billion higher in 2022/23 than previously forecast, mainly owing to forecast increases in Crown entity borrowings (Kāinga Ora) which is mainly timing in nature, and lower net financial assets of the NZS Fund owing to weaker market conditions. By 2025/26, net debt is expected to be $8.2 billion higher than the *Budget Update,* which is driven by a combination of the weaker starting position of the NZS Fund along with some of the drivers impacting on OBEGAL such as the higher net finance costs, s9(2)(j) [redacted] and slightly higher tax revenue.

33. In the current year, **net core Crown debt** is expected to be $7.3 billion lower than previously expected which is due to a combination of a stronger starting position from the results to 30 June 2022 and the residual cash improvement in this year. Beyond the current year, the weaker residual cash forecasts contribute to an increase in net core Crown debt, which is now expected to be around $16.6 billion higher than previously forecast by 2025/26.

Impact of rising interest rates on the fiscal forecasts

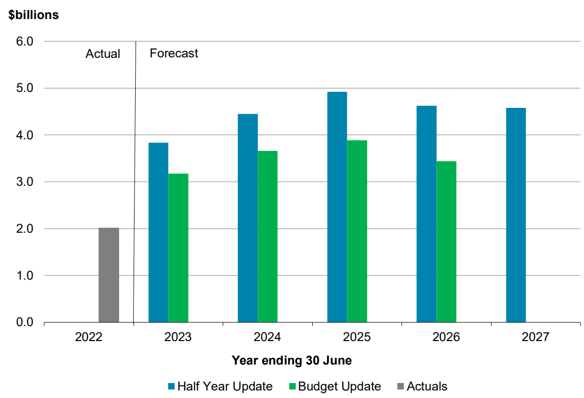
34. These preliminary fiscal forecasts take into account the forecast for interest rates based on the preliminary economic forecasts. Recent trends have seen large increases in interest rates, which have had significant impacts on the fiscal results. If the increases in interest rates continue to exceed our expectations, there will continue to be significant implications for the fiscal forecasts going forward.

35. Changes to interest rates have impacts on the financial performance, both to revenues and expenditure, as well as the fiscal position through assets and liabilities of various government reporting entities, in particular the NZS Fund, ACC and the Treasury.

36. Resident withholding tax (RWT) on interest and dividends earned from bank accounts and investments held in New Zealand has increased by $142 million over the forecast period since the *Budget Update.* In addition, core Crown interest revenue on interest bearing assets has increased by $5.6 billion over the forecast since the *Budget Update,* largely owing to higher interest rates.

37. However, this is more than offset by increases in core Crown finance costs, which have increased by a total of $9.3 billion since the *Budget Update*. The impact to finance costs from increases to interest rates is both immediate and delayed depending on the forms of borrowing (e.g. short-term Treasury bills versus longer-term Government Bonds). Figure 4 below illustrates the increases in the net core Crown finance costs since the *Budget Update.*

Figure 4 – Core Crown net finance costs compared to the *Budget Update*



38. The increase in net core Crown finance costs across the forecast period, since the *Budget Update,* is due to a combination of the following:

    - **Higher interest rates** - average issuance yields on Government bonds have increased by 1.6%, from 2.8% to 4.4% and Treasury Bill yields have increased by 1.7% since the *Budget Update,* which combined have contributed around $2.7 billion to the increase in net finance costs.
    - **CPI indexation increases** impacting on inflation indexed bonds have added around $0.4 billion to net finance costs.

39. The impact of a larger bond programme (due to Kāinga Ora borrowing) is broadly neutral to net finance costs at a core Crown level, as the additional finance costs are offset by higher interest revenues earned on the lending.

40. Investment portfolios returns and the value of derivative financial instruments are also impacted by increasing interest rates. Alongside other market factors, this can result in significant gains or losses on financial instruments being recorded, leading to volatility in the total Crown operating balance and net debt.

41. In addition, the value of non-financial assets and liabilities are also impacted by interest rates, as interest rates form the basis for the valuations of some of the Government's assets and liabilities (including student loans and the ACC insurance liability). As interest rates increase it would be expected that increased gains from long-term valuations would be recognised, as the present value of the liability decreases.

Risks to the fiscal forecasts

42. We expect a number of changes to impact the final fiscal forecasts for the *Half Year Update 2022*. These will include a combination of updates based on final economic forecasts, new decisions made since 31 October 2022 and updated information made available since the preliminary fiscal forecasts were completed.

43. Final economic forecasts, completed on 9 November, will primarily impact on forecasts for tax revenue, benefit expenditure and net finance costs. We will report to you on the final economic and tax forecasts on 21 November 2022.

44. Budget Ministers have now met to make decisions on the level of new spending to be signalled in the 2023 Budget Policy Statement (BPS). The decision to increase the Multi-year Capital Allowance (MYCA) to $12.0 billion for Budget 2023 through to Budget 2026 will be captured in our final fiscal forecasts.

45. Decisions taken around the size of the Climate Emergency Response Fund (CERF) since finalising the preliminary fiscal forecasts will have fiscal impacts. A decision to top-up the CERF will increase the unallocated portion of the CERF and, with our current assumption of 90% of the CERF being used for operating expenditure, have an unfavourable impact on OBEGAL over the forecast period.

46. We are also aware of other decisions which may occur in time to be incorporated into the final fiscal forecasts. This includes the decision to consult on levy settings for the NZ Income Insurance Scheme. If a decision is made to consult on levies to that do not fully cover the costs associated with the scheme, there would be a funding gap which would have to be met by the Crown. This would result in an unfavourable impact to the key fiscal indicators by the amount of the funding gap over the forecast period.

47. Additionally, if decisions are made to change the legislated volumes of NZ units auctioned through the Emissions Trading Scheme (ETS), this could impact the forecasts for ETS cash proceeds raised through these auctions.

48. The ETS transactions within the final fiscal forecasts will also be updated to reflect more recent market price information for NZ units. The final fiscal forecasts will reflect the market price of NZ Units at 31 October 2022 ($85.00 per unit) which is a $7.00 increase from the 30 September 2022 price of $78.00 used for the preliminary fiscal forecasts. All else equal, this will result in an unfavourable impact to OBEGAL and the operating balance (through higher net expenses and losses on revaluation of the ETS liability) and an improvement to net debt (through higher cash proceeds generated from the ETS auctions).

BUDGET-SENSITIVE

Update on Key Assumptions used in the Preliminary Fiscal Forecasts

49. We have previously communicated our initial positions on the key assumptions and judgements to be used in the preliminary fiscal forecasts [T2022/2242 refers].

50. We have made updates to one assumption since our previous communication with you, which is the operating top-down adjustment. We have increased the operating top-down adjustment by $0.6 billion, to $6.5 billion in the 2022/23 year only.

51. The increase was driven by an assessment of the overall level of core Crown expenditure in the current year once our forecast was near completion. The increase was necessary to bring the expenditure forecast in 2022/23 down to a realistic level based on professional judgement and historic analysis. Table 6 below shows the final operating top-down adjustment used in the preliminary fiscal forecasts.

Table 6 – Operating top-down adjustment.

HYEFU 22 - prelim forecasts					
$millions	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Operating	6,500	1,900	1,300	1,400	1,000

s9(2)(j)

[redacted]

Next Steps

53. The final fiscal forecasts for inclusion in the *Half Year Update* are due to be finalised on 25 November 2022. The final fiscal forecasts will incorporate updated economic forecasts that underpin the forecasts for tax revenue, benefit expenses and net finance costs. The report will also include the impact of all significant Cabinet decisions taken or likely to be taken prior to the completion of the final fiscal forecasts.

54. We will provide you with a report in the week ending 2 December 2022 outlining our final fiscal forecasts.

BUDGET-SENSITIVE

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Social Wellbeing Committee Wednesday 16 November 2022

Date:	11 November 2022	**Report No:**	T2022/2483
		File Number:	MS-5-3-SWC

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11:00AM Monday 14 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Thulacksha Thayarooban	Graduate Analyst, Communities, Learning and Work	s9(2)(k) [redacted]	s9(2)(g)(ii) [redacted]	✓
Laura King	Team Leader, Communities, Learning and Work			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Social Wellbeing Committee Wednesday 16 November 2022

The Treasury is aware of eleven items on the Social Wellbeing Committee agenda for Wednesday 16 November 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury **supports** the following papers, with briefings below:

- Arms Regulations 1992: Proposed changes to fees – Approval to release discussion document
- Addressing the impacts of pay disparities in the health funded sector
- Responding to the Royal Commission into Historical Abuse in Care's Redress Findings: Arrangements and Parameters for High-Level Design of New Redress System

The Treasury has **no comments** on the following papers on the agenda:

- s9(2)(f)(iv)
- Responding to fleeing Drivers and Intimidating Behaviour using Vehicles
- Regulation of Methamphetamine Contamination in Rental Housing: Release of Consultation Document
- Oral Item: Update on the Health Strategy
- Approval to Amend the Radiation Safety Regulations 2016
- Residential Tenancies (healthy Homes Standards) Amendment Bill: Approval for Introduction
- Funding Shakespeare Globe Centre New Zealand from the Prime Minister's Emerging Priorities Contingency
- Social Security (Accommodation Supplement) Amendment Bill: Approval for introduction

Arms Regulations 1992: Proposed changes to fees - Approval to release discussion document

Hon Chris Hipkins, Minister of Police

Treasury contact: Reuben Alfred s9(2)(k)

Sign out contact: Colin Hall s9(2)(k)

Description: The paper seeks approval to release a consultation document on revised fee options for firearms licensing and related activities to offset the costs associated with the costs of Arms Safety and Control regime. The fees have not been updated since 1999.

Comments: Following Ministerial consultation, a 75% cost recovery option has been included in the discussion document, in addition to the 25% and 50% options. The additional option will provide Ministers a broader range of feedback to consider when making the decision on fee setting following this consultation.

When taking final decisions of fee arrangements, Ministers will need to consider the balance of costs borne by licence holders, based on their largely private benefit, and the Crown, for the public benefit of the regulating regime, as well as how best to reduce potential non-compliance from a sector that has previously been largely unregulated.

We consider there is benefit in including a 100% option in the discussion document, so that Ministers have fuller information available when making the fee setting decision in the future.

We understand Police has the 100% option on standby so its inclusion in the discussion document would be straight forward. A 100% cost recovery option would mean the 10-year fee will be $970. This is comparable to other Australian jurisdictions such as Victoria ($1030), Queensland ($1,716) and ACT ($907). It is also comparable to the 10-year costs of a New Zealand fishing license ($1,370) and dog license (an average of $849).

Treasury Recommendation: Support but consider whether you wish to request that the 100% cost recovery option is also included on the discussion document.

Fiscal Implications: The paper does not have direct fiscal implications, although it does set a public expectation around the upper limit of fee increases which could be used to offset the cost of the programme.

The Budget 2022 Justice Cluster package provides $208 million over the forecast period towards the costs of establishing the firearms licencing regime. Cost recovery will reduce the funding requirement but under Justice Cluster rules agreed by Cabinet the majority of this funding can be retained by the Justice Cluster to fund other cost pressures or new priority initiatives.

Addressing the impacts of pay disparities in the health funded sector

Hon Andrew Little, Minister of Health

Treasury contact: Justin Alsleben s9(2)(k) [redacted]

Sign out contact: Jess Hewat s9(2)(g)(ii) [redacted]

Description: This paper seeks Cabinet agreement to set aside funding in a tagged contingency to improve pay relativities between funded sector and Te Whatu Ora employed nurses and kaiāwhina.

Comments: The Treasury supports this paper, s9(2)(g)(i) [redacted]

Treasury Recommendation: Support this paper and:

s9(2)(g)(i) [redacted]

Fiscal Implications: This paper seeks to establish a tagged contingency of $840 million over the forecast period as outlined below:

	Operating ($million)				
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27 & outyears**
Improving pay relativities for funded sector health workers - Tagged operating contingency	40.000	200.000	200.000	200.000	200.000

This is proposed to be charged outside Budget allowances, meaning there will be a corresponding impact on OBEGAL and net debt.

s9(2)(g)(i) [redacted]

Responding to the Royal Commission into Historical Abuse in Care's Redress Findings – Arrangements and Parameters for the High-Level Design of a New Redress System

Hon Chris Hipkins, Minister for Public Service

Treasury contact: Daniel White s9(2)(g)(ii)

Sign out contact: Keiran Kennedy s9(2)(g)(ii)

Description: In December 2021 the Royal Commission recommended the establishment of a new independent redress system. This paper seeks agreement on the arrangements to develop the high-level design of the system, including:

- appointing a design group with members representing survivors and subject matter experts such as support service providers;
- adopting the principles, purpose and functions for the new redress system recommended by the Royal Commission; and
- endorsing in-principle scope parameters to assist the design process

Comments: The Treasury is broadly supportive of this paper, however we note there are a number of risks to be managed as this work shifts to the high level design phase. Ministers should consider how much oversight they want to have in this phase, other than being presented with high-level proposals in July 2023 (rec 15). If a higher level of oversight is desired then this could be specified in the Terms of Reference (ToR) for the design group.

The cost of the new redress system is likely to be high, but it is subject to considerable uncertainty, particularly around the number of survivors who may access the system. The cost of the system will be driven by the number of survivors, the mix of support services offered, and the size of redress payments offered. The paper includes a table on page 16 that provides illustrative cost estimates given assumptions for those key parameters. These see the lifetime cost of the system ranging from $160 million to $29 billion.

Scope: This paper seeks endorsement (rec 4) of in-principle scope parameters that would impact the system's cost, specifically that the redress system should include:

- **both State and non-State survivors** (subject to agreeing suitable funding mechanisms with non-State institutions);
- **current and future survivors** (to prevent the need for parallel systems or processes to be established in the future)

These parameters would be largely consistent with the Royal Commission's recommendations. While we do not disagree with these parameters, they together with the high-level proposals (rec 13) would shape the design group's work and may be difficult to move away from when Cabinet ultimately approves the redress scheme design in 2023. If Ministers are concerned about the managing the scope of the new system, Ministers may provide more direction on the parameters in rec 13.

The paper also invites officials to carry out further work on the potential inclusion of whānau in the new system, looking at the harms experienced by whānau as indirect survivors (refer para 54 and rec 5). Inclusion of whānau within the scope of the new system is a significant decision on the scope for the new system that Ministers may decide to exclude in the early design phase.

Terms of Reference (ToR): Rec 16 seeks agreement that the ToRs for the design group are approved by the Minister for the Public Service. Given the significance of this new system, Cabinet may wish to consider these ToRs together with the appointment of the members of the design group.

s9(2)(f)(iv)

s9(2)(f)(iv)

[redacted]

Treasury recommendation: Support the paper, and consider raising at the Cabinet Committee discussion:

- **the level of oversight** that Ministers need during the design phase and whether this should be reflected in the ToRs;
- **whether** Ministers wish to provide more direction on the parameters of the design work in rec 13;
- **whether** the ToRs for the design group need to be considered by Cabinet together with the appointment of the members of the design group
- **whether** Ministers need separate advice from officials on funding principles ahead of the ToRs or are able to provide direction through this paper on funding parameters

Fiscal Implications: The paper has no direct fiscal impacts. It refers to Cabinet agreeing in July 2022 to funding being sought through Budget 2023 for immediate projects to improve survivors' current redress experiences. It also provides illustrative costs of the new redress system (see the table on page 16 of the paper). Noting that the design of the new system has previously been included as a SFR.

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00am on Monday 14 November 2022.

Laura King
Team Leader, Communities, Learning and Work

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

RESTRICTED

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet Economic Development Committee 16 November 2022

Date:	11 November 2022	**Report No:**	T2022/2490
		File Number:	

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiritapu Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11:00am Monday 14 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
James Bibby	Analyst, Economic Strategy	s9(2)(k)	s9(2)(g)(ii)	✓
Chris Nees	Acting Manager, Economic Strategy			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

RESTRICTED

Treasury Report: Briefing for Cabinet Economic Development Committee 16 November 2022

The Treasury is aware of nine items on the Cabinet Economic Development Committee agenda for 16 November 2022. This report provides the Treasury's comments for five items on the agenda:

- Water Services Entities: Systems of Record Implementation Business Case
- Strengthening New Zealand's Supply Chain Resilience
- Release of the Advanced Manufacturing Industry Transformation Plan
- Game Development Sector: Proposed Support
- s9(2)(f)(iv)

The Treasury has no comments on the following papers on the agenda:

- Southern Positioning Augmentation Network: Progress Report
- Freedom Camping: Regulatory Policy Proposals
- Plant Variety Rights Scheme Fees Review 2022: Proposed Fees
- Prolonged Tethering of Dogs, and Subgingival Dental Procedures in Dogs and Cats: Release of Consultation Document

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s9(2)(f)(iv)

[redacted]

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s9(2)(f)(iv)

[redacted]

Release of the Advanced Manufacturing Industry Transformation Plan

Hon Stuart Nash, Minister of Regional and Economic Development

Treasury contact: Sym Pandey s9(2)(k)

Sign out contact: John Marney s9(2)(k)

Description:

The paper seeks approval to release the final Advanced Manufacturing Industry Transformation Plan (ITP) which has been developed in collaboration between business, unions, government, Māori and Pacific peoples, and wider stakeholders.

Comments:

This paper does not seek approval to implement any specific actions. Government approval and funding will be sought over the next one to three years to implement the initiatives in the ITP.

The financial implications state that government funding and support will be required to implement the actions in the final ITP. The paper highlights that this will be particularly important for the priority of increasing investment in advanced technologies. The proposed mechanisms that will be considered to increase greater capital investment include accelerated depreciation, the Business Growth Fund, investment grants, and loans.

Our views regarding incentivising capital investment are referenced in [T2021/2961], [T2022/2315] and [T2022/1940]. In previous advice we acknowledge that New Zealand has relatively low capital stock, and that the accumulation of physical capital is a driver of productivity. However, we think there is merit in understanding the underlying drivers and barriers of low capital investment in New Zealand before assessing options to subsidise the cost of capital.

Treasury Recommendation: Support.

Fiscal Implications: Nil

Game Development Sector: Proposed Support

Hon David Clark, Minister for Digital Economy and Communications

Hon Stuart Nash, Minister for Economic and Regional Development

Treasury contact: Kevin Cho s9(2)(k) [redacted]

Sign out contact: John Marney s9(2)(k) [redacted]

Description:

This paper seeks agreement to a two-step package of support for the game development sector. The first step seeks $10 million from the Between-Budget contingency to fund two Centre of Digital Excellence (CODE) to provide grants. s9(2)(f)(iv) [redacted]

s9(2)(f)(iv) [redacted]

Fiscal Implications:

The paper estimates a 30% rebate may cost a further $35 million. This would need to be funded from the Budget 2023 operating allowance.

Funding source: Between Budget Contingency

Operating ($m)					Capital ($m)				
21/22	22/23	23/24	24/25	25/26 & outyears	21/22	22/23	23/24	24/25	25/26 & outyears
1.00	2.25	2.25	2.25	2.25					

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s9(2)(j)

[redacted]

RESTRICTED

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00am on Monday 14 November.

Chris Nees
Acting Manager, Economic Strategy

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiritapu Allan
Associate Minister of Finance

_____/_____/_______

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet 14 November 2022

Date:	11 November 2022	**Report No:**	T2022/2492
		File Number:	CO-6-2-3-5

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11:00 am Monday 14 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ash Ratnayake	Team Coordinator and support, Governance and Accountability	s9(2)(k)	N/A (mob)	
Rose Austen	Team Leader, Governance and Accountability		N/A (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet 14 November 2022

The Treasury is aware of four substantive items and one oral item on the Cabinet agenda for 14 November 2022.

This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

- New Zealand Assistance for Ukraine: Continuing Existing Mandates
- Better Protections for Contractors: Release of Consultation Document
- International Cooperation to Reduce Emissions and Complement Domestic Action

The Treasury has **no comments** on the following papers on the agenda:

- Progressing Work to Address Incitement of Hatred, Hate Crime and Discrimination
- Oral Item: Tourism Recovery Insights: Update

New Zealand Assistance for Ukraine: Continuing Existing Mandates

Hon Nanania Mahuta, Minister of Foreign Affairs, Hon Peeni Henare, Minister of Defence

Treasury contacts: Foreign Affairs: Susie McKenzie s9(2)(k) [redacted] Defence: Michael Lonergan s9(2)(k) [redacted]

Sign out contacts: Foreign Affairs: Sarah Key s9(2)(k) [redacted] Defence: Colin Hall [redacted] s9(2)(k) [redacted]

Description: This paper presents options for continued diplomatic, economic and military support assistance for Ukraine.

Comments:

Since being considered by the Cabinet Priorities Committee (CPC), this paper has been revised to include proposed financial support for the World Food Programme [redacted] s6(a) [redacted] requests for Vote Foreign Affairs, and to only present the Defence option endorsed by CPC (Option Four).

Foreign Affairs options

This paper proposes to meet the s6(a) [redacted] cost of the s6(a) [redacted] proposed foreign affairs activities through:

- funding provided through the confirmation of a s6(a) [redacted]n-principle expense transfer through the October Baseline Update process that was agreed as part of the previous support package in June [CPC-22-MIN-0020], and
- s6(a) [redacted]

s6(a) [redacted]

Treasury Recommendation: Support

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Fiscal Implications:

Foreign Affairs

The cost of each foreign affairs option is set out in the table below:

Summary	**FY2022/23 ($m)**
s6(a) [redacted]	
NATO Trust Fund	1.850
Support to World Food Programme	1.850
Total	s6(a) [redacted]

The paper seeks agreement for the s6(a) [redacted] from the IPET confirmed at OBU to fund s6(a) [redacted]

Funding source: s6(a) [redacted]									
Operating ($m)					Capital ($m)				
22/23	23/24	24/25	25/26	26/27 & outyears	22/23	23/24	24/25	25/26	26/27 & outyears
s6(a) [redacted]	-	-	-	-	-	-	-	-	-

Defence

The paper seeks s9(2)(f)(iv) [redacted] from the between-Budget contingency established through Budget 2022:

Funding source: between-Budget contingency									
Operating ($m)					Capital ($m)				
22/23	23/24	24/25	25/26	26/27 & outyears	22/23	23/24	24/25	25/26	26/27 & outyears
s9(2)(f)(iv) [redacted]									

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Better Protections for Contractors – Release of Consultation Paper

Hon Wood, Minister for Workplace Relations and Safety

Treasury contact: Elliot Quitales/David Harrison s9(2)(k)

Sign out contact: Thomas Parry s9(2)(g)(ii)

Description: This paper seeks Cabinet’s agreement to release a consultation paper on introducing a new test of employment status for some groups of contractors.

Comments:

Eleven different options to better protect contractors were previously publicly consulted on in 2019.

Cabinet’s impact analysis requirements apply to the consultation paper as it has the effect of narrowing down the range of options being considered, but no Regulatory Impact Statement (RIS) accompanies the consultation paper, and the Treasury’s Regulatory Impact Analysis Team have not exempted the proposal. Therefore, the paper **does not meet** Cabinet’s requirements for regulatory proposals.

We note that a RIS including impact analysis on the full range of feasible options will be provided to support Cabinet’s final decisions post-consultation.

Treasury Recommendation:

The Treasury recommends that you **support** this paper (noting that it has not complied with RIA process).

Fiscal Implications:

There are no direct fiscal implications arising from the proposal to consult in this paper. However, MBIE officials are preparing an associated Budget 2023 initiative to support the implementation of a new test of employment status.

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

[redacted]

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00 am Monday 14 November 2022.

Rose Austen
Team Leader, Governance and Accountability

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet Government Administration and Expenditure Review Committee 17 November 2022

Date:	11 November 2022	**Report No:**	T2022/2486
		File Number:	MS-5-3-GOV

Action Sought

	Action Sought	**Deadline**
Minister of Finance (Hon Grant Robertson) Associate Minister of Finance (Hon Dr Megan Woods) Associate Minister of Finance (Hon David Parker) Associate Minister of Finance (Hon Kiri Allan)	**Read** prior to the PreCab meeting with Treasury Officials.	11:00 am, 14 November 2022

Contact for Telephone Discussion (if required)

Name	**Position**	**Telephone**		**1st Contact**
Tan Lakhawala	Graduate Analyst, Public Finance Policy	s9(2)(k)	s9(2)(g)(ii)	✓
Tom Hall	Manager, Public Finance Policy			

Minister's Office Actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: **No**

Treasury Report: Briefing for Cabinet Government Administration and Expenditure Review Committee 17 November 2022

The Treasury is aware of eight items on the Cabinet Government Administration and Expenditure Review Committee agenda for 17 November 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury has no substantive comments on the following three papers on the agenda:

- **Enabling Secure Telephone Dictation Voting for Local Government Elections**
- **Reprioritisation of Tāhuhu - Preserving the Nation's Memory: Tagged Contingency Funding and Establishment of Te Ara Tahi**
- **Authorisation to Reprioritise Funding for Food Act 2014 Services.**

s9(2)(f)(iv)

[redacted]

New Zealand's Fourth Open Government Partnership National Action Plan

Hon Chris Hipkins, Minister for the Public Service
Treasury contact: Leila Martley s9(2)(g)(ii)
Sign out contact: Tom Hall s9(2)(g)(ii)

Description: The paper seeks agreement to adopt New Zealand's Fourth Open Government Partnership (OGP) National Action Plan (NAP4).

NAP4 was developed through an extensive public outreach and consultation led by Te Kawa Mataaho Public Service Commission. It includes seven commitments, agreed by civil society organisations, an appointed Expert Advisory Panel, and agencies, that address the four themes below:

- public participation (e.g., adopt a community engagement tool),
- information to support financial accountability (e.g., improve transparency of government procurement, increase transparency on beneficial ownership of companies),
- access to and usability of public information (e.g., strengthen scrutiny of Official Information Act exemptions),
- government use of data and personal information (e.g., strengthen transparency and accountability on use of algorithms).

Following Cabinet consideration, the NAP4 will be open for two weeks of public consultation before being formally adopted, subject to any minor changes the Minister for the Public Service is authorised to make.

Comments: During agency and Ministerial consultation, two proposals were considered that would have been led by the Treasury.

1. to publish Crown financial spending data in open data formats (open data)
2. to create an independent fiscal institution (IFI).

These two suggestions are not being proposed for further consideration. The paper notes:

- that the Treasury already publishes data in Excel formats, and the open data proposal was expected to be used by academics and think tanks more than by the general public, and could be costly (involving publishing, training, and governance), and
- that the IFI proposal has recently been through Cabinet consideration.

Treasury Recommendation: Support.

The paper reflects agency and Ministerial feedback. There are no remaining concerns.

Fiscal Implications: Development of NAP4, and delivery of the agreed commitments included in NAP4, are resourced from within agencies' existing baselines and do not require additional funding.

BUDGET-SENSITIVE

Ministry of Social Development updated corporate platform business case

Hon Carmel Sepuloni, Minister for Social Development and Employment
Treasury contact: James Adams s9(2)(g)(ii)
Sign out contact: Keiran Kennedy s9(2)(g)(ii)

Description: This paper seeks Cabinet's agreement to draw down $28.518 million from a tagged contingency to continue replacing the Ministry of Social Development's back-office systems. Work is already underway to move towards a single corporate platform covering finance, procurement, contract management, human resources and payroll. This is expected to cost $126.273 million over eight years. Funding for this work was set aside in each of the last three Budgets to complete this work, subject to MSD preparing a suitable implementation business case (which is attached to this Cabinet paper). No further funding requests are expected, and (if this paper is approved) there will be no funding remaining in the tagged contingency. MSD is currently on-track to complete the replacement work by July 2023.

Comments: MSD's systems are currently not fit-for-purpose, and if Ministers do not agree to draw down this funding, that would put the replacement programme at risk, likely resulting in greater costs to the Crown and poorer outcomes for MSD clients and staff. Moreover, the investment is a prerequisite for MSD's transformation programme, Te Pae Tawhiti (TPT). The wider replacement programme is currently undergoing a Gateway review, which should provide confidence in its delivery.

Treasury Recommendation: Support.

Fiscal Implications:

This paper seeks to draw down $28.518 million from a tagged contingency, as shown below:

Vote Social Development Minister for Social Development and Employment	$m – increase / (decrease)				
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27 & Outyears**
Multi-Category Expenses and Capital Expenditure: Improved Employment and Social Outcomes Support **Departmental Output Expense:** Administering Income Support (funded by revenue Crown)	28.518	-	-	-	-
Total	**28.518**	-	-	-	-

BUDGET-SENSITIVE

BUDGET-SENSITIVE

Approval of Funding for Stage One of Project Pihi Kaha: Redevelopment of Whangārei Hospital

Hon Andrew Little, Minister of Health
Treasury contact: Warner Peel s9(2)(g)(ii)
Sign out contact: Jess Hewat s9(2)(g)(ii)

Description: This paper seeks approval for Stage One of the Whangārei Hospital redevelopment project, which will deliver a new Acute Services Building, a Child Health Unit and a Whānau House. It also seeks delegation to the Minister of Health to manage cost escalation and scope change if these are funded within baselines.

Comments: The Te Whatu Ora Board (the Board) has committed to continuing this project, which was originally approved before the current Health reforms were completed and had been approved by the Capital Investment Committee.

This paper has been updated since Ministerial consultation to cap the Minister of Health's delegation on approving cost escalation from baselines at $100 million. It now seeks an additional delegation to the Minister of Finance and Minister of Health to Jointly approve cost escalations from baselines above $100 million. We support this approach, to encourage pace in delivery and to drive incentives around value management. We would expect Cabinet to be notified of significant cost escalation in line with the 'no surprises' policy.

Treasury Recommendation: Support.

Fiscal Implications: Stage One of this investment fits in the funding previously allocated through the Health Capital Envelope ($759 million).

Funding for Stage Two of the redevelopment – which will deliver a ward tower to house the Acute Assessment Unit and four medical-surgical inpatient wards – does not fit within the allocation and further funding will be needed by 2025 to complete the full redevelopment. The paper estimates the cost of Stage Two at approximately $200 million. Funding is available within Stage One to complete a more detailed business case to provide updated cost and scope estimates for Stage Two.

Further funding for Stage Two will be required by 2025 to prevent an overall delivery delay and is most likely to come through the Budget 2024 process. Ahead of that, it will be important that Ministers and the Board are presented with genuine options (and associated costs) for Stage Two.

Approval for MFAT's head office accommodation from 2025

Hon Nanania Mahuta, Minister of Foreign Affairs
Treasury contacts: Susie McKenzie s9(2)(g)(ii) [redacted]
Sign out contacts: Sarah Key s9(2)(g)(ii) [redacted]

Description: This paper seeks Cabinet's approval for the Ministry of Foreign Affairs and Trade (MFAT) to conclude development and lease agreements for head office accommodation in a new development. Cabinet's approval is sought because the cost of the fit-out and long-term lease over 28-year period is s9(2)(i) and 9(2)(j) [redacted]

Comments: MFAT has revised this paper in response to feedback received during Ministerial Consultation to not seek any new funding for either capital or operating costs.

s9(2)(i) and 9(2)(j) [redacted] In response to feedback received through the Ministerial consultation process, MFAT is now proposing to cover these costs from existing baselines, although noting that this contributes to its overall cost pressures. s9(2)(f)(iv) [redacted] MFAT may need to undertake reprioritisation from its baselines to cover this and/or other organisational cost pressures.

s9(2)(j) [redacted] The recommendation directing MFAT and GPG to report back to the Minister of Foreign Affairs, Minister for the Public Service, and yourself as Minister of Finance, which was added following the Ministerial consultation process, should assist in managing this risk.

Treasury Recommendation: Support.

s9(2)(j) [redacted] If not, it will cover the cost from baselines.

Fiscal Implications: MFAT is proposing to cover the capital cost of s9(2)(b)(ii) [redacted] from its accumulated depreciation reserves, s9(2)(i) and 9(2)(j) [redacted]

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00 am on Monday 14 November 2022.

Tom Hall
Manager, Public Finance Policy

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance

Hon David Parker
Associate Minister of Finance

Hon Kiri Allan
Associate Minister of Finance

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: National Provident Fund: Aircrew Scheme Employer Contribution Rate

Date:	14 November 2022	**Report No:**	T2022/2402
		File Number:	CM-1-3-41-2-2

Action sought

	Action sought	Deadline
Associate Minister of Finance (Hon Dr Megan Woods)	**Note** that the NPF Board has recommended no change to the Aircrew Scheme employer contribution rates for 2022 **Sign** the attached letter to acknowledge this decision	22 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Robert Barton	Senior Analyst, Commercial and Institutional Performance: Investment	s9(2)(k) s9(2)(g)(ii)	✓
Emily Howe	Manager, Commercial and Institutional Performance: Investment		

Minister's Office actions (if required)

Return the signed report to Treasury. **Send** the signed letter

Note any feedback on the quality of the report	

Enclosure: Letter AMOF NPF 2023 rate (Treasury:4716017v1)

Treasury Report: National Provident Fund: Aircrew Scheme Employer Contribution Rate

1. The Minister of Finance wrote to you in December 2020 transferring his responsibilities for the National Provident Fund's (**NPF**) Aircrew Superannuation Scheme (the **Scheme**) to you. The transfer was made to avoid a conflict between the Scheme and being a Shareholding Minister for the Crown's shares in Air New Zealand.

2. You have now received the attached letter from Philippa Drury, General Manager Schemes, Annuitas, on behalf of the Board of Trustees of the NPF, regarding the employer contribution rate for the Scheme.

3. The letter confirms that the NPF Board has determined there should be no change to the employer contribution rate for the Scheme for the next financial year. A Ministerial direction is not required to enact this decision. A letter of reply acknowledging the Board's decision is enclosed for you to complete this process.

Background

4. The Scheme is a defined benefit scheme within the NPF. It was closed to new members in 1992 but pre-existing members can continue to contribute, and the liabilities are guaranteed by the Crown. As of 31 March 2022, the Scheme had 17 members and Air New Zealand is the only contributing employer.

Employer contribution rates may only change on direction from the Minister

5. Under Section 44 of the National Provident Fund Restructuring Act 1990 (**Act**), the NPF Board is required to notify the Minister as to what action is required to rectify a position where the Scheme has insufficient funds, or excess funds, to provide for the liabilities of the Scheme.

6. The employer contribution rate is the balancing item to rectify expectations of insufficient or excess funds in the Scheme. The employer contribution rate for the Scheme may only change on direction from the Minister. No appropriation is required.

Contribution Rate Changes

7. The NPF Actuary carries out an annual actuarial valuation of the Scheme to assess the ratio of assets to past services liabilities (this ratio is the *funding level*). The Actuary recommends the employer contribution rate that should be applied to the scheme in the following financial year. The objective is for there to be neither a significant surplus nor deficit at the time the last contributor ceases to contribute. A funding level of 100% indicates a balance between the assets and the past service liabilities as at the valuation date.

The financial position of the scheme has declined over the last 12 months

8. As of 31 March 2022, the funding level of the Scheme was 97.6% (31 March 2021: 105.4%). The main reasons for the reduction is that the funding levels are actual salary increases which were higher than expected and exit payments being higher than assumed.

10. However, for this Scheme, the TA/TB ratio is more relevant than the funding levels. The TA/TB ratio is the ratio of the assets of the Scheme to the sum of all members' lump sum accrued retirement benefits. At 31 March 2022, the TA/TB ratio for the Scheme was 101.9% which indicates that at the valuation date the assets were more than the total of all members' lump sum entitlements.

Therefore, no changes in the contribution rates are required for 2022/23

11. The Actuary has recommended that the employer contribution rate is maintained at 3.9 times members' contributions (i.e., $3.90 for every $1.00 contributed by the members). The NPF Board has agreed and accepted the Actuary's recommendation.

12. The Board's advice to you is consistent with the requirements of section 44 of the Act. The Treasury supports the recommendation of the NPF Actuary and recommends you sign the attached letter noting the Board's decision to maintain the existing employer contribution rate for the financial year commencing 1 April 2023.

Recommended Action

We recommend that you:

a **note** that the NPF Actuary has recommended that the employer contribution rate is maintained at 3.9 times the members' contributions for the Aircrew Superannuation Scheme, and

b **agree** to sign the attached letter, noting the Board's decision to maintain the Aircrew Superannuation Scheme's employer contribution rate at current levels for the financial year commencing 1 April 2023.

Agree / disagree.

Emily Howe
Manager, Commercial and Institutional Performance: Investment

Hon Dr Megan Woods
Associate Minister of Finance

Hon Dr Megan Woods
MP for Wigram
Minister of Housing
Minister of Energy and Resources
Minister for Building and Construction
Associate Minister of Finance

Philippa Drury
General Manager, Schemes
National Provident Fund
PO Box 3390
WELLINGTON

s9(2)(a)

Dear Philippa

NATIONAL PROVIDENT FUND AIRCREW SCHEME - EMPLOYER CONTRIBUTION RATE

Thank you for your letter of 3 November 2022.

In accordance with the NPF Board's recommendations, pursuant to section 44 (2) of the NPF Restructuring Act 1990, I confirm the employer contribution rate for the Aircrew Scheme, including employer superannuation contribution tax, is to remain unchanged at 3.9 times contributors' contributions effective 1 April 2023.

Yours sincerely

Hon Megan Woods
Associate Minister of Finance

Private Bag 18041, Parliament Buildings, Wellington 6160, New Zealand
+64 4 817 8705 | m.woods@ministers.govt.nz | beehive.govt.nz

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2500

Date: 14 November 2022

To: Minister of Finance (Hon Grant Robertson)

Deadline: 17 November 2022
(if any)

Productivity and Incomes Finance Priorities Meeting

You are meeting with officials at the next Finance Priorities Meeting on Thursday 17 November 2022 to discuss the Treasury's longer-term work on productivity and incomes.

At the Finance Priorities Meeting, we wish to provide you with an overview of our:

- recent analytical work in this area
- ongoing work to update the Treasury's policy recommendations for lifting productivity

We would also like to discuss any particular areas you are interested in, so we can take these into account when sequencing our work programme.

We have attached a slide pack to this Aide Memoire to support this discussion, as well as the following optional reading:

- Analytical note - New Zealand's Productivity Performance: Taking a Broader View (AN 22/05)
- Opening presentation by Dr Caralee McLiesh to NZAE 2022 Annual Conference - Economic policy for the challenges ahead

The above documents are available at: https://www.treasury.govt.nz/publications/an/an-22-05 and https://www.treasury.govt.nz/publications/speech/economic-policy-challenges-ahead respectively

Giles Bollinger, Senior Analyst, Economic Strategy Directorate, s9(2)(g)(ii)
Chris Nees, Acting Manager - Economic Strategy, s9(2)(k)

TE TAI ŌHANGA
THE TREASURY

Treasury's longer-term work on productivity and incomes

Finance Priorities Meeting

17 November 2022

Purpose

- To provide you with an overview of the Treasury's longer-term work on productivity and incomes, including:
  - Recent analytical work, and how our thinking is changing (from slide 3)
  - Summary of analytical note on productivity and incomes (from slide 7)
  - Work to update our top policy recommendations for lifting productivity (from slide 12)
- To identify any particular areas you are interested in, including how it links to your economic plan, so that we can take these into account when sequencing our work programme.

Recent analytical work and changes to our economic narrative

Previous narrative (stylised)

- Treasury's previous macro-micro 'narrative' (from around a decade ago) was focused on lifting trend economic growth and building greater economic resilience (more specifically, reducing net external liabilities to GDP).

- The narrative emphasised a higher rate of national saving, with fiscal policy being a key lever. The objective was to lower interest and exchange rates. Capital intensity was assessed as relatively low. And the cyclicality and level of the (real) exchange rate were seen as having a negative impact on the tradable sector (with its generally higher capital intensity and labour productivity growth).

- This change in macro mix was supplemented by micro reforms (tax, competition, etc.) that altered incentives towards the tradable sector. Slowing the path of increasing government spending was also seen as part of the mix.

- Overall, this would 'rebalance' the economy via improved external competitiveness, a lower current account deficit (with higher investment funded from higher saving) and falling net international liabilities to GDP.

Our thinking is evolving

- Net international liabilities to GDP have narrowed since 2009 (smaller current account deficits/lower interest costs; nominal GDP growth supported by a rising terms of trade; capital account inflow from Christchurch insurance payments; positive net revaluations).
- Less clear that the real exchange rate is overvalued (again, higher terms of trade are a factor). Plus, a sustained decline in real interest rates.
- Less emphasis on the tradable sector aggregate, and more emphasis on the role of services and frontier firms.
- Increasing focus on:
  - Preparing for the future (education/human capital)
  - Flexibility (allocative efficiency, income gains from terms of trade)
  - Balancing multiple objectives (productivity, sustainability, distribution, resilience)
  - Coordination of monetary and fiscal policy

Driven by recent analytical work and changes in our economic environment

- Recent analytical work includes:
  - **Analytical stewardship work** undertaken since 2019 on a range of economic performance issues
  - **Analytical note** published in September 2022 - *New Zealand's Productivity Performance: Taking a Broader View*. Presents select findings from the above analytical work (also presented in *CE's NZAE speech in June 2022*)
  - **Your economic plan**: joint work with MBIE for *high wages, low emission, economic security* (including capital intensity)
  - **Wellbeing Report 2022 and Living Standards Framework 2021**
- Changes to economic environment, including:
  - Increasing volatility, including geopolitical uncertainty
  - COVID-19, fiscal pressure and inflation increasing the importance of supply side reform and managing demand

Summary of analytical note:

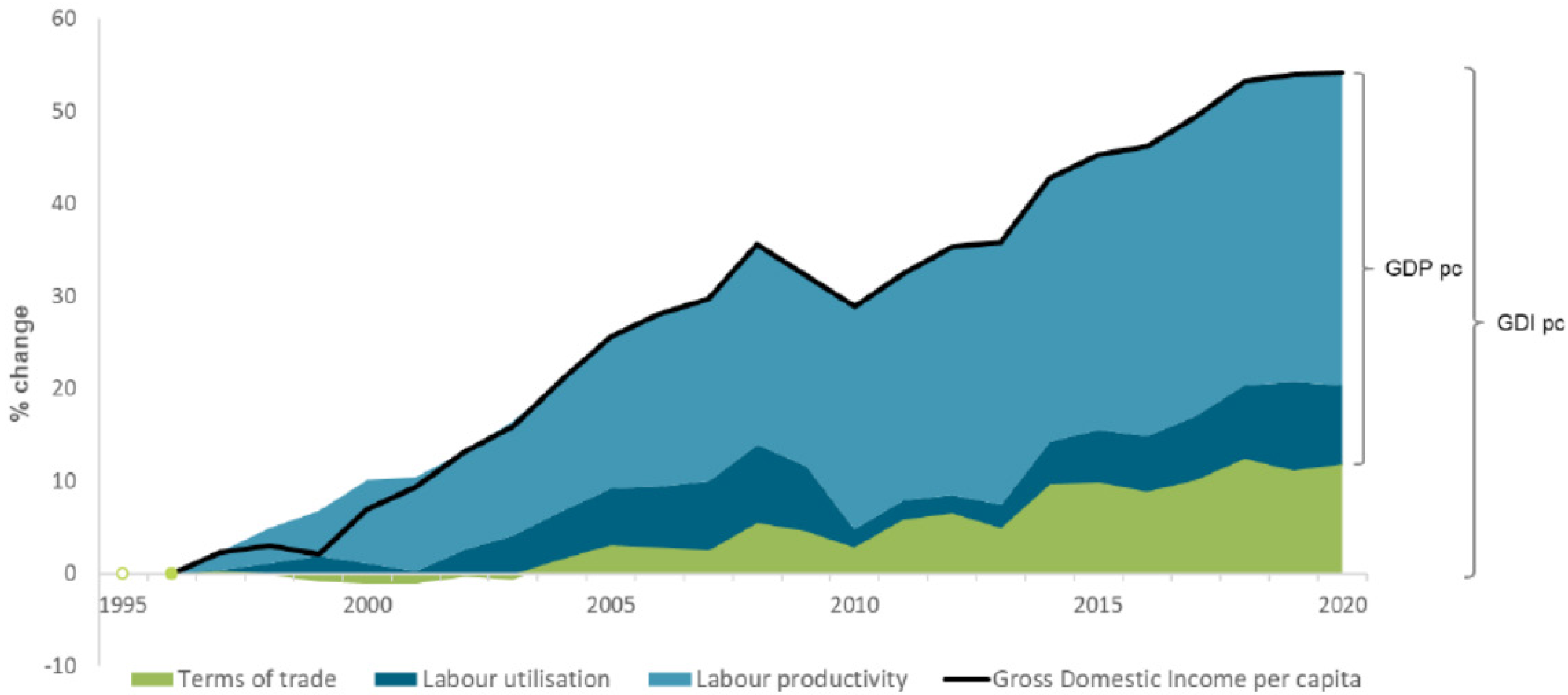
New Zealand's Productivity Performance: Taking a Broader View

New Zealand’s real income has grown faster than our real GDP – this reflects a rising terms of trade, comparative advantage and allocative efficiency

- Persistently higher terms of trade has important implications for the interpretation of New Zealand’s economic performance:
  - Using historical GDP is likely to understate the income and wellbeing benefits of the changes in economic structure since the early 1990s.
  - The income gain arising from a higher terms of trade is greater when policy settings enable resources to move into higher value production.
  - The income gain from a higher terms of trade provides more choices, both for consumption and investment.
- The income gains occurred under prevailing settings, including the various other price signals (or lack of price signals) that existed alongside the rising terms of trade. The overall set of price signals has resulted in a reallocation of resources that, while rational, has created pressure on natural capital.
- Deterioration of natural capital is a threat to future wellbeing, and should be weighed carefully alongside efforts to lift productivity and incomes.

Nonetheless, labour productivity growth (rather than the terms of trade) has continued to be the main source of growth in both per capita income and output measures

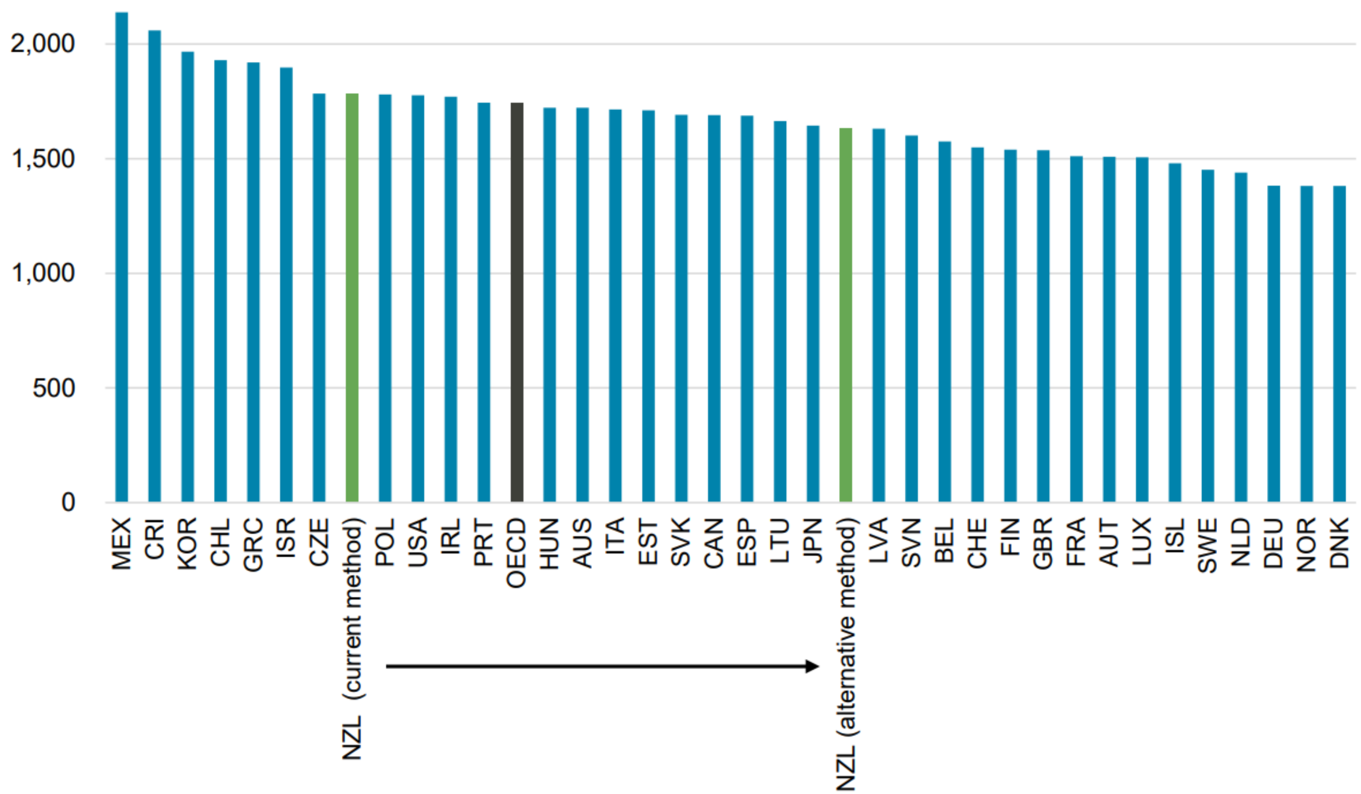
Sources of growth in New Zealand's real GDP and real Gross Domestic Income (GDI) per capita



Source: Productivity Commission analysis of Stats NZ data

The average hours worked by New Zealand workers is overstated – meaning that labour productivity is understated. Ongoing discussions with OECD and Stats NZ

Average annual hours worked per person in employment across the OECD, 2019

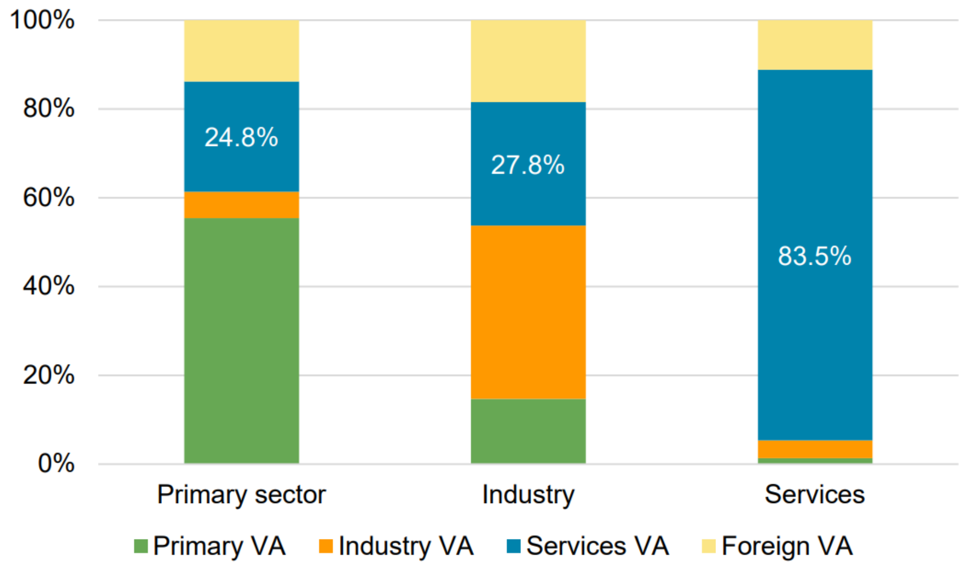


Source: OECD and Stats NZ

The importance of services is growing and this has implications for exports and capital intensity

- There has been growth in services embodied in the exports of primary and manufacturing industries (e.g., via transportation, energy, R&D, and insurance).
- This reinforces the importance of policies that raise the productivity of services – both for the direct effect on the sector but also the indirect effects on export competitiveness.
- The increasing role of the service sector may change the level and mix of capital, including intangibles (although data is poor).

Sector value add in gross exports by sector (2018, %)



Note: ‘Industry’ includes mining, manufactures, and utilities. ‘Services’ includes construction.

Source: OECD, TiVA database

Updating our top policy recommendations for lifting productivity

Following recent analytical work, we are updating our top policy recommendations for lifting productivity

- As a starting point, we compiled and reviewed ~250 policy recommendations given in recent years by Treasury, Productivity Commission and the OECD.

- We then grouped these recommendations into 17 broad policy areas, and identified 9 policy areas *important for lifting productivity* **and** *where the Treasury could add value beyond existing work internally and across government*. As a result, we are not examining some areas that are important for productivity because they are considered elsewhere.

- This process was informed by our recent analysis, our evolving narrative, and other factors (e.g., the state of existing knowledge, and whether the area is being examined via other processes, agencies and/or Treasury teams).

- The scope of the policy areas may evolve as our analysis progresses. We will also consider reform programmes already underway and their impacts.

- As a second stage of analysis, we also intend to assess top productivity policies for impacts on resilience, distribution and sustainability.

Policy areas for further development

Policy area	Initial scope, rationale for inclusion, and links to other work
Tax settings	There have been a range of recommendations in recent years, and it is timely to refresh our view on the highest priority tax measures to support economic performance (incentives for firms and labour). We also give this area additional weight given the emphasis on coherent incentives, cross-cutting levers, multiple objectives (e.g., distribution and revenue). Will utilise and build on recent work including the Tax Working Group, as well as other Treasury and MBIE work on tax settings (including capital intensity) currently underway. Our published analytical note identifies intangible investment as an area for further investigation.
Research, science and innovation (RSI)	RSI continues to rank highly in assessments of importance to productivity. Work to support the development of the Government's economic plan identified the need to ensure that RSI incentives are aligned with the Government's plan. There is an opportunity for Treasury to build our knowledge base in this area, including in relation to industry policy. This work will build on the Green Paper/White Paper process.
Education and skills	Weighted higher than in previous assessments given evidence identified in the Wellbeing Report of ongoing negative trends and potential longer-term implications of COVID-19 on human capital. Work to support the development of the Government's economic plan identified this as one of the foundations underpinning economic performance and efforts to ensure gains are distributed equitably. We see the focus being on the school system.
Industry policy	The industry policy literature has been evolving (e.g., reviews by the OECD and the Productivity Commission report on Frontier Firms). Industry policy is now understood to offer opportunities to achieve a wider set of economic objectives beyond productivity (e.g., distributional/regional, climate, diversification, and resilience). However, our recently published analytical note identifies the importance of allocative efficiency and the poor implementation of industry policy could work against this. There are opportunities to build our knowledge in relation to industry policy and these varying economic objectives.

Policy areas for further development

Policy area	Initial scope, rationale for inclusion, and links to other work
Regulatory settings	Ranked higher given lessons from COVID-19, macro context (fiscal and monetary), supply-side issues, and the need for flexibility in response to changes (e.g., technology). Work to support the development of the Government's economic plan identified this as one of the foundations underpinning economic performance and the need to identify practical actions, opportunities, and barriers in the regulatory space. Has links to other areas (e.g., competition, Māori economy/land use).
Māori economy	Work to support the development of the Government's economic plan identified this as one of the foundations underpinning economic performance and ensuring gains are distributed equitably, especially given Māori are one of the fastest growing population groups in New Zealand. A number of policy recommendations have been made in recent years but there are opportunities to strengthen our knowledge.
Sustainability (climate)	There is an opportunity to strengthen our evidence base on the intersection between emissions reduction policies and productivity, and specifically on whether these policies could be positive for productivity. There is also potential for a range of broad macroeconomic impacts from climate change policy, e.g., balance of payments impacts from changes in land use.
Immigration settings	Significant analysis has been undertaken recently (Productivity Commission inquiry) and Government's immigration rebalance is currently underway. Important given labour supply constraints after COVID-19 border closures.
Public sector productivity	Increasingly important given tighter fiscal environment, supply side constraints, and reforms underway (including in the health and education systems). We have not done any specific work on public sector productivity or the size/role of government more generally.

Policy areas not prioritised for further analysis through this work programme

Policy area	Rationale for de-prioritization
Competition	Important link to productivity but not prioritised now our previous advice to introduce market studies is implemented. MBIE as the lead policy agency has a wider competition policy programme that limits the value of us investing resource into this issue right now.
International linkages	Continues to be of high importance, including in regard to economic coercion and resilience of supply chains, but there are several workstreams are already underway across Treasury and other agencies in this area.
Urban development and infrastructure	Significant analysis and reforms (eg, RMA) are already underway. The Government's economic plan identified this as one of the foundations underpinning economic performance and ensuring gains are distributed equitably.
Fiscal policy	There is work underway across Treasury looking at the role of fiscal stabilisation. Public investment (including infrastructure) work has been completed for the Investment Statement and prudent debt target refresh, and no further analysis is planned. However there remains challenges around crowding out and value for money. Review of Fiscal Management Approach (FMA) and expenditure strategy, should ideally apply a productivity lens. Note that some of the policy areas selected for further analysis will have fiscal implications (eg, RSI, education and skills, industry policy, tax).
Labour market and welfare policy	There is significant policy reform underway: Fair Pay Agreements, Pay Equity, Social Unemployment Insurance, and minimum wage increases. Important to ensure our analysis considers the current low unemployment rate and the analysis already undertaken in this area.
Digitalisation	Key recent policy recommendations (addressing non-tariff barriers to digital trade) captured in international linkages area.
Lifting saving	Ranked lower as prior to COVID-19, real interest rates declined, while savings rate rose and the net international position narrowed, with limited effect on the exchange rate. Previously low savings rates resulting from long term structural and fiscal settings led to a large negative international investment position which, combined with an interest rate premium, led to an overvalued exchange rate.
Monetary policy	Review process already under way.

Discussion

- Do you have any thoughts on our recent analytical work or changing narrative?
- What aspects of changing economic environment do you think warrant particular consideration in this process?
- Within the nine policy areas identified for further development, are there any you are particularly interested in, including to support future updates to your economic plan?

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2561 SH-11-0

Date: 22 November 2022

To: Associate Minister of Finance (Hon David Parker)

Deadline: 23 November 2022
(if any)

Meeting with Cooperative Business New Zealand

Background

You are meeting with Roz Henry, CEO of Cooperative Business New Zealand on 23 November. Roz has indicated that she would like to update you on Cooperative Business New Zealand's strategic vision.

Cooperative Business New Zealand is an industry body that represents New Zealand's diverse range of co-operative businesses. The International Co-operative Alliance defines a co-operative as "an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise." The top 30 co-operatives contribute 13% to GDP and employ more than 41,000 New Zealanders. Cooperative Business New Zealand has an aim of increasing awareness of the important contribution co-operative businesses make to New Zealand's economy.

Businesses in multiple sectors and of varying size are represented by Cooperative Business New Zealand. Sectors represented includes agriculture, manufacturing, insurance, banking, financial services, utilities, education, health, wholesale, and retail.

Cooperative Business New Zealand provides a platform for members to collaborate, have a stronger collective voice, and to educate the broader community on the value of the member-owned business model. Co-operatives are often established because of a market imbalance or adversity where a small group collaborate to achieve economies of scale such as negotiating terms and sharing costs.

Potential talking points

- It is commendable that your organisation provides a wide range of services to businesses across New Zealand.
- What challenges do member-owned businesses face?
- How do you envision the future of your organisation?
- How can Government help remove barriers or enable co-operative businesses to succeed?
- We have developed an Economic Plan to lead us in the next stage of change. The three pillars of our Economic Plan are high wages, low emissions, and economic security in good times and bad. How can co-operatives contribute to this vision?

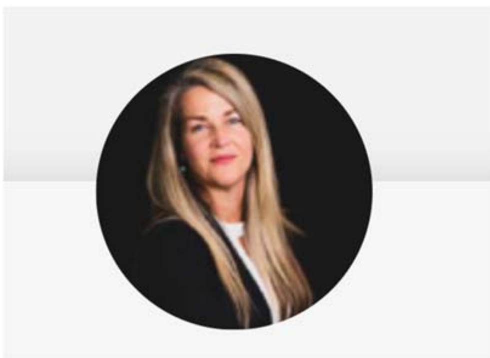
Small Business

- Small businesses are vital to the New Zealand economy and to our communities. They make up 97% of businesses in New Zealand. They employ 29% of our workforce and contribute over a quarter of our GDP.
- There are several Government initiatives underway to support small businesses. These include:
  - **The Business Growth Fund** - A new fund to improve access to finance for small and medium businesses to drive economic security, innovation, and low-emissions growth. I understand that officials are currently in the process of implementing the fund.
  - **Regional Business Partners** – A gateway that matches small to medium business to a local growth advisor. The advisor provides advice, people and resources to help strengthen and grow their businesses.
  - **Business.govt.nz** – tools and expert advice from government and industry, designed to help Kiwi businesses save time and succeed.
- Are there specific issues that small member-owned businesses face?

Regional Economic Development

- We know that regional economic development is important for improving economic prospects and living standards by delivering local approaches which are tailored to the needs of regional and rural areas.
- We've seen the benefits of local and regional development approaches through Activate Tāmaki Makaurau and Kānoa.
- Are there particular challenges in the regions that Cooperative Business New Zealand sees?

Meeting attendee

Roz Henry Roz Henry was appointed Chief Executive Officer in August 2019. As CEO, she is developing and implementing a strategy to take Cooperative Business New Zealand into the future. Previously Roz was Head of Operations at Auckland Tourism, Events and Economic Development (ATEED). She has also worked as a management consultant for several firms in New Zealand and internationally as well as spending time at the New Zealand Dairy Board, now Fonterra, in roles including Supply Chain Director.	

Sym Pandey, Analyst, Regions, Enterprise, and Economic Development,
s(9)(2)(k)
Kate Williamson, Acting Manager, Regions, Enterprise, and Economic Development,
s(9)(2)(k)

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Government Superannuation Fund/National Provident Fund: Scheme Administration

Date:	15 November 2022	Report No:	T2022/2410
		File Number:	CM-1-3-22-2-2

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Approve** the new employer contribution rates for the Government Superannuation Fund Schemes and **note** no change to the National Provident Fund Schemes **Sign** and **send** the attached letters to the Government Superannuation Fund Authority and the National Provident Fund to give effect to the administration decisions	22 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Robert Barton	Senior Analyst, Commercial and Institutional Performance, Investment	s9(2)(k)	s9(2)(g)(ii)	✓
Emily Howe	Manager, Commercial and Institutional Performance: Investment			

Minister's Office actions (if required)

Return the signed report to Treasury.

Send the signed letters to the Government Superannuation Fund Authority and National Provident Fund.

Note any feedback on the quality of the report	

Enclosure: Yes
Letter NPF (Treasury:4716007v1)
Letter GSF 23 (Treasury:4716013v1)

Treasury Report: Government Superannuation Fund/National Provident Fund: Scheme Administration

Purpose of Report

1 The purpose of this report is to seek your approval for decisions across two different areas relating to the Government Superannuation Fund Authority (**GSFA**) and the National Provident Fund (**NPF**). These relate to recent letters you have received from these entities.

2 The two areas covered are:

- GSFA – approval of new employer contribution rates; and
- NPF – maintain existing employer contribution rates.

3 The structure of the report is to address each of these areas separately in the body of the report. The recommendations section then captures all the decisions. Annex 1 includes further analysis of the GSFA actuarial report, including future impacts on Crown contributions. Response letters to GSFA and NPF are also attached to give effect to your decisions.

Government Superannuation Fund – Employer Contribution Rates

4 You have received a letter from the GSFA recommending changes to some employer contribution rates, with effect from 1 July 2023. These recommendations are built from the enclosed statutory actuarial valuation of the Government Superannuation Fund (**GSF**) as at 30 June 2022 and are adjusted to incorporate Employer Superannuation Contribution Tax (**ESCT**).

5 The GSFA has requested your agreement to the changes, as required under Section 95 of the Government Superannuation Fund Act 1956. The GSFA would prefer a response as soon as practicable to enable it to advise employers of the new rates that apply, and allow for time to incorporate changes into its financial planning for the year commencing 2023.

6 The table below shows the recommended new employer contribution rates for non-funding and funding employers and the updated Fund Share of Benefits (**FSoB**) calculation to take effect from 1 July 2023.

Non-Funding Employers	Old Rates	New Rates	Difference	Reason for change
General	16.4%	13.9%	-2.5%	Changing membership characteristics
Armed Forces	15.9%	12.7%	-3.2%	Changing membership characteristics
Police	15.0%	8.6%	-6.4%	Changing membership characteristics
Prisons	0%	0%	0.0%	No change

Non-Funding Employers	Old Rates	New Rates	Difference	Reason for change
General	14.6% - 19.1%	14.6% - 18.1%	Decrease	Changing membership characteristics
Island Group Members	17.3%	16.6%	-0.7%	Changing membership characteristics

Fund Share of Benefits	Old FSoB	New FSoB	Difference	Reason for change
	30.6%	32.6%	2%	Increase in discount rate

7 The recommendations and changes meet with established protocols regarding changes to GSFA employer contribution rates. The Actuarial recommendations are supported by the GSFA and the Treasury continues to support the use of the actuarial rates without adjustment.

8 The impact of an increase in the FSoB is an estimated $20 million increase in the Crown’s required contribution for 2022/23. The key driver of this change is primarily due to the increase in the real discount rates used to value the liabilities as at 30 June 2022 compared with those used the previous year, partially offset by lower GSF assets as a result of adverse market conditions.

9 Further detail on the GSFA employer contribution rate, including the drivers of the changes and the future impact on the Crown’s contributions is enclosed in Annex 1. This has been retained as an annex for your reference, if desired, but we consider it low risk to use this summary when making your decision.

National Provident Fund – DBPC Employer Contribution Rate

10 You have received a letter from Philippa Drury, General Manager Schemes, Annuitas, on behalf of the Board of Trustees of the NPF, regarding the employer contribution rate for the DBP Contributors Scheme (**DBPC Scheme**). NPF is seeking confirmation that the employee contribution rate to the DBPC Scheme remains at the current rate of 4.0 times that of contributors.

11 The DBPC Scheme is a defined benefit scheme within the NPF. It is closed to new members, but pre-existing members can continue to contribute and the liabilities are guaranteed by the Crown. There were 61 members of the DBPC Scheme as of 31 March 2022 (down 30 compared with 31 March 2021).

12 Under Section 44 of the National Provident Fund Restructuring Act 1990 (**NPF Act**), the NPF Board is required to notify the Minister as to what action is required to rectify a position where the DBPC Scheme has insufficient funds, or excess funds, to provide for the liabilities of the DBPC Scheme.

13 The employer contribution rate is the balancing item to rectify expectations of insufficient or excess funds in the Scheme. The employer contribution rate for the DBPC Scheme may only change on direction from the Minister. No appropriation is required.

14 The NPF Actuary carries out an annual actuarial valuation of the DBPC Scheme to assess the ratio of assets to past services liabilities (this ratio is the *funding level*). The Actuary recommends the employer contribution rate that should be applied to the DBPC Scheme in the following financial year.

15 The objective is for there to be neither a significant surplus nor deficit at the time of the last contribution. A funding level of 100% indicates a balance between the assets and the past service liabilities as at the valuation date.

16 As of 31 March 2022, the funding level of the Scheme was 98.3% (31 March 2021: 102.2%; 31 March 2020: 95.9%). This funding level represents a $1.5 million deficit. The deterioration in the funding level is primarily attributed to membership experience (elections of pensions or lump sums) and lower than expected investment returns.

Therefore, no changes in the contribution rates are required for 2023/24

17 The Actuary has recommended that the employer contribution rate is maintained at 4.0 times members' contributions (i.e., $4.00 for every $1.00 contributed by the members). The NPF Board has agreed and accepted the Actuary's recommendation.

18 The Board's advice to you is consistent with the requirements of section 44 of the NPF Act. The Treasury supports the recommendation of the NPF Actuary and recommends you sign the attached letter noting the Board's decision to maintain the existing employer contribution rate for the financial year commencing 1 April 2023.

Recommended Action

We recommend that you:

GSFA Employer Contribution Rates

a **approve** the new employer contribution rate for the General Scheme (13.9%), the Armed Forces Scheme (12.7%) and the Police Scheme (8.6%), including Employer Superannuation Contribution Tax

Approve / disapprove.

b **approve** the new employer contribution rate for the Islands group (16.6%), excluding Employer Superannuation Contribution Tax

Approve / disapprove.

c **confirm** that no direction is to be given resulting in lower employer contribution rates for the funding employers (including the Islands group)

Confirmed / not confirmed.

d **note** that the contribution rates for funding employers (excluding the Islands group) will be in a reduced range of 14.6% to 18.1% of salary including Employer Superannuation Contribution Tax and after smoothing

e **note** that the Fund Share of Benefits, calculated as 30 June 2022, has increased to 32.6% (2021: 30.6%), resulting in a projected $20 million increase in Crown contributions for the next financial year

f **sign** and **send** the attached letter to the GSFA to give effect to these decisions**NPF Employer Contribution Ratesnote** that the National Provident Fund Actuary has recommended that the employer contribution rate is maintained at 4.0 times members' contributions for the DBP Contributors Scheme; and**sign** the attached

letter to the General Manager, Schemes, of the NPF.

Emily Howe
Manager, Commercial and Institutional Performance: Investment

Hon Grant Robertson
Minister of Finance

Annex 1 Further Detail: GSF – Employer Contribution Rates

1. The actuary to the GSF, Willis Towers Watson, undertook a valuation of the GSF, as at 30 June 2022. The GSFA has provided the Treasury with a copy of this report (attached) which forms the basis for the recommendations from the GSFA.

The calculated contribution rates for all employers are generally lower than the 2022/23 rates

2. Contribution rates may change from year to year depending on changes to assumptions and the experience of each group of GSF members. For 2023, the contribution rates for the General, Armed Forces, and Police Schemes have reduced due to changing membership characteristics. The Prisons Service scheme has a large surplus and no contributions are currently necessary.

3. With Past Service Liabilities (**PSL**) of $12.26 billion minus GSF assets of $4.96 billion, the unfunded PSL at 30 June 2022 is now $7.30 billion (an increase of $300 million)

The GSF's Share of Benefits (FSoB) has increased

4. The FSoB can simply be described as the ratio of the assets plus future member contributions to the GSF's total liabilities. With the scheme being significantly underfunded, it is not possible for the GSF to be hedged, or duration matched, to the liabilities.

5. The discount rates used for the FSoB calculation are the risk-free rates provided by Treasury. These rates have risen since last year's Actuary report and are projected to continue to increase. This has resulted in the FSoB increasing from 30.6% to 32.6%.

6. Under Section 95(1) of the Act, the Minister of Finance is required to pay into the GSF the proportion of benefits that exceed both the FSoB and any amounts paid by funding employers. The Crown contributions to the GSF are now projected to increase from the projection made at 30 June 2021, as shown in the table below.

Government Superannuation Fund - Projected Crown Contributions ($m)

	2023/24	2024/25	2025/26
Jun 2021 Forecast	645	642	639
Jun 2022 Forecast	665	666	662
Change in Crown Contributions	**20**	**24**	**23**

Source: GSF Actuarial Valuation

While the Crown contributions to the GSF have increased, the full impact is spread over the life of the scheme, and this could reverse if interest rates rise

7. While the increase in the unfunded deficit is $300 million as at the June 2022 valuation, the fiscal impact on the Crown contributions is spread over the life of the scheme. This reduces the impact on the next financial year. The unfunded deficit is also affected by interest rates, and if they continue to rise, the required Crown contributions will fall.

Hon Grant Robertson

Deputy Prime Minister
Minister of Finance
Minister for Infrastructure
Minister for Sport and Recreation

Philippa Drury
General Manager, Schemes
Government Superannuation Fund Authority
PO Box 3390
WELLINGTON 6140

s9(2)(a)

Dear Philippa

GOVERNMENT SUPERANNUATION FUND - EMPLOYER CONTRIBUTION RATES EFFECTIVE FROM 1 JULY 2023

Thank you for your letter dated 3 November 2022 outlining changes to the employer contribution rates effective from 1 July 2023, as recommended by the Actuary to the Authority following the statutory valuation of the Government Superannuation Fund as at 30 June 2022.

I **accept** the employer contribution rates effective from 1 July 2023 for the non-funding employers as recommended by the Authority's Actuary including Employer Superannuation Contribution Tax (ESCT) and after smoothing as follows:

Armed Forces scheme	12.7% of salary
General scheme	13.9% of salary
Police scheme	8.6% of salary

I **accept** the employer contribution rate effective from 1 July 2023 for the Island group of 16.6% of salary as recommended by the Authority's Actuary excluding ESCT.

I **note** the contribution rates for funding employers (excluding the Island group) will be in the range of 14.6% to 18.1% of salary as recommended by the Authority's Actuary including ESCT and after smoothing.

I **note** the Fund Share of Benefits will increase from 30.6% to 32.6% effective from 1 July 2023.

I **confirm** no direction will be given resulting in lower employer contribution rates for the non-funding and funding employers (including the Islands group).

I **note** the Authority will communicate with all employers regarding the changes to their employer contribution rates.

Yours sincerely

Hon Grant Robertson

Minister of Finance

Hon Grant Robertson

Deputy Prime Minister
Minister of Finance
Minister for Infrastructure
Minister for Sport and Recreation

Philippa Drury
General Manager, Schemes
Board of Trustees of the National Provident Fund
PO Box 3390
WELLINGTON

s9(2)(a)

Dear Philippa

DBP CONTRIBUTORS SCHEME - EMPLOYER CONTRIBUTION RATE

Thank you for your letter of 3 November 2022 regarding the employer contribution to apply to the DBP Contributors Scheme for the next financial year.

In accordance with the NPF Board's recommendations, pursuant to section 44 (2) of the NPF Restructuring Act 1990, I confirm the employer contribution rate for the DBP Contributors Scheme, including employer superannuation contribution tax, is to remain unchanged at 4.0 times contributors' contributions effective 1 April 2023.

Yours sincerely

Hon Grant Robertson
Minister of Finance

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IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Report back on increasing New Zealand Export Credit's level of Ambition to Support More Exporters

Date:	17 November 2022	**Report No:**	T2022/1742
		File Number:	IM-2-1-2-2-8

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Endorse** the direction of New Zealand Export Credit's Strategic Plan. **Approve and sign** the updated delegation for New Zealand Export Credit. **Indicate** whether you wish to take an oral item to Cabinet to update your colleagues on this work.	28 November 2022
Minister for Trade and Export Growth (Hon Damien O'Connor)	For noting	

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Peter Rowe	Acting Head of Export Credit	s9(2)(k)	s9(2)(g)(ii)	✓
Chris Chapman	Acting Executive Director, Capital Markets			

Minister's Office actions (if required)

Return the signed report to the Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)
[NZEC - Revised Delegation 2022 Final (Treasury:4699308v1)]

Treasury Report: Report back on increasing New Zealand Export Credit's level of Ambition to Support More Exporters

Executive Summary

This report provides an update on New Zealand Export Credit's (NZEC) progress of implementing an increased level of ambition to support exporters (T2021/2289 refers). This report also seeks your agreement to changes to NZEC's delegation to give effect to this higher level of ambition.

Refreshed Strategic Plan

We have refreshed NZEC's Strategic Plan to reflect the changes to NZEC's level of ambition. The Strategic Plan is based on four pillars:

Pillar 1: Education and Engagement

Pillar 2: Increasing Risk Capacity

Pillar 3: Increasing Risk Tolerance

Pillar 4: Enhancing Credit and Operational Risk Management

The key change to the Strategic Plan is an increased focus on supporting the Government's Economic Plan, including Government priority sectors and alignment with other NZ Inc agencies. A particular focus is to leverage the infrastructure and relationships of NZEC's key stakeholders, particularly with the private sector trade credit insurers and banks that NZEC partners with.

In respect to Pillars 2 and 3 of our refreshed Strategic Plan, our objectives comprise of:

a. **Increasing Risk Capacity:** This objective is to add additional risk capacity to the private sector, through the provision of Top-Up (co-insurance) trade credit insurance or by increasing a bank's ability to support exporters through the provision of financial guarantees on a risk sharing basis. We will explore with the private sector opportunities to streamline NZEC's processes and also delegate the provision of NZEC's products to banks' and insurers' customers, where the private sector has skin in the game alongside NZEC. This will enable NZEC to support more exporters without having to proportionately increase its size.

b. **Increasing Risk Tolerance:** As indicated in our previous report to you, increasing our ambition to support a wider range of exporters, will require NZEC accepting an increased level of risk. We see this manifesting itself through:

   i. NZEC streamlining the level of due diligence by reducing information requirements and/or following the due diligence of insurers, banks or other NZ Inc agencies (i.e. NZTE).

   ii. After fuller due diligence, NZEC selectively accepting (and pricing for) a higher level of risk, where this supports the Government's Economic Plan and sector-specific priorities.

NZEC's 2022/23 Business Plan includes the following activities which are aligned with the above strategic objectives:

a. Expand and make permanent a streamlined process for short-term trade credit insurance, with a focus on supporting small to medium-sized exporters enter new markets and new buyer relationships with confidence.

b. Completion of new trade credit insurance policy wording: with improved 'plain English language'; consistency with private insurers' policy terms; and consolidation of several legal documents into a single template policy; which will reduce operational risk.

c. Completion of a Loan Guarantee pre-approval initiative to complement New Zealand Trade and Enterprise (NZTE)'s International Growth Fund (IGF) grants to exporters and to support their access to additional working capital.

d. Streamline our due diligence process for our Loan Guarantee product, to make it easier for exporters to receive additional working capital support from their lenders.

e. Commence upgrade of NZEC's database (this is a multi-year project) to improve the scalability of NZEC's offering and reduce levels of operational risk by supporting increased automation.

Risk management arrangements

NZEC has a range of risk management processes undertaken by experienced and skilled staff to monitor and report exposures, as well as manage claims and recoveries. It operates a second line of defence via the Capital Market's Risk Team and a third line of defence via quarterly risk and assurance oversight from the Capital Markets Advisory Committee, with additional reporting to the Treasury's Risk and Audit Committee. An audit on NZEC's risk and assurance practices was undertaken in 2018 (with no significant or high risks identified), with a follow-up audit on the implementation of the auditor's recommended actions completed last year.

However, a 300% annual increase in policies issued (relative to 2018/19) has tested the resilience of NZEC's processes and systems. Accordingly, our strategic fourth pillar "Enhancing Credit and Operational Risk Management" is designed to ensure that NZEC appropriately manages the increased exposure arising from its increased level of ambition and mitigates operational risks. We plan to strengthen our operational 'middle office' processes and systems through initiatives including updating NZEC's CRM/database, modernising some of NZEC's legal documentation, and the digitisation of NZEC's application and documentation processes.

We plan to also implement additional risk controls to manage the new strategic initiatives that are intended to increase risk capacity and tolerance, including setting maximum exposure limits (by credit counterparty as well a total aggregated exposure).

Updated NZEC delegation

Pursuant to section 65ZD of the Public Finance Act 1989, you have the power to give export credit guarantees and indemnities. This power has been sub-delegated to the Secretary to the Treasury via a delegation agreement signed in 2012. We have prepared a new delegation instrument for your signature, a copy of which is attached. This new delegation replaces the existing delegation agreement and has been redrafted to remove a number of outdated references and inconsistencies in the delegation, broaden the spectrum of export related companies that NZEC can support and reflect an increased risk appetite for supporting exporters.

These changes are designed to:

a. simplify the criteria for access to our products;

b. provide greater ability for NZEC to respond to changes and innovations in the private markets;

c. allow for matters of detail relating to the operation of the NZEC and its delegation to be set out in sub-delegations from the Secretary to the Treasury to NZEC staff;

d. remove the requirement that, in calculating its premium charged for its indemnities, NZEC needs to cover the Government's cost of capital / opportunity cost;

e. ensure the delegation accurately reflects that decisions on guarantees and indemnities made in the name of the Crown are for the Minister of Finance to make under the Public Finance Act;

f. broaden the types of legal entity that NZEC can support (and in particular ensure NZEC is not restricted in its ability to support Māori entities);

g. enable NZEC to utilise its guarantee products in certain circumstances other than export transactions;

h. adjust the maximum tenor for NZEC's Export Credit Guarantee product; and

i. split NZEC's existing Short-Term Credit Guarantee into two sub-products (which NZEC currently offers):

- Short Term-Trade Credit Insurance, to cover the risk of a foreign buyer failing to make short-term credit payments for New Zealand exports; and
- Short Term Financing Guarantee, to cover the risk of non-payment by overseas banks and it is proposed that this sub-product be broadened to support offshore working capital facilities for buyers of goods from New Zealand exporters.

Financial Implications

As a part of our business planning, we have reforecast our financials. There is a modest increase revenue in the first year as these enhancements are implemented and bedded down, and as our stakeholders and partners familiarise themselves with how to best utilise NZEC's increased support. The expectation is that the utilisation of NZEC's support will build over time as stakeholders and partners integrate working with NZEC into their business practices.

In order to support the increase of NZEC's level of ambition, NZEC sought an additional NZD 1 million p.a., through the Treasury's budget bid, and relating to the recruitment of specialist headcount including an additional resource for educating exporters and raising awareness as well as a middle office resource to enable the execution of this increased level of ambition. NZEC's allocation of Treasury's budget bid was unsuccessful and as such delivery of NZEC's Strategic Plan is being resourced by NZEC's existing staff in addition to their existing workloads, which is delaying the rollout of individual initiatives within the Strategic Plan.

Moving to a higher level of ambition for NZEC will result in an increased number of guarantees issued by NZEC in support of more exporters and their goods and services. The increase in ambition will likely also lead to higher risk policies being underwritten, and we forecast NZEC's historic policy default rate of 2.5% to potentially increase to 7.5%. We will continue to apply actuarially based, risk-weighted premiums which, combined with increased volume of policies and associated exposures, will result in an increase in overall Crown revenue associated with NZEC.

NZEC manages its exposures within prudential sub-limits for different credit ratings, and individually applied against counterparty, sector and foreign country exposures. These sub-limits are set against NZEC's NZD 740 million total exposure cap. We also calculate and report monthly on the expected and unexpected losses under our risk portfolio, which provides a "value at risk" perspective to our total exposure, as well as assists with our provisioning for future losses.

Our increased level of ambition will be delivered within this existing NZD 740 million limit. As at 30 September 2022, NZEC's current aggregate exposure is NZD 335 million, which provides enough headroom for NZEC to support additional exporters.

This paper seeks your endorsement of the direction of travel of our Strategic Plan, noting that our strategic activities will evolve over time as we continue to engage with the market and adjust our deliverables due to resourcing constraints. If you consider that the direction of travel of NZEC's Strategic Plan is either too risky or too conservative, in how NZEC can support the Government's Economic Plan, then that feedback would be useful.

Recommended Action

We recommend that you:

a **endorse** the direction of travel of New Zealand Export Credit (NZEC)'s updated Strategic Plan, to increase its level of ambition in supporting an increased number of New Zealand exporters by increasing its risk tolerance and increasing the capacity of the market;

Agree / Disagree
Minister of Finance

b **agree** to execute an updated delegation for NZEC, via the Secretary to the Treasury;

Yes / No
Minister of Finance

c **agree** that the new delegation provides for the Secretary to the Treasury to set and amend all prudential sub-limits other than NZEC's overall NZD 740 million cap (as detailed in paragraph 18);

Yes / No
Minister of Finance

d **agree** that for NZEC's Loan Guarantee and General Contract Bond Guarantee products, support will be able to be given for transactions that are not strictly export transactions, if it is demonstrated that the business's export sales represent at least 30% of the business's annual turnover in any one of the last three financial years or the business's export sales represent at least 10% of its annual turnover in each of the last three financial years (as detailed in paragraphs 19 and 20);

Yes / No
Minister of Finance

e **agree** that the delegation broadens the entities NZEC can support to "New Zealand incorporated or constituted entity (regardless as to legal form)", rather than solely "New Zealand registered companies" (as detailed in paragraph 21);

Yes / No
Minister of Finance

f **agree** that the delegation broadens the range of transactions that NZEC can support, where this support is aligned with the Government's Economic Plan (as detailed in paragraph 22);

Yes / No
Minister of Finance

g **agree** that in setting guidelines for calculating the premium charged for its guarantees and indemnities, the new delegation provides that NZEC does not need to cover the Government's cost of capital / opportunity cost of capital (as detailed in paragraph 23);

Yes / No
Minister of Finance

h **agree** that the new delegation adjusts the 15-year maximum tenor for NZEC's Export Credit Guarantee product to align with the Organisation for Economic Co-operation and Development's Arrangement on Officially Supported Export Credits which allow for tenors in excess of 15 years for specific transactions including renewable energy and climate adaption projects (as detailed in paragraph 25).

Yes / No
Minister of Finance

i **agree** that the new delegation creates two sub-products under NZEC's Short-Term Credit Guarantee, being the 'Short Term Trade Credit Insurance' and 'Short Term Financing Guarantee,' the latter allowing NZEC to provide guarantees to assist buyers of goods from New Zealand exporters in accessing working capital bank facilities from financial institutions (New Zealand or overseas), as well as to provide Letter of Credit confirmations relating to an exporter's imports which enable or contribute to the ultimate export (as detailed in paragraphs 26 and 27).

Yes / No
Minister of Finance

j **agree** that the delegation broadens the range of risks that NZEC's General Contract Bond Guarantee can support to covering financial risk as well as performance risk (as detailed in paragraph 28);

Yes / No
Minister of Finance

k **note** that this strategy does not require any changes to NZEC's total contingent liability settings of NZD740 million; and

l **sign** the attached new delegation instrument and return a copy of the signed delegation to the Treasury

Signed / Not signed
Minister of Finance

m **indicate** whether you wish to take an oral item to Cabinet to update your colleagues on this work.

Yes / No
Minister of Finance

Peter Rowe
Acting Head of Export Credit

Hon Grant Robertson
Minister of Finance

Treasury Report: Report back on increasing New Zealand Export Credit's level of Ambition to Support More Exporters

Purpose of Report

1. The purpose of this report is to provide an update on progress of implementing the increased level of ambition for New Zealand Export Credit (NZEC) to support exporters (T2021/2289 refers). This report also seeks your agreement to changes to NZEC's delegation to give effect to this higher level of ambition for NZEC.

Analysis

2. NZEC's Strategic Plan is aligned with the Government's Economic Plan, including the Industry Transformation Plan priorities. The increase in ambition can be achieved through a range of measures and improvements which include:
    a. streamlining NZEC's due diligence processes for smaller firms in respect to low credit exposures (noting that smaller firms find it hard to meet "heavy due diligence" requirements);
    b. a willingness to support businesses at earlier stages of their export journey (often smaller businesses) and/or sectors that banks find challenging to finance (i.e. digital technologies, Māori and Pacific business, advanced manufacturing, services exporters);
    c. risk sharing more with the private sector by following their due diligence and/or delegating risk decisions to other financial institutions and be willing to accept even more agency risk, and
    d. closer alignment with, and coordinated support for, the export growth of those businesses receiving services and grants from Callaghan Innovation and New Zealand Trade and Enterprise (NZTE), including the International Growth Fund (IGF).
3. The Ministry of Business, Innovation and Employment (MBIE) and NZTE have been consulted in relation to NZEC's Strategic Plan. NZTE endorses this increased ambition and identifies opportunities for improved coordination in supporting NZTE customers who can benefit from NZEC's financial services. MBIE's feedback is that they strongly endorse a greater ambition in scale, scope and risk tolerance for NZEC.

Refreshed Strategic Plan

4. Our updated Strategic Plan refines NZEC's previous strategic pillars to support the prioritisation and implementation of our Strategic Plan, and to ensure their alignment with the Government's priorities. In particular we have included in brackets how each strategic pillar supports the Government's Economic Plan for developing a "high wage, low emissions economy that provides economic security in good times and bad".
    - **Pillar 1: Education and Engagement:** (*increasing business' capabilities and opportunities*) Education remains a critical role for NZEC, not only to increase the awareness of exporters of trade finance solutions and raise exporters capabilities, but also in terms of generating opportunities for NZEC to support these businesses.
    - **Pillar 2: Increasing Risk Capacity:** (*Unleashing business potential*) Providing additional risk capacity to funders and insurers by leveraging the due diligence undertaken by these entities and partnering with them to support exporters.

- **Pillar 3: Increasing Risk Tolerance:** (*Unleashing business potential*) Utilising the Crown's capacity to selectively take a higher level of risk, compared to the private sector where this supports the Government's industrial policy, sectoral and/or regional focus.
- **Pillar 4: Enhancing Credit and Operational Risk Management**: (*Strengthening our foundations)* To ensure the appropriate balance of support adopted for exporters does not compromise NZEC's obligation to operate in a long-term viable manner nor increase operating risks, we plan to strengthen our operational 'middle office' processes and implement additional risk controls to manage any initiatives with higher risk tolerance.

5. The desired outcomes of these strategic pillars include:

    a. over the short-term, supporting the resilience and recovery of exporters impacted by COVID-19 challenges, and

    b. over the medium-term, supporting a wider range of exporters' growth which (where possible) aligns with and supports the Government's industrial, sectoral and regional policies for supporting businesses and an export-led recovery.

6. A summary of some of the initiatives in NZEC's Strategic Plan is detailed below:

    a. Expand and make permanent the streamlined process for trade credit insurance: One of the quick wins identified in NZEC's Strategic Plan was to expand and make permanent a COVID-19 initiative to streamline NZEC's due diligence for trade credit insurance applications. This builds on the success of this initiative over the last two years (2020/21 and 2021/22), where NZEC co-insured 143 "top-up cover" policies in support of $349 million of sales that the private insurers lacked the additional risk capacity to cover. Under this streamlined process, NZEC followed the due diligence of the primary insurer for exposures up to NZD 1 million and, to date, there have been no claims submitted to NZEC.

    NZEC has already implemented this initiative, and further streamlined the assessment process with a focus on supporting a higher number of SMEs who are exporting for the first time, entering a new market and/or establishing a new buyer relationship. Often private insurers will not support these exporters because their insurable turnover and number of buyers do not meet their minimum insurable criteria. Under this new process, we are willing to approve cover on credit exposures of up to NZD 500,000 based solely on the receipt of a satisfactory credit report (and in lieu of requiring the buyer's financials). We have also waived our application fee for businesses with a turnover less than NZD 30 million, to attempt to remove a barrier for seeking trade credit insurance. To manage our risks, we have internally capped the total exposures under this programme at a maximum of NZD 150 million and a NZD 5 million cap per counterparty.

    b. Pre-approvals of Loan Guarantees for successful NZTE IGF grant applicants: NZEC is working with NZTE to prepare a programme whereby if NZTE provides an IGF grant the exporter is eligible for an automatic pre-approval of NZEC's support. The exporter would share this pre-approval with their lender (bank and non-bank) to support a portion of the exporter's working capital needs. NZEC's support will be capped at an appropriate percentage of the lender's facility limit, with NZEC's maximum limit to match the grant support provided by NZTE (i.e. up to a maximum of NZD600,000).

    NZEC is working alongside NZTE to agree on the parameters of this programme.

7. NZEC plans to undertake specific lender engagement with banks and non-banks with the objective of streamlining the way we work with lenders to support their clients.

8. Some of our more long-term initiatives that we plan to explore are:

   a. A delegated guarantee scheme where individual lending decisions can be made by the lenders without requiring NZEC's explicit consent (subject to eligibility criteria), similar to arrangements that the UK and Australian export credit agencies have been developing and including lessons learned from the Business Finance Guarantee scheme that the Treasury delivered in response to COVID-19. Any delegated scheme would be subject to eligibility criteria, including a requirement for the lenders to risk share with NZEC. The delegated scheme would rely on the lenders' infrastructure and as such be highly scalable.

   b. Opportunities to delegate the provision of Top-Up trade credit insurance to the insurers, to help them support their exporters and to leverage off the insurers infrastructure, systems and processes.

9. Further assessment is required to determine whether these initiatives are worth pursuing, however, we are signalling these to you to provide an indication of methods we may adopt to help scale NZEC's support for exporters in the future. We will report back to you with a detailed proposal if we form a view that it would be worthwhile pursuing either of these initiatives.

10. There are also some unique situations where there is a market failure leading to exporters being unable to obtain financing support. One scenario that NZEC is interested in addressing is broadening the scope of what is provided under our existing Export Credit Guarantee (ECG) product. The ECG product allows an exporter to offer a buyer multi-year payment term to encourage the buyer to purchase capital goods from them. Dunedin based exporter Scott Technology is one entity who has offered their buyers multi-year payment terms with NZEC's ECG support.

11. The issue for New Zealand exporters is that New Zealand banks are reluctant to offer funding on the back of NZEC's ECG support. This issue arises because the value of the capital goods sold is often too small to be worth banks investing the time in putting appropriate funding mechanisms in place. This can result in New Zealand exporters being disadvantaged compared to their international competitors. We will undertake further work in relation to appropriate ways to fund these transactions for exporters and will report back to you with a detailed proposal if we form a view that this is an area for NZEC to intervene.

12. The above initiatives show how NZEC's Strategic Plan is focussed on ways for the Treasury to commercially support the Government's Economic Plan and other initiatives such as the Trade Recovery Strategy and the Industry Transformation Plans.

13. This paper seeks your endorsement of the direction of travel of our Strategic Plan, noting that our strategic activities will evolve over time as we continue to engage with the market and adjust our deliverables due to resourcing constraints. If you consider that the direction of travel of NZEC's Strategic Plan is either too risky or too conservative, in how NZEC can support the Government's Economic Plan, then that feedback would be useful.

Updated NZEC delegation

14. We have prepared in conjunction with Treasury Legal a new delegation instrument for NZEC. The new instrument delegates to the Secretary to the Treasury your power under section 65ZD of the Public Finance Act 1989 to enter into guarantees and indemnities in respect of export credit transactions that form part of the management and functions of the NZEC, plus other ancillary administrative powers in connection with that substantive delegation. The Secretary to the Treasury will in-turn sub-delegate those powers (subject to any further conditions the Secretary to the Treasury may require) to NZEC officials. The new delegation replaces NZEC's existing delegation instruments (from 2005 and 2010) and the delegation agreement in respect of NZEC that was signed in 2012.

15. The wording of the previous delegations reflects the policy preference of the previous Minister of Finance and the Treasury to operate NZEC conservatively within its mandate. In particular, the delegation agreement contains a series of product-specific criteria which have been added in a piecemeal fashion over the last 20 years as NZEC's product range has expanded. Many of those criteria have proven challenging to apply because:

    a. They specify, in unnecessary detail, the forms of legal documentation that exporters must enter into with their private sector financier or insurer before NZEC's support can be provided. These criteria have not kept up with innovations and changing market practice with regard to documentation in the commercial market;

    b. They set limits on the markets NZEC is permitted to operate in by requiring that NZEC's support only be provided where there is a "sustained history of New Zealand export trade into a particular market." These restrictions limit the ability for NZEC to deepen private sector expansion into new markets; and

    c. They often overlap with or contradict other sections of the delegation which set out NZEC's overall mandate. The document does not contain a clear indication of how to reconcile these differences in criteria and focus, leading to unnecessary complexity in making decisions on applications.

16. Together these documents have proven difficult to interpret and inflexible to support exporters outside of a range of factual scenarios.

17. The intent of updating the delegation is to remove these limitations, to ensure the boundaries set out in the delegation reflect your agreement as to the appropriate level of ambition for NZEC going forward, and to ensure that NZEC's mandate has the flexibility (within prudential limits and observing appropriate risk management practices) to enable NZEC to support New Zealand's exporting sectors.

18. Key changes to the delegation can be summarised as:

    a. Setting parameters around the types of products that NZEC is able to offer, but ensuring that the delegation is sufficiently agnostic as to the form of legal documentation to allow flexibility to meet developments in the private markets for export credit insurance and trade finance;

    b. Removing inconsistent and restrictive wording to better enable NZEC to utilise its products to support exporters, and fulfil NZEC's increased level of ambition;

c. Removing from the Ministerial delegation all prudential sub-limits, noting that they apply only to a sub-set of NZEC's products in respect to single-limit country, counterparty and industry exposure concentrations. Pursuant to a sub-delegation from the Secretary to the Treasury, NZEC will apply its prudential sub-limit framework, with a range of maximum exposure sub-limits applied to different credit ratings, and individually applied against counterparty, sector and country exposures. This approach allows for a more comprehensive risk-management approach across all NZEC products, while allowing for flexibility to adjust these settings (upwards or downwards). NZEC will report to you on its risk concentrations as a part of its half year and full year reporting; and

d. Paring back the mandatory role of Cabinet in approving any amendments to NZEC's delegation, reflecting that setting boundaries for the exercise of a guarantee and indemnity power is the Minister of Finance's role under the Public Finance Act. Cabinet is still able to be involved in approving further changes if the Minister of Finance considers it necessary, or where the Cabinet Manual indicates that a particular change is a matter which must or should be put to Cabinet.

General changes to the delegation:

19. We propose broadening NZEC's mandate beyond the current requirement that NZEC must be supporting an export transaction or a domestic supply chain transaction that is integral to an exporter. Globally governments (such as the UK Government) via their export credit agencies are acknowledging the benefit of generally supporting businesses that have exported or currently export, and not exclusively supporting a specific export transaction.

20. It is proposed that NZEC's Loan Guarantee and General Contract Bond Guarantee support be extended to transactions that are not strictly export transactions, if it is demonstrated that the business's export sales represent at least 30% of the business's annual turnover in any one of the last three financial years (for the UK's export credit agency (UKEF) it was 20%) or the business's export sales represent at least 10% of its annual turnover in each of the last three financial years (for UKEF it was 5%). This broader remit will enable NZEC to increase the resilience of businesses who currently do or in recent times have derived meaningful revenue from exporting. Enabling these exporting businesses to grow, will better prepare them for continuing on their exporting journey and help them to increase the level of revenue generated from exports. In particular it is expected that businesses that this initiative will support will be exporters targeted by the Advanced Manufacturing Industry Transformation Plan.

21. We propose to change the language used for the type of entities that NZEC can support, away from the term "New Zealand registered companies" to a "New Zealand incorporated or constituted entity (regardless as to legal form)". This will align our ability to support New Zealand exporters that are receiving support from other NZ Inc agencies such as NZTE. For example, NZTE engages with a range of Māori exporters operating through Māori Lands Trusts, Māori Incorporations, and Limited Partnerships, which our current definition precludes NZEC from supporting. This amendment will better position NZEC to be able support Māori exporters in the future.

22. We are also looking to provide flexibility within the delegation for NZEC to provide support using its existing products to transactions where there is a wider NZ Inc involvement and the transaction is in line with the Government's overall Economic Plan, through initiatives such as the Trade Recovery Strategy or an Industry Transformation Plan. This may take the form of NZEC supporting a business venture targeted towards international tourism at an earlier stage than it would have historically become engaged or providing support to a clean tech company which ultimately enables them to become an exporter.

23. Additionally, in calculating premium rates the current delegation requires NZEC to cover the cost of the use of the "Government's capital/opportunity cost of capital". This is not a World Trade Organisation (WTO) or Organisation for Economic Co-operation and Development (OECD) requirement and is not something other export credit agencies (ECAs) such as the Swedish ECA, EKN (whom NZEC often benchmarks) are required to do. Although this is not overly material, we recommend that this requirement is removed to ensure that NZEC is best positioned to support exporters.

Product specific changes to our delegation:

24. NZEC's current delegation has product-specific eligibility criteria and parameters. These have not been reviewed since 2012, and our recommended changes are intended to reflect changes in commercial market practices and/or address technical limitations which have previously restricted NZEC from supporting viable commercial transactions for exporters

25. NZEC's delegation limits the maximum repayment term of any Export Credit Guarantee to a maximum tenor of 15 years. In most circumstances this would be more than adequate, however, the OECD Arrangement on Officially Supported Export Credits (which details the most favourable terms and conditions that OECD countries can apply when providing export credits) allows for tenors in excess of 15 years, particularly for renewable energy, climate change and adaption projects. We recommend adjusting this 15-year maximum tenor to match the OECD Arrangement, which may enable NZEC to support future cleantech initiatives including as a reinsurer of a New Zealand supplier to a larger renewable energy project.

26. Within the delegation we are separating out the Short-Term Credit Guarantee into two subsets which NZEC currently provides, to provide better clarity. These two subsets are:

    a. **Short Term Trade Credit Insurance:** which relates to the provision of ground up trade credit insurance or top-up trade credit insurance, along with any co-insurance or reinsurance; and

    b. **Short Term Financing Guarantee:** which relates to a guarantee of payment in relation to an overseas entity be it a buyer or bank/financier.

    We propose amending the eligibility criteria of our Short-Term Financing Guarantee product to enable it to be used to provide letter of credit confirmations for exporters for both their export sales and their imports of key inputs for exports. The current criteria limits NZEC's support to where an exporter offers credit terms to their buyers. This prohibits our ability to help exporters in certain scenarios – for instance, where a letter of credit is required to enable the import of a critical input required for the eventual export transaction to occur. By contrast, other NZEC products, including its Loan Guarantee, while unsuited to this factual scenario, are not similarly restricted to only supporting credit terms offered by the exporter.

27. We also propose adapting the Short-Term Financing Guarantee to allow NZEC to support working capital facilities for overseas buyers purchasing non-capital goods such as commodities from New Zealand exporters. We have had enquiries from a bank seeking NZEC support (on a risk sharing basis) for facilities they are providing to buyers of New Zealand exports. They are seeking NZEC's support as buyer concentration limits in their portfolio restrict them from providing the full quantum of financing required to fund the import of New Zealand exports. This financing solution is offered by other multilaterals such as the Asian Development Bank as well as the German ECA, Euler Hermes. If this proves successful, this approach could be rolled out in other markets to help with the diversification of markets New Zealand exports to.

28. It is proposed to extend our General Contract Bond Guarantee to enable exporters provide bank guarantees to mitigate financial risk as well as performance risk. For example, where exporters need to provide standby letters of credit to their suppliers to mitigate payment risk. By NZEC providing its guarantee to the banks this will enable exporters to free up cash or utilise bank limits for other purposes such as working capital. This change is designed in particular to support the forestry and wood processing sector where standby letters of credit are often provided to give certainty of payments to their domestic suppliers.

Support Māori and Pacific aspirations

29. The Reserve Bank of New Zealand (RBNZ) is undertaking a workstream into Improving Māori Access to Capital. An issues paper issued by the RBNZ identified that: Māori are under-represented in business ownership; face higher costs of funding; and have a number of characteristics that raise financing costs. One nuance of Māori businesses which can impact on a business's ability to access financial support can be the legal form of the entity be it a registered company or a Māori Land Trust, as some forms of support (such as NZEC support) are available only to registered companies.

30. The proposed amendments to the types of businesses that NZEC is allowed to support under its delegation (detailed in paragraph 21) broaden the scope of businesses that NZEC can support and will better position NZEC to be able support a wider range of Māori exporters. Additionally, NZEC adopting a more proactive approach to supporting exporters through the streamlining of its due diligence processes (as detailed in paragraphs 6, 7 and 8) and by making a conscious decision to support exporters at an earlier stage (as detailed in paragraph 22) are also expected to benefit Māori exporters, along with NZEC's increased focus of supporting the Government's Economic Plan, which makes specific mention of supporting Māori and Pacific aspirations.

31. Once these initiatives are delivered, we will be able to undertake targeted engagement with Māori and Pacific exporters to raise their awareness of how NZEC's offering can support them. NZEC also works closely with NZTE's Māori business team, who are involved with a larger number of Māori businesses through their Māori Customer Managers and IGF process as well as the RBNZ around its workstream into Improving Māori Access to Capital.

New Zealand's international obligations

32. Premium rates are set on an individual transaction or group of related transactions, in line with NZEC's agreed pricing methodology, which shall not be less than OECD and WTO guidelines and which are adequate to cover both operating costs and anticipated losses so as to seek to ensure that, over the longer term, the activities of NZEC are fiscally neutral.

33. As we advance work in relation to the agreed level of ambition for NZEC, we will engage with the Ministry of Foreign Affairs & Trade (MFAT).

Risk Management and Governance

34. NZEC has a range of risk management processes undertaken by experienced and skilled staff to monitor and report exposures, as well as manage claims and recoveries. An audit on NZEC's risk and assurance practices was undertaken in 2018 (with no significant or high risks identified), with a follow-up audit on the implementation of the auditor's recommended actions completed last year.

35. However, a 300% annual increase in policies issued (relative to 2018/19) has tested the resilience of NZEC's processes and systems. Accordingly, our strategic fourth pillar "Enhancing Credit and Operational Risk Management" is designed to ensure that NZEC appropriately manages the increased exposure arising from its increased level of ambition and mitigates operational risks.

36. One first line of defence is the management of exposures within a comprehensive framework of prudential sub-limits categorised by credit rating bands, and applied against counterparty, sector and foreign country exposures. This framework is set within NZEC's NZD 740 million total exposure cap. The implementation of NZEC's Strategic Plan will not require an increase to this NZD 740 million limit. As at 30 September 2022, NZEC's current aggregate exposure is NZD 335 million, which provides sufficient headroom for NZEC to support additional exporters.

37. NZEC recently developed a new actuarially based, pricing model which adjusted NZEC's operating expenses loadings based on NZEC's historical financial performance. This new model will better enable NZEC to set premiums which cover its operating costs and expected losses over the longer term, and enable NZEC to calibrate this model to reflect material changes to NZEC's business (i.e. increased revenue, administration costs and/or losses).

38. Treasury's Capital Markets Risk Team provides a second line of defence by monitoring NZEC's operational risks, prudential limits and notional capital reporting. For example, this team calculates monthly the expected and unexpected losses on NZEC's existing portfolio, which provides a "value at risk" perspective to our total exposure, as well as assists with our provisioning for future losses. They also monitor the outstanding exposure against the prudential limit framework to ensure compliance.

39. NZEC actively operates a risk events log (for operational risk events or new misses) and a risk register which is administered by the Capital Markets' Risk Team. A third line of defence is via quarterly risk and assurance oversight from the Capital Markets Advisory Committee (CMAC), with additional reporting to the Treasury's internal Governance and Assurance team, and Treasury's Risk and Audit Committee. Any heightened risks or events are elevated to the Treasury's Executive Leadership team.

40. CMAC provides monitoring and advice to the Treasury's Deputy Secretary Financial and Commercial on strategic, performance and risk and assurance management relating to NZEC's operations. CMAC will continue to monitor and provide advice and assurance to the Treasury in respect to the planning, implementation and management of any adjustments to NZEC's strategy and risk tolerance. Annex 1 includes an extract from the reporting NZEC undertakes to CMAC.

41. As NZEC adopts its new strategic initiatives, an active risk management approach will be taken. This will include setting maximum exposure limits (by credit counterparty as well a total aggregated exposure) for those initiatives that extend NZEC's risk tolerance. For example, with the enhanced, streamlined process for trade credit insurance NZEC has capped exposure to individual entities at NZD 5 million and the whole programme has a cap of NZD 150 million.

42. We are also prioritising the strengthening of our operational 'middle office' processes and systems through initiatives including updating NZEC's CRM/database, modernising some of NZEC's legal documentation, and the digitisation of NZEC's application and documentation processes. For example, the Treasury's Capital Markets Technology Team is developing a more functional database which will improve NZEC's monitoring and reporting capabilities. This will make it possible for NZEC to further automate many of its process and documentation, which will help reduce operational risk.

Financial implications

43. NZEC provides its financial products on a commercial basis, with a mandate to ensure that its premium revenue is sufficient to meet operating costs and losses over the long-term.

44. Offsetting this, higher risk is likely to result in a higher policy default rate and we estimate this could increase to 7.5% from NZEC's historical 2.5%. This should be mitigated at a portfolio level by greater diversification of risk across a larger portfolio. Nonetheless there remains the possibility that increased claims in the short term are not offset by greater revenue, leading to short term losses. Over the longer term, the expectation is that revenue and costs will offset such that NZEC is a fiscally neutral policy intervention.

45. The fiscal treatment of NZEC is such that premium revenue and claims expenses are treated as Crown revenue and expenditure, whilst operating expenses are treated as departmental expenditure under Treasury's Multi-year Multi-category Policy Advice Appropriation alongside the majority of the Treasury's activities. This means that even though premium revenue will be set to cover increases in Treasury's costs, this revenue is not available to the Treasury to meet NZEC operating (departmental) costs.

46. As we rollout NZEC's Strategic Plan we forecast increases in our earned premium and exposure to be initially modest. Our forecasts estimate that NZEC's earned premium and operating costs will remain in line with 2021/22 levels, resulting in a small operating profit for 2022/23 financial year.

47. In our Treasury Report (T2021/2289) we advised that NZEC would optimally require an additional annual appropriation of NZD 1 million of operational budget for four additional specialist FTEs as well as back-office system upgrades to effectively service the higher workflows, administer the policies, and manage the exposures and operational risks.

48. NZEC's allocation of Treasury's budget bid was unsuccessful, and this means that NZEC is implementing our Strategic Plan utilising our existing staffing resources, which are mostly consumed with NZEC's core functions. As such the rollout of NZEC's Strategic Plan is progressing at a slower pace than initially envisaged, as business as usual occupies most of NZEC's resources.

Next Steps

49. If you indicate you would like to provide an update to Cabinet on the changes to NZEC's strategy, we will prepare speaking notes to support an oral item being presented at Cabinet.

50. More immediately, we will continue to progress non-resource dependant changes to the strategy. We will consult with MBIE, NZTE, Callaghan Innovation and MFAT where appropriate, to ensure our advice and implementation of our plans are aligned with their efforts.

51. We will look to provide a further update by 30 September 2023 in relation to the roll out of the Strategic Plan, which may include further changes to NZEC's delegation as details of our Strategic Plan evolve.

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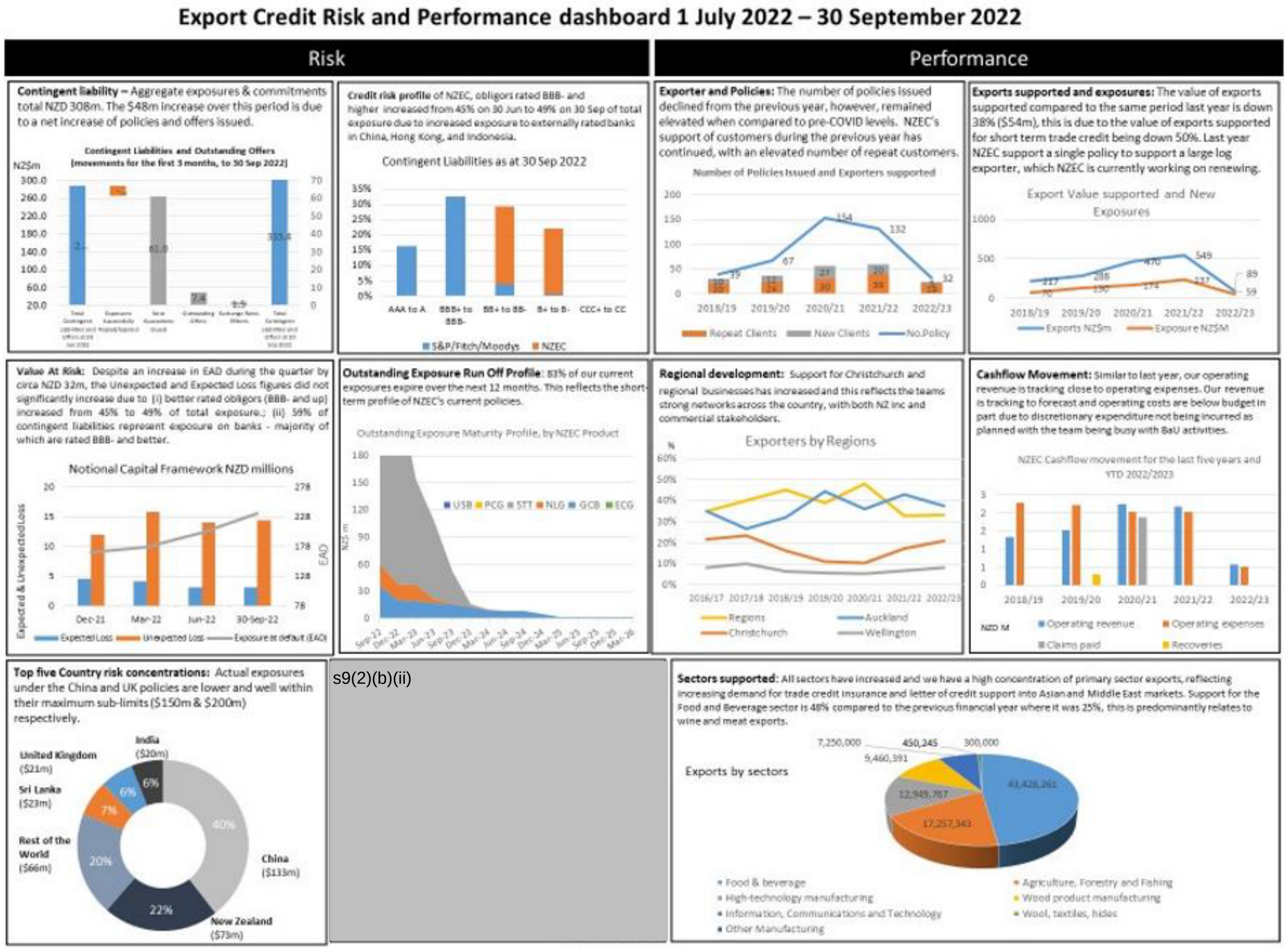
Annex 1: Example of NZEC Capital Markets Advisory Committee - Reporting



IN-CONFIDENCE

DELEGATION BY THE MINISTER OF FINANCE AND DELEGATIONS OPERATING PROTOCOLS – NEW ZEALAND EXPORT CREDIT

Introduction

This document sets out a delegation from the Minister of Finance ("**Minister**") to the Secretary to The Treasury ("**Secretary**") in relation to the Minister's power to give export credit guarantees and indemnities under section 65ZD of the Public Finance Act 1989 as part of the management and functions of New Zealand Export Credit ("**NZEC**"). It also sets out a set of protocols agreed between the Minister and the Secretary as to how the delegation will be exercised, with regard to:

- the products which NZEC is permitted to provide;
- the Mandate and Operational Criteria applicable to all products that must be applied by NZEC; and
- the functions and responsibilities of the Secretary and NZEC.

The primary purpose of NZEC is to:

- Provide a range of export credits and financial guarantees and indemnities which support New Zealand exports and the internationalisation of New Zealand exporters; and
- Educate and provide information regarding trade credit insurance and financial arrangements to support New Zealand exports.

In performing its functions, NZEC is required to:

- complement and not compete with the private sector;
- apply risk-appropriate commercial premiums to fully cover NZEC's operating costs and losses over the longer term; and
- act consistently with New Zealand's obligations under international agreements.

Part 1 - Delegations

A. Delegation from Minister of Finance to the Secretary to the Treasury

(i) Guarantees and indemnities

Pursuant to clause 5 of Schedule 6 of the Public Service Act 2020 and in relation to section 65ZD(1) of the Public Finance Act 1989, I, the Honourable Grant Murray Robertson, **MINISTER OF FINANCE,** delegate to the **SECRETARY TO THE TREASURY** (and any person acting in such role from time to time) the authority to give in writing export credit guarantees and indemnities as part of the management and administration of NZEC, such guarantees or indemnities to be in such form as the Secretary to the Treasury may from time to time determine.

Any guarantees or indemnities given under the authority of this delegation must be in accordance with the delegations operating protocols set out in Part 2 of this document.

(ii) Statements

Pursuant to clause 5 of Schedule 6 of the Public Service Act 2020 and in relation to section 65ZD(3) of the Public Finance Act 1989, I, the Honourable Grant Murray Robertson, **MINISTER OF FINANCE**, also delegate to the **SECRETARY TO THE TREASURY** (and any person acting in such role from time to time) the authority to present to the House of Representatives statements in a form determined by the Secretary to the Treasury for all export credit guarantees or indemnities given under the authority of the delegation in (i) above under which the Crown's contingent liability exceeds $10,000,000.

(iii) Expenditure against permanent legislative authority

Pursuant to clause 5 of Schedule 6 of the Public Service Act 2020, I, the Honourable Grant Murray Robertson, **MINISTER OF FINANCE** delegate to the **SECRETARY TO THE TREASURY** (and any person acting in such role from time to time) the authority to incur expenses and approve expenditure against the permanent legislative authority under section 65ZG of the Public Finance Act 1989 to pay money under export credit guarantees and indemnities given under the authority of the delegation in (i) above, provided that such expenses and expenditure are managed and accounted for in the same manner as Non-Departmental expenses or expenditure in Vote Finance in accordance with section 11 of the Public Finance Act 1989.

(iv) Other actions

Pursuant to clause 5 of Schedule 6 of the Public Service Act 2020, I, the Honourable Grant Murray Robertson, **MINISTER OF FINANCE** delegate to the **SECRETARY TO THE TREASURY** (and any person acting in such role from time to time) the authority to do all or any other acts or things required to exercise or perform the Crown’s rights and obligations under any export credit guarantees and indemnities given under the authority of the delegation in (i) above, and to generally manage and administer NZEC.

B. Consent to sub-delegation

This delegation may be sub-delegated by the **SECRETARY TO THE TREASURY** to:

- Any Treasury Deputy Secretaries;
- Any Treasury Executive Director and or Directors; and
- Any Treasury Managers and other staff with appropriate expertise and acumen.

Any sub-delegations may be made subject to any further conditions that the **SECRETARY TO THE TREASURY** sees fit.

C. Term of delegation

This delegation shall come into effect on the date of execution of the sub-delegation by the **SECRETARY TO THE TREASURY** made under the authority of this delegation ("**Effective Date**"), and shall continue in force until it is revoked.

D. Revocation

I, the Honourable Grant Robertson, **MINISTER OF FINANCE**, hereby revoke, on and from the Effective Date, the following instruments:

- the Letter of Delegation dated 25 January 2005, but only to the extent that that delegation related to the power to give guarantees as part of the management and functions of NZEC;
- the Letter of Delegation dated 23 April 2010 relating to the power to give export credit guarantees; and
- the Delegation Agreement between the Minister of Finance and the Secretary to the Treasury dated 21 October 2012 (as amended or supplemented from time to time).

Part 2 – Delegations Operating Protocols

A. Mandate and operational Criteria

Set out in this Subpart A are the underlying principles governing NZEC and the criteria which form the operational criteria applicable to NZEC products referred to in later parts of this document.

1. Mandate

a. Where Government support is required to address a market gap in the commercial provision of:

   i. Export credit guarantees (including reinsurance and co-insurance) to support the offering of extended payment terms to foreign buyers of New Zealand exports in compliance with the OECD Arrangement on Officially Supported Export Credits, where applicable.

   ii. Short-term trade credit insurance (including reinsurance and co-insurance) on reasonable terms and conditions, to cover the risk of a foreign buyer failing to make short-term credit payments for New Zealand exports.

   iii. Short-term financing guarantees (including reinsurance and coinsurance), cover the risk of a foreign bank failing to make short-term credit payments for New Zealand exports or to enable the provision of additional debt finance to a foreign buyer.

   iv. Pre-credit insurance covering loss on production in the event a buyer repudiates a contract prior to delivery.

   v. Surety bond guarantees for capital goods and services export contracts.

   vi. Contract bonds, performance bonds or bank guarantees, including where a foreign government controlled or owned buyer will not accept a bond without an assurance from the New Zealand Government.

   vii. Loan facilities by banks or other financial institutions, where the inability to provide loan facilities could be remedied by the provision of additional credit support by NZEC.

   viii. Political Risk Insurance for exporters investing or undertaking projects in offshore markets covering specific risks in relation to their overseas assets or investments by a foreign government to an exporter (or its bank or alternative financier).

   ix. Other arrangements, similar in substance to those in (i)-(viii) above and subsequently developed in the commercial markets (however referred to or documented) that are designed to do any one or more of the following:

      - mitigate payment risk in the context of export transactions;
      - secure export sales; or
      - enable access to trade finance.

b. NZEC may also provide a guarantee or indemnity in the absence of a clear market gap referred to in 1(a) above where NZEC's support would extend and develop the capacity and appetite of private providers (insurers, bond providers, and financiers) to support New Zealand exporters.

2. New Zealand Benefit rule

NZEC's support is for the purpose of promoting New Zealand exports of products and services, internationalisation of New Zealand's trade and industry and its competitiveness.

To be eligible for NZEC's guarantees or indemnities, the business (being either an exporter[1] or an integral domestic supplier to the exporter) will need to confirm, to the satisfaction of NZEC, that:

a. Either:

  i) the business is New Zealand incorporated or constituted entity (regardless as to legal form); or

  ii) the business is a subsidiary of a New Zealand incorporated or constituted entity;

AND

b. Either:

  i) the business is seeking NZEC's support in relation to an export transaction; or

  ii) the business is an integral supplier to an exporter; or

  iii) in relation to an application for NZEC's Loan Guarantee or General Contract Bond Guarantee only:

    i. the business's export sales represent at least 30% of its annual turnover in any one of the last three financial years; or

    ii. the business's export sales represent at least 10% of its annual turnover in each of the last three financial years;

AND

c. There is likely to be an economic benefit to New Zealand from the transaction. An 'economic benefit to New Zealand' could arise either:

  i. directly, where export revenue would flow from the transaction under normal economic conditions; or

  ii. indirectly, where it is considered that the transaction may:
    - allow the business (or, in the case of an integral supplier transaction, the exporters which they work with) to undertake further activities which will raise export revenue in the future; or
    - increase the value of existing sources of export revenue; or
    - otherwise advance the priorities set by the government from time to time with regard to trade and industry strategy.

[1] For the purposes of this document, and in keeping with the views of Statistics New Zealand, IRD and Tourism Export Council of New Zealand, international tourism is an export.

Guarantees and indemnities in respect of eligible New Zealand exports (being both goods and services) or exporters (plus their integral suppliers, if applicable), can be issued in favour of insurers, bond providers, or banks/financiers/lenders that are not necessarily resident in New Zealand.

3. International Obligations

a. Guarantees and indemnities can only be provided in a manner that is consistent with New Zealand's international trade policies, in particular:

i. the OECD Arrangement on officially support export credits and the WTO objectives that there be no prohibited subsidies as set out in the WTO's Agreement on Subsidies and Countervailing Measures; and

ii. other relevant OECD guidelines, for example the OECD's anti-bribery and environmental, social and governance guidelines, where relevant to NZEC's operations.

b. NZEC will price risks at premium rates which are adequate to cover its operating costs and losses over the long term.

c. NZEC will implement OECD rules and guidelines on environmental and social standards, sustainable lending, good governance, and combating bribery as determined from time to time by the OECD, where relevant to the operation of its facilities.

4. Permitted Currencies

NZEC is authorised to provide credit insurance, indemnities and/or guarantees in the following denominations: New Zealand dollars, U.S dollars, Euros, Sterling Pounds, Japanese Yen, Canadian dollars, Australian dollars, and Chinese Renminbi. NZEC will use financial instruments to manage any foreign exposure risks (arising out of providing foreign currency denominated credit insurance, indemnities or guarantees), in a manner consistent with departmental guidelines.

5. Total Maximum Exposure

NZEC shall be subject to a total maximum exposure across all products of $740,000,000.

6. Reinsurance/Coinsurance

NZEC can undertake reinsurance and coinsurance to manage concentrations it may have in its portfolio or to support export trade and share risks with other export credit agencies, multilateral agencies, political risk insurers and/or trade credit insurers.

Subpart B is a summary of the products NZEC is permitted to provide.

Product	Description	Risks Covered	Max. Credit Term	Max. level of cover
Export Credit Guarantee (ECG)	A guarantee covering the risk of default by an international buyer or bank on credit provided by an exporter (or its bank/financier) with payment terms of one year or more.	Commercial and political risks	The maximum credit terms are to conform to the OECD Arrangement on officially support export credits.	up to 95%, or 100% where: a) NZEC is reinsuring and the lead insurer is offering up to 100% or; b) where NZEC's cover relates to Letters of Credit
Surety Bond Guarantee	A performance guarantee on an exporter's ability to deliver on a Federal or State funded contract. Available to support contracts in the following approved country (including United States, Canada, Mexico, South Africa, Guam, American Samoa, Puerto Rico, United States Virgin Islands and the Northern Mariana Islands).	Exporter's technical and financial performance	Typical term will be less than 2 years, but can cover terms up to 15 years.	up to 100% of each bond value
General Contract Bond Guarantee	A performance or financial guarantee covering the risk of default or non-performance of an exporter.	Exporter's technical and financial performance	Typical term will be less than 2 years, but can cover terms up to 15 years	up to 100% of each bond value
Loan Guarantee	A guarantee to the exporter's bank or alternative financier covering the risk of default by the exporter to support the provision facilities to the exporter.	Exporter's financial performance	Term of the guarantee is limited to up to 60 months	up to 100% of additional lending

Short Term Trade Credit Insurance	An indemnity to exporters, private sector trade credit insurers, and/or banks or alternative financiers to provide cover for payment terms less than 365 days.	Commercial and political risks	Less than 365 days	up to 95% or up to 100% for Letters of Credit
Short Term– Financing Guarantee	A guarantee to exporters, private sector trade credit insurers, and/or banks or alternative financiers to provide cover for payment terms or facilities with credit terms of less than 365 days.	Commercial and political risks	Less than 365 days	up to 100%
Pre-Credit Insurance	An indemnity covering the risk of default by a foreign buyer on credit provided by an exporter (or its bank or alternative financier) during the production period.	Commercial and political risks	Not applicable	up to 95%
Political Risk Insurance	A guarantee or indemnity covering specific risks such as: Confiscation, Expropriation, Nationalisation, Political Violence, Transfer & Conversion or Breach of Contract/Arbitration Award Default in relation to the overseas assets or investments of an exporter (or its bank or alternative financier).	Political Risks	Up to 10 years non-cancellable or 15 years non-cancellable if or with reinsurance	up to 90%
While NZEC has its own forms of documentation, from time-to-time NZEC may be required by a counterparty (such as a bank or other financier, bond provider or insurer/reinsurer) to enter into documentation on that counterparty's standard form or to execute framework agreements which set general terms and conditions across all individual transactions subsequently entered into with that party. This is acceptable provided legal review of the documentation is obtained and the transactions which the documentation enables are one of the types of products as described above in this table.				

Subpart C - the Secretary shall be responsible for the operation of NZEC and shall ensure that NZEC undertakes the following activities:

a. Prepare an annual business plan setting out the key strategic and operational issues for NZEC, financial forecasts and the agreed performance indicators for which the Secretary will be held to account.

b. Set premium rates on an individual transaction or group of related transactions, in-line with NZEC's agreed pricing methodology, which shall not be less than OECD and WTO guidelines and which are adequate to cover both operating costs and anticipated losses so as to seek to ensure that, over the longer term, the activities of NZEC are fiscally neutral.

c. Put in place the appropriate arrangements to ensure that the Crown can pay claims in a timely manner in accordance with the terms of the relevant insurance and re-insurance policies, guarantees or indemnities and all rights of the Crown thereunder.

d. Set both general and specific provisions for transactions on the basis of potential loss and claims information/developments on actual performance and to keep these provisions under review and to make decisions on adjustments to provisions as necessary.

e. Appoint an Auditor to review the financial records of NZEC. Unless determined otherwise the Auditor shall be the Treasury's Auditor and the audit of NZEC will form part of the annual audit of the Treasury.

f. Establish and implement regular reporting to the Minister, as follows:

- A Statement to the House of Representatives, where the contingent liability under an indemnity or guarantee exceeds $10 million;
- Reporting through the Treasury's Annual Report;
- Reporting to the Minister on agreed matters and performance indicators; and
- Exception reporting on any material matter, from time to time.

g. Seek approval from the Minister of Finance prior to undertaking any activity outside the terms of this document.

h. Put in place and monitor appropriate prudential sub-limits for NZEC. The Secretary will ensure that NZEC operates its business within prudential limits of maximum exposure to a particular buyer, country and sector in order to manage the Crown's fiscal risk. All limits will be on a net of reinsurance basis.

i. Ensure that the $740 million total maximum exposure is not exceeded.

j. Ensure that NZEC's guarantees, indemnities and re-insurance issued are clearly shown to be from/in the name of the New Zealand Government.

k. Risk assessments on countries and cases should follow international standards of “best practice” (i.e. those that would normally be followed by a prudent export credit agency, applying robust credit criteria, operating in similar markets to NZEC and following as a minimum the relevant OECD and WTO pricing guidelines).

l. Put in place and maintain appropriate risk control and mitigation frameworks to ensure that NZEC is appropriately pricing the risk that it is taking.

m. Enter into arrangements including but not limited to co-operation arrangements and memoranda of understanding with other entities such as export credit agencies, multilaterals and development banks inter alia, for the purposes of improving the operations of NZEC.

n. Establish appropriate budgets/auditing arrangements for handling receipts (i.e. premium income and recoveries in respect of paid claims) and payments (i.e. administration costs, fees etc and claims).

Nothing in this delegation shall prevent NZEC from agreeing to less restrictive financial terms and conditions than those provided for by this delegation, if such action is taken after NZEC is on risk and is intended solely to avoid or minimise losses from events which could give rise to non-payment or claims.

In fulfilling its responsibilities, the Secretary may as they deem necessary:

- create and amend prudential limits, other than the total maximum exposure of $740,000,000;
- amend the wording of insurance policy documents to ensure proper operation of NZEC.

SIGNED by the **MINISTER OF FINANCE**
the Honourable Grant Robertson

____
Signature

In the presence of:

____

Signature of witness

Name of witness: ______________________________

Occupation: ______________________________

Address: ______________________________

SIGNED by the **SECRETARY TO THE TREASURY**

Caralee McLiesh

____
Signature

In the presence of:

____

Signature of witness

Name of witness: ______________________________

Occupation: ______________________________

Address: ______________________________

Reference: T2022/2377

Date: 17 November 2022

To: Minister of Finance (Hon Grant Robertson)

Deadline: None
(if any)

Monitoring and Reporting on the Climate Emergency Response Fund: First financial data collection results

In Budget 2022, Cabinet agreed that initiatives funded from the Climate Emergency Response Fund (CERF) should be subject to financial and non-financial monitoring and reporting. An approach was to be developed by Treasury and lead agencies that would enhance transparency over CERF spending and its progress toward climate objectives.

In July, you agreed to an approach which included quarterly financial and annual non-financial reporting for both CERF and Green Bonds initiatives [T2022/1302 refers]. The system we have developed includes financial reporting, which focuses on actual and forecast spending compared to baseline, while the non-financial reporting focuses on agency-selected measures which would show the impact of initiatives.

CERF agencies have now submitted their monitoring information for the first quarter of the 2022/2023 financial year.[1] Below we have identified some key insights from the data for your consideration. We are also interested in any feedback you have on our plan to publish the data.

Insights from First Collection

Our first data collection went relatively smoothly. Information was gathered for 25 CERF initiatives across eight agencies. A table of summary results is included as Annex 1.[2]

In general, spending has had a slow start. Most agencies have spent only a small portion of their available funding in Q1: total CERF expenditure to date is $35.2 million against a 2022/23 forecast of $510.3 million, and total CERF baseline for the year of $617.8 million. This is demonstrated below in Table 1, which shows actual spending and forecast spending as a percentage of the baseline for CERF initiatives, cut by Vote.

1 We will begin collecting Green Bond data from Q2, after the inaugural issuance of Green Bonds in November.

2 Technically 26 initiatives have been funded from the CERF, but the Forestry initiative 'Increasing woody biomass supply to replace coal and other carbon intensive fuels and materials' is still in tagged contingency in its entirety, so has no baseline to report against for the 2022/23 financial year.

This delay to implementation is not uncommon in Q1 spending, as agencies focus on establishing new roles and teams to deliver their work programmes. The data backs this up at an appropriation level: in the CERF we've seen spending against initiatives start in departmental appropriations (as administrative functions are set up) while non-departmental spending often hasn't begun. This is happening across a range of initiatives including the 'decarbonising industry' initiative (GIDI), the waste initiative, and Community Connect.

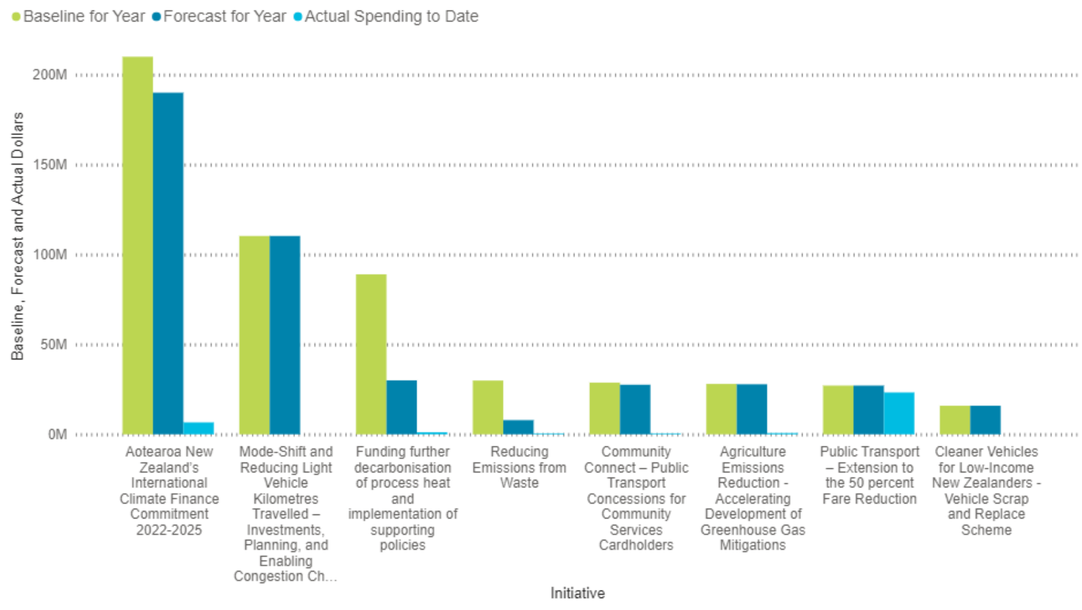
There is one significant outlier to this trend. This is the extension to 50% fare reduction for public transport, which only covered the first two months of the financial year, and therefore nearly all of the appropriated funding has been spent.

Table 1: Actual spending, Forecast and Baseline for the Year, by Vote

Vote	Actual Spend Quarter 1 ($)	Forecast for 2022/23 ($)	CERF Baseline for 2022/23 ($)
Agriculture, Biosecurity, Fisheries and Food Safety	1,053,000	37,348,000	39,151,000
Business, Science and Innovation	1,578,789	44,015,727	106,552,000
Conservation	-	935,000	935,000
Environment	2,008,925	20,265,997	42,266,000
Finance	146,000	1,339,000	1,339,000
Foreign Affairs	6,600,000	190,000,000	210,000,000
Forestry	428,000	14,423,000	14,423,000
Social Development	57,000	2,784,000	3,985,000
Transport	23,290,000	199,163,000	199,163,000
Total	**35,161,714**	**510,273,724**	**617,814,000**

Despite the slow start, most agencies are forecasting that spending will pick up throughout the remainder of the financial year. We have shown this below in Figure 2 for the eight largest CERF initiatives.

Figure 2: Actual and forecast spending as a portion of baseline for large initiatives



While most agencies are forecasting that they will spend their baseline allocations by the end of the financial year, we consider there are risks of further underspends. Spending in Q1 is often delayed as agencies recruit and establish new functions. We do not have good comparators for in-year, initiative level spending to enable us to judge whether progress is slower than would usually occur for new initiatives, but this dynamic is common. In the current environment, it is possible that the tight labour market and supply constraints could be factors and could continue to delay implementation. We will continue to monitor this through the rest of the year and will provide any insights to you and the Climate Change Interdepartmental Executive Board (CCIEB).

Agency-Specific Insights

s9(2)(f)(iv) [redacted] We have pulled out some insights on the Ministry for Primary Industries (MPI), s9(2)(f)(iv) [redacted] and the Ministry of Business, Innovation and Employment (MBIE) as the agency with one of the largest initiatives (both in terms of funding and emissions impact, through the GIDI), and lowest actual-spending-to-forecast ratio at just over 40 percent.

Ministry for Primary Industries: Agriculture

s9(2)(f)(iv) [redacted] your office requested information on how MPI was progressing in delivering agriculture initiatives that were funded from CERF in Budget 2022. s9(2)(g)(i) [redacted]

At the end of Q1, MPI has only spent 3.3% of its total 2022/23 forecast for its agriculture CERF initiatives, or 3.0% of its baseline.[3] This is lower than the average across CERF initiatives, where actual spending is around 7.1% of forecast for the year or 6.8% of the CERF baseline for 2022/23.

Across all CERF initiatives we expect that capacity risks will persist, so MPI's forecast spend for the remainder of 2022/23 could be ambitious. s9(2)(f)(iv) [redacted] We will also continue to monitor this in Q2 CERF monitoring and reporting.

For the three agriculture initiatives funded from the CERF in Budget 2022, Treasury's understanding of delivery progress is as follows in Table 2.

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3 We note that some of the CERF initiatives remain in tagged contingency while design work is carried out, which is why spending has not commenced.

Table 2: Progress on delivering CERF 2022 agriculture initiatives

Initiative title	Actual Spend Quarter 1 ($)	Forecast for 2022/23 ($)	CERF Baseline 2022/23 ($)	Comment
Agriculture Emissions Reduction - Accelerating Development of Greenhouse Gas Mitigations	$690,000 *(2.48% of CERF baseline for 2022/23)*	$27,828,000 *(99.33% of CERF baseline for 2022/23)*	$28,015,000	s9(2)(g)(i) [redacted]
Agriculture Emissions Reduction - Developing the He Waka Eke Noa Pricing System (Phase One).	$262,000 *(4.17% of CERF baseline for 2022/23)*	$6,280,000 *(100% of CERF baseline for 2022/23)*	$6,280,000	s9(2)(f)(iv) [redacted]
Agriculture Emissions Reduction - Supporting Producers and Māori Entities Transition to a Low Emissions Future	$101,000 *(2.46% of CERF baseline for 2022/23)*	$3,240,000 *(78.91% of CERF baseline for 2022/23)*	$4,106,000	We have not been engaged by MPI on this initiative, but note that initial progress appears slow, with actual spend of $0.1 million for Q1 accounting for only 2.46% of the CERF baseline for 2022/23.

s9(2)(f)(iv) [redacted]

Ministry of Business, Innovation and Employment

While most CERF agencies are forecasting to spend their 2022/23 baselines, the initiative 'Funding Further Decarbonisation of Process Heat and Implementation of Supporting Policies', is not. Most of this initiative is focused on the Government Investment in Decarbonisation (GIDI) fund. The initiative is forecasting to spend only 34% of its original estimated spend from the MYA for 2022/23, or $30 million of a total $89 million appropriation. No spending has happened to date. Because of the size of this initiative, this means that as an agency MBIE is only forecasting to spend around 40% of their CERF baseline for 2022/23.

We expect that this delay is largely caused by the significant increase to the scale of the GIDI fund: its first iteration was considerably smaller and narrower in scope, with only $69 million total funding compared to the $678 million awarded in Budget 2022. It may take time to scale up processes and manage the extension to the fund. This is also something that is under scrutiny through an implementation readiness review by the Implementation Unit.

However, delays for this initiative could affect the emissions reductions currently assumed to be possible in order to meet the first emissions budget (EB). Setting up the initiative for success is necessary to ensure it delivers emissions reductions, but the delay may affect whether these reductions fall in EB1 or EB2. We intend to raise this issue with the CCIEB, as this will be relevant to ongoing adaptive management of the strategy for meeting Emissions Budget 1.

Next Steps and Publication

The data we have presented in Annex 1 is a subset of our total dataset. We intend to publish our total dataset, which additionally includes cuts by appropriation, quarterly forecasts, and forecasts over the rest of the forecast period, on the Treasury website in mid-December. We will publish it in a new section of the website alongside information on the purpose and establishment of the CERF and the approach that's been taken to gather the information. It will be published in an open-source format so that the public can actively engage with the data.

When we publish the information, we will do so with both initiative and appropriation-level information. This was something the Auditor-General requested we do for COVID-19 Response and Recovery Fund monitoring and reporting. We have provided the Office of the Auditor-General (OAG) an early look at the data as well, and they were pleased to see the progress we had made addressing their feedback.

At the OAG's recommendation we also gave the office of the Parliamentary Commissioner for the Environment an overview of our approach and data, who were also interested in our progress, and keen to see the non-financial reporting results after the end of the current financial year.

As discussed above, we will also provide the data to the CCIEB secretariat. They have indicated that this information will be a useful input to their adaptive management of the Emissions Reduction Plan and National Adaptation Plan. s9(2)(f)(iv)

Finally, we have also asked agencies to provide us with early insights into their proposed non-financial reporting metrics, which we are expecting before the end of the year. If you are interested, we can provide you with a summary of the metrics once we've received them, which will give an indication of what we will be able to demonstrate initiatives have achieved by the end of the 2022/23 financial year.

Katie Collier, Senior Analyst, Climate Change, s9(2)(k)
Nicky Lynch, Manager, Climate Change, s9(2)(k)

Annex 1: Summary of Results for First Quarter

Lead Agency	Initiative Title	Actual Spend Quarter 1 ($)	Forecast for 2022/23 ($)	Q1 Spend as a Percentage of 2022/23 Forecast	CERF Baseline for 2022/23 ($)	Q1 Spend as a Percentage of CERF Baseline for 2022/23	Comment on Variance[4]
MPI	Agriculture Emissions Reduction - Accelerating Development of Greenhouse Gas Mitigations	690,000	27,828,000	2.48%	28,015,000	2.46%	-
MPI	Establishing Native Forests at Scale to Develop Long-Term Carbon Sinks and Improve Biodiversity	205,000	8,612,000	2.38%	9,362,000	2.19%	-
MPI	Maximising Carbon Storage: Increasing Natural Sequestration to Achieve New Zealand's Future Carbon Goals	244,920	8,477,999	2.89%	8,478,000	2.89%	-
MPI	Agriculture Emissions Reduction – Developing the He Waka Eke Noa Pricing System (Phase One)	262,000	6,280,000	4.17%	6,280,000	4.17%	-
MPI	Agriculture Emissions Reduction - Supporting Producers and Māori Entities Transition to a Low Emissions Future	101,000	3,240,000	3.12%	4,106,000	2.46%	-
MBIE	Funding further decarbonisation of process heat and implementation of supporting policies	1,148,222	29,998,578	3.83%	88,962,000	1.29%	Work is underway on programme design and implementation. The first RFP for GIDI is pending and expenditure will be incurred later in the year.
MBIE	Supporting the energy transition to a low emissions economy (development of an energy strategy, hydrogen roadmap, and regulatory framework for offshore renewable energy)	335,133	5,488,811	6.11%	5,670,000	5.91%	-
MBIE	Equitable Transitions Programme	-	3,495,000	-	3,495,000	-	-
MBIE	Electricity market measures to support the transition to a highly renewable electricity system	94,282	2,825,000	3.34%	2,825,000	3.34%	-
MBIE	Developing a Circular Economy and Bioeconomy Strategy	1,152	1,591,152	0.07%	1,600,000	0.07%	-
MBIE	Supporting renewable and affordable energy in New Zealand communities	-	617,186	-	4,000,000	-	Resource to progress this work is in the process of being recruited. Planning for the delivery of this funding will ramp up once the resource is on board, and forecasting will be refined as the work programme is developed.
MFE	Reducing Emissions from Waste	379,103	7,887,000	4.81%	29,887,000	1.27%	Funding will be administered in an open contestable process commencing in October. There is high interest in the fund, so MFE expects it to be fully committed in the financial year, but there will be a lag between drawdown and outward payments.
MFE & Treasury	Emissions Reduction Plan Performance Monitoring	981,333	5,510,000	17.81%	5,510,000	17.81%	-
MFE	Māori Climate Action	353,132	3,487,999	10.12%	3,488,000	10.12%	-
MFE	Delivering New Zealand's International Climate Change Target Through Offshore Mitigation	295,497	1,943,999	15.20%	1,944,000	15.20%	-
MFE	Enabling a Scaled-up, High Quality Voluntary Carbon Market	123,940	1,044,000	11.87%	1,044,000	11.87%	-
MFAT	Aotearoa New Zealand's International Climate Finance Commitment 2022-2025	6,600,000	190,000,000	3.47%	210,000,000	3.14%	Spending is ramping up as the Climate Portfolio is established over the course of the first year of the triennium.
MOT	Mode-Shift and Reducing Light Vehicle Kilometres Travelled – Investments, Planning, and Enabling Congestion Charging	-	110,300,000	-	110,300,000	-	-
MOT	Community Connect – Public Transport Concessions for Community Services Cardholders	81,000	27,561,000	0.29%	28,762,000	0.28%	-
MOT	Public Transport – Extension to the 50 percent Fare Reduction	23,266,000	27,100,000	85.85%	27,100,000	85.85%	-
MOT	Cleaner Vehicles for Low-Income New Zealanders - Vehicle Scrap and Replace Scheme	-	15,906,000	-	15,906,000	-	-
MOT	Retaining and Recruiting Bus Drivers – Improving Terms and Conditions	-	13,000,000	-	13,000,000	-	-
MOT	Decarbonising the Public Transport Bus Fleet	-	4,290,000	-	4,290,000	-	-
MOT	Cleaner Vehicles for Low-Income New Zealanders - Social Leasing Scheme	-	1,950,000	-	1,950,000	-	-
MOT	Decarbonising Freight Transport - Resourcing and Seed Funding	-	1,840,000	-	1,840,000	-	-
	Total (Average percentage)	**35,161,714**	**510,273,724**	**(7.11%)**	**617,814,000**	**(6.81%)**	

4 Agencies were required to provide a comment where there was a variance greater than either $10 million or 20% between forecast spend for the year and baseline for the year.

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2453

Date: 17 November 2022

To: Prime Minister
(Rt Hon Jacinda Ardern)

Minister of Finance
(Hon Grant Robertson)

Deadline: Prior to meeting at 5:00 pm on Monday, 21 November

Aide Memoire: November 2022 Monetary Policy Statement

You are meeting with the Reserve Bank of New Zealand (Reserve Bank) Governor, Secretary to the Treasury, and the Treasury Observer (Dominick Stephens) on Monday, 21 November at 5:00 pm to discuss the November 2022 Monetary Policy Statement (MPS). The decision on the Official Cash Rate (OCR) and Additional Monetary Policy tools will be announced at 2:00 pm on Wednesday, 23 November. This meeting provides you with an opportunity to keep informed about the Reserve Bank's view on the economic outlook and risks.

This aide memoire summarises the Reserve Bank's latest view on the economy and its initial baseline MPS forecasts. The Reserve Bank's forecasts were not finalised at the time of writing and are subject to change.

Key Points

- **The Monetary Policy Committee (MPC) raised the OCR by 50 basis points, for the fifth consecutive time, to 3.5% on 5 October 2022.** The MPC agreed it remained appropriate to continue to tighten monetary conditions at pace to maintain price stability and contribute to maximum sustainable employment. Core consumer price inflation remains too high and labour resources remain scarce.
- **The world growth outlook is deteriorating in response to global policy tightening.** The global economy is starting to show early signs of responding to global monetary tightening. However, many advanced economies have experienced upside surprises to inflation. Expectations of global policy rates have increased, and the New Zealand dollar (NZD) has depreciated. This global tightening will reduce the world's economic growth.
- **Domestic inflationary pressures have continued to intensify.** The August MPS assumed inflationary pressures had peaked. However, annual inflation in the September quarter was 0.8 percentage points stronger than expected (at 7.2%). The Bank now projects inflation will remain around this level for several quarters. In part, this revision has been caused by:

- o Less contractionary financial conditions than previously assumed, as mortgage rates and the exchange rate have been lower than projected, and higher inflation expectations have lowered short-term real interest rates.
- o Domestic activity has remained resilient, with an exceptionally tight labour market.
- o Exports of services, both tourism and non-tourism, are increasing rapidly.
- o High inflation is increasingly embedding into expectations, with the 2-year-ahead measure in the Reserve Bank's survey jumping from 3.0% in August to 3.6% in November.

- **The Reserve Bank see a short period of employment below its maximum sustainable level as potentially required to sustainably meet its dual mandate over the medium term.** Although the Reserve Bank notes there is considerable uncertainty about how much employment will need to slow to relieve inflationary pressure, the Reserve Bank states it is likely the impacts of COVID-19 have decreased the level of maximum sustainable employment due to structural shifts.
- **The Reserve Bank's projections have incorporated a sustained but shallow period of contraction** with small GDP declines over six consecutive quarters from Q2 2023, for a cumulative contraction of about 1%.

Talking points

You may wish to ask the Governor about the Reserve Bank's views on:

- Given monetary policy impacts the economy with a lag, how will you identify when you have done enough to return to target without overtightening?
- What is the risk that a larger recession is required to return to target, not least because the NZD is not appreciating as other countries also raise their interest rates?
- How are you thinking about the trade-off between price stability and maximum sustainable employment in more significant downside scenarios?
- How New Zealand's experience compares internationally.
- Lessons learned from recent inflation surprises, as well any relevant lessons drawn from the recent Review and Assessment of the Formulation and Implementation of Monetary Policy.
- The impacts of declining house prices on consumption and residential investment.
- The impacts of government spending on the economy – including inflation and employment rates.

Summary of the Reserve Bank's latest economic projections

World growth outlook is deteriorating in response to global policy tightening

- Global inflationary pressures have increased. Since the August MPS, many economies have experienced significant upside surprises to inflation with headline inflation in the US, UK, Canada and Australia above expectations.

- Central banks have responded to rising global inflation by tightening policy further. Although a number of central banks have slowed, or signalled a slower pace, for tightening going forward, for most of New Zealand's major trading partners policy relative to expectations are elevated compared to August. This has put downward pressure on the NZD exchange rate, with the Trade Weighted Index 2.3% lower than assumed at the time of the August MPS.

- Tighter global monetary policy is expected to lead to a fall in our import prices. Oil prices continue to decline broadly as expected, and the weaker world growth outlook has led to modest declines in forward expectations for oil prices. Global supply-chain conditions have eased, but this has not yet been reflected in lower prices for New Zealand's imports. The Reserve Bank expects real import prices (the prices of New Zealand's basket of imports relative to the global price level) to fall to pre-pandemic levels by 2026.

- Tighter monetary policy has led to a deteriorating world growth outlook, with risks skewed to the downside. The Bank has incorporated impacts of weaker world activity via weaker export prices, negative confidence impacts on business investment as well as the impact on goods export volumes. In particular, New Zealand goods exports prices are now projected to be 1.5% lower, and export volumes are projected to be 7% lower by the end of the projection horizon relative to the August MPS (although tourism exports have been revised higher due to other reasons).

Domestic financial conditions have been less contractionary than assumed, contributing to resilient domestic growth

- Domestic activity has been stronger than expected, due to a lower pass through of the OCR to mortgage rates than assumed, a lower exchange rate, growing tourist arrivals, and robust consumer spending. Activity across the economy has remained resilient, with few signs of slowing and increasingly marginal resources being used to supply unsustainably strong economic growth. The Reserve Bank estimates the economy was operating at 2.7% above its capacity in the September 2022 quarter.

- House prices are highly sensitive to interest rates and have declined to now be 12% lower than the November 2021 peak. A total peak-to-trough decline of about 19% is projected. However, residential construction has held up and the pipeline seems full for at least another six months. Over the medium term, the Reserve Bank projects residential construction will decline significantly.

- Fiscal support in the Reserve Bank's latest projections is consistent with the Budget 2022 fiscal forecasts but with some adjustments due to significant differences in actual activity at the starting point (i.e. the 2021/2022 Financial Statements of the Government), and the outlook for inflation.

A sustained and significant slowdown is projected

- The Reserve Bank projects a sustained but shallow period of contraction. Economic activity has expanded much faster than the potential growth rate of the economy over the pandemic period. In these projections, stronger near-term growth, above-target inflation and inflation expectations necessitate a sustained, but shallow, period of economic contraction to reduce inflation to target over the medium term. In these projections, GDP declines (0.1%-0.3% quarter on quarter) for six consecutive quarters from the June 2023 quarter. Cumulatively, these declines result in the economy contracting by about 1%.

- Consumption per capita is projected to fall to pre-pandemic levels by 2024, as current strong household incomes and savings decline. However, consumption is expected to remain resilient in the near term, supported by strong household incomes and savings accumulated during the pandemic.

The Reserve Bank expects labour market pressures to ease

- The Reserve Bank expects a small decline in employment, slowing in line with economic growth. This decline in total employment and economic activity is expected to relieve supply constraints in the labour market. The Reserve Bank views that a short period of employment below its maximum sustainable level may be required to sustainably meet its dual mandate over the medium term.

- There is considerable uncertainty about how much employment growth will need to slow to relieve inflationary pressure. This will depend on a wide range of factors including, but not limited to, the availability of skills, domestic and international migration, wage setting behaviour and inflation expectations.

- While maximum sustainable employment is unobservable, it’s likely that COVID-19 has caused the level to decline. This is because COVID-19 and the border closure have caused large structural shifts in the labour market (e.g., as workers shift industries and retrain). These labour market frictions may take a while to fully resolve. The Reserve Bank’s central estimate is that unemployment will rise to a peak of 5.8% in the second half of the 2026, as inflation and inflation expectations return towards target.

- Real wages are projected to increase, but not fully recover. While broader measures of wage and income growth have roughly kept pace with inflation (as workers have shifted jobs, been promoted or worked longer hours), elevated inflation has meant that employees in the same job have experienced negative real wage growth for much of the past year. Over the projection horizon, the Reserve Bank expects employees to make up some lost ground on real same-job wages, reflecting declining inflation and the impacts of scarce labour on businesses in the short term. However, the Reserve Bank does not expect that there will be a complete catch-up in same-job real wages, due to the weakness in the domestic economy in the latter half of the projection period.

Headline inflation is stronger in the near term

- Headline inflation is expected to remain above 7% for the next two quarters. This is due to underlying core inflation, in particular in non-tradeable subcomponents and subsectors that are more reliant on labour costs. It's likely that core inflation measures will continue to rise in the coming quarters. The Reserve Bank has assumed the 25c per litre fuel tax resumes and other transport subsidies are removed in the March 2023 quarter, in line with public communications from the Government. Wages, food prices, import prices and the exchange rate all present some upside risk to these forecasts and it is possible that inflation continues to rise above the current peak. However, commodity prices – especially petrol – provide some downside risk.

- These forecasts have a return to the Reserve Bank's inflation target range and midpoint later than in the August MPS. This reflects the need to offset higher near-term capacity pressures. Inflation is now projected to return to the target range in the December 2024 quarter and to the target midpoint in the September 2025 quarter. The lengthening time above target presents upside risk for inflation expectations and wage-setting behaviour.

- Inflation is likely to be more persistent than anticipated in August:

    - September 2022 quarter consumers price index (CPI) showed high inflation in both tradeables and non-tradeables, and across a broad range of subcomponents. This unexpectedly high, broad-based inflation was only partially explained by one-off events (e.g., higher airfares as tourism demand rebounds).

    - There is additional persistence in wages that is not explained by typical relationships (e.g., with the output gap), which could be originating from rapidly rising inflation expectations and/or increased bargaining power of workers on the back of the extremely tight labour market.

    - Surveyed measures of inflation expectations have risen and are now well above what would normally be assumed, with the latest survey of 2-year ahead expectations increasing to 3.6%, from the last result of 3.0%

- Collectively these factors suggest that the Reserve Bank has been underestimating the persistence of inflation in a high inflation environment.

- Currently markets have priced in an increase of 63 basis points in the OCR on Wednesday, indicating pretty even odds for increases of either 50 bps or 75 bps.

Jack Starrett Wright, Senior Analyst, Macroeconomic and Fiscal Policy, s(9)(2)(k)
Neil Kidd, Principal Advisor, Macroeconomic and Fiscal Policy, s(9)(2)(k)

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2517

Date: Thursday 17 November 2022

To: Minister of Finance (Hon Grant Robertson)

Deadline: Monday 21 November 2022

Aide Memoire: Notes for Your Closing Address to the Government Regulatory Practice Initiative Conference

You have agreed to give a short closing address to the Government Regulatory Practice Initiative (G-REG) 2022 Annual Conference at 4.30pm on 23 November. This Aide Memoire provides you with some background and potential talking points for that address, as requested by your office.

About G-REG and its current challenges

The G-REG secretariat, which is hosted in the Ministry of Business, Innovation and Employment (MBIE), has already provided your office with information about the purpose and activities of G-REG. Broadly speaking, G-REG seeks to help improve and professionalise regulatory practice in both central and local government through a range of capability-building initiatives. In addition, it is worth being aware that:

- G-REG's work is club-funded by contributions from 13 regulatory agencies (and probably a significant subsidy from MBIE), but all central and local government regulatory agencies can participate in and benefit from its work.

- There is a view amongst G-REG's stakeholders that it is not sustainable in its current form. MBIE has submitted two bids into the budget process in the last couple of years on behalf of G-REG, which have not been successful to date. Consequently, G-REG's future direction and scope is unclear at this point, but it is currently working on a new business, governance and funding model.

Regulatory stewardship expectations provide further context

Regulatory stewardship takes a broad view of regulation and focuses attention on regulatory systems rather than individual regulatory instruments and processes. It views regulatory systems as important societal assets requiring regular proactive care and maintenance. Cabinet set updated expectations for regulatory stewardship practice in 2017, covering three broad areas:

- monitoring, review and reporting on existing regulatory systems
- robust analysis and implementation support for regulatory system changes
- good regulator practice.

Outside of the major regulatory departments, which have had some stewardship-related reporting obligations since 2016, regulatory stewardship has had a relatively low profile to date. We are seeking to lift the profile of regulatory stewardship among all government agencies, in part through the public service regulatory system stewardship and assurance leadership role given to the Secretary to the Treasury by the Public Service Commissioner in 2020.

Part of the challenge of regulatory stewardship is that it requires proactive collaboration between all agencies exercising roles within a regulatory system. Traditionally we tend to see limited engagement between those performing policy and operational roles within a system. This is a significant contributor to the “set and forget” approach we often see in regulation – until something goes badly wrong. We want to change that dynamic.

To that end, the Treasury is about to publish a new resource (on 6 December) which explains how to get started with regulatory stewardship. In addition, the Treasury and G-REG are jointly establishing a Community of Practice to improve regulatory stewardship across government. In your address, you can helpfully reinforce some of the messages that we are promoting in these contexts.

Potential talking points

- Thank you for the invitation and opportunity to address your conference today.

- I hope you have learnt a lot from the presentations and panels, but also from informal connections with other attendees. There is a lot we can learn from each other, even when we work in different regulatory systems. This is an important part of the value of participating in the G-REG community.

- The diverse themes touched on in this conference are a reminder that the regulatory environment is constantly presenting new challenges for regulatory practitioners. But with a professional approach and willingness to keep reviewing and adjusting your practice, you help reduce the risk to New Zealand from avoidable regulatory failures and their associated costs and harms.

- I do not need to tell you how important good regulatory practice is to the wellbeing of New Zealanders. The regulatory systems that you work within are intended to be assets for our communities – providing ongoing benefits to our collective wellbeing that significantly exceed any costs they might impose. The value those regulatory systems provide to New Zealand depends, at least in part, on the quality of your regulatory practice.

- As Minister of Finance, I have a responsibility for oversight of the government’s regulatory management system, supported by the Treasury. You will be aware the government has a very busy regulatory reform agenda, for which Ministers require robust analysis and implementation support from the public service.

- But we also need our public service to keep an active eye on the existing stock of regulation – including those regulatory systems that may not currently have our close attention as we pursue our reform agenda. This is where regulatory stewardship becomes particularly important.

- The Cabinet set out some expectations for regulatory stewardship by government agencies back in 2017. They are published on the Treasury's website and continue to be relevant. Not just relevant to those agencies that formally administer Acts and regulations, but also to frontline regulatory agencies and practitioners that give life to our regulatory systems.

- There is a set of regulatory stewardship expectations specifically for good regulator practice, which I hope you are familiar with. But regulatory practitioners also have valuable contributions to make to meeting other stewardship expectations. In particular, in the monitoring and review of the performance and condition of the regulatory systems in which you work, because you see those systems close up, as they really operate, which might not be how policy advisers assumed they would.

- It is sometimes suggested that there is cultural divide between policy and operational functions. I accept it can involve different mindsets, but I think it is vital that policy and operational staff, whether in the same or a different agency, regularly share information and talk to each other about the performance of the regulatory system and regulatory environment in which they work.

- Our government has said from the outset that we need to break down the silos of government to deliver better outcomes for New Zealanders. Policy and operational silos are part of this problem. They get in the way of the proactive collaboration that would allow us to identify system problems and opportunities early, look at them holistically, and advise or respond in a timely way.

- The work you do as regulators is important. That includes your regulatory stewardship contributions. No matter where you sit in a regulatory system, you have a role to play in highlighting emerging risks and areas for improvement with your colleagues working in that system.

- As you leave the conference today, I ask you to think about whether there is more your organisation can do to build enduring collaborative relationships within your regulatory system – especially between policy and operational staff. New Zealanders will be the beneficiary. Thank you.

Jonathan Ayto, Principal Advisor, Regulatory Strategy, s(9)(2)(k)
Erin King, Manager, Regulatory Strategy, s(9)(2)(g)(ii)

TE TAI ŌHANGA
THE TREASURY

Treasury Report: 2023 Legislation Programme - Finance Portfolio

Date:	17 November 2022	**Report No:**	T2022/2374
		File Number:	LA-8-1-5-2023

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Agree** to submit the attached Finance portfolio bids, in the order of priority set out in this report, for inclusion in the 2023 Legislation Programme. **Sign** and **date** the attached covering letter that ranks the bids in the Finance portfolio.	10.00am on Monday, 21 November 2022 (deadline for bids to be submitted to the Legislation Coordinator in the Cabinet Office).

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Seb Klinkum	Solicitor, Te Puna Rōia	s(9)(2)(k)	s(9)(2)(g)(ii)	✓
David Green	Manager – Public Law, Te Puna Rōia			

Contact for telephone discussion regarding individual bills (if required)

Name of Bill	Contact Name	Position	Telephone
Treasury Bills			
Appropriation (2022/23 Supplementary Estimates) Bill	Simon Duncan	Manager, Budget Management	s(9)(2)(k)
Appropriation (2023/24 Estimates) Bill	Simon Duncan	Manager, Budget Management	
Imprest Supply (First for 2023/24) Bill	Simon Duncan	Manager, Budget Management	
Imprest Supply (Second for 2023/24) Bill	Simon Duncan	Manager, Budget Management	
Appropriation (2021/22 Confirmation and Validation) Bill	Simon Duncan	Manager, Budget Management	

New Zealand Superannuation and Retirement Income (Controlling Interests) Amendment Bill	Robert Barton	Senior Analyst, Commercial Infrastructure and Urban Growth	s(9)(2)(k)
Reserve Bank Bills			
Deposit Takers Bill	David Hargreaves	Manager, Policy Projects, Reserve Bank of New Zealand	
Financial Market Infrastructures (Distress Management) Amendment Bill	Victoria Learmonth	Manager, Dynamic Policy, Financial System Policy and Analysis, Reserve Bank of New Zealand	
Insurance (Prudential Supervision) Amendment Bill	Cavan O'Connor-Close	Manager, Financial Policy, Financial System Policy and Analysis	

Minister's Office actions (if required)

Check the Minister has signed and dated the attached covering letter.

Send the attached Finance Portfolio bids (nine in total) and the signed covering letter to the Legislation Coordinator in the Cabinet Office, Sam Moffett, by email to Sam.Moffett@dpmc.govt.nz by 10.00am on Monday, 21 November 2022. (The Minister does not need to sign each individual bid – only the covering letter).

Return the signed report and a copy of the signed covering letter to the Treasury.

Refer relevant parts of this report to relevant Associate Ministers at the Minister's discretion.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Treasury Report: 2023 Legislation Programme - Finance Portfolio

Executive Summary

Cabinet Office Circular CO (22) 3 invited Ministers to submit bids to the Cabinet Office for bills to be included in the 2023 Legislation Programme.

This report recommends that you approve the attached nine bids in the Finance portfolio and requests that you sign the attached covering letter and submit that, along with the bids, to the Legislation Coordinator in the Cabinet Office to have the bids considered for inclusion in the 2023 Legislation Programme.

The Treasury is responsible for six of the bids:

1. Appropriation (2022/23 Supplementary Estimates) Bill

2. Appropriation (2023/24 Estimates) Bill

3. Imprest Supply (First for 2023/24) Bill

4. Imprest Supply (Second for 2023/24 Bill)

5. Appropriation (2021/22 Confirmation and Validation) Bill

6. New Zealand Superannuation and Retirement Income (Controlling Interests) Amendment Bill

The Reserve Bank of New Zealand is responsible for three of the bids:

7. Deposit Takers Bill

8. Insurance (Prudential Supervision) Amendment Bill

9. Financial Market Infrastructures (Distress Management) Amendment Bill

Recommended Action

We recommend that you:

a **agree** that the Finance portfolio bids will be ranked as follows:

Bill	Priority category requested	Ranking within portfolio
Appropriation (2022/23 Supplementary Estimates) Bill	1 (must be passed or introduced before the 2023 general election as a matter of law)	1=
Appropriation (2023/24 Estimates) Bill	1 (must be passed or introduced before the 2023 general election as a matter of law)	1=
Imprest Supply (First for 2023/24) Bill	1 (must be passed or introduced before the 2023 general election as a matter of law)	1=
Imprest Supply (Second for 2023/24) Bill	1 (must be passed or introduced before the 2023 general election as a matter of law)	1=
Appropriation (2021/22 Confirmation and Validation) Bill	1 (must be passed or introduced before the 2023 general election as a matter of law)	1=
Deposit Takers Bill	s(9)(2)(f)(iv)	
New Zealand Superannuation and Retirement Income (Controlling Interests) Amendment Bill		
Insurance (Prudential Supervision) Amendment Bill		
Financial Market Infrastructures (Distress Management) Amendment Bill		

b **sign** and **date** the attached covering letter relating to nine legislation bids in the Finance portfolio, ranked as set out above; and

c **refer** relevant parts of this report to relevant Associate Ministers if you decide it is appropriate.

David Green
Manager, Public Law

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Treasury Report: 2023 Legislation Programme - Finance Portfolio

Purpose of Report

1. This report attaches nine bids relating to the Finance portfolio for your consideration and recommends that you sign and submit the attached covering letter to the Cabinet Office, which seeks to have the bids included in the 2023 Legislation Programme in the order of priority set out in the letter.

Analysis

2. Cabinet Office Circular CO (22) 3 invited Ministers to submit bids to the Cabinet Office for bills to be included in the 2023 Legislation Programme.

3. Bids are due to the Legislation Coordinator in the Cabinet Office, by email, by 10.00am on Monday, 21 November 2022.

4. This year's bid process asks Ministers to submit bids for every bill that is currently before the House or a select committee, bills that are currently undergoing policy development work or are being drafted, and for which there was a successful bid in 2022, and policy proposals that are likely to result in a bill being introduced before the end of the 53rd Parliament (including bills likely to be proposed in Law Commission reports).

5. The bids for budget-related legislation (five of the nine bids in this portfolio) are in a different format to the other legislation bids. This is a simplified template and has been previously agreed to by the Legislation Coordinator in the Cabinet Office.

6. Where there are multiple bids within a portfolio, CO (22) 3 requires Ministers to rank the bids in order of priority through the portfolio covering letter. The following table provides an explanation for each bid in the Finance portfolio and ranks them in a suggested order within the portfolio:

Bill	Explanation	Priority category requested	Ranking within portfolio
Appropriation (2022/23 Supplementary Estimates) Bill	This Bill seeks Parliament's approval for changes to appropriations the Government has decided on since the Appropriation (2022/23 Estimates) Bill was finalised for introduction. In the meantime, the increases will have been met under Imprest Supply.	1 (must be passed or introduced before the 2023 general election as a matter of law)	1=
Appropriation (2023/24 Estimates) Bill	This Bill seeks Parliament's approval for each line item of Government spending as set out in the Estimates of Appropriations for 2023/24.	1 (must be passed or introduced before the 2023 general election as a matter of law)	1=
Imprest Supply (First for 2023/24) Bill	This Imprest Supply Bill provides the sole financial authority from the start of the 2023/24 financial year until the Appropriation (2023/24 Estimates) Bill is passed and comes into force.	1 (must be passed or introduced before the 2023 general election as a matter of law)	1=

Imprest Supply (Second for 2023/24) Bill	The Bill will provide the financial authority required to ensure the Government has sufficient supply until 30 June 2024 for decisions taken after the Appropriation (2023/24 Estimates) Bill is finalised.	1 (must be passed or introduced before the 2023 general election as a matter of law)	1=
Appropriation (2021/22 Confirmation and Validation) Bill	This Bill will confirm and validate financial matters and other unappropriated expenses for the financial year ending 30 June 2022. It can also include unappropriated expenses for earlier years.	1 (must be passed or introduced before the 2023 general election as a matter of law)	1=
Deposit Takers Bill	This Bill modernises the framework for the prudential regulation and supervision of deposit taking institutions (such as banks and non-bank deposit takers) by the Reserve Bank of New Zealand. The Bill also establishes a Depositor Compensation Scheme that will compensate eligible depositors on the occurrence of a payout event.	s(9)(2)(f)(iv)	
New Zealand Superannuation and Retirement Income (Controlling Interests) Amendment Bill	This Bill will amend the New Zealand Superannuation and Retirement Income Act 2001 to allow the Guardians of the New Zealand Superannuation (the Guardians) to take a controlling interest in businesses. Under existing legislation, the Guardians are prevented from doing so.		
Insurance (Prudential Supervision) Amendment Bill	This Bill will amend the Insurance (Prudential Supervision) Act 2010 (IPSA) to reflect the Reserve Bank's experience in operationalising the prudential regime for insurers, and to (where appropriate) create greater alignment between the IPSA and other Acts within the Reserve Bank's mandate.		
Financial Market Infrastructures (Distress Management) Amendment Bill	This Bill will make a number of technical amendments to the distress management regime in the Financial Market Infrastructures Act 2021.		

7. CO (22) 3 asks Ministers to approach their proposals for bills in light of the Government's overall priorities, and for agencies to explain how bids align with the Government's priorities, enables the Government to meet its policy commitments, and/or contributes to the efficient and effective operation of the relevant regulatory system.

8. The ranking of bids within the Finance portfolio is a decision for you, and the suggested order set out above is for you to review and decide on. The suggested ranking has been determined taking into account the Government's overall priorities and proposed timelines for bids.

9. Please note that the scope of bids required for this year's process includes bills that are currently undergoing policy development work or are being drafted, and for which there

was a successful bid in 2022. For this reason, there are bids for the Insurance (Prudential Supervision) Amendment Bill and the Financial Market Infrastructures (Distress Management) Amendment Bill. Both these bills had successful bids in 2022. In both cases, drafting instructions are not expected to be provided to PCO until 2024. s(9)(2)(f)(iv)

The language used in the table above has been reviewed by the Legislation Coordinator and Parliamentary Counsel Office.

Next Steps

10. Once you have signed and dated the covering letter, your office will need to submit the letter, along with the attached nine legislation bids, to the Legislation Coordinator in the Cabinet Office, by email, by 10.00am on Monday, 21 November 2022.

11. You may wish to refer relevant parts of this report to relevant Associate Ministers.

Hon Grant Robertson
MP for Wellington Central
Deputy Prime Minister
Minister of Finance
Minister for Infrastructure
Minister for Sport and Recreation
Minister for Racing

For completeness, this letter was later amended to list an additional legislation bid for the New Zealand Income Insurance Bill and was resubmitted to the Office of the Minister of Finance.

Sam Moffett
Legislation Coordinator
Cabinet Office
By email: Sam.Moffett@dpmc.govt.nz

Tēnā koe Sam,

2023 Legislation Portfolio: Finance Portfolio

Please find attached the following requests for inclusion in the 2023 Legislation Programme from the Finance portfolio, ranked in the following order within the portfolio:

1st equal
Appropriation (2022/23 Supplementary Estimates) Bill
Appropriation (2023/24 Estimates) Bill
Imprest Supply (First for 2023/24) Bill
Imprest Supply (Second for 2023/24) Bill
Appropriation (2021/22 Confirmation and Validation) Bill

9(2)(f)(iv)

Yours sincerely,

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Private Bag 18041, Parliament Buildings, Wellington 6160, New Zealand
+64 4 817 8703 | g.robertson@ministers.govt.nz | beehive.govt.nz

In Confidence

Office of the Minister of Finance

Cabinet Legislation Committee

Appropriation (2022/23 Supplementary Estimates) Bill: Request for Priority in the 2023 Legislation Programme

Summary information

Minister	Finance
Department	The Treasury
Department contact	Simon Duncan, Manager – Budget Management, 9(2)(k)
Title	Appropriation (2022/23 Supplementary Estimates) Bill
Proposed ranking	1st equal
Small/Medium/Large	Small
Complexity of clauses	Low
Priority	Category 1

Policy

1. The Appropriation (2022/23 Supplementary Estimates) Bill seeks Parliament's approval for changes to appropriations the Government has decided on since the Appropriation (2022/23 Estimates) Bill was finalised for introduction. In the meantime, the increases will have been met under Imprest Supply.

2. It is not known whether any aspects of the Bill are likely to be contentious. However, all Appropriation Bills raise issues of confidence.

3. The contents of the 2022/23 Supplementary Estimates will be finalised during the 2023 Budget process.

Need for legislation

4. Legislative action is needed to implement the policy because section 22 of the Constitution Act 1986 and section 4 of the Public Finance Act 1989 require all expenditure to be in accordance with an appropriation or other statutory authority.

5. The suggested priority is Category 1 (must be passed or introduced before the 2023 general election as a matter of law). It is essential that legislation be enacted in the 2022/23 financial year because expenditure under Imprest Supply must be appropriated in an Appropriation Act before the end of the financial year.

Timeline

6. The proposed timing for the legislation is as follows:

Step	**Proposed date**	**Consistency assurance**
Policy approvals obtained from Cabinet	April 2023	Happens as part of the 2023 Budget process
Final drafting instructions given to PCO	Late April 2023	
Introduction	Budget Day (customarily May)	
First Reading	After Budget Day	SO 351(1)
Report back from select committee	N/A	SO 296(2), SO 350
Enactment	Before 30 June 2023	
Commencement	Before 30 June 2023	

Recommendations

The Minister of Finance recommends that the Committee:

1. **note** that the Appropriation (2022/23 Supplementary Estimates) Bill will seek Parliament's approval for changes to appropriations the Government has decided on since the Appropriation (2022/23 Estimates) Bill was finalised for introduction;

2. **note** that the Appropriation (2022/23 Supplementary Estimates) Bill ranks first equal within bids from my Finance portfolio;

3. **approve** the inclusion of the Appropriation (2022/23 Supplementary Estimates) Bill in the 2023 Legislation Programme with a priority of Category 1 (must be passed or introduced before the 2023 general election as a matter of law);

4. **note** that drafting instructions will be provided to the Parliamentary Counsel Office by late April 2023;

5. **note** that the Bill should be introduced no later than Budget Day 2023; and

6. **note** that the Bill should be passed no later than late June 2023.

Hon Grant Robertson
Minister of Finance

In Confidence

Office of the Minister of Finance

Cabinet Legislation Committee

Appropriation (2023/24 Estimates) Bill: Request for Priority in the 2023 Legislation Programme

Summary

Minister	Finance
Department	The Treasury
Department contact	Simon Duncan, Manager – Budget Management, 9(2)(k)
Title	Appropriation (2023/24 Estimates) Bill
Proposed ranking	1st equal
Small/Medium/Large	Small
Complexity of clauses	Low
Priority	Category 1

Policy

1. The Appropriation (2023/24 Estimates) Bill seeks Parliament's approval for each line item of Government spending as set out in the Estimates of Appropriations for 2023/24.

2. It is not known whether any aspects of the Bill are likely to be contentious. However, all Appropriation Bills raise issues of confidence.

3. The contents of the 2023/24 Estimates will be decided by Cabinet during the 2023 Budget process.

Need for legislation

4. Legislative action is needed to implement the policy because section 22 of the Constitution Act 1986 and section 4 of the Public Finance Act 1989 require all Government expenditure to be in accordance with an appropriation or other statutory authority.

5. The suggested priority is Category 1 (must be passed or introduced before the 2023 general election as a matter of law). It is essential that legislation be enacted in

2023. Non-passage would result in the Crown being unable to spend public money and incur expenses and capital expenditure.

Timeline

6. The proposed timing for the legislation is as follows:

Step	Proposed date	Consistency assurance
Policy approvals obtained from Cabinet	April 2023	The Budget is customarily delivered in May
Final drafting instructions given to PCO	Late April 2023	
Introduction	May 2023 (Budget Day)	Required by law to be introduced by 31 July (section 12, Public Finance Act 1989)
First reading	May 2023 (Budget Day)	SO 341(2)
Report back from select committee	N/A	SO 296(2)
Enactment	September 2023	SO 349 requires the debate on the question for the third reading of the main Appropriation Bill to be completed within four months after Budget day
Commencement	September 2023	Day after Royal Assent

Recommendations

The Minister of Finance recommends that the Committee:

1. **note** that the Appropriation (2023/24 Estimates) Bill will seek Parliament's approval for each line item of Government spending as set out in the Estimates of Appropriations for 2023/24;

2. **note** that the Appropriation (2023/24 Estimates) Bill ranks first equal within bids from my Finance portfolio;

3. **approve** the inclusion of the Appropriation (2023/24 Estimates) Bill in the 2023 Legislation Programme with a priority of Category 1 (must be passed or introduced before the 2023 general election as a matter of law);

4. **note** that drafting instructions will be provided to the Parliamentary Counsel Office by late April 2023;

5. **note** that the Bill should be introduced on Budget Day 2023; and

6. **note** that the Bill should be passed no later than four months after Budget Day 2023.

Hon Grant Robertson
Minister of Finance

In Confidence

Office of the Minister of Finance

Cabinet Legislation Committee

Imprest Supply (First for 2023/24) Bill: Request for Priority in the 2023 Legislation Programme

Summary

Minister	Finance
Department	The Treasury
Department contact	Simon Duncan, Manager – Budget Management, 9(2)(k)
Title	Imprest Supply (First for 2023/24) Bill
Proposed ranking	1st equal
Small/Medium/Large	Small
Complexity of clauses	Low
Priority	Category 1

Policy

1. This Imprest Supply Bill provides the sole financial authority from the start of the 2023/24 financial year until the Appropriation (2023/24 Estimates) Bill is passed and comes into force.

2. All Imprest Supply Bills automatically raise issues of confidence.

3. The contents of the first 2023/24 Imprest Supply Bill will be finalised in June 2023.

Need for legislation

4. Legislative action is needed to implement the policy because section 22 of the Constitution Act 1986 and section 4 of the Public Finance Act 1989 require all expenditure to be in accordance with an appropriation or other statutory authority.

5. The suggested priority is Category 1. It is essential that legislation be enacted in 2023 because non-passage would result in the Crown being unable to spend public money and incur expenses or capital expenses from 1 July 2023.

Timeline

6. The proposed timing for the legislation is as follows:

Step	**Proposed date**	**Consistency assurance**
Policy approvals obtained from Cabinet	N/A	
Final drafting instructions given to PCO	Early June 2023	
Introduction	June 2023	
First reading	June 2023	
Report back from select committee	N/A	SO 296(2)
Enactment	Before 30 June 2023	Must occur before the beginning of the 2023/2024 financial year
Commencement	Before or on 1 July 2023	

Recommendations

The Minister of Finance recommends that the Committee:

1. **note** that the Imprest Supply (First for 2023/24) Bill will provide interim supply for the first few months of the 2023/24 financial year in advance of the passing and coming into force of the Appropriation (2023/24 Estimates) Bill;

2. **note** that the Imprest Supply (First for 2023/24) Bill ranks first equal within bids from my Finance portfolio;

3. **approve** the inclusion of the Imprest Supply (First for 2023/24) Bill in the 2023 Legislation Programme with a priority of Category 1 (must be passed or introduced before the 2023 general election as a matter of law);

4. **note** that drafting instructions will be provided to the Parliamentary Counsel Office by early June 2023;

5. **note** that the Bill should be introduced no later than June 2023; and

6. **note** that the Bill should be passed with the Appropriation (2023/24 Supplementary Estimates) Bill no later than the end of June 2023.

Hon Grant Robertson
Minister of Finance

IN-CONFIDENCE

In Confidence

Office of the Minister of Finance

Cabinet Legislation Committee

Imprest Supply (Second for 2023/24) Bill: Request for Priority in the 2023 Legislation Programme

Summary

Minister	Finance
Department	The Treasury
Department contact	Simon Duncan, Manager – Budget Management, 9(2)(k)
Title	Imprest Supply (Second for 2023/24) Bill
Proposed ranking	1st equal
Small/Medium/Large	Small
Complexity of clauses	Low
Priority	Category 1

Policy

1. The Bill will provide the financial authority required to ensure the Government has sufficient supply until 30 June 2024 for decisions taken after the Appropriation (2023/24 Estimates) Bill is finalised.

2. All Imprest Supply Bills automatically raise issues of confidence.

3. The contents of the Imprest Supply (Second for 2023/24) Bill will be finalised in August 2023.

Need for legislation

4. Legislative action is needed to implement the policy because section 22 of the Constitution Act 1986 and section 4 of the Public Finance Act 1989 require all Government expenditure to be in accordance with an appropriation or other statutory authority.

5. The suggested priority is Category 1 (must be passed or introduced before the 2023 general election as a matter of law). It is essential that legislation be enacted in

2023. Non-passage would result in the Crown being unable to spend public money and to incur expenses or capital expenditure that is not provided for in the 2023/24 Estimates.

Timeline

6. The proposed timing for the legislation is as follows:

Step	**Proposed date**	**Consistency assurance**
Policy approvals obtained from Cabinet	N/A	
Final drafting instructions given to PCO	August 2023	
Introduction	September 2023	
First reading	September 2023	SO 339(2)
Report back from select committee	N/A	SO 296(2) and 339(1)
Enactment	September 2023	
Commencement	September 2023	Day after receiving Royal Assent

Recommendations

The Minister of Finance recommends that the Committee:

1. **note** that the Imprest Supply (Second for 2023/24) Bill will provide interim supply for decisions taken after the Appropriation (2023/24 Estimates) Bill passed and until the passing of the Appropriation (2023/24 Supplementary Estimates) Bill;

2. **note** that the Imprest Supply (Second for 2023/24) Bill ranks first equal within bids from my Finance portfolio;

3. **approve** the inclusion of the Imprest Supply (Second for 2023/24) Bill in the 2023 Legislation Programme with a priority of Category 1 (must be passed or introduced before the 2023 general election as a matter of law);

4. **note** that drafting instructions will be provided to the Parliamentary Counsel Office by late August 2023;

5. **note** that the Bill should be introduced no later than September 2023; and

6. **note** that the Bill should be passed with the Appropriation (2023/24 Estimates) Bill no later than four months after Budget Day 2023.

Hon Grant Robertson
Minister of Finance

In Confidence

Office of the Minister of Finance

Cabinet Legislation Committee

Appropriation (2021/22 Confirmation and Validation) Bill: Request for Priority in the 2023 Legislation Programme

Summary

Minister	Finance
Department	The Treasury
Department contact	Simon Duncan, Manager – Budget Management, 9(2)(k)
Title	Appropriation (2021/22 Confirmation and Validation) Bill
Proposed ranking	1st equal
Small/Medium/Large	Small
Complexity of clauses	Low
Priority	Category 1

Policy

1. This Bill will confirm and validate financial matters and other unappropriated expenses for the financial year ending 30 June 2022. It can also include unappropriated expenses for earlier years.

2. This Bill is unlikely to be contentious. However, all Appropriation Bills raise issues of confidence.

3. The contents of the Appropriation (2021/22 Confirmation and Validation) Bill will be finalised in early February 2023.

Need for legislation

4. Legislative action is needed to:

    a. confirm the making of the Public Finance (Transfer between Outputs) Order 2022, under section 26A of the Public Finance Act 1989 (which authorises the Governor-General, by Order in Council, to direct limited fiscally neutral transfers between output expense appropriations or multi-category appropriations that include only categories of output expenses within the same Vote);

b. confirm the unappropriated expenses and capital expenditure approved by the Minister of Finance under section 26B of the Public Finance Act 1989;

c. validate, as required by section 26C of the Public Finance Act 1989, expenses and capital expenditure that are not appropriated and not approved under section 26B of the Public Finance Act 1989; and

d. validate, as required by section 26CA of the Public Finance Act 1989, capital injections that have not been authorised by Parliament.

5. The suggested priority is Category 1. It is essential that legislation be introduced by 2023 because non-passage would result in the Crown being in breach of the law.

Timeline

6. The proposed timing for the legislation is as follows:

Step	*Proposed date*	*Consistency assurance*
Policy approvals obtained from Cabinet	N/A	
Final drafting instructions given to PCO	Early February 2023	
Introduction	February 2023	SO 355(2)
First reading	March 2023	SO 355(2)
Report back from select committee	N/A	SO 296(2)
Enactment	Before Budget Day 2023	SO 357(5) and 358
Commencement	Before Budget Day 2023	Day after receiving Royal Assent

Recommendations

The Minister of Finance recommends that the Committee:

1. **note** that the Appropriation (2021/22 Confirmation and Validation) Bill will confirm and validate financial matters for the financial year ending 30 June 2022 and other unappropriated expenses;

2. **note** that the Appropriation (2021/22 Confirmation and Validation) Bill ranks first equal within bids from my Finance portfolio;

3. **approve** the inclusion of the Appropriation (2021/22 Confirmation and Validation) Bill in the 2023 Legislation Programme with a priority of

Category 1 (must be passed or introduced before the 2023 general election as a matter of law);

4. **note** that drafting instructions will be provided to the Parliamentary Counsel Office by early February 2023;

5. **note** that the Bill should be introduced no later than February 2023; and

6. **note** that the Bill should be passed before Budget Day 2023.

Hon Grant Robertson
Minister of Finance

In Confidence

Office of the Minister of Finance

Deposit Takers Bill: Request for Priority in the 2023 Legislation Programme

Summary information

1 Give the following details about the bid for legislation:

1.1 the portfolio of sponsoring Minister;

Finance

1.2 the department responsible (include a departmental contact name and phone number);

David Hargreaves, Manager, Policy Projects, Reserve Bank of New Zealand, tel. 9(2)(a) [redacted]

1.3 the title of the proposed Bill (or the Bill in which these legislative changes are to be included);

Deposit Takers Bill

1.4 9(2)(f)(iv) [redacted] of Bill within the bids from this portfolio;

1.5 whether the Bill is estimated to be small/medium/large and whether of low/medium/high complexity; and

The Bill is expected to be large and of high complexity

1.6 9(2)(f)(iv) [redacted]

Category 3 (to be passed if possible before the 2023 general election)

1.7 the explanation for why the proposed priority is being sought;

9(2)(f)(iv) [redacted]

Policy

2 The Deposit Takers Bill modernises the framework for the prudential regulation and supervision of deposit taking institutions (such as banks and non-bank deposit takers) by the Reserve Bank of New Zealand. It also establishes a Depositor Compensation Scheme that will compensate eligible depositors on the occurrence of a payout event.

3 In November 2017 Cabinet noted that the Reserve Bank of New Zealand Act 1989 would be reviewed in two phases [CAB-17-MIN-0495 refers]. In May 2018 Cabinet agreed to the terms of reference for phase 2 of the Review, covering reforms to the institutional arrangements of the Reserve Bank, and a comprehensive review of the financial policy provisions of the Reserve Bank of New Zealand Act 1989 [DEV-18-MIN-0082 refers].

4 The Reserve Bank of New Zealand Act 2021, the first product of the Phase 2 review, came into force in 2022. The Deposit Takers Bill, the second product of Phase 2 review, covers the prudential regulation of deposit takers and the Depositor Compensation Scheme.

5 Cabinet agreed to most of the content of the Bill in April 2021 (DEV-21-MIN-0076~0079) and made additional decisions relating to the content of the Bill in October 2021 (DEV-21-MIN-0204) and July 2022 (CAB-22-MIN-0250.01). Regulatory Impact Statements supporting the Cabinet decisions were published in April 2021, October 2021, and September 2022 respectively.

6 The Bill was introduced into the House in September 2022 and is currently before the Finance and Expenditure Committee.

7 Certain aspects of the Bill may be contentious (for example, the coverage limit for the Depositor Compensation Scheme, or the definition of deposit taking activities requiring licensing under the Bill).

8 There are no outstanding policy issues at present.

Need for legislation

9 The Bill will replace the Banking (Prudential Supervision) Act 1989 and establish the depositor compensation scheme. These measures cannot be achieved without legislation.

10 It is recommended that the Bill receive a priority of 9(2)(f)(iv) [redacted]

11 Completion of reform of the Reserve Bank of New Zealand Act 1989 (currently renamed the Banking (Prudential Supervision) Act 1989) is a significant policy goal for the Government. Policy development and consultation has been

underway since 2018, and progress will be significantly delayed if the Bill is not enacted as scheduled. The changes that will be included in the Deposit Takers Bill are substantial. 9(2)(f)(iv) [redacted]

12 The Bill will have substantial impacts on relevant legislation. For example, the Public Finance Act 1989 will be amended to enable the usage of public funds for financial institutions in serious financial difficulty.

13 The Reserve Bank of New Zealand Act 1989 was recently amended by the Reserve Bank of New Zealand Act 2021. The Non-bank Deposit Takers Act 2013 has not been amended recently. Legislation is required now because the changes in the Deposit Takers Bill are outside the scope of the amendments made in the Reserve Bank of New Zealand Act 2021 (and would also have been too large to include within that Act).

Compliance

14 It is expected that the Bill will comply with all of the following:

14.1 the principles of the Treaty of Waitangi;

14.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;

14.3 the principles and guidelines set out in the Privacy Act 2020;

14.4 the relevant international standards and obligations; and

14.5 the Legislation Guidelines (2021 edition), which are maintained by the Legislation Design and Advisory Committee.

Binding on the Crown

15 The Act will bind the Crown.

Consultation

16 A joint review team of the Reserve Bank and the Treasury worked on the development of the Bill until May 2021. Subsequently final policy work on the review was moved back to the Reserve Bank and overseen by a joint Steering Committee between the two agencies.

17 An Independent Expert Advisory Panel has supported the policy work, including participating in Steering Committee meetings and providing independent advice to the Minister of Finance.

18 There has been an extensive public consultation process for phase 2 of the Review.

18.1 Three rounds of consultation documents have been released:

18.1.1 *Consultation Document 1* – Reserve Bank Act Review: Safeguarding the future of our financial system;

18.1.2 *Consultation Document 2A* - The role of the Reserve Bank and how it should be governed;

18.1.3 *Consultation Document 2B* - The Reserve Bank's role in financial policy: tools, powers and approach; and

18.1.4 *Consultation Document 3* - Further consultation on the prudential framework for deposit takers and depositor protection.

18.2 Submissions have been received from banks, insurers, non-bank deposit takers, industry associations, and individuals. Summaries of these submissions are available on the Review webpage published on the Treasury's website.

18.3 In addition, there have been numerous workshops and bilateral meetings with stakeholders that have occurred across the three rounds of consultation, including with stakeholders who may not have made a formal written submission. The Review has also reached out to a broader number of stakeholders via the use of surveys (e.g. on the public's understanding of depositor protection).

18.4 An exposure draft of the Bill together with a commentary document was published for consultation in December 2021.

19 Relevant government departments and other public bodies were, and will continue to be, consulted during policy development.

19.1 Agencies consulted to date include:

19.1.1 The Department of Prime Minister and Cabinet;

19.1.2 The Ministry of Business, Innovation and Employment;

19.1.3 The Financial Markets Authority;

19.1.4 The Commerce Commission;

19.1.5 The Ministry of Justice; and

19.1.6 The Office of the Privacy Commissioner.

19.2 Feedback from this consultation process has been reflected in several design aspects of the Bill.

20 The Legislation Design and Advisory Committee was consulted during the development of the Bill.

Associated regulations

21 Associated regulations are likely to be required for a number of matters under the Bill. These may include regulations setting out detailed aspects of the design of the Depositor Compensation Scheme, elaborating on detailed aspects of the deposit takers regulatory regime, and establishing fees.

22 The regulations may be large, and potentially of high complexity. Policy decisions on an initial tranche of regulations are likely to be sought in December 2023 or February 2024, and the regulations are likely to be considered by the Cabinet Legislation Committee in May or June 2024 and Gazetted in June or July 2024. Policy decisions on the remaining regulations are likely to be sought in August 2024, and the regulations are likely to be considered by the Cabinet Legislation Committee in February 2025 and Gazetted in March 2025.

Timeline

23 The proposed timeline for the Bill is as follows:

Step	*Proposed date*	*Consistency assurance*
Date of report back from select committee	March 2023	
Date of enactment	July 2023	
Date by which any policy decisions for associated regulations will be before Cabinet	Initial regulations: December 2023 or February 2024 Remaining regulations: August 2024	Associated regulations are likely to be required for a number of matters under the Bill. These may include regulations setting out detailed aspects of the design of the Depositor Compensation Scheme, elaborating on detailed aspects of the deposit takers regulatory regime, and establishing fees and forms. Policy decisions on associated regulations were not sought prior to the first reading.

		This was due to the need for further work on some technical issues associated with the intended content of the regulations.
Date by which final drafting instructions for any associated regulations will be sent to the Parliamentary Counsel Office	Initial regulations: January or March 2024 Remaining regulations: September 2024	

Recommendations

24 The Minister of Finance recommends that the Committee:

24.1 note that the Deposit Takers Bill will update the framework for the prudential regulation of deposit takers, and establish a Depositor Compensation Scheme;

24.2 approve the inclusion of the Deposit Takers Bill in the 2023 Legislation Programme with a priority of 9(2)(f)(iv)

24.3 note that the Bill should be passed no later than July 2023.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

In Confidence

Office of the Minister of Finance

New Zealand Superannuation and Retirement Income (Controlling Interests) Amendment Bill: Request for Priority in the 2023 Legislation Programme

Summary

1 Give the following details about the bid for legislation:

1.1 the portfolio of sponsoring Minister;

Finance

1.2 the department responsible (include a departmental contact name and phone number);

The Treasury, Robert Barton, 9(2)(k)

1.3 the title of the proposed Bill (or the Bill in which these legislative changes are to be included);

New Zealand Superannuation and Retirement Income (Controlling Interests) Amendment Bill

1.4 the proposed ranking of Bill within the bids from this portfolio;

9(2)(f)(iv)

1.5 whether the Bill is estimated to be small/medium/large and whether of low/medium/high complexity;

The Bill is estimated to be small and of low complexity

1.6 the proposed priority;

9(2)(f)(iv)

1.7 the explanation for why the proposed priority is being sought;

9(2)(f)(iv)

Policy

2 The amendment bill will amend the New Zealand Superannuation and Retirement Income Act 2001 (NZSRI Act) to allow the Guardians of the New Zealand Superannuation (the Guardians) to take a controlling interest in businesses.

3 Under its founding legislation, the Guardians are prevented from holding a controlling interest in entities. The original policy rationale for the control restriction was that if the Government wished to take ownership of businesses it would have a policy rationale for doing so. The NZSF was also of low maturity and direct investments were uncommon within the global practice of investment management when the fund was established in 2001.

4 Since then, the NZSF has matured in terms of size, capability and operating model. The NZSF currently targets direct investments with a minimum size of $200 million to $300 million.

5 The removal of the control restriction would provide access to a wider group of viable investment partners and attract institutional investors who are comfortable with the Guardians' due diligence practices, deepening capital markets for domestic transactions.

6 The proposal was considered by the Economic Development Cabinet Committee on 17 November 2021 [DEV-21-MIN-0233] and Cabinet on 22 November [CAB-21-MIN-0487].

7 Cabinet agreed to relax the control restriction with the caveat that the Guardians be required to establish and maintain a new Statement of Investment Policies, Standards and Procedures for the selection and monitoring of controlling interests in entities.

8 In 2021, Cabinet also:

8.1 agreed to the inclusion of the New Zealand Superannuation and Retirement Income Amendment Bill on the 2021 Legislation Programme, with a category 5 priority (drafting instructions to be issued to the Parliamentary Counsel Office in 2021);

8.2 invited the Minister of Finance to issue drafting instructions to the Parliamentary Counsel Office to give effect to the above amendments; and

8.3 authorised the Minister of Finance to make decisions on any further policy matters that arise as part of the implementation of the amendment recommended above, provided those decisions are consistent with the recommendations in paper under DEV-21-SUB-0233.

9 Drafting of a Bill was overtaken by other priorities but has now been completed. Consideration by Cabinet Legislation Committee is due by December 2022.

10 The amendment is not expected to be contentious.

11 There are currently no known outstanding policy issues that have yet to be agreed by Cabinet.

Need for legislation

12 The key aspect of the policy intent is to remove the prohibition that currently exists in legislation. Therefore, it is necessary to amend the NZSRI Act.

13 The suggested priority for inclusion in the 2023 Legislation Programme is
9(2)(f)(iv)

Compliance

14 The Bill complies with:

14.1 the principles of the Treaty of Waitangi;

14.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;

14.3 the principles and guidelines set out in the Privacy Act 2020;

14.4 the relevant international standards and obligations; and

14.5 the *Legislation Guidelines (2021 edition)*, which are maintained by the Legislation Design and Advisory Committee.

Binding on the Crown

15 The legislation will bind the Crown.

Consultation

16 Treasury has consulted with the Guardians during the policy development for this legislative change. The Guardians will also be consulted on the draft legislation.

17 Relevant government agencies were consulted during policy development. Agencies consulted included:

17.1 the Infrastructure Commission;

17.2 the Accident Compensation Corporation; and

17.3 Department of the Prime Minister and Cabinet were informed of the Cabinet Paper.

18 The following government agencies were consulted on the draft legislation:

18.1 The Office of the Auditor-General;

18.2 The Inland Revenue Department; and

18.3 The Public Service Commission.

19 In addition, section 73 of the NZSRI Act sets the expectation for consultation with the Guardians, who have been fully engaged in policy development, and the National Party who are listed as in agreement with Part 2 of the Act. The National Party will be consulted prior to the Bill's introduction in the House.

Commencement

20 The Bill will be brought into effect the day after the date it receives the Royal Assent.

In the text of the legislation bid for the New Zealand Superannuation and Retirement Income (Controlling Interests) Amendment Bill, paragraph 21 incorrectly refers to March 2022 as the Bill's proposed latest date of introduction. This was an error and was intended to read March 2023, consistent with the full timetable in paragraph 21 and the recommendations section in paragraph 22

Timeline

21 It is proposed that the Bill is introduced before March 2022.

Step	Proposed Date	Consistency Assurance
Date on which final policy approvals were, or will be, obtained from Cabinet	December 2021	n/a
Date on which complete drafting instructions were or will be sent to PCO	4 December 2021	We note there have been iterations of instructions throughout 2022
Date by which the Bill will be released for exposure draft (if an exposure draft is planned)	n/a	n/a
Date by which the Bill will be provided to the Ministry of Justice (or Crown Law if applicable) for an assessment of consistency	30 November 2022	n/a

Step	Proposed Date	Consistency Assurance
with the New Zealand Bill of Rights Act 1990		
Dates on which the Bill will be before LEG and Cabinet for approval for introduction	24 November 2022 (or 8 December 2022)	n/a
Date by which any policy decisions for associated secondary legislation will be before Cabinet	n/a	n/a
Date requested for introduction of the Bill	December 2022	n/a
Date of report back from select committee	July 2023	n/a
Date on which final policy approvals will be obtained from Cabinet for any substantive Supplementary Order Paper (SOP) to Bill (if already introduced)	TBC	n/a
Date on which final drafting instructions were or will be sent to PCO for any substantive SOP to Bill (if already introduced)	TBC	n/a

Step	Proposed Date	Consistency Assurance
Date by which final drafting instructions for any associated secondary legislation will be sent to PCO	n/a	n/a
Date of enactment	August 2023	n/a
Date of commencement	September 2023	We propose that the Amendment Bill is brought into effect the day after the date it receives the Royal Assent

Recommendations

22 The Minister of Finance recommends that the Committee:

22.1 note that the New Zealand Superannuation and Retirement Income (Controlling Interests) Amendment Bill will amend the New Zealand Superannuation and Retirement Income Act 2001 (NZSRI Act) to remove the restriction on the Guardians of NZ Superannuation taking a controlling stake in businesses;

22.2 approve the inclusion of the New Zealand Superannuation and Retirement Income (Controlling Interests) Amendment Bill in the 2023 Legislation Programme with a priority of 9(2)(f)(iv) [redacted]

22.3 note that the first tranche of drafting instructions were provided to the Parliamentary Counsel Office on 4 December 2021;

22.4 note that the Bill should be introduced no later than March 2023; and

22.5 note that the Bill should be passed no later than 31 August 2023.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

In Confidence

Office of the Minister of Finance

Insurance (Prudential Supervision) Amendment Bill: Request for Priority in the 2023 Legislation Programme

Summary information

1 Give the following details about the bid for legislation:

1.1 the portfolio of sponsoring Minister;

Finance

1.2 the department responsible (include a departmental contact name and phone number);

Reserve Bank of New Zealand, Cavan O’Connor-Close, Manager, Financial Policy, Financial System Policy and Analysis 9(2)(a)

1.3 the title of the proposed Bill (or the Bill in which these legislative changes are to be included);

Insurance (Prudential Supervision) Amendment Bill

1.4 the proposed ranking of Bill within the bids from this portfolio;

9(2)(f)(iv)

1.5 whether the Bill is estimated to be small/medium/large and whether of low/medium/high complexity; and

Currently uncertain: the expectation is that the Bill will be of medium size and medium or high complexity

1.6 the proposed priority;

9(2)(f)(iv)

1.7 the explanation for why the proposed priority is being sought;

9(2)(f)(iv)

Policy

2 The Insurance (Prudential Supervision) Act 2010 (**IPSA**) provides for the licensing and prudential regulation of insurers by the Reserve Bank. Since IPSA was enacted the Reserve Bank has accumulated considerable experience of the operation of the legislation; international guidelines and approaches to insurance regulation and supervision have been updated; and significant changes have been taking place to the regulatory frameworks for the other sectors supervised by the Reserve Bank (the Financial Market Infrastructures Act 2021 and the Deposit Takers Bill) and to the Reserve Bank's purposes and governance (the Reserve Bank of New Zealand Act 2021). This Bill will amend the IPSA to reflect the Reserve Bank's experience in operationalising the prudential regime for insurers, and to (where appropriate) create greater alignment between IPSA and other sectoral Acts within the Reserve Bank's mandate.

3 Cabinet agreed the terms of reference for a review of IPSA in 2016 (EGI-16-MIN-0018 and CAB-16-MIN-0072 refer). The review was put on hold in 2018 to reprioritise resource to the review of the Reserve Bank of New Zealand Act 1989 but was restarted in October 2020. Public consultation on issues for reform has been ongoing through 2021-2022. An options paper outlining proposed reforms will be taken to Cabinet in mid-2023 and then be put out for public consultation. Final policy approvals will be sought from Cabinet in early 2024.

4 Policy work on the review is still ongoing, but the Bill may make various changes to IPSA. For example, an expansion of the Reserve Bank's powers to issue standards relating to corporate governance and risk management; enhanced policyholder protection; an enhanced ability for the Reserve Bank to supervise corporate groups; changes to the solvency regime empowering a more graduated early response framework to insurer difficulties; and changes to the Reserve Bank's enforcement tools to better align with the Financial Market Infrastructures Act 2021 and the Deposit Takers Bill (introduced to the House on 22 September 2022).

5 As consultation with industry is still ongoing, it is currently uncertain if any aspects of the Bill are likely to be contentious.

6 No policy issues have yet been agreed, and final policy decisions from Cabinet are not expected to be sought until early 2024.

Need for legislation

7 Legislation is the only effective means by which to achieve the policy outlined above, as any legislative changes are likely to require amendments to IPSA.

8 It is recommended that the Bill receive a priority of 9(2)(f)(iv) [redacted] The insurance industry is of high importance to the New Zealand economy and this Bill may contain significant upgrades to the regulatory framework.

9 The proposal is for amending legislation. The IPSA has not been substantively amended in the last year and is not expected to be substantively amended by other legislation in the near future.

Compliance

10 It is expected that the Bill will comply with all of the following:

10.1 the principles of the Treaty of Waitangi;

10.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;

10.3 the principles and guidelines set out in the Privacy Act 2020;

10.4 the relevant international standards and obligations; and

10.5 the Legislation Guidelines (2021 edition) which are maintained by the Legislation Design and Advisory Committee.

Binding on the Crown

11 The IPSA binds the Crown. The Bill, once enacted, will also bind the Crown.

Consultation

12 Multiple rounds of public consultation have been carried out since 2017, and we anticipate that an exposure draft of the Bill will be published in 2024.

13 A reference group for the IPSA review is in place, including representatives from The Treasury, Ministry of Business, Innovation and Employment, Financial Markets Authority, and Commerce Commission. This reference group will continue to be consulted throughout the policy development and drafting process.

14 Design advice on the Bill will be sought from the Legislation Design and Advisory Committee (**LDAC**).

15 Consultation will be required with government caucus, the Green Party to give effect to the cooperation agreement, and other parties represented in Parliament.

Associated regulations

16 The nature, scale, and timing of any regulations is not yet clear, and will depend upon policy decisions made during the review.

Timeline

17 The proposed timeline for the Bill is as follows:

Step	*Proposed date*	*Consistency assurance*
Date on which final policy approvals were, or will be, obtained from Cabinet	February 2024	Cabinet agreed the terms of reference for a review of IPSA in 2016 (CAB-16-MIN-0072; EGI-16-MIN-0018). The review was put on hold in 2018 to reprioritise resource to the review of the Reserve Bank of New Zealand Act 1989, but was restarted in October 2020. Public consultation on issues for reform is ongoing. An options paper outlining proposed reforms will be taken to Cabinet in mid-2023 and then be put out for public consultation. The Bill had a priority of Category 5 on the 2022 Legislation Programme (drafting instructions to be provided to the Parliamentary Counsel Office in 2023), but was slightly delayed due to competing priorities. The Reserve Bank considers that the proposed timelines set out in this paper can be met this year.
Date on which final drafting instructions will be sent to the Parliamentary Counsel Office	March 2024	
Date by which the Bill will be released for exposure draft	July 2024	
Date by which the Bill will be provided to the Ministry of Justice (or Crown Law) for an assessment of consistency	November 2024	

with the New Zealand Bill of Rights Act 1990		
Dates on which the Bill will be before LEG and Cabinet for approval for introduction	February 2025	
Date by which any policy decisions for associated regulations will be before Cabinet	n/a	Unclear at this stage what associated regulations may be required
Date requested for introduction of the Bill	March 2025	
Date of report back from select committee	September 2025	
Date by which final drafting instructions for any associated regulations will be sent to the Parliamentary Counsel Office	n/a	Unclear at this stage what associated regulations may be required
Date of enactment	February 2026	
Date of commencement	March 2027	

Recommendations

18 The Minister of Finance recommends that the Committee:

18.1 note that the Insurance (Prudential Supervision) Amendment Bill will update the framework for the prudential regulation of insurers;

18.2 approve the inclusion of the Insurance (Prudential Supervision) Amendment Bill in the 2023 Legislation Programme with a priority of 9(2)(f)(iv)

18.3 note that drafting instructions will be provided to the Parliamentary Counsel Office by March 2024;

18.4 note that the Bill should be introduced no later than March 2025;

18.5 note that the Bill should be passed no later than February 2026.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

In Confidence

Office of the Minister of Finance

Financial Market Infrastructures (Distress Management) Amendment Bill:

Request for Priority in the 2023 Legislation Programme

Summary information

1 Give the following details about the bid for legislation:

1.1 the portfolio of sponsoring Minister;

Finance

1.2 the department responsible (include a departmental contact name and phone number);

Reserve Bank of New Zealand, Victoria Learmonth, Manager, Dynamic Policy, Financial System Policy and Analysis 9(2)(a) [redacted]

1.3 the title of the proposed Bill (or the Bill in which these legislative changes are to be included);

Financial Market Infrastructures (Distress Management) Amendment Bill

1.4 the proposed ranking of Bill within the bids from this portfolio;

9(2)(f)(iv) [redacted]

1.5 whether the Bill is estimated to be small/medium/large and whether of low/medium/high complexity;

Currently uncertain: The Bill may be of medium length and complexity

1.6 the proposed priority;

9(2)(f)(iv) [redacted]

1.7 the explanation for why the proposed priority is being sought;

9(2)(f)(iv) [redacted]

Policy

2 The Financial Market Infrastructures Act 2021 (the **Act**) provides for the prudential regulation of financial market infrastructures (**FMIs**) such as payment systems, securities settlement systems, and central counterparties.

3 The Act provides the regulators[1] with the power to recommend that systemically important FMIs be designated. It also provides the regulators with the power to:

- issue legally binding standards for designated FMIs to comply with;
- use a range of graduated investigation and enforcement powers to incentivise compliance;
- exercise certain distress management powers, including powers to direct the operator of a designated FMI, and remove and replace its directors; and
- recommend that a designated FMI be placed into a statutory management regime tailored to the characteristics of FMIs.

4 The Act also provides the regulators with information gathering powers in respect of both designation and non-designated FMIs. In addition, non-systemically important FMIs have the option to apply for designation, if they wish to be covered by the regime in order to have the benefits of the legal protection it provides.[2]

5 Work to implement the Act is ongoing and is expected to be complete in 2023.

6 The development of the Act coincided with policy work on the forthcoming Deposit Takers Bill. Cabinet agreed in December 2018 [CAB-18-MIN-0634.01 refers] that following the completion of phase 2 of the review of the Reserve Bank of New Zealand Act 1989 (which resulted in the Deposit Takers Bill) report backs be made to Cabinet on whether any amendments to the Financial Market Infrastructures Bill (as the Act then was) were necessary in relation to any of the following matters:

- The requirement for Ministerial consent before directions may be issued;
- Aspects of the statutory management regime, including creditor safeguards in statutory management and the statutory manager's

[1] The Act provides that the Reserve Bank and the Financial Markets Authority acting jointly are the regulators of all FMIs except payment systems, where the Reserve Bank is the sole regulator.

[2] For example, where a system is designated, transactions undertaken through the system cannot be challenged or unwound despite any enactment or rule of law to the contrary (the only exception to this is in certain circumstances where, amongst other things, one party to the transaction becomes insolvent).

powers to act contrary to the interests of creditors on financial stability grounds; and

- Whether the statutory management regime could be better tailored to FMIs and whether any other aspects of crisis planning could be improved based on any implementation experience to date.

7 It has not been feasible to progress these report backs while the Deposit Takers Bill has still been under development (as they raise issues about the extent to which aspects of the Act should be amended to align with the Deposit Takers Bill). However, it is expected that the Deposit Takers Bill is likely to be enacted by the middle of 2023, allowing policy work on these report backs to commence at that time.

8 No aspects of the Bill are likely to be contentious.

9 No policy decisions have yet been made on the content of the Bill. Policy decisions are expected to be sought from Cabinet in March 2024.

Need for legislation

10 The distress management regime for FMIs is set out in the Act. Legislation is necessary as any changes to this regime will require amendments to the Act.

11 It is recommended that the Bill receive a priority of 9(2)(f)(iv) [redacted]

12 The Act received the Royal Assent on 10 May 2021. The Bill is needed to fulfil report backs previously agreed by Cabinet [CAB-18-MIN-0634.01 refers] but which cannot be completed until the final form of the Deposit Takers Bill is sufficiently certain.

Compliance

13 The Bill is expected to comply with all of the following:

13.1 the principles of the Treaty of Waitangi;

13.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;

13.3 the principles and guidelines set out in the Privacy Act 2020;

13.4 the relevant international standards and obligations; and

13.5 the Legislation Guidelines (2021 edition) which are maintained by the Legislation Design and Advisory Committee.

Binding on the Crown

14 The Act binds the Crown. The Bill, once enacted, will also bind the Crown.

Consultation

15 No consultation has been undertaken on the Bill to date. Consultation on the Bill is expected to be complete by late 2023.

16 The Bill will be referred to the Legislation Design and Advisory Committee.

17 It is likely that an exposure draft of the Bill will be released.

18 Consultation will be required with government caucus, the Green Party to give effect to the cooperation agreement, and other parties represented in Parliament.

Associated regulations

19 At this stage it is not expected that the Bill, once enacted, will require any associated regulations.

Timeline

20 The proposed timeline for the Bill is as follows:

Step	*Proposed date*	*Consistency assurance*
Date on which final policy approvals were, or will be, obtained from Cabinet	March 2024	Policy work on the Bill is yet to commence. The Bill had a priority of Category 5 on the 2022 Legislation Programme (drafting instructions to be provided to the Parliamentary Counsel Office in 2023), but did not proceed due to the need to prioritise work on the Deposit Takers Bill, and to have sufficient certainty about the final design of the crisis management regime in the Deposit Takers Bill before policy work could be substantially progressed. The Reserve Bank considers that the proposed timelines can be met this year.

Date on which final drafting instructions were or will be sent to PCO	April 2024	
Date by which the Bill will be released for exposure draft (if an exposure draft is planned)	August 2024	
Date by which the Bill will be provided to the Ministry of Justice (or Crown Law) for an assessment of consistency with the New Zealand Bill of Rights Act 1990	November 2024	
Dates on which the Bill will be before LEG and Cabinet for approval for introduction	December 2024	
Date by which any policy decisions for associated regulations will be before Cabinet	n/a	No associated regulations are currently expected to be necessary
Date requested for introduction of the Bill	December 2024	
Date of report back from select committee	June 2025	
Date by which final drafting instructions for any associated regulations will be sent to PCO	n/a	No associated regulations are currently expected to be necessary

Date of enactment	December 2025	
Date of commencement	December 2025	

Recommendations

21 The Minister of Finance recommends that the Committee:

21.1 note that the Financial Market Infrastructures (Distress Management) Amendment Bill will make a variety of technical amendments to the distress management regime in the Financial Market Infrastructures Act 2021;

21.2 approve the inclusion of the Financial Market Infrastructures (Distress Management) Amendment Bill in the 2023 Legislation Programme, with a priority of 9(2)(f)(iv) [redacted]

21.3 note that drafting instructions will be provided to the Parliamentary Counsel Office by April 2024;

21.4 note that the Bill should be introduced no later than December 2024;

21.5 note that the Bill should be passed no later than December 2025.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Reserve Bank
of New Zealand
Te Pūtea Matua

Briefing note on mutual capital instrument design and exposure draft consultation December 2022

To	Hon Grant Robertson Minister of Finance	**Date**	17 Nov 2022
Authorised by	Christian Hawkesby Deputy Governor	**Report no**	5982
Prepared by	Richard Downing, Advisor Saralee King, Senior Analyst	**Security**	In-Confidence

Action Sought

Action sought	Deadline
a) **Note** that in March 2022 the Reserve Bank consulted on two policy options for a mutual capital instrument that would provide mutual banks with another avenue to raise CET1 capital. b) **Note** that we have decided to proceed further with one of the options and have drafted a *Response to Submissions* document and *Regulatory Impact Assessment*, which detail the rationale for this decision. c) **Note** that we intend to announce these decisions, and publish the *Response to Submissions* and *Regulatory Impact Assessment*, on 5 December. d) **Note** that we have completed exposure drafts of amended *Banking Prudential Requirements* that contain the proposed mutual capital instrument, and we will also publish these on 5 December with a submission deadline of 31 March 2023. e) **Provide feedback** on the attached *Response to Submissions* and *Regulatory Impact Assessment* no later than **1 December**.	1 December 2022

Reserve Bank Contact for Telephone Discussion (if required)

Name	Position	Telephone
Cavan O'Connor-Close	Manager, Financial Policy – Prudential Policy department	s9(2)(a)

Actions for the Minister's Office Staff

Please advise the Reserve Bank if the Minister of Finance would like additional information, or has any feedback regarding the attached consultation materials.

Note any feedback on the quality of the report.	

Attachments –

- Response to Submissions document
- Regulatory Impact Assessment

Briefing note on mutual capital instrument design and exposure draft consultation December 2022

Purpose

1. This briefing note provides background to the exposure drafts of the amended *Banking Prudential Requirements* (BPRs) that contain the preferred option for a mutual capital instrument (MCI). We will release these exposure drafts for public consultation on 5 December 2022. This follows an earlier consultation (March 2022) on two options for a mutual capital instrument that could qualify as Common Equity Tier 1 (CET1) capital.

2. A *Response to Submissions* document and a *Regulatory Impact Assessment* (RIA) are included with this memo and provide the rationale for the preferred option. These documents will be published alongside the exposure drafts. We welcome your feedback on these documents by 1 December 2022.

Background

3. A mutual bank is a bank that is owned by its members (customers) who utilise its services. Mutual banks are founded on the principle of 'mutuality', where each member owns an equal share of the bank and holds equal voting rights (one vote per member) regardless of the scale of their business with the bank. There are two registered banks that are mutually owned in New Zealand – SBS and the Co-operative Bank.

4. The Reserve Bank completed its Capital Review of the capital adequacy framework applying to locally-incorporated registered banks in December 2019. Decisions, including the need for banks to have higher levels of CET1 capital, are in the process of being phased in over a seven year transition period.

5. During the Capital Review, mutual banks (and other interested stakeholders) asked for more capital raising options, due to barriers to issuing some forms of capital that do not exist for banks that are structured as companies.

6. Currently, mutual banks cannot issue instruments that qualify as CET1 capital because the eligibility criteria for ordinary shares in BPR110 (our document that sets requirements for capital definitions) conflict with some of the core tenets of mutuality. This confines mutual banks' CET1 capital to retained earnings (accumulated profits not distributed to members), which represents members' ownership interest in the bank.

7. In response to this issue, we undertook work to develop options for an MCI. We publicly consulted on two options for an MCI from March to June this year. Details about the two options were included in the briefing note sent to you on 17 February 2022 (Report 5911).

8. We received two submissions from industry, who are generally pleased we have undertaken this work. We have closely reviewed the submissions and engaged further with the submitters to ensure we understand their views.

9. The Reserve Bank has progressed work on the design of an MCI and is now in a position to announce our preferred option. We intend to release exposure drafts of BPR110 and BPR120, which include the terms of the new MCI.

10. Our preferred option – the Mutual Equity Tier 1 (MET1) capital instrument – balances the policy objective of providing mutual banks with another avenue to raise CET1 capital with our overarching financial stability objectives. It is based on a similar approach used in the United Kingdom.

11. The attached *Response to Submissions* document and *RIA* detail our policy process and analysis behind this decision and will be published with the exposure drafts. We have discussed our analysis with Treasury, including how we decided on our preferred option, and provided the draft RIA for their review.

12. We intend to publish the decision, including the *Response to Submissions* document and a *Regulatory Impact Assessment* (RIA) on 5 December 2022.

13. We have completed exposure drafts of amended *Banking Prudential Requirements* that contain the specific requirements for the proposed mutual capital instrument, and we will also publish these on 5 December with a submission deadline of 31 March 2023.

Summary of options assessment

14. The Reserve Bank considered a wide range of criteria to assess the two policy options for an MCI and to reach our decision. The *Response to Submissions* document and RIA provide our reasoning for proceeding further with one of the options.

15. Our main reason for not proceeding with the alternative option (Option 1A: Mutual Equity Instrument) is that does not meet all of the CET1 capital requirements, because holders of the instrument would not face losses until after the entity's retained earnings have been fully depleted. This means holders are initially protected from losses, and do not face losses proportionate to their investment. These are key features of CET1 capital and ensure that the financial incentives on the bank's owners match the performance of the bank.

Financial Policy Remit considerations

16. We have considered the options with regard to the objectives and priorities of the Financial Policy Remit. The RIA (and Annex 1) provides a detailed assessment of the preferred option against the different aspects of the Remit, but to summarise:

- MCIs affect only two registered banks in NZ and are likely to have little impact on most aspects specified in the Financial Policy Remit.

- The regulatory and supervisory costs of the preferred option are expected to be small and proportionate to the risks and benefits to the financial system.

- The preferred MCI will provide mutual banks with more flexibility to raise high quality capital, which will support their resilience, help prevent the incidence of failure and help mutual banks compete on a more level playing-field with other banks.

- An MCI could enhance financial inclusion by growing the diversity of the financial sector and lifting the capacity of mutual banks to grow and compete.

Assessment of costs and benefits

17. A detailed assessment of the costs and benefits of a new MCI and our preferred option is set out in the attached RIA. Overall, our assessment is that the benefits of the MET1 capital instrument (Option 1B) are larger than the benefits of the Option 1A and that the benefits exceed the costs. The key driver of this assessment is that the MET1 capital instrument provides more financial stability benefits as it is a higher quality of capital, due to being closer to our definition of CET1 capital.

18. It is possible that the preferred option (Option 1B) may be associated with some higher costs to the issuing banks, relative to the other option, if investors consider that they are exposed to more risks in Option 1B than in Option 1A, due to the subordination and proportionality features of Option 1B, and therefore require a higher return. This outcome is consistent with financial stability, as in addition to absorbing losses as they arise, CET1 capital also aligns shareholders' financial interests with the performance of the bank. Shareholders have greater incentives to monitor the financial performance of the bank because they participate in its gains and losses. An increased level of CET1 capital increases the shareholders' 'skin in the game' and encourages better market discipline, a higher level of scrutiny and ultimately supports financial stability.

19. Any additional costs in Option 1B therefore arise because the instrument performs more like CET1 than Option 1A. We consider that this helps support financial stability, by ensuring capital is high quality. There is no change to the capital requirements facing the banks, but they will have more flexibility to meet those requirements.

Stakeholder engagement

20. We have had consistent engagement with industry, who are pleased to see this work progress. Submitters would prefer that both options were available, to provide more flexibility. It is possible that stakeholders will be disappointed that we are only proceeding with one preferred option. However, as noted above we consider our preferred option to be more closely aligned with the direction of the Capital Review and meet our definition of CET1 capital.

21. We will continue to engage with industry as part of the consultation on the Exposure Draft.

22. We are discussing the future financial market disclosure arrangements that would be associated with the instrument with MBIE and the FMA. We have discussed the outcome of this work with Treasury and have provided them a copy of the RIA document.

Indicative timeline

23. The table below provides an overview of the timeline for this work:

Date	Milestone
17 November	Provide you with a briefing paper for your feedback
1 December	Receive and consider your feedback
5 December	Publish exposure drafts for public feedback, and publish the Response to Submissions and Regulatory Impact Assessment
31 March 2023	Close of public consultation
April 2023	Review feedback and make final decisions
May – June 2023	Consult on changes to Conditions of Registration
July 2023	Publish final version of BPRs

Recommendation

24. It is recommended that you:

a) **Note** that in March 2022 the Reserve Bank consulted on two policy options for a mutual capital instrument that would provide mutual banks with another avenue to raise CET1 capital.

b) **Note** that we have decided to proceed further with one of the options and have drafted a *Response to Submissions* document and *Regulatory Impact Assessment*, which detail the rationale for this decision.

c) **Note** that we intend to announce these decisions, and publish the *Response to Submissions* and *Regulatory Impact Assessment*, on 5 December.

d) **Note** that we have completed exposure drafts of amended *Banking Prudential Requirements* that contain the proposed mutual capital instrument, and we will also publish these on 5 December with a submission deadline of 31 March 2023.

e) **Provide feedback** on the attached *Response to Submissions* and *Regulatory Impact Assessment* by no later than **1 December**.

Hon Grant Robertson
Minister of Finance

C B Hawkesby

Christian Hawkesby
Deputy Governor
Reserve Bank of New Zealand

17/11/2022

Annex 1: Financial Policy Remit assessment (from the RIA)

The Financial Policy Remit, issued by the Minister of Finance on 30 June 2022, to take effect on 1 July 2022, emphasises the desirability of a strong, efficient and inclusive financial system, with a low incidence of failure of regulated entities. It also signals that we should encourage a competitive financial system and have regard to Government priorities on climate change, financial inclusion, cyber resilience and supporting sustainable house prices. This section outlines how we have had regard to the Financial Policy Remit in the policy proposals in this RIA. The full text of the Remit is available on the website of the New Zealand Gazette.[1]

The options considered for mutual capital instruments affect only two registered banks in New Zealand and are likely to have little impact on most of the matters specified in the Financial Policy Remit.

The regulatory and supervisory costs of the preferred option are expected to be small and are proportionate to the risks and benefits to the financial system. While there will be compliance costs for mutual banks issuing the new instrument, we expect that these costs will be exceeded by the benefits to the banks and the financial system that will arise from having more access to capital.

The preferred option is not expected to have a significant impact on the following matters specified in the Financial Policy Remit:

- The sustainable long-term growth of the economy.
- The sustainability of house prices or investor demand.
- Risks related to climate change

The table below shows the parts of the Financial Policy Remit that are relevant for the changes to the prudential capital framework discussed in this paper, through the introduction of a new mutual capital instrument..

Component of Financial Policy Remit	Connection with the preferred options for the design of a mutual capital instrument
"It is desirable to have a financial system that is strong, efficient and inclusive, with a low incidence of failure of entities regulated by the Reserve Bank."	The design of the new mutual capital instrument will provide mutual banks with more flexibility to raise high quality, loss-absorbing capital. This will help support the resilience of those entities, helping to underpin the strength and stability of the financial system.
"Within the appetite of a low incidence of failure, a competitive financial system should be encouraged so as to best ensure ongoing financial efficiency and inclusion."	More options to raise capital should help mutual banks to compete on a more level playing field with other banks.

[1] The text of the Financial Policy Remit is available here in the NZ Gazette: https://gazette.govt.nz/notice/id/2022-go2497

Component of Financial Policy Remit	Connection with the preferred options for the design of a mutual capital instrument
"encouraging new investment and financial innovation that raise the productive potential of the economy"	More options to raise capital should help encourage investment in the financial system. However, due to the relatively small size of the affected entities, the overall impact on the productive potential of the economy is likely to be small
Financial inclusion	Mutual banks contribute to financial sector diversity. They often play an important role in particular sectors of the economy and regions of the country. An MCI could help enhance financial inclusion by growing the diversity of the financial sector and lifting the capacity of mutual banks to grow and compete.

IN CONFIDENCE
POLICY

Mutual Capital Instruments

Response to Submissions

XX December 2022

Reserve Bank
of New Zealand
Te Pūtea Matua

Contents

Background

1. Banks registered in New Zealand must comply with a range of prudential requirements developed and supervised by the Reserve Bank of New Zealand – Te Pūtea Matua to promote financial stability. These prudential requirements reduce the risk of a bank failing and protect New Zealanders from the economic and social costs associated with a bank failure.

2. In December 2019 we published the final decisions from the Capital Review, which focused on improving the quality and quantity of capital banks are required to have. The final decisions included requiring banks to hold larger buffers of Common Equity Tier 1 (CET1) capital and changes to the eligibility criteria for instruments to qualify as Additional Tier 1 (AT1) and Tier 2 capital instruments.

3. One unresolved issue from the Capital Review, raised by stakeholder during consultations, was to consider developing a capital instrument for banks structured as mutual (mutual bank) which could qualify as CET1 capital – a mutual capital instrument (MCI).

4. In response to this issue, the Reserve Bank undertook work to develop potential policy options for an MCI. The investigation into options was informed by international approaches to mutual capital by prudential regulators including the Australian Prudential Regulation Authority (APRA) and the Bank of England's Prudential Regulation Authority (PRA).

5. The proposed policy options to facilitate the issuance of CET1 capital instruments by mutual banks were detailed in the consultation paper '*Mutual Capital Instruments. Developing options for mutual banks to issue capital which qualify as CET1 capital*'.

6. The key topics covered in the consultation material related to:

   - whether to amend *Banking Prudential Regulation 110* (BPR110) to introduce a mutual capital instrument that would qualify as Common Equity Tier 1 capital;
   - two potential policy options for a mutual capital instrument – Option 1A: the Mutual Equity Instrument and Option 1B: Mutual Equity Tier 1 capital instrument; and
   - possible design features of any potential instrument, such as limits on issuance or parameters for distributions.

7. We reviewed all submissions before making our final decisions and are now publishing a draft amended BPR110 (the Banking Prudential Regulation (BPR) document that covers capital definitions). This *Response* document summarises the Reserve Bank's response to the main points raised in those submissions.

Consultation Process

8. The Mutual Capital Instruments consultation lasted from 16 March to 10 June 2022. The Reserve Bank received two submissions, covering the mutual capital proposals which are available on our website. This paper responds to the themes and views raised in submissions and is not intended to be an exhaustive response to all points raised. Readers are encouraged to refer to the published submissions for further details. We also received a submission from an insurance company suggesting a similar approach in the insurance sector. This submission

is outside the scope of this work and we have not considered whether such an instrument would be suitable in the insurance regulatory system.

9. In addition to receiving written submissions, the Reserve Bank engaged with industry through a series of multi- and bilateral workshops and meetings. In some cases, these meetings saw additional issues raised beyond those included in the formal submissions. Where possible, we have also responded to those additional issues or points of clarification.

10. This *Response* document follows the format of the consultation paper published in March 2022. Part One of this document covers questions 1 to 13 in the consultation paper. Part Two covers other matters raise in feedback.

11. The table in the following section summarises the issues raised by submitters and the associated decisions made by the Reserve Bank. The tables are not exhaustive and other issues are described in more detail throughout the *Response*.

Summary of Decisions

Table 1: Key consultation topics

Issue	Decision
Should BPR110 be amended to include a mutual capital instrument that qualifies as CET1 capital?	BPR110 will be amended to include a new mutual capital instrument that qualifies as CET1 capital.
Which option (Option 1A or 1B) is the best design for a mutual capital instrument?	The design of the instrument will include the features of Option 1B: the Mutual Equity Tier 1 capital instrument.

Part One: Summary of Consultation Issues and Questions

Policy options for mutual capital instruments

Problem definition

12. Mutual banks face a number of barriers to issuing ordinary shares that qualify as CET1 capital because many of the key eligibility criteria for ordinary shares contained in BPR110 conflict with the core tenets of mutuality. This means the capital adequacy framework effectively limits mutual banks' CET1 capital to retained earnings.

13. In order to issue ordinary shares and raise CET1 capital, mutual banks might be required to demutualise. However, mutual banks see their mutual status is core to their identity and purpose.

14. Limited avenues to raise CET1 capital may prevent mutual banks from competing on a level playing field by restricting their lending growth and ability to achieve minimum efficient scale, and might prevent them from building buffers of high-quality, loss-absorbing capital. It also provides mutual banks with less optionality to raise additional capital if capital ratios begin to approach the regulatory minima contained in their conditions of registration.

15. Both submissions agreed with the Reserve Bank that the inability of banks structured as mutuals to issue capital that qualifies as CET1 capital is a significant problem. The submitters also agreed that the current capital requirements influences their capacity for growth and competition (with non-mutual banks), as well as their ability to maintain their capital position.

16. One submitter argues that the problem is more acute than described in the Consultation Paper, as mutual banks cannot simply decide to demutualise in order to improve their capital position. This submitter highlights that the process of demutualisation must be member-driven and members have greater interests than simply maximising financial outcomes.

Ordinary shares and mutual principles

17. The Reserve Bank sought views on the eligibility criteria for ordinary shares against mutual principles. Table 2 (on the next page) summarises the submitters' views on the key requirements for ordinary shares as CET1 capital in the context of mutual banks and their principles, as well as the Reserve Bank's response to these views:

Table 2: Assessment of eligibility criteria for ordinary shares against mutual principles

Key principle	Explanation	Submitters' views	Reserve Bank response
Permanence	CET1 instruments should have no maturity date and not be redeemable. If instruments are redeemable there is a risk investors will be repaid when a bank is in distress, or if not, signal to the market the bank's worsening financial condition.	No views provided on this principle.	Not applicable.
Subordination	Investors should be the first to absorb losses and represent the most subordinate claim on a banks' assets. Investors should only receive (a portion) of their funds (if any) once all senior liabilities have been settled.	Both submissions advise that, in their view, their members do not have a 'claim' on assets and instead have a contractual entitlement. This means that investor shareholders would have the most subordinate claim even in situations where this claim ranks ahead of members' rights to residual assets, as the members' contractual entitlement would not be considered a claim.	The Reserve Bank takes a broader view of the principle of subordination, which extends beyond the submitters' legal interpretation of 'claim'. Based on the objectives of the Capital Review, our view is that members do have a claim on surplus assets. The Reserve Bank views the principle of subordination as an integral feature of CET1 capital because it ensures investor shareholders are the last to be paid in a liquidation. This increases the investors' incentives to monitor the performance of the bank and limit risky behaviour.
Proportionality	Surplus assets should be distributed proportionally to the capital contributed. This reinforces market discipline; if investors participate proportionally in the gains or losses of the bank, they have greater incentives to monitor the bank.	Both submissions argue that this principle should not apply to an MCI, because: • the issue of mutual capital would not alter the governance structure of a mutual bank (one vote per member) • participation in gains and losses is not central to market discipline for mutual banks • the benefit of proportionality would not apply as the board is accountable to customers (not investors).	The Reserve Bank does not agree that this principle should not apply to an MCI. We view the principle of proportionality as another key feature of CET1 capital. If investors do not participate proportionately in gains and losses, then their incentives to monitor the performance of the bank are eroded and this could lead to riskier behaviour by the bank.

Key principle	Explanation	Submitters' views	Reserve Bank response
		One submitter proposes that any claim of MCI holders should be capped at the nominal value of their MCIs upon wind-up.	The Reserve Bank does not agree that the governance structure of a mutual bank fully protects members from risk-seeking behaviour. The Reserve Bank will allow a mutual bank to cap the entitlement of holders in a wind-up to the par value of the shares, at its Board's discretion.
Distributions	Distributions must not be 'coupon-like' – i.e. be linked to the principal invested at issuance or subject to a contractual cap. Distributions must also be non-obligatory and any waived distributions must be non-cumulative.	The two submissions had slightly differing views on whether the distributions criteria is consistent with mutual principles. One submission highlighted that within their entity; distributions to shareholders are made equally or based on the business transacted. They felt that linking distributions to economic performance was inconsistent with mutual principles, as mutual banks do not take a profit maximising approach. The distributions principle has the potential to create direct conflict between the interests of transacting shareholders and investors. The other submission agreed that equal distributions are an integral part of mutuality but contended that the distribution criteria was not necessarily inconsistent with mutual principles, acknowledging there is a legitimate cost of new capital.	The Reserve Bank acknowledges the possible challenges associated with aligning the principle of distributions and the principles of mutuality. The Reserve Bank continues to maintain that distributions must not be linked to the principal invested at issuance or subject to a contractual cap. We are, however, minded to allow distributions to be made at the mutual bank Board's discretion, provided that the bank publishes an indicative discretionary distributions policy (separate to the terms of the instrument).
Voting rights	Investors should have full voting rights arising from ownership of the shares.	One submitter sought to clarify that the 'one vote per member' mutual principle qualifies as full voting rights, and wanted the Reserve Bank to	The Reserve Bank agrees that, for the purpose of the MCI, all mutual banks who employ a 'one member,

Key principle	Explanation	Submitters' views	Reserve Bank response
		confirm that this extends to all mutual banks, including those governed by the Co-Operative Companies Act 1996.	one vote' policy provide their members with full voting rights. The amended BPR110 reflects this principle.
Variable value	CET1 capital should be loss absorbing on a going concern basis. This occurs when losses are transferred to investors while the bank remains viable.	No views provided on this principle.	Not applicable.

Option 1A: Mutual Equity Instrument

18. The Reserve Bank sought views on the proposed Mutual Equity Instrument (MEI) as a policy option for CET1 capital, noting that it was not the preferred option. The Australian Mutual Equity Interest (AMEI) adopted by APRA informed the development of this MCI option; however, it is not a complete mirror of the AMEI.

19. The key features of the MEI, as described in the Consultation Paper, included:

- The instrument would consist of an unsecured investment in the mutual bank with no maturity date and no right to redeem.
- Investors' claim would rank junior to all other liabilities (e.g. members' deposits, wholesale debt instruments, Tier 2 and AT1 instruments), but rank senior to members' equity interest.
- Upon wind-up or resolution (once all senior claims are settled) investors would receive their principal in full (subject to sufficient assets).
- Any surplus assets that remained after the return of investors' principal would be allocated between investors and members equally on a 'per member' basis.
- A board-approved distribution policy (possibly based on an equity-return index) would determine distributions to investors, however final distributions would be at the board's discretion.

20. Both submissions proposed that the use of the MEI should remain an option for mutual banks (even if another option is preferred) because it is not yet known how the market will respond to MCIs. The submitters contend that the MEI would offer a simplified alternative that could provide some flexibility for mutual banks as they learn and adapt to a new capital framework.

21. Furthermore, the submitters advocated for the MEI to directly mirror the AMEI rather than follow the terms of the proposed MEI. The key differences between the proposed MEI and the AMEI is that, in the Australian approach, distributions may be calculated in relation to the amount paid at issuance and shareholders' entitlement to surplus assets is capped at the nominal value of the shares.

22. The submitters favour the AMEI over the proposed MEI because, in their view:

- the Australian banking sector more closely reflects the structure of the New Zealand banking sector;
- the AMEI is a simplified instrument that better protects the interests of members; and
- although it does not meet the CET1 proportionality principle, this is acceptable because it is loss absorbing on a going concern basis (which the submitters view as more important than proportionality).

23. The Reserve Bank does not agree that the MEI is a suitable CET1 capital instrument and has decided to discount this option. Reasons for this decision include:

- The MEI does not operate like ordinary shares and therefore does not qualify as CET1 capital. This is contrary to our key objective, which was to create a capital instrument for mutual banks that qualifies as CET1 capital.

- In particular, the MEI does not meet the CET1 principles of subordination and proportionality, which are important to ensure members are protected and investors are incentivised to monitor the performance of the bank.

- The MEI is not a conservative approach compared to other jurisdictions, which is a key principle of the Capital Review.

- The Australian approach (the AMEI) which is favoured by the submitters has not yet been issued. Additionally, APRA has capped the use of this instrument at 25 per cent of mutual banks' CET1 capital requirements.

24. Ultimately, accepting the MEI as CET1 would mean that the definition of CET1 would need to be modified. We see this as contrary to our wider intention during the Capital Review to focus on higher buffers of the highest quality of capital.

Option 1B: Mutual Equity Tier 1 capital instrument (preferred option)

25. The Reserve Bank also sought views on the proposed Mutual Equity Tier 1 (MET1) capital instrument as a policy option for CET1 capital, and highlighted that this is the preferred option. The terms of the MET1 capital instrument were modelled on the approach taken by the PRA in the United Kingdom through the Core Capital Deferred Shares (CCDS) instrument, but are not an exact replication.

26. The key features of the MET1 capital instrument, as described in the Consultation Paper, included:

    - The instrument would consist of unsecured investment in the mutual bank with no maturity date and no right to redeem.

    - Investors' claim would rank junior to all other liabilities (e.g. members' deposits, wholesale debt instruments, Tier 2 and AT1 instruments), but equally among themselves and members of the mutual bank.

    - Upon wind-up or resolution, any surplus assets than remain (after all senior claims are settled) would be allocated to investors as a class according to a predetermined formula contained in the terms of the instrument, used to determine investors' relative contribution to the total CET1 capital.

    - Surplus assets attributed to investors would be distributed pro rata based on the number of instruments held by each investor.

    - The residual surplus assets allocated to members would be distributed equally on a 'per member' basis.

- A board-approved distribution policy would be published separately to the terms of the instrument and communicate the Board's expectation for distributions. The distribution policy would be indicative only and distributions would remain at the Board's discretion.

27. Both submissions agreed with the Reserve Bank that it is logical to follow the PRA's approach, but are seeking an amendment that would more closely align the MET1 capital instrument with the CCDS instrument. The submitters would like the MET1 capital instrument to include a cap on the entitlement of holders in a wind up to the par value of the shares, as they believe this would be fairer to the members of a mutual bank.

28. One submission provided a detailed analysis to demonstrate their view that this feature would make the MET1 capital instrument more fair to members and their reasons included:

    - If a mutual bank is wound up with a surplus, a cap on investors' entitlement means that investors do not participate in both distributions and surpluses – members' entitlement to surpluses would be protected
    - Although shareholders would not share proportionately in surpluses, the proportionality principle is not as important when considering the mutual structure and market discipline
    - There is international acceptance of this approach in comparable jurisdictions such as the United Kingdom, Australia and Canada.

29. The Reserve Bank considers the MET1 capital instrument to be the most suitable option and has chosen to use the features of this instrument for the MCI. Reasons for this decision include:

    - The MET1 capital instrument operates most closely like ordinary shares and qualifies as CET1 capital. This achieves our key policy objective of creating a capital instrument for mutual banks that qualifies as CET1 capital.
    - Importantly, the MET1 capital instrument meets the CET1 principles of subordination and proportionality, which ensures members are protected and investors are incentivised to monitor the performance of the bank.

30. In response to the submissions' request to include a cap on the entitlement of holders in a wind up to the par value of the shares, the Reserve Bank intends to allow this feature at the Board of a mutual bank's discretion. This feature would allow investors to participate proportionally in any losses, but protect members' claims on surplus assets in a wind-up.

Assessment of policy options

Consistency with key requirements for ordinary shares

31. In the Consultation Paper, the Reserve Bank outlined key assessment criteria for the proposed policy options. These criteria included the policy options' consistency with the key requirements for ordinary shares (see table on page 5).

32. One submission argued consideration of the eligibility criteria for ordinary shares should only be relevant if they had the same prudential impact in the mutual structure. The other

submission held the view that both policy options were consistent with the eligibility criteria for ordinary shares, in all *relevant* aspects.

33. Both submissions strongly believed that two of the eligibility criteria for ordinary shares, namely distributions and proportionality, were not relevant for an MCI and any inconsistency could be disregarded in the context of the mutual structure.

34. Both submissions also disagreed with the Reserve Bank's view that members have a 'claim' on surplus assets, and put forth an alternate legal interpretation where members only have a contractual entitlement to surplus assets. Based on this interpretation, the submitters advise that Option 1A (the MEI) does satisfy subordination criteria (that investors should have the most subordinate claim).

35. One submitter further contended the suggestion that the MEI would not have a variable and uncertain value is not correct, and the MEI would function in the same way as ordinary shares in a non-mutual bank.

36. The Reserve Bank is of the view that all of the eligibility criteria for ordinary shares are relevant for a mutual capital instrument and have a prudential impact. Table 2 details our view on each of the principles, and we provide some additional views on the principles of subordination and proportionality below.

37. Firstly, we are taking a broader view of the principle of subordination and considering the objectives of this feature. Subordination is an integral feature of ordinary shares, because it means investors bear losses first. This means investors have greater incentives to monitor the performance of the bank and limit risk-seeking behaviour, as their investment is at stake. Members are also better protected in a situation where investors have the most subordinate claim because those investors are the first to absorb losses (before retained earnings).

38. Similarly, the principle of proportionality also creates incentives for investors to monitor the bank, because investors participate proportionally in gains and losses.

39. Under the terms of the MEI, retained earnings would absorb losses first (before investors) and, in a liquidation, instrument holders would receive their investment back in full, if there were sufficient surplus assets to make the payment. This means that investors are neither the most subordinate, nor would they participate proportionally in losses. This runs the risk of eroding their incentives to monitor the performance of the bank and could lead to risk-seeking behaviour.

40. Based on these views, we do not consider the MEI to be a suitable option for CET1 capital as it does not meet the key criteria. The MET1 capital instrument is a better match to the principles and remains our preferred option.

Consistency with mutual principles

41. The Reserve Bank sought views on how the two proposed policy options aligned with mutual bank principles. Both submissions indicated the entities were pleased that this was a consideration for an MCI.

42. One submission highlighted that the role of the Board of a mutual bank is to act in the best interests of its members, which extend beyond the financial to include intangible benefits. As such, the Board of a mutual bank is accountable to its members and is sufficiently scrutinised in its decision-making. The submitter advises this would extend to the issuing of an MCI, which would only be done if it were in the best interests of members.

43. The other submission advised the most important way to align with mutual principles was to ensure that capital does not require a profit maximising approach. The submitter maintained that a mutual bank could make any level of distributions provided it was in the best interests of their members, and linking distributions to profits is at odds with mutual principles.

44. The Reserve Bank agrees that the Board of a mutual bank is best placed to make decisions that are in the best interests of its members. We have considered mutual principles when assessing options for the design of the MCI and, wherever practicable, have had regard to these principles.

Consistency with the Capital Review principles

45. In the Consultation Paper, the Reserve Bank highlighted potential inconsistency between an MCI and the Capital Review principles, particularly that the capital framework should be practical to administer and minimise unnecessary complexity and compliance costs, and that the capital framework should be transparent to enable effective market discipline.

46. One submission acknowledged that there may be some added complexity during the process of a wind up, but disagreed that an MCI would be inconsistent with the capital review principle to avoid unnecessary complexity. This submitter argued that any added complexity would be limited only to a wind up of a mutual bank, which is an unlikely, one-off event.

47. The same submission also disagreed that an MCI would be inconsistent with the transparency principle. In their view, issuing an MCI would not impact the governance and accountability structure of a mutual bank, as members would continue to hold the board accountable for the mutual bank's performance.

48. The other submission agreed with this assessment of those Capital Review principles. They also added that if the MEI was available as an option, they did not believe that it would be inconsistent with the Capital Review principle that the capital requirement should be conservative relative to comparable jurisdictions.

49. The Reserve Bank acknowledges that neither option is totally consistent with the Capital Review principles. Option 1B in particular is considerably more complex than ordinary shares. However, Option 1B most closely matches the 'loss-absorption' Capital Review principle, in that losses would be readily absorbed proportionately by investors and members on a going-concern basis. This is a significant feature of Option 1B and may mitigate some of its complexity.

Cost-benefit analysis of adoption versus the status quo

50. One submission emphasised the belief that the introduction of an MCI that qualifies as CET1 capital would provide a clear net benefit and agrees with the Consultation Paper's assessment of the positive impact an MCI may have on the stability and efficiency of the financial system.

51. The same submission also put forth the view that there is potential for the mutual banking sector to grow in New Zealand over the long-term and an "enabling regulatory environment", such as through the adoption of an MCI, could assist in this growth.

52. This submission assessed the costs associated with an MCI and advised that potential arguments against the introduction of these instruments should not be highly regarded. It again highlighted that demutualisation is not a likely or realistic alternative to an MCI and while there may compliance costs associated with raising capital, these costs would only be assumed when it benefits members.

53. While the other submission did not make comments on the cost-benefit analysis of the policy options, it did voice support for the previous submission's assessment.

54. The Reserve Bank agrees that the benefits of introducing an MCI are likely to exceed the costs. Our assessment is that regulatory and supervisory costs of an MCI are expected to be small and are proportionate to the risks and benefits to the financial system. While there will be compliance costs for mutual banks issuing the new instrument, we expect that these costs will be exceeded by the benefits to the banks and the financial system that will arise from having more access to capital.

Design features of a potential mutual capital instrument

Limits on issuance and distributions

55. In the Consultation Paper, the Reserve Bank proposed that limitations on the issuance of an MCI and the level of distributions might not be necessary. Both submissions agreed with this initial view.

56. In regards to issuance, both submission maintain the board of a mutual bank is in the best position to determine whether to issue capital, as they are mandated to act in the best interests of their members.

57. Similarly, the submissions felt that the level of distributions should also be left to the board's discretion. While the board may choose to impose its own limits on distributions, a prescriptive limitation could negatively on the marketability of an MCI, which is a concern the submitters have raised elsewhere in their submissions.

58. The Reserve Bank continues to hold the view that issuance of an MCI and the level of distributions should not be capped, and instead left to the discretion of the Board of a mutual bank. This will support the mutual bank's Board in making decisions in the best interests of its members.

Notification regime and repurchase of mutual capital instruments

59. Both submissions agreed that it would be best practice for an MCI to be subject to the same requirements as ordinary shares, such as the notification requirement or requiring approval for any repurchase. Neither submission viewed these requirements as an unreasonable regulatory burden nor likely to significantly increase their compliance costs.

60. During a meeting following the consultation period, one submitter advised that in their view, repurchasing MCIs would be no different to a non-mutual bank conducting a share buy-back

and therefore agreed that permission from the Reserve Bank should be required as it is for non-mutual banks.

61. The Reserve Bank agrees with this rationale and sees the merit in following the parameters of the wider capital framework. When drafting the BPRs to include an MCI, we have aimed to replicate the regulatory framework for ordinary shares, as well as other bespoke capital instruments. For the purpose of notification requirements at the time of instrument issuance, we intend to include notification processes in Banking Prudential Regulation 120 (BPR120): Capital Adequacy Process Requirements for MCIs that similar to those that apply for AT1 and Tier 2 capital instruments.

Incorporation of rules into the Banking Prudential Regulations

62. In the Consultation Paper, the Reserve Bank proposes that an MCI should be included in the BPR110 as a new component of CET1 capital. Both submitters agree with this approach.

63. One submission advocates for following other jurisdictions by setting out the eligibility criteria for ordinary shares and the describing the exceptions to these criteria for an MCI. Both submission agreed that it is important to make the difference between ordinary shares and MCIs clear, to improve understanding and transparency.

64. Exposures Drafts of revised BPR110 and BPR120, incorporating the preferred option, have been published alongside this *Response* document to seek stakeholder feedback about how we propose to incorporate the instrument into the BPR documents. Annex 1 provides explanatory notes for the Exposure Drafts.

Limits on investor type

65. The Reserve Bank's Consultation Paper noted that other jurisdictions had experienced difficulty with issuing MCIs to retail investors and sought views on limiting investor type. Both submitters would prefer to retain the option of issuing an MCI to their retail customers, particularly as mutual banks are largely funded by their retail customers.

66. The two submissions believe the regulation of this matter should be left to the Financial Markets Authority to oversee, as they do not think investor type is a factor of prudential regulation.

67. The Reserve Bank is minded to allow mutual banks to issue MCIs to retail investors. We will work closely with the Financial Markets Authority to ensure the appropriate disclosures are made so that investors are fully informed of the terms of the instrument.

Part Two: Other Matters Raised in Submissions

Amendments to BPR110 guidance on voting rights

68. One submission requested clarification that the guidance in BPR110 that explains the 'one member, one vote' policy qualifies as 'full voting rights' for all mutual banks. Currently, the guidance specifies this applies to building societies created under the Building Society Act 1965. The submitter asked that this be extended to include co-operative entities created under the Co-operative Companies Act 1996.

69. Full voting rights are a key requirement of CET1 capital, where investors in ordinary shares receive full voting rights arising from the ownership of their shares.

70. The Reserve Bank has amended BPR110 to clarify that when issuing the MCI, the 'one member, one vote' policy qualifies as full voting rights. This will ensure that investors in the MCI receive the same benefits as any other CET1 capital investor.

Annex 1: Explanatory Note for Exposure Drafts

This Annex provides some explanatory notes for the proposed changes to BPR110 and BPR120 to incorporate the Mutual Capital Instrument. We welcome feedback from stakeholders about the Exposure Drafts.

BPR110

In general, the approach we have taken is to replicate the requirements of ordinary shares contained in BPR110, with adjustments where needed to reflect the characteristics of the Mutual Capital Instrument. The table below summarises the requirements.

Table 3: Explanation of amendments to BPR110

BPR110	Explantory Note
B1.2(f)	Add "paid-up" mutual capital instruments to the components of CET1, provided the detailed criteria in section D1.5 are met.
D1.2 guidance box	This guidance box has been modified following a request during the consultation period that clarifies that 'one member, one vote' system can be applied by any mutual entity, not just a building society, and still satisfy the full voting rights requirement in D1.2(d).
D1.4(3) guidance box	The general text in D1.4(3) clarifies that D1.4(2) does not prevent certain actions by a holding company of a bank. The guidance box notes that D1.4(3) does not apply to mutual capital instruments, as set out in D1.5. We are not comfortable with the concept of a holding company owning a mutual bank and holding mutual capital instruments.
D1.5(2), D1.5(3), D1.5(4)	These requirements establish the role of the checklist that mutual banks must complete and provide the Reserve Bank when issuing and MCI. This is in-line with the processes that apply for all banks when issuing AT1 or Tier 2 capital instruments.
D1.5(5)	Issuers may include other terms and conditions as part of an MCI, provided these do not affect compliance.
D1.5(6)	(a) Matches the requirement for ordinary shares on D1.2(a). (b) Confirms that the instrument must also be legal form equity. (c) All MCI must be governed by New Zealand law to maximise simplicity. (d) While it might be possible to structure an MCI in foreign currency, this would introduce additional layers of complexity. (e) Matches the requirement for ordinary shares in D1.2(b) (f) Ensures the instrument is perpetual, as for ordinary shares in D1.2(g). (g) The MCI must not be redeemable. Matched requirement for ordinary shares in D1.2(h). (h) Matches the requirement for ordinary shares in D1.2(i). (i) Matches the requirement for ordinary shares in D1.2(j). (j) Matches the requirement for ordinary shares in D1.2(d).

BPR110	Explantory Note
	(k) This ensures that the subordination principle for CEt1 is met. It notes that all holders of MCI must have equal ranking. The guidance box establishes the roe of the formula in apportioning any surplus assets between the two different classes that would receive a payment – one class made up of MCI holders and one class made up of members of the mutual bank. This ensures that all of the 'owners' have the same ranking, as any distribution of surplus assets is made based on the proportions in the formula in D1.2(m). (l) Clarifies that if there are no surplus assets at all, then the instrument holder receives no return on their investment. (m) Sets out the formula that separates the payment of surplus assets to the group of instrument holders and the group of members. (n) Once the payment to the group of instrument holders has been determined in (m), the requirement in (n) is that the amount that each instrument holder receives is proportionate to the number of instruments that they hold. This meets the proportionality requirements, similar to the proportionality requirements for ordinary shares in D1.2(c). the issuer may cap the total payment at the face value of the instrument at the time of issuance, as requested by some submitters during consultation. (o) Requires the formula to be included in terms and conditions. (p) Requires that the formula can only be changed if a new tranche of instruments in issued in the future. Future tranches would modify how any surplus assets are distributed, resulting in smaller proportions for either existing instrument holders and/or members. It would not be possible to issue a future tranche and keep the previous formula unchanged. (q) All distribution requirements for ordinary shares must be met. (r) While the distribution requirements for ordinary shares must be met, the mutual bank must also have an indicative distribution policy. (s) As noted in the comment above about D1.4(3) we are not comfortable with the concept of a holding company owning a mutual bank and holding mutual capital instruments. (t) The issuance requirements for ordinary shares in D1.4 must be met.
Appendix 3	Replicated the requirements for MCI for the purposes of banks completing the process requirements in BPR120.

<u>BPR120</u>

We are proposing a number of small changes to BPR120 to ensure that the MCI is also covered by notification requirements, in a similar way as this applies to AT1 and Tier 2 capital instruments. As with those instruments, the directors of a bank are responsible for ensuring that the MCI complies with the capital adequacy framework. The Reserve Bank will not be approving the specific issuance of instruments.

The Legal Template requirements in B1.3 are the same as for AT1 and Tier 2 instruments.

IN CONFIDENCE
POLICY

Regulatory Impact Assessment: Mutual Capital Instruments

X December 2022

Reserve Bank
of New Zealand
Te Pūtea Matua

Contents

Adequacy Assessment

This Regulatory Impact Assessment (RIA) provides the Reserve Bank's analysis of the costs and benefits of options for a Mutual Capital Instrument, which would be eligible as Common Equity Tier 1 capital in New Zealand's prudential framework.

The RIA has been prepared by the Reserve Bank in accordance with the requirements of section 255 of the Reserve Bank of New Zealand Act 2021 (the Act).

This Assessment provides a qualitative assessment of all decisions.

Consultation

Consultation on options for a Mutual Capital Instrument was completed by the Reserve Bank from 16 March to 10 June 2022.

The Reserve Bank received two submissions to the consultation paper. A response to submissions will be published alongside this RIA that summarises the feedback received.

Quality Assurance

The RIA was reviewed by a number of Reserve Bank staff.

Executive summary

1. Mutual banks make up a small but important part of New Zealand's banking sector. A mutual bank is founded on the principles of mutuality and is owned by its members, who all have an equal share in the bank and equal voting rights. These banks contribute to making New Zealand's financial system more diverse and inclusive, through their unique structure and mutual ethos.

2. A key challenge currently faced by mutual banks is their limited ability to raise high-quality, loss-absorbing capital. This is significant, as it restricts mutual banks' ability to grow and compete with other, non-mutual banks who do not face the same challenge. The impact of this issue may become more significant, as the amount of high-quality capital New Zealand banks are required to have are set to increase over the next decade.

3. The Reserve Bank is responding to this issue by undertaking work to develop a new capital instrument for mutual banks which could qualify as Common Equity Tier 1 capital – the highest quality, loss-absorbing capital. The new instrument is categorised as a 'mutual capital instrument' (**MCI**).

4. The Reserve Bank has created and consulted on two policy options for an MCI. Consultation on these options has now closed, which has led to the publication of this Regulatory Impact Assessment.

5. This Regulatory Impact Assessment sets out the options consulted on and analyses the options against key assessment criteria. The criteria include:

   - The Reserve Bank's legislated objectives;
   - Capital Review principles; and
   - The Financial Policy Remit.

6. Based on this criteria, we have decided to proceed further with one of the options for a mutual capital instrument (the Mutual Equity Tier 1 capital instrument). The Regulatory Impact Assessment provides further analysis of the costs and benefits of this option and considers the impact of its implementation.

Background

7. Banks registered in New Zealand must comply with a range of prudential requirements developed by the Reserve Bank of New Zealand – Te Pūtea Matua to protect and promote financial stability. These prudential requirements reduce the risk of a bank failing and protect New Zealanders from the economic and social costs associated with a bank failure.

8. In December 2019 we published the final decisions from our Capital Review[1], which focused on improving the quality and quantity of capital banks are required to have. The

[1] Capital Review - Decisions 2019 (rbnz.govt.nz)

final decisions included requiring banks to have larger buffers of Common Equity Tier 1 (**CET1**) capital and changes to the eligibility criteria for instruments to qualify as Additional Tier 1 (**AT1**) and Tier 2 capital.

9. One outstanding issue from the Capital Review was to consider developing a bespoke capital instrument for banks structured as mutuals (**mutual banks**) which could qualify as CET1 capital – an **MCI**. Currently, many of the key requirements for CET1 capital instruments conflict with mutual banks' structures and the mutual ethos.

10. In response to this issue, the Reserve Bank undertook work to develop potential policy options for an MCI. The investigation into options was informed by international approaches to mutual capital by prudential regulators including the Australian Prudential Regulation Authority (**APRA**) and the Bank of England's Prudential Regulation Authority (**PRA**).

11. This Regulatory Impact Assessment (**RIA**) describes these options, assesses them against key criteria and provides our qualitative evaluation of the preferred option. Note that the options and analysis in this RIA only applies to registered banks, as they are subject to the capital adequacy framework. Other mutually-owned entities, such as credit unions, may be able to utilise the MCI in the future. Requirements for these entities are currently contained in the Non-bank Deposit Takers Act 2013, and are outside the scope of this RIA.

What are mutual banks?

12. A mutual bank is a bank that is owned by its members (or customers) that use its services i.e. the people who deposit with, and borrow from, the bank. Theoretically, a mutual bank could adopt several different legal forms (e.g. it could be a company, a co-operative company, a building society, or a credit union).

13. In New Zealand there are currently two registered banks considered to be mutual banks: Southland Building Society (a registered building society) and the Co-operative Bank (a registered co-operative company).

14. Mutual banks are founded on the principles of 'mutuality'. While the rights of a shareholder of a company (e.g. right to vote, dividends, surplus assets) are attached to each share held by the shareholder (rights 'per share'), the rights of a member of a mutual bank come from their membership of the mutual bank (rights 'per member').

15. This means that each member of a mutual bank owns an equal share of the mutual, holds equal voting rights (usually one vote per member), and is entitled to an equal share of distributions and surplus assets (upon wind-up or liquidation), no matter their scale of business with the bank.

16. In contrast, for a shareholder of a non-mutual bank, the number of votes they have at an annual general meeting, the amount of dividends they receive, and the value of the surplus assets they are entitled to (upon wind-up or liquidation of the bank), depends on the number of shares they hold in the bank. There is also no obligation on shareholders of a non-mutual bank to be a customer of the bank they hold shares in.

17. In New Zealand 'a mutual' is not a legal concept, and there are no legislative requirements to meet the threshold to be considered a mutual. Instead, the rules which establish a mutual entity's 'mutuality' are contained in its constitution (in the case of a company or a co-operative company) or its rules (in the case of a building society or a credit union). These can be found under the Companies Register, Building Society Register and Credit Unions Register.

18. Typically, when a new member opens a deposit account with (or receives a loan from) a mutual bank they are issued with a single share for no consideration. Generally speaking, the share confers equal voting rights (one vote), the right to participate equally in any potential future distributions, and, upon the winding up or liquidation of the mutual bank, a right to an equal share of the surplus assets (if any) after all other amounts owed have been repaid.

19. The governing legislation (e.g. the Co-operative Companies Act 1995, Building Societies Act 1965) provides for mutual banks to amend their constitution and rules to establish different classes of membership with different rights. However, in practicality this may be difficult to execute and could risk demutualising the entity.

What is Common Equity Tier 1 capital?

20. Registered banks' conditions of registration require banks to maintain minimum CET1, Tier 1 (CET1 plus AT1) and total (CET1 plus AT1 plus Tier 2) capital ratios to absorb unexpected losses that may occur due to credit, operational or market events. CET1 capital represents the highest-quality, loss-absorbing capital and therefore is required to comprise the bulk of registered banks' capital.

21. Once the Capital Review is fully implemented (by July 2028) non-systemically important banks' (which mutual banks are classified as) minimum capital requirements (including the Prudential Capital Buffer) will be 16 percent of RWAs: consisting of at least 11.5 percent CET1 capital, an additional 2.5 percent that can be made up of AT1 capital, and an additional 2 percent that can be made up of Tier 2 capital.

22. The Banking Prudential Requirements (BPR) documents specify the requirements that banks must follow as part of their conditions of registration. BPR110 defines what qualifies as CET1, AT1 and Tier 2 capital, as well as the eligibility criteria for instruments to qualify as these different types of regulatory capital.[2]

23. Currently, under BPR110, CET1 capital comprises of: (i) paid-up ordinary shares, (ii) share premium from issuing ordinary shares, (iii) retained earnings, and (iv) other types of miscellaneous comprehensive income (e.g. unrealised gains on assets measured at fair value). Various deductions must then be made to ensure banks do not overstate their capital positions (e.g. for goodwill and deferred tax assets).

24. The focus of our analysis is on the criteria for ordinary shares, given that these are the only qualifying CET1 capital instruments that can be used as an external source of capital generation.

[2] The BPR documents can be found here: https://www.rbnz.govt.nz/regulation-and-supervision/oversight-of-banks/standards-and-requirements-for-banks/capital-and-credit-risk-requirements

25. To qualify as ordinary shares, an instrument must provide the bank with a permanent and unrestricted commitment of funds, and be freely available to absorb losses on a going-concern basis. The overarching requirement is that the instrument should not resemble or behave in any way like a debt instrument. The New Zealand requirements for CET1, including ordinary shares, are based on the international banking regulations developed by the Bank for International Settlements in order to promote stability in the international financial system.[3]

26. Table A outlines the key requirements contained in BPR110 for an instrument to qualify as ordinary shares.

Table A: Key requirements of our definition of ordinary shares (as outlined in BPR110)

Key feature	BPR110 reference	Requirement
Permanence	Parts D1.2(b), D1.2(g), D1.2(h), D1.2(i)	The paid-up amount must be irrevocably received by the bank so that it is perpetual (i.e. contains no maturity date). The instrument should also not be redeemable. If instruments are redeemable there is a risk investors will be repaid when a bank is in distress, or if not repaid, signal to the market the bank's worsening financial condition. The bank must create no expectation that the instrument will be redeemed, and the instrument should not contain any feature which gives rise to an expectation that the instrument will be redeemed.
Subordination	Part D1.2(c) & Part D1.2(e)	Holders of the instrument (investors) must have the most subordinate claim to the bank's assets (upon wind-up or liquidation) and take the first, and proportionality greatest, share of losses. Investors should only receive (a portion) of their committed capital (if any) once all other senior liabilities (retail and commercial deposits, wholesale debt instruments, Tier 2 and AT1 instruments) have been settled.
Proportionality	Part D1.2(f)	Investors claim to dividends and surplus assets should be proportional to their share of CET1 capital contributed. This reinforces market discipline; if investors participate proportionally in the gains or losses of the bank, they have greater incentives to monitor the financial performance and position of the bank.
Distributions	Part D1.3	Distributions should be contingent on economic performance and must not be 'coupon-like' – i.e. be linked to the principal paid at issuance or subject to a contractual cap. This avoids any suggestion that the payment up to the capped amount is guaranteed. Distributions must also be non-obligatory and any waived distributions must be non-cumulative. This provides a degree of loss absorbency, as distributions can be cancelled to preserve equity.

[3] https://www.bis.org/publ/bcbs118.htm

Key feature	BPR110 reference	Requirement
Voting rights	Part D1.2(a), Part D1.2(d)	The instrument should be classified as equity under generally accepted accounting practice, and therefore holders of the instrument should have full rights associated with ownership, in particular full voting rights allowed by law.
Variable value	Part D1.2(c)	CET1 capital should be loss absorbing on a going concern basis. This requires that losses are transferred to investors while the bank remains viable. Therefore the value of the instrument should fluctuate with the financial performance of the bank.

Problem definition

27. Many of the key eligibility criteria for ordinary shares contained in BPR110 conflict with the core tenets of mutuality. This means that mutual banks are highly constrained in their ability to issue instruments that qualify as CET1 capital.

28. In the past we have stated that we would consider the terms of any draft instrument developed by mutual banks on a case-by-case basis to determine whether the instrument would qualify as CET1 capital. Following the BPR Exposure Draft consultation in 2021, and the feedback from the sector, we consider it unlikely that a mutual bank would be able to design a CET1 instrument that fully complies with our current eligibility rules in BPR110 while retaining its mutual status.

29. This means our capital adequacy framework currently limits mutual banks' CET1 capital to retained earnings. In order to issue ordinary shares and raise CET1 capital, mutual banks may be required to demutualise. However, mutual banks have made clear their mutual status is core to their identity and purpose. We support this view, as mutual banks contribute to financial sector diversity and inclusion.

30. Limited avenues to raise CET1 capital may prevent mutual banks from competing on a level playing field by restricting their lending growth and ability to achieve minimum efficient scale, and might prevent them from building buffers of high-quality, loss-absorbing capital. It also provides mutual banks with less options for raising additional capital if their capital ratios begin to approach the regulatory minima contained in their conditions of registration.

31. Table B outlines how the key eligibility criteria for ordinary shares do (or do not) conflict with the principles of mutuality.

Table B: Application of eligibility criteria for ordinary shares to mutual banks

Key feature	Application to mutual banks	
Permanence	There is no apparent conflict between the requirement for ordinary shares to be permanent and the principles of mutuality. Mutual banks can issue instruments which are permanent, with no maturity date and no right to redeem.	✓

Key feature	Application to mutual banks	
Subordination	BPR110 requires that investors have the most subordinate claim to surplus assets upon wind-up or resolution (i.e. investors must absorb losses first). This provides banks a 'cushion' to absorb unexpected losses before creditors (particularly depositors) experience losses. However for mutual banks, members inherently have the most subordinate claim to the bank's assets. Members' equity interest is defined as the surplus assets that are left after all other amounts have been repaid.	X
Proportionality	BPR110 requires investors participate proportionally in the gains and losses relative to their capital contributed. This reinforces investors' incentives to monitor the bank to ensure it is being run prudently. However, a core tenet of mutuality is that members are entitled to an equal share of distributions and surplus assets (upon wind-up or resolution) regardless of the scale of business they do with the bank.	X
Distributions	A core tenet of mutuality is that members are entitled to equal distributions regardless of their scale of business with the bank. However, investors would likely only contribute additional capital if they expect to receive a higher return compared to being an ordinary member. As such, mutuals would require a mechanism to distribute profits separately to 'investor members'. This may conflict with the principles of mutuality, but does not necessarily conflict with any specific BPR110 requirements. However, the mutual banks would need to ensure the mechanism to determine distributions to investors is not 'coupon-like'. A MCI is likely to be a more expensive form of CET1 capital relative to retained earnings. By issuing a MCI mutual banks could risk diluting retained earnings (which represents members' equity stake in the bank) particularly if the cost of capital exceeds investors' proportional interest in the bank's profits. In the UK, mutual banks have mitigated the risk of diluting members' equity by including caps on distributions per share. This would conflict with the BPR1110 requirement that distributions should not be subject to a contractual cap.	Uncertain
Voting rights	There is no apparent conflict between the requirement for full voting rights and principles of mutuality. During the 2021 Banking Prudential Requirement Exposure Draft consultation the concept of full voting rights was clarified to allow for 'one vote per member' under the Building Society Act 1965.	✓
Variable value	There is no apparent conflict between the requirement for instruments to have a variable and uncertain value and principles of mutuality. However, this would come down to the specific design of the instrument.	✓

32. While the table above suggests a number of barriers for mutual banks issuing instruments similar to ordinary shares as CET1 capital, we are not aware of any provisions in mutual banks' governing legislation that prevent them from doing so, while being consistent with

the mutual ethos. The question is whether we should amend the BPR110 definition of CET1 capital to recognise an MCI as regulatory capital, and if so, how to do this in a way that most closely matches existing CET1 requirements.

Objectives

Legislated objectives

33. The Reserve Bank Act 2021 sets the Reserve Bank's financial stability objective of protecting and promoting the stability of New Zealand's financial system.

34. The Banking (Prudential Supervision) Act 1989, provides for the Reserve Bank's role as prudential supervisor of the banking sector. This Act provides that powers be exercised for the purposes of promoting the maintenance of a sound and efficient financial system, or avoiding significant damage to the financial system that could result from the failure of a registered bank.

35. We recently published our first Statement of Prudential Policy (SoPP), which provides for transparency in how we act, or propose to act, when performing our functions as a prudential regulator and supervisor.[4]

36. As set out in the SoPP, we carry out our prudential functions with the objective of protecting and promoting the stability of New Zealand's financial system (the financial stability objective); and in accordance with the other purposes and objectives of the prudential legislation for different sectors. For banks, which are the scope for this RIA, the purposes include avoiding the significant damage to the financial system that could result from the failure of a regulated entity.

37. This RIA has been developed in accordance with the SoPP, including the RIA framework described in the SoPP, and considers the extent to which the options considered for mutual bank capital instruments help deliver the objectives set in Acts described above.

38. We have also considered the Financial Policy Remit during the preparation of this RIA. The Financial Policy Remit is issued by the Minister of Finance under the Reserve Bank Act 2021. It specifies or provides for matters that the Minister considers are desirable for the Reserve Bank to have regard to in relation to our financial stability objective, the objectives or purposes of our prudential legislation, and acting as a prudential regulator and supervisor.

Capital Review objectives

39. The underpinning rationale for the Capital Review was "to promote the soundness and efficiency of the financial system".[5] Although there were several decisions made during the Capital Review, the key decision was to increase both the quantity and the quality of capital banks must hold as buffers, with the most significant increase being for CET1 capital.

40. The introduction of an MCI would provide mutual banks with another avenue to raise CET1 capital, which could be particularly useful as bank capital buffers increase over the coming years.

[4] https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/statements-of-approaches/sopp-2022.pdf
[5] Capital Review Decisions: https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/review-capital-adequacy-framework-for-registered-banks/decisions/capital-review-decisions.pdf?sc_lang=en&hash=1E2D9F0C3E11033AC83E604E68C12236

41. Additionally, the Capital Review was guided by a set of principles, which we have also used to direct our assessment of the options for an MCI. These principles included:

- Capital must readily absorb losses before losses are imposed on creditors and depositors.
- Capital requirements should be conservative relative to those of international peers.
- The capital framework should be practical to administer, minimise unnecessary complexity and compliance costs.
- The capital framework should be transparent to enable effective market discipline.

Options considered for a mutual capital instrument

42. To qualify as CET1 capital we consider that an MCI should satisfy three necessary criteria. The instrument:

- must have the same loss-absorbency characteristics as ordinary shares (Criteria 1);
- must be consistent with the mutual ethos (Criteria 2); and
- adhere to the Capital Review principles, e.g. instruments must readily absorb losses, be conservative relative to international peers, minimise complexity and be clear and transparent (Criteria 3).

43. We publically consulted on two policy options to provide mutual banks with a capital instrument which qualifies as CET1 capital, as well as a third 'do nothing' (status quo) option:

- Option 1A: Mutual Equity Instrument (**MEI**)
- Option 1B: Mutual Equity Tier 1 capital instrument (**MET1 capital instrument**) (*Reserve Bank preferred option*)
- Option 2: 'Do nothing' (status quo)

Explanation of Options 1A and 1B

44. The design of Option 1A (MEI) was influenced by our discussions with mutual entities. It includes some features similar to APRA's Mutual Equity Interest (**AMEI**) which was developed to provide mutual authorised deposit-taking institutions (**ADIs**) with an instrument that qualifies as CET1 capital. However, some features of the MEI are different from the approach in Australia.

45. The other option we consulted on (Option 1B) was the Mutual Equity Tier 1 (MET1) capital instrument, which is the Reserve Bank preferred option. This option has some features that are similar to the United Kingdom's Core Capital Deferred Shares (**CCDS**) which are

recognised by the Bank of England's PRA as CET1 capital for mutual building societies. However, some features of the MET1 capital instrument differ from the PRA's approach.

46. Table C outlines the key features of each instrument:

Table C: Key features of each Mutual Capital Instrument option

	Option 1A: Mutual Equity Instrument	**Option 1B: MET1 capital instrument**
Permanence	The instrument would consist of an unsecured, subordinated investment in the mutual bank with no maturity date and no right to redeem.	The instrument would consist of an unsecured investment in the mutual bank with no maturity date and no right to redeem.
Subordination	Investors' claim would rank junior to all other liabilities (e.g. members' deposits, wholesale debt instruments, Tier 2 and AT1 instruments), but rank senior to members' equity interest.	Investors' claim would rank junior to all other liabilities (e.g. members' deposits, wholesale debt instruments, Tier 2 and AT1 instruments), but pari passu among themselves and members of the mutual bank.
Proportionality	Upon wind-up or resolution (after the settlement of all senior claims) investors would receive their principal in full (subject to sufficient assets). If the mutual bank had no surplus assets, investors would receive no funds. Any surplus assets that remain after the return of investors' principal would be allocated between investors and members equally on a 'per member' basis.	On the wind-up or resolution of the mutual bank, investors would be entitled to a share of surplus assets (if any) following the settlement of all senior claims. Surplus assets would be allocated to MET1 holders (as a class) according to a predetermined formula contained in the terms of the instrument used to determine MET1 investors' relative contribution to the total CET1 capital. If the mutual bank had no surplus assets, neither investors nor members would receive any funds. Surplus assets attributed to MET1 investors would then be distributed pro rata based on the number of instruments held by each investor. The residual surplus assets allocated to members would be distributed equally on a 'per member' basis.
Distributions	A board-approved distribution policy would communicate the board's expectation for distributions, but final distributions would be at the board's discretion. Members of the mutual banking sector have suggested the instrument's return could be based on an equity-return index. Investors would need to read the disclosure document in	A board-approved distribution policy would be published separately to the terms of the instrument and communicate the board's expectation for distributions. The distribution policy would be indicative only, and final distributions would be at the board's discretion. Potential investors would need to read the terms of the instrument

	Option 1A: Mutual Equity Instrument	Option 1B: MET1 capital instrument
	conjunction with the dividend policy to determine the relative risk/reward calculus.	in conjunction with the distribution policy to determine the relative risk/reward calculus.
Voting rights	Investors would become members of the mutual bank, and be subject to its rules, including one vote per member, regardless of the number of instruments held by the investor.	Investors would become members of the mutual and subject to its rules, including one vote per member, regardless of the number of instruments held by the investor.

Evaluation of policy options against assessment criteria

47. Consultation with the mutual banking sector indicated that the inclusion of an MCI (either Option 1A or 1B) would be preferable over the status quo (Option 2), based on the reasons in the 'problem definition' section. Therefore, the following evaluation focuses on assessing Option 1A (MEI) and Option 1B (MET1 capital instrument) against the key assessment criteria.

Criteria 1: Loss absorbency characteristics

48. The Basel Committee on Banking Supervision encourages regulators to take into account banks' ownership structure when designing CET1 capital instruments, provided the substantive quality of regulatory capital is preserved.

49. Neither the MET1 capital instrument, nor the MEI, are a perfect match with the existing definition of CET1 capital. Each option would require us to flex (to differing degrees) the definition of CET1 capital in BPR110. This might weaken the definition of CET1 capital, and compromise the relative simplicity of the bank capital adequacy framework by introducing a new class of instrument.

50. Nevertheless, we consider the MET1 capital instrument (Option 1B), closely adheres to BPR110's key eligibility criteria for ordinary shares:

- Investors would have the most subordinate claim on mutual banks' assets – ranked equally alongside members of the mutual bank;
- Individual investors' claims to surplus assets would be proportionate to their relative contribution to total CET1 capital; and
- The value of an MET1 capital instrument would be variable and uncertain, and absorb losses on a going concern basis, as investors' proportional claim to surplus assets would grow or shrink according to the mutual bank's financial performance.

51. The MEI (Option 1A) would provide loss absorbing capital on a going concern basis. In this regard it meets a key feature of CET1 capital. However, while it does meet this critical role, we do not consider the MEI to be the same quality as ordinary shares on the basis that

- Investors would not have the most subordinate claim on a mutual bank's assets: investors would receive their principal investment in full, before they participate equally in surplus assets alongside members. Therefore it is members of the mutual bank who have the most subordinate claim to the surplus assets

- Investors' claim would not be proportionate to their capital contributed: investors would receive their principal in full before participating equally alongside members in any surplus assets.

- The value of an MEI would not be variable or uncertain, and would not absorb losses on a going-concern basis: first losses would be reflected in retained earnings (i.e. members would absorb the first losses). The only circumstances where investor value would decline would be when retained earnings had been completely depleted. In this case, further losses would continue to detract from CET1 capital, which would at this stage only consist of the MEI.

52. Option 1B, the MET1 capital instrument, most closely aligns with the current definition of CET1 capital and is more likely to ensure that investors are incentivised to monitor the performance of the bank, as their own money is at risk.

Criteria 2: Consistency with mutual ethos

53. Mutual banks exist to promote the long-term interests of their members and are founded on mutual principles. Each member has equal voting rights and an equal right to distributions and surplus assets. Members of a mutual bank can realise the value of their membership directly, through receiving distributions (e.g. rebates), or indirectly, via 'better' banking services or more competitive mortgage and deposit pricing.

54. Introducing a new class of 'investor member' who have priority over distributions (and possibly surplus assets) may make a mutual bank inherently less 'mutual'.

55. Ultimately, the decision to permit investor members would be a commercial decision for a mutual bank's boards. Mutual bank's boards have a legal duty to promote the interests of their members, and therefore would need to carefully consider whether to permit a new class of membership, and if so, on what terms (e.g. the attribution rule, distribution policy), and how many instruments to issue. These are important considerations as a MCI could undermine what makes a mutual bank attractive to its members, and the premium paid on an MCI could begin to erode the benefits of the additional capital.

56. A MCI may be a more expensive source of CET1 capital relative to retained earnings. Although mutuals can (and do) pay their members rebates, in practice mutual banks have tended to retain the majority of their profits to accumulate CET1 capital to meet regulatory requirements and support credit growth. The lower cost of retained earnings can benefit mutual banks by lowering the average cost of funds, increasing net interest margins, and can allow mutual banks to pay more competitive term deposit rates (compared to the status quo).

57. However, investors' main motivation would likely be to maximise the return on their capital, and would have an expected rate of return in mind. Investors would likely only contribute capital if they expect a return comparable to other investment opportunities which carry similar risk. The pressure on boards to deliver on investors' expectation could risk diluting members' retained earnings and stunt long-term growth, particularly if investors' expected return exceeds investor members' proportionate interest in the mutual bank's profits.

58. In the UK, mutual banks have mitigated the risk of diluting members' interest by including caps on distributions per share. While in Australia, APRA has limited annual distributions to no more than 50 percent of net profit after tax.

59. When it comes to comparing the two policy options being considered in this paper, under both options investors would become members of the mutual bank and subject to its rules, in particular one vote per member. The instruments would therefore conform to the democratic principle of mutuality.

60. However, both instruments would provide investor members with a priority over distributions. The MEI would also provide investors with priority to surplus assets ahead of members. In this respect, the MET1 instrument could be considered slightly more consistent with principles of mutuality, as investors and members would rank pari passu.

Criteria 3: Consistency with Capital Review principles

61. Throughout the Capital Review we used six principles to guide policy development and evaluate potential policy options. We have assessed the two policy options in this consultation paper against the four principles that are relevant to capital instruments.

62. Table D provides a summary of our evaluation of the policy options against the relevant Capital Review principles.

Table D: Evaluation of options against Capital Review principles

Capital Review principle	Option 1A: Mutual Equity Intstrument	Option 1B: Mutual Equity Tier 1 capital instrument
Capital must readily absorb losses before losses are imposed on creditors and depositors.	✓ Option 1A would provide loss absorbing capital that would provide an additional buffer to shield creditors (in particular depositors) from potential losses. In this respect Option 1A is consistent with this Capital Review principle. However, investors would only begin to absorb losses once retained earnings had been depleted (i.e. members experience	✓ Option 1B would provide loss absorbing capital that would provide an additional buffer to shield creditors (in particular depositors) from potential losses. Losses would be readily absorbed proportionately by investors and members on a going-concern basis. Option 1B is therefore consistent with this Capital Review principle.

Capital Review principle	Option 1A: Mutual Equity Intstrument	Option 1B: Mutual Equity Tier 1 capital instrument
	the first losses). In this case, further losses would continue to detract from CET1 capital, which would at this stage only consist of the MEI.	
Capital requirements should be conservative relative to those of international peers.	✗ Option 1A would align us with the Australian approach. Option 1A would require us to adopt a less conservative interpretation for the subordination and proportionality requirements. Option 1A is therefore not consistent with this Capital Review principle.	✓ Option 1B would align us more closely with the UK approach. Option 1B would not require a reinterpretation of subordination or proportionality, but would achieve the outcomes through novel means to reflect mutual bank's ownership structure. Option 1B is therefore consistent with this Capital Review principle.
The capital framework should be practical to administer, minimise unnecessary complexity and compliance costs.	✗ While Option 1A conceptually simple, it would add complexity to the capital framework by requiring the reinterpretation of subordination and proportionality features for mutual banks. It would also require a new class of capital instruments to be incorporated into BPR110 to qualify as CET1 capital, adding complexity to the capital regime. Option 1A is therefore not consistent with this Capital Review principle.	✗ Option 1B would likely be complicated for mutual banks to administer day-to-day, and potentially more challenging for a resolution authority or liquidator to administer during a wind-up. It would also require a new class of capital instruments to be incorporated into BPR110 to qualify as CET1 capital, adding complexity to the capital regime. Option 1B is therefore not consistent with this Capital Review principle.
The capital framework should be transparent to enable effective market discipline.	✓ Option 1A is a conceptually simpler instrument but would still would require clear disclosure to potential investors. We assess Option 1A as not inconsistent with this Capital Review principle.	✗ Option 1B is considerably more complex than ordinary shares (due to the attribution rule and distribution policy). The more complicated features of this instrument would require clear disclosure to potential investors. Option 1B is therefore not consistent with this Capital Review principle.

63. Table D shows the assessment against the Capital Review principles is finely balanced. Both policy options would provide loss-absorbing capital that would absorb and shield creditors and depositors from first losses.

64. Option 1B is more conservative as it would not require a reinterpretation of the subordination and proportionality requirements for CET1 capital instruments. Both instruments would increase the complexity of the CET1 capital definition, and be more complex than ordinary shares, reducing the clarity of the capital regime.

Costs and Benefits

Assessment of costs and benefits

65. We have considered the costs and benefits of the new MCI through the consideration of the options for the MCI's design. Our assessment is that the regulatory and supervisory costs of the preferred option are expected to be small and are proportionate to the risks (such as diluting the definition of CET1 capital) and benefits to the financial system. While there will be compliance costs for mutual banks issuing the new instrument, we expect that these costs will be exceeded by the benefits to the banks and the financial system that will arise from having more access to capital.

66. Table E summarises that main costs that we have identified.

Table E: Costs of mutual capital instruments

Cost	Assessment
Compliance costs	Mutual banks issuing the new instrument will need to ensure that it complies with the requirements set out in the revised BPR110. An Exposure Draft of these changes has been published alongside this RIA. This is true of both the options considered in this RIA, although it is possible that the compliance costs of the preferred option (1B) may be somewhat higher than 1A, due to the additional complexity in the design of the instrument.
Cost of capital	The costs of bank capital requirements were extensively considered during the Capital Review, including in the decisions announced in December 2019.[6] The MCI will provide mutual banks with an additional option for lifting capital, including meeting higher regulatory capital requirements in the future. Banks decisions about how to meet capital requirements, including through the mix of different capital instruments that are available in the prudential framework, will affect the cost of capital that they face. Mutual banks that choose to issue the new instrument will face costs from paying dividends to the holders of the asset and these costs may differ from the costs of other forms of capital.

[6] https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/review-capital-adequacy-framework-for-registered-banks/decisions/capital-review-cost-benefit-analysis.pdf

Cost	Assessment
	This is true of both the options considered in this RIA. It is possible that the preferred option (Option 1B) will have a higher cost of capital than Option 1A, as the instrument is more complex and holders are exposed to a greater risk of loss. In Option 1A holders are initially protected from losses as the retained earnings are depleted first. Investors may expect to be compensated for these higher risks. As these instruments are new the likely costs are uncertain. We have not attempted to quantify the costs, but will closely monitor developments during implementation.

67. Table F summarises that main benefits that we have identified.

Table F: Benefits of mutual capital instruments

Benefit	Assessment
More flexibility to raise loss-absorbing capital	Mutual banks issuing the new instrument will have more scope to raise capital, which is true for both options.
Financial stability	The main financial stability benefits arise from the higher capital requirements imposed as a result of the Capital Review. The preferred option helps provide mutual banks an additional way to meet higher capital requirements. In a stress event the option may also provide a mutual bank more scope to rebuild capital and support financial stability. As Option 1B meets subordination and proportionality requirements more effectively than Option 1A, we consider Option 1B provides more financial stability benefits, including my closely aligning the shareholders' financial interests with the performance of the bank.
Competition and financial inclusion	Mutual banks contribute to financial sector diversity. They often play an important role in particular sectors of the economy and regions of the country. An MCI could help enhance financial inclusion by growing the diversity of the financial sector and lift the capacity of mutual banks to grow and compete on a more level playing field with other banks.

Conclusion

68. We assess that the benefits of both options for an MCI (Option 1A and 1B) are likely to exceed to costs. If mutual banks consider the costs to be too large then they are not required to issue MCI, provided they meet capital requirements in other ways, such as through retained earnings.

69. It is possible that the preferred option (Option 1B) may be associated with some higher costs to the issuing banks, if investors consider that they are exposed to more risks in Option 1B than in Option 1A, due to the subordination and proportionality features of

Option 1B. This outcome is consistent with financial stability, as in addition to absorbing losses as they arise, CET1 capital also aligns shareholders' financial interests with the performance of the bank. Shareholders have greater incentives to monitor the financial performance of the bank because they participate in its gains and losses. An increased level of CET1 capital increases the shareholders' 'skin in the game' and encourages better market discipline, a higher level of scrutiny and ultimately supports financial stability.

70. Any additional costs in Option 1B therefore arise because the instrument performs more like CET1 than Option 1A. We consider that this helps support financial stability, by ensuring capital is high quality.

71. As demonstrated throughout the RIA, Option 1B is consistent with the Capital Review by helping provide a way for mutual banks to use high quality capital that preserves the most fundamental CET1 requirements. In addition, Option 1B is more closely matched with those CET1 requirements than Option 1A. For these reasons, plus our assessment that benefits will exceed costs, Option 1B is the preferred option identified in this RIA.

Financial Policy Remit

72. The Financial Policy Remit, issued by the Minister of Finance on 30 June 2022, to take effect on 1 July 2022, emphasises the desirability of a strong, efficient and inclusive financial system, with a low incidence of failure of regulated entities. It also signals that we should encourage a competitive financial system and have regard to Government priorities on climate change, financial inclusion, cyber resilience and supporting sustainable house prices. This section outlines how we have had regard to the Financial Policy Remit in the policy proposals in this RIA. The full text of the Remit is available on the website of the New Zealand Gazette.7

73. The options considered for mutual capital instruments affect only two registered banks in New Zealand and are likely to have little impact on most of the matters specified in the Financial Policy Remit.

74. The regulatory and supervisory costs of the preferred option are expected to be small and are proportionate to the risks and benefits to the financial system. While there will be compliance costs for mutual banks issuing the new instrument, we expect that these costs will be exceeded by the benefits to the banks and the financial system that will arise from having more access to capital.

75. The preferred option is not expected to have a significant impact on the following matters specified in the Financial Policy Remit:

- The sustainable long-term growth of the economy.
- The sustainability of house prices or investor demand.
- Risks related to climate change.

[7] The text of the Financial Policy Remit is available here in the NZ Gazette: https://gazette.govt.nz/notice/id/2022-go2497

76. Table G shows the parts of the Financial Policy Remit that are relevant for the changes to the prudential capital framework discussed in this paper, through the introduction of a new mutual capital instrument.

Table G: Financial Policy Remit assessment

Component of Financial Policy Remit	Connection with the preferred options for the design of a mutual capital instrument
"It is desirable to have a financial system that is strong, efficient and inclusive, with a low incidence of failure of entities regulated by the Reserve Bank."	The design of the new mutual capital instrument will provide mutual banks with more flexibility to raise high quality, loss-absorbing capital. This will help support the resilience of those entities, helping to underpin the strength and stability of the financial system.
"Within the appetite of a low incidence of failure, a competitive financial system should be encouraged so as to best ensure ongoing financial efficiency and inclusion."	More options to raise capital should help mutual banks to compete on a more level playing field with other banks.
"Encouraging new investment and financial innovation that raise the productive potential of the economy"	More options to raise capital should help encourage investment in the financial system. However, due to the relatively small size of the affected entities, the overall impact on the productive potential of the economy is likely to be small.
Financial inclusion	Mutual banks contribute to financial sector diversity. They often play an important role in particular sectors of the economy and regions of the country. An MCI could help enhance financial inclusion by growing the diversity of the financial sector and lift the capacity of mutual banks to grow and compete.

Implementation

77. The banking industry, as well as the wider population, will be consulted on the amended BPRs and have the opportunity to comment on the practical application of the new MCI.

78. This consultation will be particularly useful given the complexity of the MCI. Initial discussions with the mutual banking sector has indicated that the Reserve Bank's preferred option (Option 1B) may be more complex to implement, though the sector has not yet tested this option with investors. Feedback on implementation and compliance costs will help inform the final design of the MCI.

Monitoring, Evaluation and Review

79. The Reserve Bank will look to review the terms of the MCI once the proposed Deposit Takers Bill has been enacted. Under that draft legislation, other entities may be able to utilise the MCI to meet CET1 capital requirements. A review of the instrument will be necessary to ensure it is fit for purpose and assess any financial stability risks.

TE MANATŪ WAKA
MINISTRY OF TRANSPORT

TE TAI ŌHANGA
THE TREASURY

Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

17 November 2022

OC220905 / T2022/2532 / HUD2022-001250

Hon Grant Robertson
Minister of Finance

Action required by:
Tuesday, 22 November 2022

Hon Dr Megan Woods
Minister of Housing

Hon Michael Wood
Minister of Transport

AUCKLAND LIGHT RAIL LIMITED - INTERVIEW SUMMARIES AND APPOINTMENTS ADVICE

Purpose

Provides you with the following advice in respect of the Auckland Light Rail (ALR) Limited Board:

- Appointment recommendations following the interviews for a candidate with light rail experience (paragraphs 1-9).
- Advice concerning the s9(2)(a) (paragraphs 11-15) and the s9(2)(f)(iv) (paragraphs 16-30).
- A recommendation for the new fees for the ALR Limited Board (paragraphs 31-46).

Key points

Interviews for the light rail member position

- Three candidates (Shane Ellison, s9(2)(a)) have been interviewed for member positions on the ALR Limited Board, following your direction received from the second longlisting briefing (OC220602 refers). The remaining candidates identified in OC220602 withdrew from the process, either because of capacity or an expected unmanageable conflict of interest arising.
- After assessing the candidates, we (the Ministry of Transport, the Treasury, and Ministry for Housing and Urban Development) – in consultation with the Chair of the ALR Limited Board – recommend you agree to appoint **Shane Ellison** because of his experiences across a range of light rail projects, and in delivering transport projects in

Auckland. We understand that discussions are ongoing regarding Mr Ellison's potential appointment.

- s9(2)(a) [redacted] Please note that s9(2)(a) [redacted] is based in Adelaide, and there would be added costs associated with [redacted] appointment.

- The Chair recommends that both Shane Ellison and s9(2)(a) [redacted] are appointed. Both have considerable experience but at different ends of the spectrum, with Mr Ellison having extensive operational experience and s9(2)(a) [redacted] The Chair's view is the ALR Limited Board needs both detailed levels of knowledge.

- Full summaries of all interviews are listed in **Appendix One**. **Appendix Two** shows how these appointments map to the ALR Limited Board competency matrix.

Advice on continuing with the appointments of s9(2)(a) [redacted]

- You previously signalled an intention to progress both s9(2)(a) [redacted] for appointment (OC220708 refers). However, both appointments have not progressed because of due diligence matters which required further consideration.

- s9(2)(a) [redacted]

- s9(2)(f)(iv) [redacted]

- s9(2)(f)(iv) [redacted]

Board Fees

- As the ALR Limited Board is now governing a company under Schedule 2 of the Crown Entities Act 2004, board fees will need to transition from the Cabinet Fees Framework to the Treasury's Crown Company Methodology.

- Officials' assessment against the methodology results in a score of 283. Based on market data minus a 10% public sector discount at early 2019, this arrives at a fee of $41,220 in ordinary fees for directors and $82,440 for the Chair. We also recommend you agree to special purpose fees which factor in additional work requirements for detailed planning and company establishment, as well as any additional travel days required by Australian based directors. We recommend you agree to remunerate the ALR Limited Board at this rate, plus a pool of professional development fees that reflects the different levels of governance experience present right now.

- We consider that this assessment appropriately reflects the current scope of ALR Limited, rather than the potential scope of the company once a final investment decision is made.

- Should this option not be appropriate, officials recommend you approve a fee of $35,700 per annum for directors at $71,400 for the Chair. This fee is the same figure as the Waka Kotahi Board and transfers the existing daily exception into a per-annum rate. Our recommendations regarding special fees and professional development support would be the same.

- Once your decision has been made, we will include this in the Cabinet Appointments and Honours Committee (APH) paper. If no appointments are agreed to this year, we can prepare an APH paper which only seeks agreement to the fees.

Recommendations

We recommend you:

		Minister of Transport	Minister of Finance	Minister of Housing
1	**agree** to appoint the following individuals to the Auckland Light Rail (ALR) Limited Board			
	Shane Ellison *(recommended)*	Yes / No	Yes / No	Yes / No
	s9(2)(a) and 9(2)(f)(iv)	Yes / No	Yes / No	Yes / No
		Yes / No	Yes / No	Yes / No
2				
3		Yes / No	Yes / No	Yes / No
4				
5		Yes / No	Yes / No	Yes / No
6				
7	**agree** to the following fee allocation for the ALR Limited Board until the end of the detailed planning phase			
	a) a total pool of $370,980 in ordinary fees, which assumes a fee of $82,440 for the Chair and $41,220 for each of the seven members, based on private sector benchmarking less a 10 percent public sector discount	Yes / No	Yes / No	Yes / No
	b) a special fee loading of 50 percent of the ordinary fee for the Chair and directors until 30 June 2024, which recognises the additional work required during the detailed planning phase. This creates an additional pool of $185,490 per annum	Yes / No	Yes / No	Yes / No
	c) an in-principle additional special fee for Australian-based directors that is calculated on a per day basis, which compensates for the extra travel days required. The per day	Yes / No	Yes / No	Yes / No

	Minister of Transport	Minister of Finance	Minister of Housing
fee would not exceed the daily ordinary fee for directors but would include any special fee loading.			
d) a total pool of $42,000 per annum in professional development support for directors	Yes / No	Yes / No	Yes / No
If you do not agree with the recommended fee allocations 8 **indicate** your preferred fee allocation:			
If no further appointments are to be made in 2022 9 **confirm** whether you would like officials to prepare a separate paper for Cabinet's Appointment and Honours Committee which seeks approval of the fees for the ALR Limited Board.	Yes / No	Yes / No	Yes / No
10 **advise** whether there are any alternative actions you would like officials to take:	Yes / No	Yes / No	Yes / No

Gareth Fairweather
Director, Auckland Light Rail, Ministry of Transport

..... / ...... / ......

David Taylor
Manager, National Infrastructure Unit, the Treasury

..... / ...... / ......

Natasha Tod
Partnership Director, Ministry of Housing and Urban Development

..... / ...... / ......

Hon Michael Wood
Minister of Transport

..... / ...... / ......

Hon Grant Robertson
Minister of Finance

..... / ...... / ......

Hon Dr Megan Woods
Minister of Housing

..... / ...... / ......

Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Gareth Fairweather, Director, Auckland Light Rail, Ministry of Transport	s9(2)(a)	
Chris Gulik, Associate Director, Auckland Light Rail, Ministry of Transport		
Ben Wells, Principal Adviser, the Treasury		
Natasha Tod, Partnership Director, Ministry of Housing and Urban Development		
Jono Reid, Principal Adviser, Governance, Ministry of Transport		✓

AUCKLAND LIGHT RAIL LIMITED- INTERVIEW SUMMARIES AND APPOINTMENTS ADVICE

Three interviews have been held for the light rail member position on the Auckland Light Rail Limited Board

1 In OC220602, you agreed for seven candidates with experience relating to light rail to be interviewed for a member position on the ALR Limited Board. These individuals offered a range of experiences encompassing:

1.1 the delivery of light rail and associate services to end users; and/or

1.2 oversight of light rail entities or operations at a board level; and/or

1.3 technical expertise at either the business case development, tender, construction, or operations phases (including managing assets for a private firm during the concession period after a public-private partnership construction).

2 Of the identified individuals, four candidates s9(2)(a) [redacted] subsequently withdrew from the process, either due to a potentially unmanageable conflict of interest or capacity. This left three candidates for interview: s9(2)(a) [redacted] and Shane Ellison.

3 A cross-agency panel (the Panel) with membership across the three Sponsor agencies (the Ministry of Transport, the Treasury, and the Ministry of Housing and Urban Development) as well as the ALR Board Chair has interviewed these three candidates. The Panel tested a broad range of competencies, including their involvement in light rail projects to date, experience in linking urban regeneration to light rail projects, and how they have engaged with Government, treaty partners, stakeholders and communities as part of delivery.

Factors considered as part of our appointment advice

4 In recommending candidates for appointment, the Panel has kept the following considerations in mind:

4.1 The Board needs to have a combination of governance expertise and political acumen to navigate the various interests in the Project. Practical experience and leadership for the Project is also required based on experience. Gender balance and ethnic diversity are also important.

4.2 It is a working board. The Chair expects members to be heavily involved in overseeing the operations of the company. Because of this, the weighting of final candidates includes people with deep experience as advisors, as they will be able to interrogate decisions.

4.3 The Board will be public-facing and appointees will have to navigate a challenging, high paced and dynamic environment, with high public interest.

4.4 The ability to effectively manage conflicts of interest.

4.5 a preference for an individual whose light rail experiences included a strong customer focus. This is considered to be the most important attribute to have on the Board in this early phase of the project, to ensure the planning of the project considers the end user.

5 After assessing the candidates, we – in consultation with the Chair – recommend you agree to appoint **Shane Ellison** because of his experiences across a range of light rail projects, and in delivering transport projects in Auckland.

6 We understand that discussions are ongoing regarding Mr Ellison's potential appointment. Should Mr Ellison not be appointed, we recommend you agree to progress s9(2)(a) [redacted]

7 Please note that s9(2)(a) [redacted] is based in Adelaide, and there would be added travel and accommodation costs associated with [redacted] appointment. The recent reopening of the borders has limited international flight routes, and there are only four days of the week which have direct flights between Auckland and Adelaide (direct flights are often cheaper). Assuming direct flights and two nights' accommodation per trip, this appointment would cost up to $2,000 per meeting in addition to board fees and meal expenses.

8 With appropriate planning and notice of meetings, officials expect that the costs for s9(2)(a) [redacted] appointment can be met from existing budget baselines. The initial estimate for Board fees was included within the $189 million appropriation provided to ALR Limited, and any costs associated with this appointment will have to come from within that budget. The cost is also offset by the fact that the Chair is currently the only other Board member based outside of Auckland, and initial budgeting included an assumption that up to half the Board would be based outside of Auckland. The initial budget for the ALR Limited Board was also submitted before the fee exception was finalised and had assumed a higher fee.

9 Should you require any further information about the interviews, full summaries of all interviews are listed in **Appendix One**. **Appendix Two** shows how these appointments map to the ALR Limited Board competency matrix.

Advice on continuing the appointments of s9(2)(a) [redacted]

10 You had previously signalled an intention to progress s9(2)(a) [redacted] for appointment (OC220708 refers). However, both appointments have not progressed, as the due diligence processes for both have identified matters which merited further consideration.

s9(2)(a) and 9(2)(f)(iv) [redacted]

SENSITIVE

s9(2)(a) and 9(2)(f)(iv)

[redacted]

SENSITIVE

s9(2)(a) and 9(2)(f)(iv)

[redacted]

s9(2)(a) and 9(2)(f)(iv)

s9(2)(a) and 9(2)(f)(iv)

[redacted]

s9(2)(a) and 9(2)(f)(iv)

[redacted]

ALR Board Fees

32 As the ALR Board is now governing a company under Schedule 2 of the Crown Entities Act 2004, board fees will need to be transitioned from the Cabinet Fees Framework to the Treasury's Crown Company Methodology. This requires a fee review as both frameworks employ different assessment methodologies.

33 The Crown Company Methodology uses a points model, where scores against nine criteria are assessed against a multiplier to create a total point figure. That point figure is assessed against private sector benchmarking, reduced by a 10 percent "public discount."

34 Officials' assessment against the model is listed in full at **Appendix Four** and a summary is presented in the below table. Our assessment against the points model resulted in a score of 283. Based on data from early 2019, this arrives at a fee of $41,220 in ordinary fees for directors and $82,440 for the Chair.

Category	**Chair**	**Members**
Ordinary Fees	$82,440 per annum.	• $41,220 per annum per directors. • **TOTAL:** $288,540 per annum for seven directors.
Special Fees	50 percent loading until 30 June 2024, which recognises the additional work required for company establishment, and project planning. **TOTAL**: $41,220 per annum.	• 50 percent loading until 30 June 2024, which recognises the additional work required for company establishment, and project planning. • **TOTAL:** $144,270 per annum for seven directors. • *in-principle*, an additional special fee for Australian-based directors that is calculated on a per day basis ($1,374 per day - $2,061 per day with the 50 percent loading), which compensates for the extra travel days required.

TOTAL ALLOCATION	• Ordinary Fees (Chair and seven members): $370,980 per annum. • Special Fees (Chair and seven members): $185,490 per annum. **TOTAL**: $556,470 per annum, excluding any additional special fees for Australian based directors. We recommend Ministers agree to also allocate $42,000 in professional development support across all directors until 30 June 2024.

35 For this assessment, officials recommend that the ordinary fee appropriately reflects the current scope of ALR Limited, rather than the potential scope of the company once a final investment decision is made.

We also recommend you agree to additional special purpose fees that compensate for additional work requirements

36 The Crown Company Fees Methodology allows for special purpose fees to be sought where companies have a greater than ordinary workload. Special purpose fees, if requested by a company, are subject to approval by the responsible Minister and Cabinet.

37 Special purpose fees are considered in exceptional circumstances and for a limited period only, where directors are required to contribute additional time over and above what would be considered an ordinary commitment. Exceptional circumstances could be where:

37.1 significant director involvement is required in a specific and time-limited major issue, such as establishing or restructuring a company, a major acquisition, or where changes in legislation lead to significant change

37.2 directors represent the company on relevant industry committees or boards, where the commitment is significant, or

37.3 additional contributions are made by directors relating to lengthy travel requirements (where the director's presence is essential, and the circumstances are exceptional).

38 Requests for special purpose fees include a per diem rate and the total amount to be paid based on equivalent director fee levels. Special purpose fees must only be used for the purpose for which they were approved.

39 Given the higher workload expectations of the ALR Board, we consider that there is a strong case for additional fees to be paid during the detailed planning and establishment phase. We propose a 50 percent loading of the ordinary fee for the Chair and each of the seven directors ($41,220 per annum for the Chair at $20,610 per director), which is consistent with previous special fee decisions for City Rail Link Limited, Ōtākaro Limited and Kiwi Group Capital, where a 50 percent loading of the ordinary fee existed for the first 12 months of the company. This amount is proposed as a total pool of $185,490, which is available to cover this additional workload for the period up to 30 June 2024.

40 For Australia-based directors, Treasury have previously secured approval for special fees which recognises the additional time commitments for travelling to board meetings. Their previous request sought agreement for a pro-rated daily fee (based on the 30-working day assumption listed in paragraph 38 of the Cabinet Fees Framework) which covered half of the annual board meetings. The rest of the meetings were expected to be attended via video conference.

41 We are not aware of any cases where directors residing overseas have been allocated a higher fee by Shareholding Ministers in comparison to their New Zealand-based colleagues; however, the final decision on allocating the pool of approved fees remains at the Board's discretion.

42 We would recommend a similar special fee for travel to meetings is agreed to in principle should an Australia-based director be appointed. Any final figure would also have to reflect the work requirements expected of ALR Limited Board directors, given the expectations that directors will have a high level of involvement in the project compared to a standard board.

We recommend the fee is benchmarked against private sector rates, less a 10 percent public sector discount

43 Officials also recommend that the fee is benchmarked against private sector figures, as this recommendation would be in line with Treasury's 2019 briefing regarding proposals for fee changes across boards considered under the Company Fees methodology, and we understand the Treasury intends to revise this proposal in due course (T2020-1917 and T2020-2665 refers). The private sector calculation also allows for a precise figure to be reached based on the scoring methodology.

44 Should you not wish to approve a fee based on private sector benchmarking less a 10 percent public sector discount, officials recommend you approve a fee of $35,700 per annum for members and $71,400 for the Chair. This fee is the same figure as the Waka Kotahi Board and transfers the existing daily exception into a per-annum rate. Our recommendations regarding special fees and professional development support would be the same.

45 Shareholding Ministers approve directors' fees on an annual basis. Given we are part-way through the 2022/23 financial year, we recommend that you approve the allocation for remainder of the 2022/23 financial year (timing dependent on whether Cabinet decision making is required) and the 2023/24 allocation with one letter.

We also recommend you provide a professional development allowance

46 We also recommend you agree to a pool of professional development fees of $42,000 for members per annum until 30 June 2024. The design of the ALR Limited Board has resulted in appointees with greater experience as advisors than as professional directors and, as such, a higher upfront investment will be required to upskill those individuals. The proposed professional development fees recognise this, and we expect that future allocations will be lower.

47 The agreed fees base will also be included in either the next paper for Cabinet's Appointment and Honours Committee, or a separate paper for consideration this year if no further appointments are made in 2022.

Risks

48 It is important to the success of the ALR Project that these appointment decisions are made as soon as practicable, as the Board will soon make significant decisions on the business case and consenting.

49 The proposals listed in this briefing are likely to result in key board competencies not being filled. Officials will work to address any competency gaps which arise from this briefing.

APPENDIX ONE: INTERVIEW SUMMARIES

Shane Ellison

1 Mr Ellison is a highly experienced executive and board director who, in addition to being the former Chief Executive of Auckland Transport, has held a range of light-rail related experiences across Australia, France, Ireland and Israel through his work at Transdev.

2 During the interview, Mr Ellison demonstrated a deep understanding of the ALR Project and the challenges which will be presented through detailed planning, operationalisation of light rail services, and other phases. Through his previous role at Transdev, he has worked on various phases of light rail projects across projects that have experienced varying degrees of success, and would be able to utilise those lessons for this project. He is also experienced with planning and delivering urban regeneration outcomes through light rail.

3 Mr Ellison's previous experiences as Chief Executive of Auckland Transport ensures he has a strong understanding of the wider Auckland environment, including the interfaces with other Project Sponsors, and the various communities served along the route. He also has established working relationships. In comparison to other candidates interviewed, he possessed the smallest learning curve and would be able to take on responsibilities very quickly.

4 The Panel was highly impressed with Mr Ellison and considered he would be very suitable for appointment. He offered a broader range of skills in comparison to other candidates and has the greatest understanding of working in New Zealand and the Auckland environment. s9(2)(g)(i) [redacted]

s9(2)(a) [redacted]

SENSITIVE

s9(2)(a)

[redacted]

SENSITIVE

APPENDIX TWO: AUCKLAND LIGHT RAIL BOARD COMPETENCY MATRIX

Key:

✓	Understanding/experience	✓✓	Strength in this area	Q	Qualification	#	Number of directors possessing this desired competency

Note: Columns highlighted grey are previously recommended candidates where a decision has not been confirmed. Columns highlighted green are the two proposed light rail candidates.

Member	**Targets**		**Hon Dame Fran Wilde (Chair)**	**Leigh Auton**	**Lucy Tukua**	**Leo Foliaki**	**Heather Ash**	s9(2)(f)(iv)	s9(2)(a)	**Shane Ellison**	s9(2)(a)
Age			60+	60+	50-59	Unclear	Unclear			50-59	
Region			Wellington	Auckland	Auckland	Auckland	Auckland			Auckland	
Ethnicity			NZ European	NZ European NZ Māori (Te Hikutu, Ngāpuhi)	NZ Māori (Ngāti Paoa, Ngāti Whanaunga, Ngāti Karewa, Ngāti Tahinga)	Tongan	NZ European			NZ European NZ Māori (Ngāi Tahu, Te Atiawa)	
Gender diversity	**50%**		Female	Male	Female	Male	Female			Male	
Core skills and competencies	# ✓✓	# ✓									
governance: significant governance experience (preferably in both the public and private sectors) and will be able to ask the right questions of management, distinguish between governance and management, and understand and perform governance functions	3	3	s9(2)(g)(i)								
strategy and culture: contributes to and drives strategy formulation, direction, implementation and communication	2	3									
te ao Māori: understanding of and respect for the impacts the Treaty of Waitangi has in delivery of key Government priorities and places value on and knows how to incorporate te ao Māori into project design, delivery and decision making	1	3									
legal: understanding of legal frameworks in which a director and the organisation has to operate within	1	5									
Technical skills and competencies	# ✓✓	# ✓									
major infrastructure business case development: experience in delivery or oversight of large business cases, alongside an understanding of Treasury business case and gateway review procedures	1 or 2	1									
major infrastructure project oversight, planning, design, delivery and operating: experience in planning, designing, setting up, overseeing, delivering and/or operating major infrastructure projects, particularly those that require new or innovative ways of working. The successful candidate must be able to demonstrate knowledge of the lifecycles of large infrastructure assets, and their ability to respond to population needs over time; as well as low-emissions construction methodologies	1 or 2	1									
Integrated urban development and transport planning: an understanding of how public transport (including mass transit) systems link with the wider urban environment. This includes enabling housing and urban development, unlocking commercial opportunities and better connecting communities	1	1 or 2									
urban design, land use, infrastructure planning: understanding of the value of taking an integrated approach to transport investment, land use change and urban development outcomes. This includes an appreciation of the contribution that increased density, transit-oriented development, high quality urban design and placemaking can make alongside infrastructure investment to social, economic and environmental wellbeing as well as to community cohesion	1	1 or 2									
finance, investment and financial assurance: understanding and experience with public funding mechanisms for large projects, investment funding models, and benefits realisation. Proven audit, risk and assurance experience	2	1									

Member	Targets		Hon Dame Fran Wilde (Chair)	Leigh Auton	Lucy Tukua	Leo Foliaki	Heather Ash	s9(2)(f)(iv)	s9(2)(a)	Shane Ellison	s9(2)(a)
large scale procurement: experience with negotiating and/or procuring large scale contracts	1	1	s9(2)(g)(i)								
consenting and acquisition: deep experience in overseeing consenting processes and land acquisition strategies. A strong understanding of the Resource Management Act 1991, and other legislative levers for enabling urban development and delivering infrastructure projects at scale	1										
commercial acumen: a working knowledge of business operations, and the factors that determine the performance of the company including people, finances, processes, and strategy	4	3									
emissions reduction: knowledge of the system changes that will be necessary for New Zealand to meet its 2050 zero carbon target, including through the transport and/or housing systems, low-emissions construction methodologies, mode shift from private vehicles to other modes, and harnessing of emerging climate-related technologies.		1									
Policy and community related competencies	# ✓✓	# ✓									
public sector (local and central government) expertise: a working knowledge of central and local government operations and processes, with political acumen, and a demonstrated history of working to deliver government priorities	2	1									
stakeholder expertise: experience engaging with a range of stakeholders, networking, and managing a multitude of relationships in and out of the sector. This includes co-directors, management, employees, key individuals, and Māori	3										
community leadership: deep experience in working with local communities, particularly those within the City Centre to Māngere urban corridor. An understanding of the various socioeconomic and behavioural effects is desirable.	1										

SENSITIVE

s9(2)(a)

[redacted]

SENSITIVE

s9(2)(a)

[redacted]

APPENDIX FOUR: AUCKLAND LIGHT RAIL LIMITED - FEE CALCULATION AND WORKINGS

1 This section outlines the process for calculating Board fees for Auckland Light Rail Limited, as a Schedule 2 Crown Entity Company covered by the Treasury Crown Company Fees Methodology.

Treasury Owner's Expectations Manual: Guidance on Fees[2]

2 For Schedule 2 companies, fees are calculated in accordance with the existing framework set out in the Crown Company Fees Methodology (the Methodology) approved by Cabinet in 2003. This is separate from the Cabinet Fees Framework, which is administered by the Public Service Commission and does not cover Crown companies.

3 For companies, directors receive fees from a lump sum approved by responsible Ministers each financial year. Responsible Ministers can also approve a lump sum of professional development fees per annum.

4 Fees consist of:

4.1 ordinary fees to cover the full 'normal' contribution of each director, including attendance at board and committee meetings, meeting preparation and travel time, stakeholder management, and any other agreed tasks, and

4.2 special purpose fees, if requested by a company and approved by the responsible Ministers.

5 **Ordinary fees** are calculated based on a methodology approved by Cabinet based on a number of factors, including company size, stakeholder management, liability risk and complexity in relation to equivalent non-Crown companies. The fees are reviewed periodically, and changes are subject to Ministerial approval. A fees pool is calculated for ordinary fees based on an annual rate per director, twice that rate for chairs, and 1.25 for deputy chairs, based on the actual or expected number of directors. There are no additional fees included in the pool for board committee meetings. Ordinary fees cover the full expected duties of a director. It is up to each board to decide how to allocate the total pool among directors as it sees fit.

6 **Special purpose fees** are rare and considered in exceptional circumstances and for a limited period only where directors are required to contribute additional time over and above what would be considered an ordinary commitment. Exceptional circumstances could be where:

6.1 significant director involvement is required in a specific and time-limited major issue, such as establishing or restructuring a company, a major acquisition, or where changes in legislation lead to significant change

[2] https://www.treasury.govt.nz/sites/default/files/2020-07/owners-expectations-july2020.pdf. Guidance on Director's fees are listed in Appendix Three.

6.2 directors represent the company on relevant industry committees or boards, where the commitment is significant, and

6.3 additional contributions are made by directors relating to lengthy travel requirements (although Crown companies should not normally pay additional, special purpose fees to a director who travels on Crown company business unless the director's presence is essential and the circumstances are exceptional).

7 Special purpose fees are not paid just because of a heavy workload. Having to commit time to handle a heavy workload is already reflected in the level of ordinary fees set for a company. Requests for special purpose fees should be made in advance and take the form of a proposed hourly or per diem rate and the total amount to be paid. The hourly or daily rate should be based on equivalent director fee levels. Special purpose fees, if approved, may be used only for the purpose for which they were approved.

Calculation of the ALR Limited Board Fee

8 To help calculate the fee, Treasury provided a copy of 2019 Director Fee data prepared by Strategic Pay. This document assessed boards monitored by Treasury to support recommendations on fee adjustments.

9 The methodology uses a points model, where scores against nine criteria are assessed against a multiplier to create a total point figure (listed and defined in the table below below). That point figure is assessed against private sector benchmarking, minus a 10 percent "public service" discount.

10 Scoring against this model is listed below in **Annex One**. This score is used to determine a recommendation for *ordinary fees*. Our assessment against the points model resulted in a score of 283.

11 The below table identifies where the score for ALR Limited sits along the wider spectrum of Treasury boards. An indicative recommendation for ordinary fees has been included, with an additional $215 included per point.[3]

Organisation	Total Points	Current Fees	Private Sector Fees	Private Sector, less 10%
Crown Infrastructure Partners	309	$31,582	$52,419	$47,177
Government Superannuation Fund Authority	308	$30,800	$52,147	$46,932
Plant & Food Research	300	$36,000	$50,023	$45,021
Ōtākaro	295	$35,000	$48,740	$43,866
Landcorp Farming Limited	293	$37,612	$48,235	$43,412

[3] **Note:** The model is logarithmic so the dollar per point figure will increase for entities that score higher on the methodology.

Organisation	Total Points	Current Fees	Private Sector Fees	Private Sector, less 10%
New Zealand Lotteries Commission	289	$29,000	$47,243	$42,519
Public Trust Limited	287	$28,000	$46,754	$42,079
Auckland Light Rail Limited	***283***	***$35,700 (Cabinet Fees Framework exception)***	***$45,342***	***$41,220***
Kordia Group Limited	280	$36,000	$45,084	$40,575

Other factors considered

Ordinary fees are benchmarked against the current design of ALR Limited

12 We considered the stage of the company where the determination should be made against, as the previous fee recommendation considered the enduring nature of the ALR Limited Board. This principle remains with the recommendation being that the Board is resourced to do its current functions.

13 As such, we recommend that the ordinary fee appropriately reflects the current scope of ALR Limited. The scope of ALR Limited is intended to be revised once the detailed planning phase is completed and, therefore, we recommend the ordinary fees are reviewed at the same time to ensure any changes to the entity are appropriately reflected through board remuneration. Shareholding Ministers consider the ordinary fee allocation annually as part of determining the total fee allocation for a financial year.

Special Fees – all Directors

14 Given the higher workload expectations of the ALR Board, we consider that there is a strong case for additional fees to be paid during the detailed planning and establishment phase. We propose a 50 percent loading of the ordinary fee for the Chair and each of the seven directors ($41,220 per annum for the Chair at $20,610 per director), which is consistent with previous special fee decisions for City Rail Link Limited, Ōtākaro Limited and Kiwi Group Capital where a 50 percent loading of the ordinary fee existed for the first 12 months of the company (OC180519 refers). This amount is proposed as a total pool of $185,490, which is available to cover this additional workload for the period up to 30 June 2024.

15 Excepted workload is calculated in the same fashion as the Cabinet Fees Framework, where fees assume that members will work 30 days per year, and the Chair works 50 days per year. With a 50 percent loading, the special fee calculation will assume members will work 45 days per year and the Chair will work 75 days per year.

16 We have not included a recommendation for a 10 percent uplift of any ordinary member fee, should they be asked to chair a Board subcommittee. This is allowed for under the Cabinet Fees Framework but is not currently part of the Crown Company Fees Methodology.

Overseas Director Special Fees

17 For Australia-based directors, Treasury has previously secured approval for special fees to recognise the additional time commitments for travelling to board meetings. Their previous request sought agreement for a pro-rated daily fee (based on the 30-working day assumption listed in paragraph 38 of the Cabinet Fees Framework) that covered half of the annual board meetings. The rest of the meetings were expected to be attended via video conference.

18 We are not aware of any cases where directors residing overseas have been allocated a higher fee by Shareholding Ministers in comparison to their New Zealand-based colleagues; however, the final decision on allocating the pool of approved fees remains at the Board's discretion.

19 We would recommend a similar special fee for travel to meetings is agreed to in principle should an Australia-based director be appointed. Any final figure would also have to reflect the particular work requirements expected from ALR directors, given the expectations that directors will have a high level of involvement in the project compared to a standard board.

Professional Development Fees

20 The Owner's Expectations Manual states that the amount the board seeks for professional development is for the board to determine and propose to the Minister. There is no set formula for boards to use in calculating professional development budgets because each board's needs will be different.

21 In the past, Treasury has recommended that Crown companies seek between $2,000 and $4,000 for director professional development fee allowances. Higher fees are often given for members newer to governance.

22 We recommend Ministers consider approving professional development support of $3,000 per annum for experienced directors, as this is the average requested amount.

23 The design of the ALR Limited Board has resulted in appointees with greater experience as advisors than as professional directors and, as such, a higher upfront investment will be required to upskill those individuals. For those individuals, we recommend an allocation of $10,000 per individual, as this allocation would cover a governance essentials course with the Institute of Directors.

How the fee stacks up against other Treasury Boards, Transport and Urban Development Boards

24 The results presented in the 2019 Director Fee Methodology Review was included as part of a briefing to the Minister of Finance for a suite of recommended fee changes across the Treasury Boards (T2020-1917 and T2020-2665 refers); however, these proposals were put on hold due to the arrival of COVID-19 and pay restraint. ALR Shareholding Ministers will have the option of considering a fee against the 'current fee' benchmark, or the 'private sector fee, less the 10 percent discount.'

25 For reference, a copy of the transport and urban development Crown boards is also listed in **Annex Two**. Given the anticipated future direction of the Project, officials see the fee proposal in line with the majority of relevant sector boards. The boards with the largest inequitable impact are Waka Kotahi and any Crown companies where the fees remain considerably below market rate. Officials intend to review a number of these fees which are out of date once pay restraint is lifted, and we understanding Ministers are exploring a wider review of company fees.

APPENDIX FOUR, ANNEX ONE: ORDINARY FEE CALCULATION – AUCKLAND LIGHT RAIL LIMITED

#	Factor	Definition	Score Range	Score	Rationale	Multiplier	Final Score
1	Complexity of operating environment	s9(2)(b)(ii)			Light Rail is a new project for New Zealand; however, there is international precedent to build off in terms of construction and integrating transport and urban development outcomes. Contractors will be subject to domestic and international competition; however, there will be a limited number of contactors capable of doing the scale of work required. Contract management, business strategy and commercial negotiation will be key oversight functions for Board. Project is localised to Auckland. The December 2021 Cabinet paper provided for flexible scope to expand to other infrastructure/mass transit projects. Political environment is complex with potential changes in leadership or environment having flow on impacts for the Project's momentum/success. **Note:** Housing and infrastructure boards in TSY methodology scored 3. Energy companies, Reserve Bank and ACC scored 4. Only Air NZ, NZ Super and NZ Post received 5.	s9(2)(b)(ii)	
2	Innovation / Technology / Intellectual complexity				The project has both transport and urban development aspects. Most people understand the basics of the transport part of the project, but the urban regeneration message has struggled to come across/be well understood to date. Use of specific light rail tracks will create space for new technologies to be introduced to New Zealand. ALR Limited will be subject to regulation No research and development functions for the entity. Project will be reliant on specialist engineers and staff; however, they are mostly procured through the Alliance contract rather than hired as staff. Medium levels of ambiguity around project timelines. Benefits realisation will be over a longer period following construction. **Note:** Air NZ, ACC, housing and infrastructure boards in TSY methodology scored 3. Energy companies, NZ Super and Reserve Bank scored 4. Only AsureQuality, certain CRIs and TVNZ scored 5.		
3	Board discretion / Autonomy				Board will have autonomy for delivering detailed planning, and ultimately project delivery and operationalisation. However, final decision making is reserved for Sponsors, who currently remain close to decision making and may likely continue to do so given the amount of funding that needs to be invested to deliver ALR.		

#	Factor	Definition	Score Range	Score	Rationale	Multiplier	Final Score
		s9(2)(b)(ii)			Shareholders will communicate priorities via the Project Planning and Funding Agreement and will have the standard Crown Entity accountability mechanisms. Board will ultimately have power to determine budget, and does have the power to create or acquire subsidiaries with written notice to Shareholders. **Comparison Note:** Mostly mixed-model ownership companies were the ones who scored 5. Crown entity companies generally scored 3. Dual sponsored entities such as Tāmaki Redevelopment scored 2.	s9(2)(b)(ii)	
4	Stakeholder management				High level of political interest in Project at a central and local government level. Project likely to face political criticism throughout its life cycle. Project will have mana whenua serving as sponsors, but there will also be 16 iwi with an interest in the route. Expectation on the Board to front community meetings and commercial stakeholder. Diverse socio-economic communities along ALR route. A high emphasis has also been placed to date on a director's political acumen, and ability to engage with a wide range of people groups. **Comparison Note:** Most of the large corporate/infrastructure bodies scored 5. Ōtakaro and Housing NZ, however, scored 4.		
5	Revenue / Capital Risk				Entirely Crown funded during detailed planning phase. Will need to be revised once decisions are made. **Comparison Note:** Entities with a strong crown funding base scored lower. Higher scores came through use of tickets/sales as a revenue gathering mechanism.		

#	Factor	Definition	Score Range	Score	Rationale	Multiplier	Final Score
6	Liability Risk	s9(2)(b)(ii) [redacted]	[redacted]	[redacted]	**Planning** Recommendation could be judicially reviewed. There will be some overseas business with an international alliance. Possible need to use/consider foreign exchange derivatives, and hold foreign currency. Company will be subject to the Official Information Act, and Privacy Act. Board will have Health and Safety at Work Act obligations. Risks to increase significantly upon progression to delivery.	s9(2)(b)(ii) [redacted]	[redacted]
7	Public Perception / Profile Risk	[redacted]	[redacted]	[redacted]	Project well known and subject to national media attention. The majority of impacts for poor decision making will be local; however, there will be national implications in terms of finances and decisions around light rail as a tool for mass transit/urban intensification. Directors and Project can expect to face criticism/likely legal action over decisions. **Comparison Note:** Most large entities in the Treasury portfolio scored 5, including KiwiRail and Housing NZ.	[redacted]	[redacted]
8	Revenue	[redacted]	[redacted]	[redacted]	Budget for detailed planning is current $200m, with $130m provided for early land acquisition.	[redacted]	[redacted]

#	Factor	Definition	Score Range	Score	Rationale	Multiplier	Final Score
		s9(2)(b)(ii) [redacted]	[redacted]	[redacted]		s9(2)(b)(ii) [redacted]	[redacted]
9	Assets	[redacted]	[redacted]	[redacted]	$130m when purchased into assets. Cost of current premises likely >10m.	[redacted]	[redacted]
	TOTAL					[redacted]	[redacted]

APPENDIX FOUR, ANNEX TWO: TRANSPORT AND URBAN DEVELOPMENT CROWN BOARDS (CENTRAL AND AUCKLAND LOCAL GOVERNMENT)

Board	Entity Type	Chair Fee	Daily Rate	Member Fee	Daily Rate	Scope of Functions (High Level)	Assumed Working Days	Other Notes
Auckland Transport	Council Controlled Organisation	$108,000	$2,160	$54,400	$1,800	Responsible for regional transport services in Auckland (excluding State Highways).		Assumed working days are not factored into Auckland Council's fees formula. A daily rate was against the Fees Framework.
Eke Panuku	Council Controlled Organisation	$108,000	$2,160	$54,400	$1,800	Delivers urban regeneration in Tāmaki Makaurau.		As above.
Kāinga Ora	Crown Entity	$98,000	$1,960	$49,000	$1,633.33	Provider of housing, accommodation and housing related services to those in need. Responsible for a number of urban development functions.	50 Chair, 30 member	
City Rail Link Limited	Schedule 4A Public Finance Act Company	$98,000	$1,960	$49,000	$1,633.33	Deliver the City Rail Link Project - estimated project cost $4.4bn.	50 Chair, 30 member	
KiwiRail Holdings Limited	State Owned Enterprise	$88,218	$1,746	$44,109	$1,470.30	Provide freight and rail services across NZ, maintain rail network, involved in rail safety.	50 Chair, 30 member	

Board	Entity Type	Chair Fee	Daily Rate	Member Fee	Daily Rate	Scope of Functions (High Level)	Assumed Working Days	Other Notes
Auckland Light Rail Unit	Ministerial Advisory Committee		$1,428		$1,190	Deliver detailed business case for Auckland Light Rail Project	204 Chair, 30 members	
Waka Kotahi NZ Transport Agency	Crown Entity	$71,400	$1,428	$35,700	$1,190	Build and maintain State Highway Network (~$59bn in value), manage and invest NLTF (~$4bn), regulation of land transport across NZ ($200+m).	50 Chair, 30 members	

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2519

Date: 18 November 2022

To: Minister of Finance (Hon Grant Robertson)

Deadline: 21 November 2022
(if any)

Discussion Points for Cabinet Item on Te Tai Waiora 2022

Purpose

You have agreed to take an oral item to Cabinet on Monday 21 November to inform your colleagues about the launch of Te Tai Waiora, the Treasury's first wellbeing report. This Aide Memoire provides suggested talking points for this item.

Suggested talking points

Context and purpose of the report

- The Treasury will publish its first wellbeing report – Te Tai Waiora on Thursday 24 November. The report provides a 'big picture' overview of wellbeing in Aotearoa New Zealand, how it has changed over the last 15 to 20 years, and how well we are positioned to sustain our wellbeing over time.

- This is a new requirement under the Public Finance Act, where the Treasury is required to provide an independent report on the state of wellbeing in New Zealand at least every four years.

- The report is descriptive and does not contain policy recommendations.

- Some Cabinet Ministers have been sent a near final draft of this report because its findings are directly relevant to their portfolios.

Key findings of the report include:

- In many ways, wellbeing in New Zealand is strong and has improved over the last twenty years. For example, we now experience longer life expectancy, greater safety, cleaner air, and higher incomes.

- However, there are areas where we do not perform as well as other developed nations and there are significant differences in wellbeing within Aotearoa New Zealand.

- A key theme in the report is the gap between the wellbeing of young and older people, including across these three important areas:
    - **Educational performance**, with declining scores in international assessments of literacy and numeracy.
    - **Mental health,** where teenagers and young adults have rapidly increasing levels of psychological distress, and our teen suicide rate continues to be among the worst in the OECD.
    - **Housing,** where young New Zealanders are facing increasing challenges getting on the housing ladder, while our rental housing is among the least affordable in the OECD, particularly for people with the lowest incomes.

Wider findings include:

- Most people in New Zealand experience low wellbeing in only some aspects of life, or temporarily. But approximately 5% to 10% of New Zealanders have low wellbeing across many domains.
- Children of poor parents are more likely to become poor themselves. Our education system is less effective at countering early disadvantage than many comparable OECD countries.
- The wellbeing of Māori is improving in many ways, but gaps remain. Particular areas of concern include psychological distress, low trust in government, and discrimination.
- Pacific peoples in New Zealand have strong social connections and a high sense of belonging to New Zealand, but have low wellbeing in many other domains, notably housing and income deprivation.
- In future, people in New Zealand will benefit from the country's increasing stock of physical capital and human capability. High social cohesion bodes well for future wellbeing, although there are threats.
- Aspects of the natural environment are deteriorating, and the climate is changing. Whether we can sustain wellbeing depends on societal choices, technology and productivity.
- New Zealand's risk profile is skewed towards low frequency but high impact events. Strong, flexible institutions and social cohesion will enable us to respond to these events.

Chelsey Reid, Analyst, Economic Strategy Directorate, 9(2)(k)
Chris Nees, Acting Manager, Economic Strategy, 9(2)(k)

TE TAI ŌHANGA
THE TREASURY

Treasury Report: HYEFU 2022 Final Economic and Tax Forecasts

Date:	18 November 2022	**Report No:**	T2022/2452
		File Number:	BM-3-6-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the final HYEFU economic forecasts show stronger activity across the second half of 2022, before modestly contracting in 2023. Overall, nominal GDP is $3.8 billion higher than the preliminary HYEFU forecasts. **Note** the final HYEFU tax forecasts show core Crown tax revenue is $6.5 billion higher than the preliminary HYEFU forecasts across the forecast period.	21 November 22 for discussion at Weekly Agency Meeting

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Henry Russell	Graduate Analyst, Forecasting	9(2)(k) [redacted]	9(2)(g)(ii) [redacted]	✓
Peter Gardiner	Manager, Forecasting			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: HYEFU 2022 Final Economic and Tax Forecasts

Executive Summary

Economic activity in New Zealand continues to hold up despite the challenges of high inflation, rising interest rates and a weakening global economy. We now expect stronger activity in the near term, with GDP expected to expand 1.8% across the second half of 2022. Activity is being supported by strong employment and wage growth, high levels of investment and the rebound in international visitor spending.

The underlying strength of demand in the economy is also evident in the tight labour market, with strong employment levels and wage growth, and unemployment remaining at a near-record low in the September quarter. The strength of labour demand is providing a conflicting signal to the anticipated slowdown as a result of tightening policy and a weakening global economy, and the continued acceleration in annual wage growth highlights an underlying dynamic that will require further restraint on demand.

Stronger economic activity is culminating in higher and more persistent inflation. Inflation was markedly stronger than expected in the September quarter, with the Consumers Price Index (CPI) rising 2.2% in the quarter. CPI inflation is broad-based, with the Reserve Bank of New Zealand's (Reserve Bank) measure of annual core inflation rising to 5.4%. Cost pressures for firms remain intense as wage bills rise and import prices remain high, as global core inflation continues to rise. Firms continue to pass on these costs, with little room to absorb higher costs as margins compress.

Table 1: Forecast Summary

Year to June		2022	2023	2024	2025	2026	2027
Real GDP (AAPC)	HYEFU22	1.0	3.5	-0.3	2.1	3.3	3.0
	Prelim HYEFU22	1.0	2.7	0.5	1.9	2.7	3.1
Unemployment rate	HYEFU22	3.3	3.8	5.5	5.2	4.6	4.3
	Prelim HYEFU22	3.3	4.0	5.0	5.2	5.0	4.6
CPI inflation (APC)	HYEFU22	7.3	6.4	3.5	2.5	2.0	2.0
	Prelim HYEFU22	7.3	5.5	3.5	2.6	2.0	2.0
Nominal GDP ($billion)	HYEFU22	358.4	394.8	412.7	436.3	460.3	484.4
	Prelim HYEFU22	359.4	391.0	413.7	435.7	458.9	484.2
	Change		+3.7	-1.0	-0.4	+1.4	+0.1
Tax Revenue ($billion)	HYEFU22	108.5	118.3	124.9	132.0	141.2	149.1
	Prelim HYEFU22	108.5	116.0	123.9	130.8	139.9	148.5
	Change	0.0	+2.3	+1.0	+1.2	+1.3	+0.7

In our assessment, the Reserve Bank will raise the Official Cash Rate (OCR) faster and to a higher peak than previously anticipated, with 90-day interest rates forecast to peak at 5.1% in the March 2023 quarter where they will remain through to early 2024. Higher interest rates are expected to weigh heavily on activity in 2023, and we expect the economy to contract 0.8% across the 2023 calendar year as house prices fall, and residential investment and consumption declines. Weaker activity flows through to a higher unemployment rate, which is forecast to peak at 5.5% in the middle of 2024.

The rising cost of living is a key challenge faced by households. Bringing inflation down requires a better match between supply and demand in the economy. In practice, bringing inflation under control will mean demand cooling to a more sustainable level. This adjustment involves costs but without an orderly and early reduction in demand pressure, inflation and cost-of-living concerns may continue for longer, and the eventual rebalancing may be larger and more disruptive.

Real government consumption contracts over most of the first half of the forecast period contributing to the slowdown in economic activity and therefore supporting monetary policy in reducing demand. This slowdown reflects both the unwind of COVID-19 related spending as well as the impact that rising wages and cost pressures have on real service provision given unchanged nominal operating allowances. Real government consumption falls 4.6% and 2.8% across the 2023 and 2024 calendar years respectively, despite increases of 1.6% and 2.5% in nominal spending.

This measure of government spending does not include transfer payments and subsidies and can broadly be thought of as government services. At 8.2% the forecast decline in real government consumption would be the largest on record (going back to 1987). For comparison, the decline that occurred between the start of 1990 and the September quarter of 1991 was 7.8%. The current episode follows a period of strong growth leading into and during the COVID-19 period. Between the start of 2020 and mid-2022 real government consumption increased by 21%, meaning that after this decline real government consumption would remain above pre-COVID levels.

Globally, economies are facing the same challenges of high inflation, rising interest rates and persistent supply shocks from COVID-19 outbreaks in China and the war in Ukraine. Similar to New Zealand, demand has held up for longer than expected despite monetary policy tightening, and central banks are raising interest rates to higher levels than previously assumed causing further downward revisions to global growth. The deterioration in the global outlook is expected to cause a sustained fall in New Zealand's export prices, while strong global core inflation is holding up import prices causing a large deterioration in the terms of trade, which falls 9.1% across the 2022 calendar year.

The annual current account deficit is expected to peak at 8.4% of GDP in the December 2022 quarter, before gradually narrowing to a more sustainable level of 4.6% of GDP across the remainder of the forecast period, although the deficit stabilises at a higher level than during the decade following the Global Financial Crisis. The improvement of the current account deficit is contingent on the recovery of travel services exports as international tourists return, in addition to softening import demand as policy support is withdrawn. While the wide current account deficit increases the economy's vulnerability to shocks, its assumed transitory nature has largely alleviated the concerns of credit rating agencies.

There is broad consensus among forecasters that tighter monetary policy and weaker global growth will cause a significant slowdown in economic activity in 2023. However uncertainty remains about the timing and depth of this slowdown, given indicators continue to show activity holding up, despite weak consumer and business sentiment. A key risk to our central forecast includes a more persistent wage-price dynamic requiring further monetary policy tightening that produces a sharper slowdown in activity. On the other hand, if inflation falls faster than anticipated, less contractionary monetary policy will be required, meaning the eventual decline in economic activity may be smaller.

Despite a worsening economic outlook for 2023, the strength of near-term activity and higher inflation result in a stronger nominal forecast that contributes to higher tax revenue. In total across the five years to June 2027, core Crown tax revenue forecasts are $6.5 billion higher than the preliminary HYEFU forecasts. Annual core Crown tax revenue is expected to increase by $40.7 billion between 2022 and 2027.

Recommended Action

We recommend that you:

a **note** the final HYEFU economic forecasts show the economy contracting in 2023, as strong demand and high inflation in the near term require tighter monetary policy to return inflation to the 1-3% target range

b **note** the slowdown in economic activity flows through into higher unemployment which is forecast to peak at 5.5% in the middle of 2024.

c **note** core Crown tax revenue is forecast to be $6.5 billion higher than the preliminary HYEFU forecasts across the forecast period.

d **refer** this report to:

Refer/not referred
Hon Dr Megan Woods
Associate Minister of Finance

Refer/not referred
Hon David Parker
Associate Minister of Finance

Refer/not referred
Hon Kiritapu Allan
Associate Minister of Finance

Peter Gardiner
Manager, Forecasting, Modelling and Research

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Treasury Report: HYEFU 2022 Final Economic and Tax Forecasts

Purpose of the Report

1. This report provides an overview of the Treasury's final economic and tax forecasts for the *Half Year Economic and Fiscal Update* 2022 (HYEFU). These economic and tax forecasts will underpin the final fiscal forecasts, currently being compiled. You will receive a Treasury Report outlining the final fiscal forecasts in the week ending 2 December 2022.

2. The final economic forecasts reflect the Budget Policy Statement (BPS) fiscal strategy decisions that Budget Ministers have now taken to keep nominal operating spending allowances unchanged from BEFU 2022 [T2022/2030 refers].

3. Annex 1 provides tables summarising the economic forecasts, including changes since the preliminary HYEFU 2022 forecasts and the BEFU 2022 forecasts.

Key Forecast Assumptions

4. The long-run neutral 90-day interest rate, the interest rate at which monetary policy is neither expansionary nor contractionary, is assumed to currently be 2.75%, corresponding to a long-run neutral Official Cash Rate (OCR) of approximately 2.5%. This is the neutral rate that applies when inflation expectations have settled at 2%. Presently, inflation expectations are materially higher than 2%, meaning an OCR well above 2.5% is required before current monetary policy could be considered contractionary.

5. The non-accelerating inflation rate of unemployment (NAIRU) is assumed to be 4.25% across the forecast period. Unemployment rises above the NAIRU in the forecast period, reflecting the necessary slowdown in economic growth below trend in order to return inflation to the target.

6. The New Zealand Trade-Weighted Index is assumed to average 68.5 in the December 2022 quarter, and 70.0 in the March 2023 quarter, before gradually appreciating to 71.0 across the remainder of the forecast period. This reflects an appreciation of 3%, on average, relative to the preliminary forecasts, but remains much lower than the level assumed at BEFU 2022.

7. Annual net migration is expected to return to net inflows from the second half of 2023 and gradually increase to 36,600 by the end of the forecast period. This assumption is unchanged from the preliminary forecasts although is lower than assumed at BEFU 2022.

8. Oil prices are assumed to average USD 86 per barrel in the December 2022 quarter, before gradually falling to USD 74.5 per barrel by the end of the forecast period. On average, oil prices are assumed to by 9% higher than the preliminary forecasts.

Economic Outlook

The underlying strength of demand has exceeded our expectation…

9. Economic activity in New Zealand continues to hold up despite the strong monetary policy response to high inflation. While the Reserve Bank has increased the OCR 275 basis points over 2022, we are yet to see clear evidence of a broad softening in demand, despite falling house prices and sales, and weak consumer and business sentiment. Activity indicators suggest retail spending remains robust, supported by the return of international visitors, while the resilience of building consent issuances and capital imports in the September 2022 quarter suggest high levels of investment continue, despite rising interest rates.

10. The strength of demand is also evident in the tight labour market, where the employment rate, and the labour force participation rate rose to record levels, but capacity is scarce with the unemployment rate remaining at near-record lows, while net migration inflows are yet to be restored. The strength of labour demand is driving strong wage growth, with annual growth in ordinary time hourly earnings rising to 7.4%. The acceleration in annual wage growth highlights an underlying wage-price dynamic, which risks high inflation continuing to persist.

11. The economy is now forecast to grow 1.8% across the second half of 2022. The momentum in the labour market is expected to continue into early 2023, and strong employment and earnings growth are supporting demand. High levels of investment are forecast to continue across the second half of 2022, as the construction sector has shown resilience to rising interest rates, while firms are continuing to invest to improve resilience amid ongoing capacity constraints. Compared to the preliminary forecasts, this represents a significant upward revision to economic activity in the near term, and stronger inflation as a result.

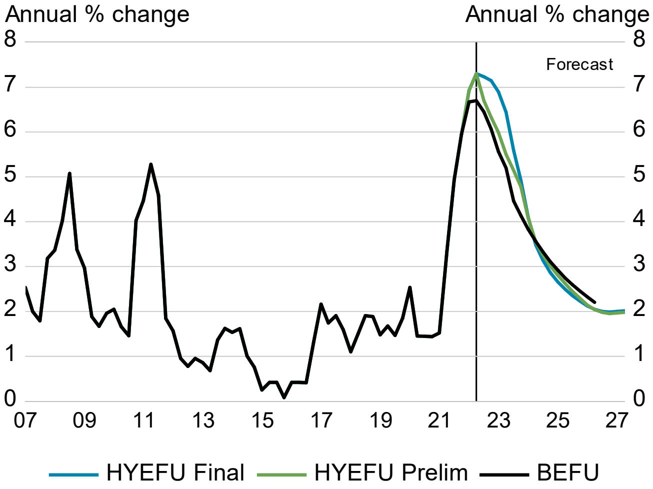
…and inflation remains too high…

12. Strong economic activity, amid ongoing capacity constraints, is culminating in high and persistent inflation. While the annual rate of CPI inflation declined marginally to 7.2% in the September 2022 quarter, the quarterly growth rate of 2.2% exceeded both our and the market's expectation, reinforcing the need for further policy tightening to dampen demand.

13. High inflation is being driven by both domestic and global factors. Tradables inflation rose 2.2% in the September 2022 quarter, despite the retreat of global commodity prices, including oil prices. While tradable inflation eases across the forecast period as global supply-chain disruption fades, we expect a sustained upward shift in import price levels due to strong global core inflation that will keep tradable inflation persistent. Non-tradables inflation, the component of inflation most within the Reserve Bank's control, rose 2.0% in the September 2022 quarter, and reached its highest annual rate of increase on record at 6.6%. The tight labour market, along with rapid increases in the cost of living, is placing significant upward pressure on wages, supporting demand but also enabling firms to continue to pass these costs on.

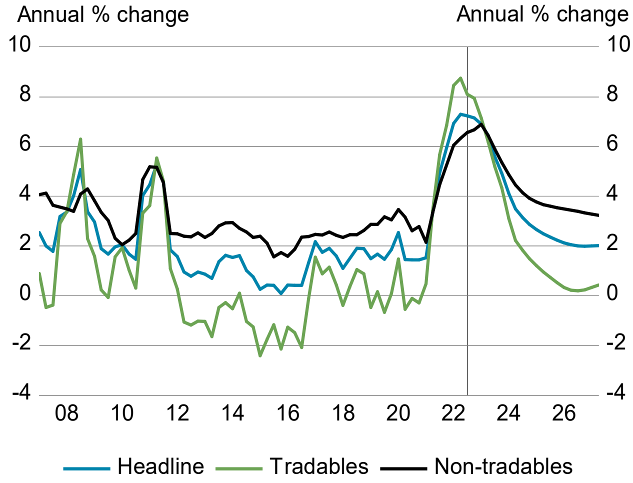
14. Inflation has proven more persistent and broad-based than previously expected. The Reserve Bank's measure of annual core inflation rose further to 5.4% in the September 2022 quarter. Surveyed inflation expectations for 2-years ahead also rose by 55 basis points in the December 2022 quarter to 3.62%, highlighting the challenge the Reserve Bank faces in returning short-term expectations to a level more consistent with the midpoint of the target range.

Figure 1: CPI inflation



Source: Stats NZ, Treasury

Figure 2: Components of CPI inflation



Source: Stats NZ, Treasury

15. We now expect annual inflation to remain above 7% in the December quarter and decline slowly across the first half of 2023. Inflation is forecast to return to within the 1-3% target range at the end of 2024, reflecting the time required for short-term inflation expectations to be returned to the midpoint of the target range, and for domestic and global supply capacity to normalise.

…requiring a policy-induced slowdown to return inflation to target

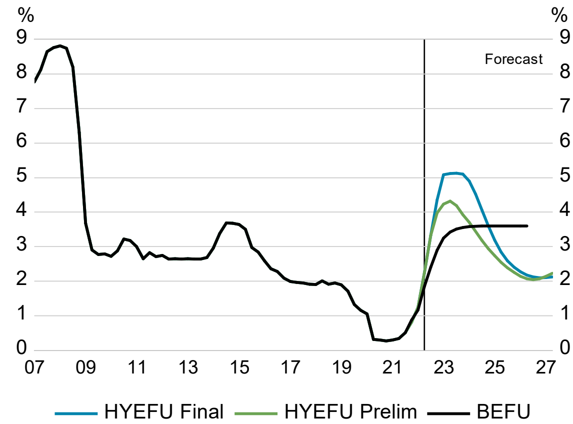
16. The Reserve Bank will likely raise the Official Cash Rate (OCR) further and faster than anticipated in the preliminary forecasts, with 90-day interest rates forecast to peak at 5.1% in the March 2023 quarter where they remain through to early 2024. Monetary policy is therefore expected to be much more restrictive than in the preliminary HYEFU forecasts, with interest rates remaining higher for longer, meaning a more significant slowdown in economic activity will be required to return inflation to target. Market pricing of the OCR has been volatile in recent months, but the expected terminal rate at the time of writing is broadly consistent with our forecast.

17. Fiscal policy also contributes to the necessary slowdown in economic activity, supporting monetary policy in dampening demand in the economy. Real government consumption is forecast to fall 4.6% and 2.8% across the 2023 and 2024 calendar years, respectively. The decline in real government consumption is due to both the withdrawal of COVID-19-related stimulus, as well as the impact that rising wages and cost pressures have on real service provision, given unchanged nominal operating spending allowances.

18. Real government consumption in the GDP statistics does not include transfer payments and subsidies and can broadly be thought of as government services. At 8.2% the forecast decline in real government consumption would be the largest on record (going back to 1987). For comparison, the decline that occurred between the start of 1990 and the September quarter of 1991 was 7.8%. The current episode follows a period of strong growth leading into and during the COVID-19 period. Between the start of 2020 and mid-2022 real government consumption increased by 21%, meaning that after this decline real government consumption would remain above pre-COVID levels.

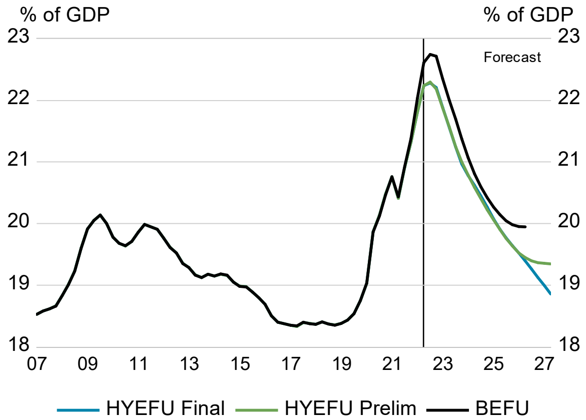
19. Lower real government consumption reduces the extent of monetary policy tightening required in order to return inflation to target. By enabling lower interest rates across the forecast period, less-expansionary fiscal policy works to reduce the impacts on private consumption and investment than would otherwise have been required. While government consumption as a share of GDP declines sharply, it remains higher than pre-pandemic levels across the forecast period.

Figure 3: 90-day interest rates



Source: Haver, Treasury

Figure 4: Real government consumption

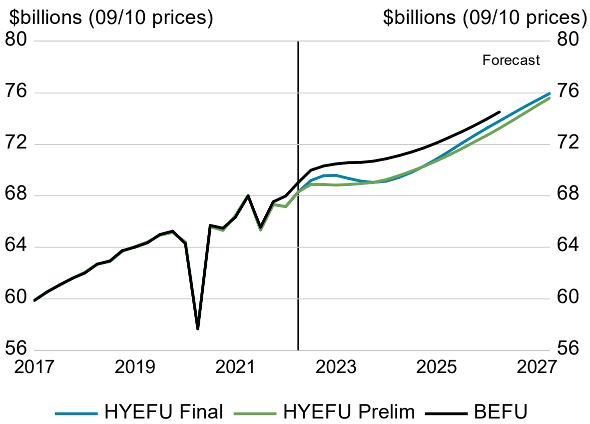


Source: Stats NZ, Treasury

We now expect activity to contract modestly during 2023

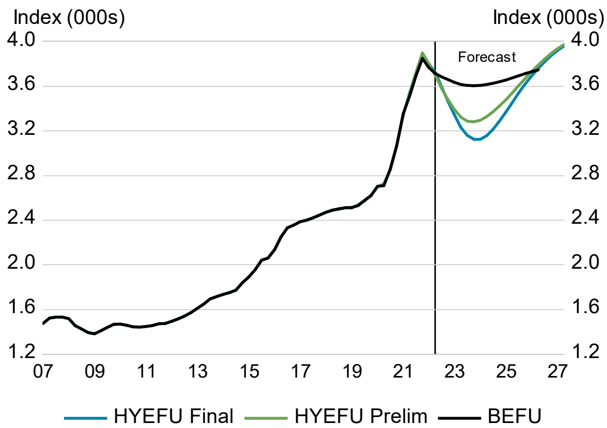
20. We expect economic activity to contract 0.8% in the 2023 calendar year as the lagged transmission of monetary policy dampens demand. Private consumption declines as the extended downturn in the housing market reduces household wealth, while debt-servicing costs rise. House prices are now expected to fall 20% from their peak through to the end of 2023, although remain above pre-pandemic levels across the forecast period. Although construction activity is expected to remain robust into early 2023, as the continued strength in building consent issuances indicates a pipeline of work remains, a slowdown in residential investment is forecast to occur from the June 2023 quarter, with a total contraction of nearly 8% expected through to the March 2024 quarter.

Figure 5: Real production GDP



Source: Stats NZ, Treasury

Figure 6: House prices



Source: CoreLogic, Treasury

21. Business investment has also proven resilient to rising interest rates, with the strength of demand and ongoing capacity constraints keeping investment at high levels. Real business investment is expected to increase by 3.6% in the second half of 2022, providing a key support to economic growth, although as the lagged transmission of monetary policy dampens demand into 2023, real business investment is expected to decline by 2.8% across the 2023 calendar year.

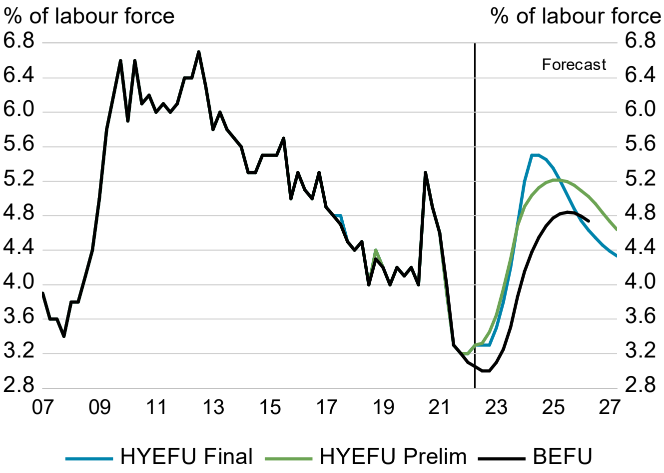
22. While tighter policy settings cause a more pronounced cycle in the forecast in 2023, the upward revision to economic activity across the second half of 2022 means that the overall level of GDP is, on average, higher than forecast in the preliminary forecasts. The growth profile is, however, more volatile, and includes the period of contraction during 2023.

Weaker activity flows through to higher unemployment

23. Weaker economic activity flows through to rising unemployment. The unemployment rate is expected to remain at 3.3% in the December 2022 quarter, before the lagged transmission of higher interest rates dampens demand, and the unemployment rate rises to a peak of 5.5% in the middle of 2024.

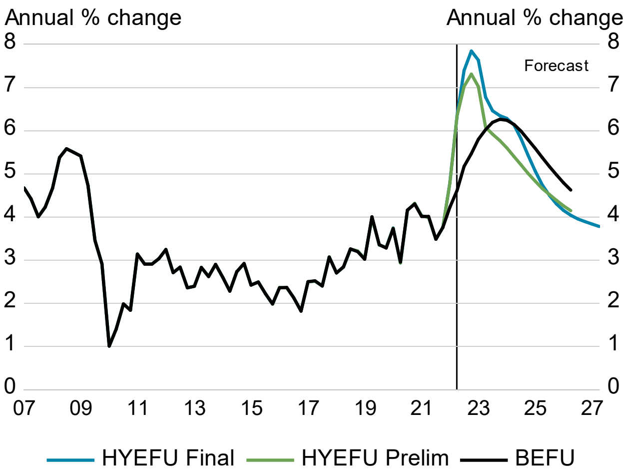
24. Strong demand for labour in a supply-constrained environment has contributed to rising nominal wage growth which we now expect to peak at an annual rate of 7.8% in the March 2023 quarter. As labour demand eases, nominal wage growth is expected to slow, but still remain elevated. While real wages returned to annual growth in the September 2022 quarter, we do not expect real wages to return to their December 2020 levels until late 2023.

Figure 7: Unemployment rate



Source: Stats NZ, Treasury

Figure 8: Average ordinary hourly earnings



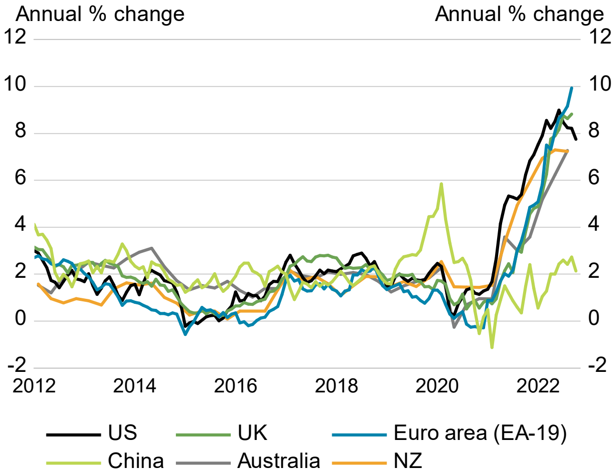
Source: Stats NZ, Treasury

A weaker global economy is creating additional headwinds

25. Globally, economies are facing the same challenges of high inflation, rising interest rates and persistent supply shocks from COVID-19 outbreaks in China and the war in Ukraine. Similar to New Zealand, demand has held up for longer than expected despite monetary policy tightening and central banks are raising interest rates to higher levels than previously assumed, causing further downward revisions to global growth. China is an exception, where inflation remains low, but the economy is facing challenges as ongoing COVID-19 disruption, a property market downturn and weakening external demand all weigh on growth.

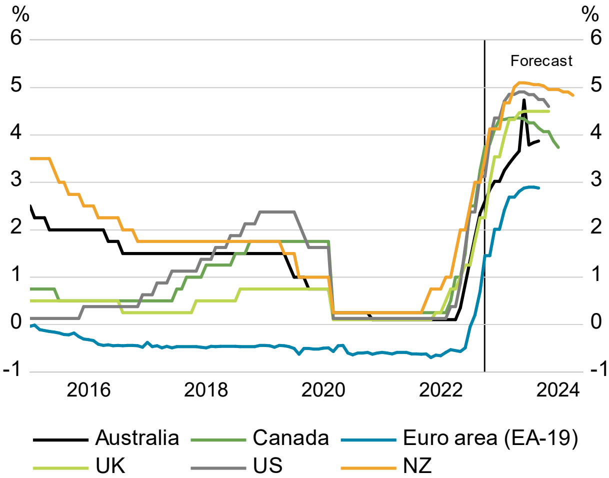
26. Rising global interest rates, and the weaker global outlook have caused a depreciation of the New Zealand TWI. Compared to BEFU, the TWI is on average 6% lower across the forecast period, and has exacerbated import price increases, though has supported NZD returns for exporters. In recent weeks, the TWI has appreciated reflecting early signals that central banks globally will step down the pace of interest rate hikes. While we expect global headline inflation is nearing a peak, as commodity prices retreat from earlier highs, global core inflation continues to push higher and there are risks that central banks will continue the pace of interest rate hikes, putting downward pressure on the TWI and causing a larger slowdown in global demand in 2023.

Figure 9: Global CPI headline inflation



Source: Haver

Figure 10: Global policy rates (end of period)



Source: Haver, ANZ (market pricing as at 16/11/2022)

27. We are already seeing the impacts of weakening global demand on NZ export prices. The GlobalDairyTrade Index and the ANZ Commodity Price Index have declined 33% and 15%, respectively, since their peaks in March 2022, and we now expect NZ export prices to fall further, as global growth continues to slow. Export prices, in foreign prices, are forecast to fall 6.4% in the year to June 2023, before gradually recovering. However, NZD returns are being supported by the weaker exchange rate and only fall 4.5% from their peak in the September 2022 quarter to the June 2023 quarter.

28. While the fall in global commodity prices, including oil, has reduced some import price pressures, global core inflation continues to rise and we expect import prices to remain higher for longer, causing a deterioration in the merchandise terms of trade. We expect the terms of trade to remain weak through the first half of 2023 before gradually recovering.

BUDGET-SENSITIVE

29. The medium-term outlook for the terms of trade has also been revised down, reflecting increasing geopolitical fragmentation which we expect to impinge on global trade. Before the pandemic, increasing globalisation caused import prices to fall relative to global inflation, largely due to increased competition in manufacturing through abundant labour supply in developing economies. A resumption of this trend is unlikely to occur in an increasingly polarised environment with growing barriers to trade. While we still see the medium-term outlook for New Zealand export prices as positive, reflecting increasingly constrained global land supply for primary production, overall growth in the terms of trade is expected to slow due to higher import prices.

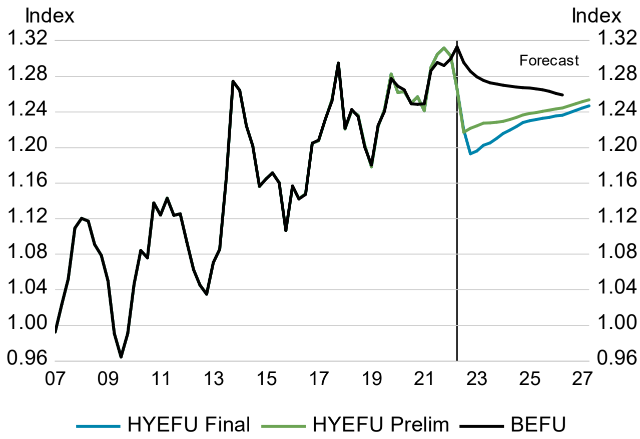
The current account deficit is expected to narrow, but increases the economy's vulnerability

30. The current account deficit is forecast to widen to 8.4% of GDP in the December 2022 quarter, as the continued strength in near-term activity keeps import demand high, while a lower exchange rate is exacerbating import price increases, offsetting a recent boost in merchandise export revenue as exporters drew down stocks built up during COVID-19-related disruption earlier in the year.

31. While weaker terms of trade will weigh on the current account, we expect the deficit to narrow from 2023 as the recovery in international tourism returns the services account to surplus. International visitor arrivals and spending have increased faster than previously anticipated supporting domestic demand in the near term, although the deteriorating global outlook will temper the recovery.

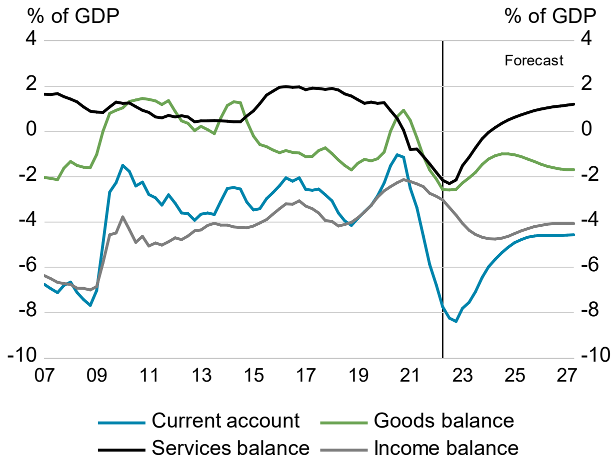
32. The current account deficit is expected to stabilise at a more sustainable 4.6% of GDP from 2025, although this represents a larger deficit than in the period following the Global Financial Crisis, reflecting the lower terms of trade and persistent trade deficits. A larger current account deficit increases the vulnerability of the economy to shocks, although the transitory nature of the deficit has largely alleviated the concerns of credit rating agencies.

Figure 11: Goods terms of trade



Source:Stats NZ, Treasury

Figure 12: Current account components



Source: Stats NZ, Treasury

Overall nominal GDP remains lower than BEFU across the forecast period

33. The level of economic activity is generally higher than that forecast in the preliminary forecasts, and this drives slightly higher nominal GDP. The exception is the year beginning December 2023, when the period of economic contraction earlier in the year causes GDP to dip below the preliminary forecast. Overall, nominal GDP is a cumulative $3.8 billion higher across the forecast period than in the preliminary forecasts, but remains $24.8 billion lower than forecast at BEFU 2022 through to June 2026.

Tax Outlook

Core Crown tax revenue is forecast to grow steadily, despite the contraction in 2023

34. Despite a worsening economic outlook for 2023, the strength of near-term activity and higher inflation result in a stronger nominal GDP forecast that contributes to higher tax revenue. In total across the five years to June 2027, core Crown tax revenue forecasts are $6.5 billion higher than the preliminary HYEFU forecasts. Annual core Crown tax revenue is expected to increase by $40.7 billion between 2022 and 2027.

35. Stronger growth in the taxable components of GDP compared to overall nominal GDP also contributes to the stronger tax revenue forecast, with the near-term strength of employment and wage growth, operating surplus and consumption playing a key role. CPI inflation is one of the main drivers of nominal GDP growth through the forecast period, increasing annual tax revenue by nearly $22 billion between 2022 and 2027. The high CPI inflation results in strong wage inflation, and ultimately more fiscal drag (nearly $5 billion across the forecast period). Higher interest rates also see a boost to resident withholding tax on interest earnings.

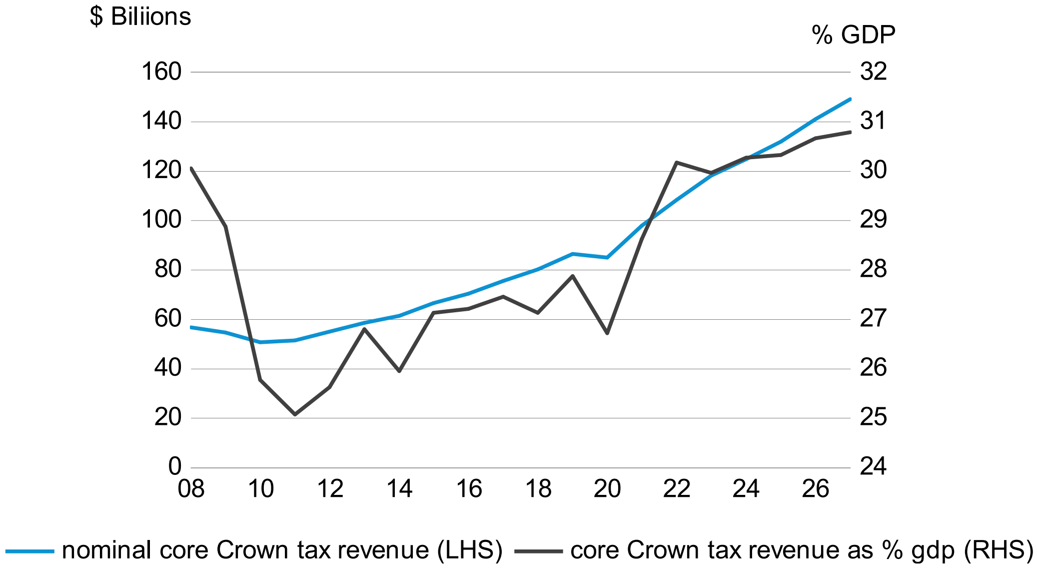
36. Despite the real economy contracting in the 2024 fiscal year, core Crown tax revenue is forecast to continue to grow steadily. The impacts of weaker real activity are outweighed by stronger inflation, and the impacts of fiscal drag due to stronger wage growth.

The core Crown tax-to-GDP ratio is forecast to dip in 2023 and increase over the remainder of the forecast period

37. Recent increases in the tax-to-GDP ratio are due to strong growth in both employees' compensation and taxable profits, which caused income taxes to grow at a faster rate than nominal GDP.

38. The tax-to-GDP ratio is forecast to drop slightly in 2023 as compensation of employees and taxable profits are forecast to grow more slowly than nominal GDP. High provisional tax revenue recognised in 2022 will result in lower-than-normal terminal tax revenue in 2023. From 2024 the ratio increases further, mainly owing to fiscal drag.

Figure 13: Core Crown tax revenue



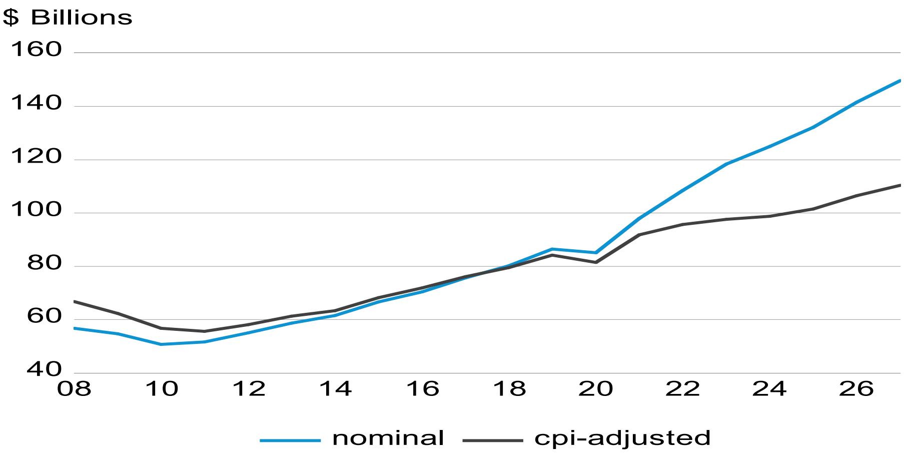
Source: Treasury

Inflation is responsible for most of the growth in forecast nominal core Crown tax revenue

39. CPI inflation accounts for $21.9 billion of the $40.7 billion increase in core Crown tax revenue from 2022 to 2027. As a result, the gap between nominal and CPI adjusted core Crown tax revenue widens significantly over the forecast period.

40. The tax forecasts assume no changes to either personal income or other tax settings, and as a result fiscal drag contributes to strong growth in tax revenue.

Figure 14: Nominal and CPI-adjusted core Crown tax revenue



Source Treasury

Changes to the macroeconomic outlook drive differences in individual tax components

41. Table 2 shows the change in core Crown tax revenue by tax type over the forecast period. Apart from changes in the underlying macroeconomic variables, the forecasts include various assumptions to align the tax forecasts with the most recent tax outturns up to October 2022.

42. The nominal GDP forecast was increased by a total of $3.8 billion across the forecast period, with most of this forecast increase occurring in the 2022/23 year. However, the increases in the income components of nominal GDP were proportionately larger than the increase in total nominal expenditure GDP, and this increased the forecasts of the income taxes by more than implied by the change in the total GDP forecast.

Table 2: Tax revenue forecast changes since 2022 HYEFU prelim, core Crown

June years, $ billions	2023	2024	2025	2026	2027	5-yr totals
2022 Half-year Update (prelim)	116.0	123.9	130.8	139.9	148.5	
% of GDP	29.7	30.0	30.0	30.5	30.7	
Forecasting changes by tax type:						
Source deductions	0.7	0.7	0.9	1.3	1.3	4.9
Corporate tax	1.5	0.6	0.5	0.4	0.3	3.3
Net other persons tax	-0.0	0.2	0.1	0.1	0.0	0.3
RWT on interest & dividends	0.2	0.1	0.1	0.1	-0.0	0.4
GST	-0.0	-0.5	-0.4	-0.5	-1.0	-2.4
All other taxes	-0.0	-0.0	-0.0	-0.0	-0.1	-0.1
Total change	***2.3***	***1.0***	***1.2***	***1.3***	***0.7***	***6.5***
2022 Half-year Update	**118.3**	**124.9**	**132.0**	**141.2**	**149.1**	
% of GDP	30.0	30.3	30.3	30.7	30.8	
Changes by principal driver:						
Macroeconomic effects	2.4	1.0	0.8	1.1	0.4	5.7
Interest rates (RWT)	0.1	0.2	0.2	0.1	-0.0	0.6
Fiscal drag	0.1	0.2	0.3	0.3	0.3	1.1
Other factors	-0.2	-0.4	-0.1	-0.1	-0.0	-0.8
Total change	*2.3*	*1.0*	*1.2*	*1.3*	*0.7*	*6.5*
Total change since 2022 Budget	2.2	2.3	2.1	2.7		9.3

Source: Treasury

43. Source deductions (PAYE + ESCT) revenue forecasts were increased by $4.9 billion owing to increased forecasts of wages and employment, which contributed +$3 billion and +$1 billion respectively. The increased wage track led to a $1.1 billion increase in the fiscal drag component of the forecast.

44. The increases to the corporate and other persons tax forecasts were almost entirely owing to the increased forecasts for net operating surplus. The lift in the operating surplus forecasts also had a positive effect on the withholding tax on resident dividends (RWT) forecast.

45. The GST forecast is $2.4 billion lower than the preliminary forecast, owing to weakness in the underlying macroeconomic variables (private consumption and residential investment) over the medium term. The GST forecast also include various adjustments to bring the subcomponents of GST (customs and gross IRD GST) in line with recent outturns.

Comparison with Inland Revenue

46. Treasury and Inland Revenue's tax forecasts are broadly similar, with Inland Revenue's forecast $0.3 billion lower than Treasury's forecasts over the forecast period. The main difference between the two forecasts is in corporate tax, and most of that occurs in the 2023 June year. This has arisen from different judgements on how terminal tax revenue relating to the 2022 tax year will play out in the current fiscal year.

Risks to the Central Forecast

47. While a slowdown in economic activity is widely expected by forecasters, the timing and depth of this slowdown remains highly uncertain, given the current strength of domestic demand and continued global volatility. There are several upside and downside risks to the central forecast set out below.

48. The persistence of high nominal wage growth is a key risk to the forecast, where it can produce a wage-price dynamic that maintains strong demand in the economy, and puts pressure on firms' margins, reinforcing inflation. We expect tighter monetary policy will cause short-term inflation expectations to return to the midpoint of the target range and cause employee wage demands to reduce. If inflation expectations prove to be more persistent there are risks that monetary policy will respond further requiring a more pronounced slowdown in economic activity. Alternatively, wage growth may normalise faster than anticipated, reducing inflation and resulting in lower interest rates and stronger economic activity.

49. There remains considerable uncertainty surrounding the pace of the increase in the unemployment rate, given the momentum in the labour market. Firms may respond to weakening demand by reducing hiring or the number of hours available to employees, rather than workforce levels, corresponding to a slower and shorter rise in the unemployment rate.

50. The large fall in house prices is expected to weigh on private consumption, as household wealth declines. If private consumption is less sensitive to falling house prices, stronger economic activity could be expected. Alternatively, if households prove more sensitive to declining wealth, there are risks of a larger contraction in private consumption.

51. Global inflation appears to be nearing a peak, and the lower-than-expected US CPI result and subsequent market reaction highlighted the possibility of a faster-than-anticipated reduction in global inflation. A faster reduction in global inflation would likely flow through into stronger demand for New Zealand exports, an appreciation of the New Zealand exchange rate, reducing import prices and tradable inflation. The resultant easing of inflation would enable lower interest rate increases and stronger domestic activity.

BUDGET-SENSITIVE

52. There are also risks of a sharper-than-anticipated slowdown in global growth. Continued uncertainty over COVID-19 in China, the war in Ukraine and energy supply concerns in Europe, and aggressive monetary policy tightening by central banks globally, add risks to the global growth outlook. A sharper slowdown in global demand would likely flow through to weaker consumer and business sentiment in New Zealand, lower export prices, and a slower recovery in international tourism, which would reduce demand and cause a larger contraction in economic activity.

Comparisons to Other Forecasters

53. The Treasury's forecasts have a more pronounced cycle compared to other forecasters. There are two key differences that contribute to this:

    a. We expect more persistent tradable inflation in the forecast period as a result of the continuation of import-price pass-through from the sustained increase in the import price level. Historically, import prices have cycled about a stable long-run average level. However, the extended period of high global inflation is expected to cause a permanent shift in the import price level. During previous cycles, firms have absorbed temporary import price changes into margins, which reduced the pass-through into tradable inflation. As our forecast includes a permanent level shift in import prices, we now expect greater pass-through, keeping inflation elevated. Higher forecast inflation requires more contractionary policy and drives a larger slowdown in economic activity, and corresponding increase in the unemployment rate.

    b. The Treasury's forecasts also incorporate the preliminary HYEFU 2022 fiscal forecasts, which are not yet publicly available. While nominal operating spending allowances are unchanged from the levels published at BEFU 2022, other forecasters will be aware of the ongoing wage and cost pressures in the public sector and are likely to make judgements about the real level of government spending across the forecast period. The Treasury is forecasting a significant fall in real government consumption, which contributes to the slowdown in economic activity in 2023. While our 90-day interest rate forecast is broadly consistent with other forecasters, when incorporating the impacts of fiscal consolidation, we expect a more material slowdown in economic activity, necessary to return inflation to target.

Figure 15: Real production GDP

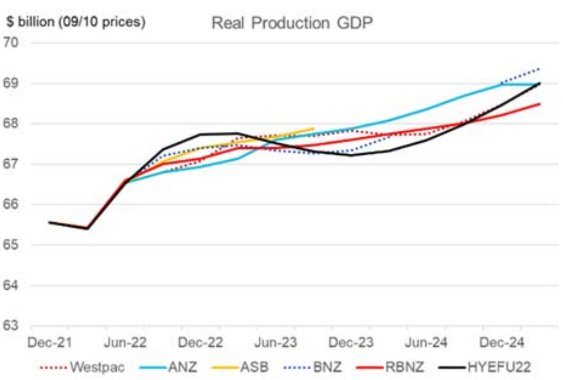
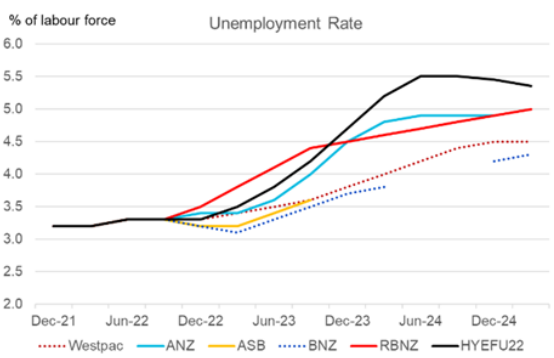


Figure 16: Unemployment rate



BUDGET-SENSITIVE

Figure 17: Consumers Price Index

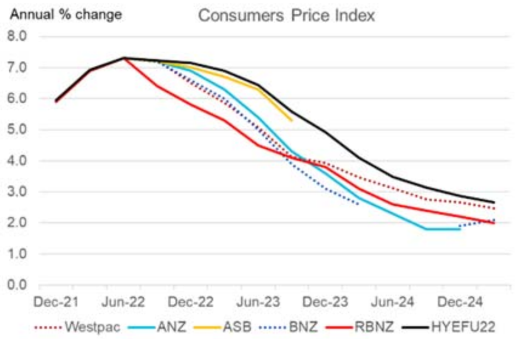
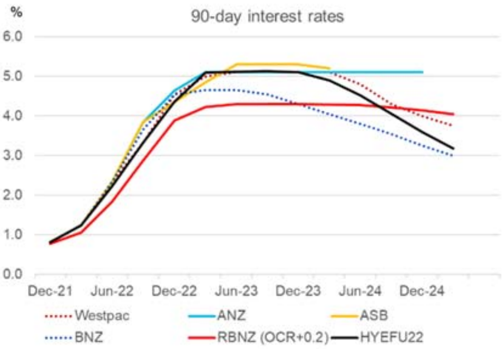


Figure 18: 90-day interest rates



Source: Stats NZ, Treasury, RBNZ, ANZ , BNZ, ASB, Westpac; latest published forecasts as of 14 November 2022

Note: The Reserve Bank is due to release updated forecasts on 24 November at the November *Monetary Policy Statement.* The Reserve Bank's latest publicly available forecasts shown above were finalised on XX August 2022

BUDGET-SENSITIVE

Annex 1: Forecast Summary Tables

Table A1: Final HYEFU 2022 forecast summary

(Annual average percent change, unless specified otherwise)

June Years	2019	2020	2021	2022	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Private consumption	4.1	-1.0	7.8	-0.1	1.7	-0.5	2.7	3.8	3.5
Public consumption	3.3	6.6	8.1	10.1	0.4	-4.7	-1.5	0.7	0.2
TOTAL CONSUMPTION	**3.9**	**0.7**	**7.9**	**2.4**	**1.3**	**-1.5**	**1.7**	**3.1**	**2.7**
Residential investment	1.4	-4.4	15.9	-4.4	2.5	-6.0	4.1	6.3	3.4
Business investment*	4.7	-3.7	3.6	4.7	2.4	-2.0	2.8	5.8	5.4
TOTAL INVESTMENT	**3.9**	**-3.9**	**6.6**	**2.3**	**2.4**	**-3.0**	**3.1**	**5.9**	**4.9**
Stocks (contribution to GDP growth)	-0.5	-0.3	0.3	0.5	-0.4	0.0	0.0	-0.0	0.0
GROSS NATIONAL EXPENDITURE	**3.3**	**-0.6**	**7.9**	**3.1**	**1.4**	**-1.9**	**2.0**	**3.7**	**3.2**
Exports	3.3	-5.0	-10.9	-2.8	14.3	3.2	3.8	3.6	2.9
Imports	2.3	-5.9	-4.3	11.4	1.4	-2.7	3.4	5.1	3.8
EXPENDITURE ON GDP	**3.6**	**-0.4**	**6.0**	**-0.2**	**3.9**	**-0.3**	**2.0**	**3.3**	**3.0**
GDP (PRODUCTION MEASURE)	**3.1**	**-1.1**	**5.2**	**1.0**	**3.5**	**-0.3**	**2.1**	**3.3**	**3.0**
- annual % change, June quarter	2.7	-10.4	17.9	0.4	1.5	0.1	3.0	3.3	2.9
Other Output Measures									
Real Gross National Disposable Income	3.1	0.8	4.8	0.6	0.3	-0.3	3.0	4.0	3.3
Nominal GDP (Expenditure Basis)	4.9	2.7	7.4	5.1	9.8	4.5	5.5	5.7	5.2
Potential GDP	2.5	-0.5	5.0	0.0	4.3	2.3	2.3	2.3	2.4
Output gap (June qtr,% of potential)	1.5	-0.7	2.6	2.3	0.2	-1.9	-1.3	-0.4	0.1
Total Population (thousands, mean quarter ended)	4,972	5,087	5,110	5,122	5,145	5,185	5,237	5,296	5,358
Real GDP per capita (Production basis)	1.4	-3.0	3.9	0.7	3.2	-1.0	1.1	2.2	1.8
Labour Market									
Employment	1.9	1.6	0.6	2.8	1.1	-1.2	0.6	2.0	1.8
Unemployment Rate (June quarter)	4.0	4.0	3.9	3.3	3.8	5.5	5.2	4.6	4.3
Labour Productivity (Hours worked basis)	0.6	0.1	1.7	1.8	0.3	1.0	1.4	1.1	1.2
Wages (QES average hourly ord time earnings, APC)	4.0	2.9	4.0	6.4	6.8	6.1	4.7	4.0	3.8
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	1.7	0.3	0.3	2.2	5.1	4.5	2.8	2.2	2.1
10-year Bond Rate (June quarter ave)	1.8	0.8	1.7	3.7	4.7	4.8	4.7	4.4	4.1
TWI (June quarter ave)	72.7	69.7	74.7	72.2	70.0	70.2	70.5	70.8	71.0
- annual % change (June quarter)	-1.5	-4.1	7.3	-3.4	-3.0	0.3	0.4	0.4	0.4
Price Measures									
CPI Inflation (ann % change, June quarter)	1.7	1.5	3.3	7.3	6.4	3.5	2.5	2.0	2.0
Consumption Deflator	1.6	1.9	1.5	4.9	7.1	4.8	2.7	2.1	2.0
GDP Deflator	1.2	3.2	1.3	5.3	5.8	4.9	3.4	2.4	2.2
House Price Inflation (ann % change, June qtr)	1.5	7.1	29.7	5.0	-13.0	-2.0	9.7	8.9	5.5
Key Balances									
Current account balance ($ million)	-10,976	-4,803	-11,560	-27,853	-29,823	-23,278	-20,767	-21,138	-22,089
Current account balance (% of GDP)	-3.5	-1.5	-3.4	-7.8	-7.6	-5.6	-4.8	-4.6	-4.6
Terms of Trade (goods) - SNA Basis	-3.4	4.3	-0.2	2.9	-7.2	0.8	1.3	0.5	0.7
Net International Investment Position (%GDP)	-54.3	-56.9	-45.9	-49.9	-53.0	-56.3	-58.2	-59.6	-61.2

* Total investment excluding residential

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Table A2: Change in economic forecasts from preliminary HYEFU 2022, June years

(Annual average percent change, unless specified otherwise)

June Years	**2019**	2020	2021	2022	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Private consumption	0.0	0.0	0.0	0.0	0.4	-0.6	0.3	0.6	0.2
Public consumption	0.0	0.0	0.0	0.0	0.7	-0.6	0.0	0.3	-2.4
TOTAL CONSUMPTION	**0.0**	0.0	0.0	0.0	0.5	-0.6	0.2	0.5	-0.4
Residential investment	0.0	0.0	0.0	0.0	5.8	-2.9	-0.8	1.8	-1.2
Business investment*	0.0	0.0	0.0	0.0	1.3	-0.4	0.4	1.8	0.3
TOTAL INVESTMENT	**0.0**	0.0	0.0	0.0	2.4	-1.0	0.1	1.8	-0.1
Stocks (contribution to GDP growth)	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0	-0.0
GROSS NATIONAL EXPENDITURE	**0.0**	0.0	0.0	0.0	0.9	-0.7	0.2	0.8	-0.3
Exports	0.0	0.0	0.0	0.0	2.6	-2.8	-0.3	0.1	0.1
Imports	0.0	0.0	0.0	0.0	2.4	-2.0	0.0	0.9	-0.7
EXPENDITURE ON GDP	**0.0**	0.0	0.0	0.0	0.8	-0.8	0.1	0.6	-0.1
GDP (PRODUCTION MEASURE)	**0.0**	0.0	0.0	0.0	0.8	-0.8	0.2	0.6	-0.1
- annual % change, June quarter	*0.0*	0.0	0.0	0.0	0.7	-0.9	0.6	0.4	-0.3
Other Output Measures									
Real Gross National Disposable Income	0.0	0.0	0.0	0.0	0.4	-1.1	0.4	0.7	-0.1
Nominal GDP (Expenditure Basis)	0.0	0.0	0.0	0.0	1.0	-1.3	0.2	0.4	-0.3
Potential GDP	0.0	-0.0	0.0	-0.0	0.1	0.0	-0.0	-0.0	-0.0
Output gap (June qtr,% of potential)	-0.0	-0.0	-0.0	-0.0	0.5	-0.4	0.3	0.7	0.4
Total Population (thousands, mean quarter ended)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Real GDP per capita (Production basis)	**0.0**	**0.0**	**0.0**	**0.0**	**0.8**	**-0.8**	**0.1**	**0.6**	**-0.1**
Labour Market									
Employment	-0.0	0.0	-0.0	-0.1	1.4	-0.8	-0.2	0.5	-0.0
Unemployment Rate (June quarter)	0.0	0.0	0.0	0.0	-0.2	0.5	-0.0	-0.4	-0.3
Labour Productivity (Hours worked basis)	-0.0	-0.0	0.0	0.1	-0.4	-0.1	0.2	-0.0	-0.1
Wages (QES average hourly ord time earnings, APC)	0.0	0.0	0.0	0.0	0.7	0.7	0.1	-0.0	-0.0
Unit Labour Costs (Hours worked basis)	0.0	0.0	-0.0	-0.1	0.9	0.7	0.1	-0.0	0.1
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	0.0	0.0	0.0	0.0	0.8	1.1	0.3	0.1	-0.1
10-year Bond Rate (June quarter ave)	0.0	0.0	0.0	0.0	0.1	0.1	0.1	-0.1	-0.1
TWI (June quarter ave)	0.0	0.0	0.0	0.0	3.0	2.6	2.1	1.6	1.0
- annual % change, June quarter	0.0	0.0	0.0	0.0	4.2	-0.6	-0.8	-0.8	-0.8
Price Measures									
CPI Inflation (ann % change, June quarter)	0.0	0.0	0.0	0.0	0.9	-0.1	-0.1	0.0	0.0
Consumption Deflator	0.0	0.0	0.0	0.0	0.4	-0.4	-0.4	-0.2	-0.0
GDP Deflator	0.0	0.0	0.0	0.0	0.2	-0.4	0.0	-0.2	-0.2
House Price Inflation (ann % change, June quarter)	0.0	0.0	0.0	-0.0	-2.9	-2.4	3.1	1.9	0.6
Key Balances									
Current account balance ($ million)	0	0	0	0	-1350	-2315	-2224	-3108	-2589
Current account balance (% of GDP)	0.0	0.0	0.0	0.0	-0.3	-0.6	-0.5	-0.7	-0.5
Terms of Trade - SNA Basis	0.0	0.0	0.0	0.0	-1.5	0.3	0.7	0.1	0.1

* Total investment excluding residential

Table A3: Change in economic forecasts from BEFU 2022, June years

(Annual average percent change, unless specified otherwise)

June Years	2019	2020	2021	2022	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Private consumption	0.0	-0.1	-0.0	1.5	-1.7	-1.7	0.6	1.1	NA
Public consumption	-0.0	0.0	-0.2	-2.5	-1.0	0.1	0.2	-0.8	NA
TOTAL CONSUMPTION	**-0.0**	-0.1	-0.1	0.5	-1.5	-1.2	0.5	0.7	NA
Residential investment	-0.0	-0.0	-0.8	-5.3	-9.5	-0.0	7.3	6.8	NA
Business investment*	-0.0	-0.0	-0.1	-1.9	-7.5	-1.0	2.7	3.5	NA
TOTAL INVESTMENT	**-0.0**	-0.0	-0.3	-2.8	-8.0	-0.7	3.8	4.3	NA
Stocks (contribution to GDP growth)	0.0	-0.0	-0.1	0.0	0.1	-0.0	0.0	0.0	NA
GROSS NATIONAL EXPENDITURE	**0.0**	-0.1	-0.2	-0.2	-2.9	-1.1	1.3	1.5	NA
Exports	-0.1	0.0	0.2	-5.5	6.0	-3.4	-1.0	-0.4	NA
Imports	-0.0	0.0	-0.1	-4.0	-4.0	-2.5	2.2	2.2	NA
EXPENDITURE ON GDP	**-0.0**	-0.1	-0.1	-0.6	-0.4	-1.1	0.4	0.8	NA
GDP (PRODUCTION MEASURE)	**0.0**	-0.0	-0.0	-0.7	-0.6	-1.0	0.5	0.8	NA
- annual % change, June quarter	*0.0*	-0.0	-0.0	-1.2	-0.7	-0.7	1.0	0.5	NA
Other Output Measures									
Real Gross National Disposable Income	0.1	0.0	-0.1	-0.9	-3.1	-0.9	1.3	1.4	NA
Nominal GDP (Expenditure Basis)	-0.0	-0.0	-0.1	-0.7	-0.9	-0.3	0.6	0.6	NA
Potential GDP	-0.1	-0.0	-0.2	-0.2	0.1	-0.2	-0.3	-0.2	NA
Output gap (June qtr,% of potential)	0.2	0.2	0.4	-0.4	-1.3	-1.7	-0.4	0.3	NA
Total Population (thousands, mean quarter ended)	**0**	**0**	**-2**	**-19**	**-42**	**-55**	**-63**	**-71**	**NA**
Real GDP per capita (Production basis)	**0.0**	**-0.0**	**-0.0**	**-0.5**	**-0.1**	**-0.7**	**0.7**	**1.0**	**NA**
Labour Market									
Employment	-0.0	0.0	-0.1	-0.6	0.2	-1.3	0.1	0.6	NA
Unemployment Rate (June quarter)	0.0	0.0	-0.1	0.3	0.5	1.1	0.4	-0.1	NA
Labour Productivity (Hours worked basis)	-0.0	-0.0	0.0	-1.0	0.7	0.1	0.3	0.0	NA
Wages (QES average hourly ord time earnings, APC)	-0.0	-0.0	-0.0	1.7	0.8	-0.0	-0.6	-0.6	NA
Unit Labour Costs (Hours worked basis)	0.0	0.0	-0.0	1.6	1.0	-0.0	-0.7	-0.6	NA
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	0.0	0.0	0.0	0.4	1.7	0.9	-0.8	-1.4	NA
10-year Bond Rate (June quarter ave)	0.0	0.0	0.0	0.5	1.2	1.0	0.6	0.3	NA
TWI (June quarter ave)	0.0	0.0	0.0	-2.8	-5.0	-4.8	-4.5	-4.2	NA
- annual % change, June quarter	0.0	0.0	0.0	-3.8	-3.0	0.3	0.4	0.4	NA
Price Measures									
CPI Inflation (ann % change, June quarter)	0.0	0.0	0.0	0.6	1.2	-0.1	-0.3	-0.2	NA
Consumption Deflator	-0.0	0.0	-0.0	0.2	1.1	0.5	-0.5	-0.6	NA
GDP Deflator	0.0	0.0	-0.0	-0.1	-0.5	0.8	0.2	-0.2	NA
House Price Inflation (ann % change, June quarter)	0.0	0.0	0.0	-0.8	-10.5	-2.0	7.9	7.0	NA
Key Balances									
Current account balance ($ million)	-162	-104	-175	-3643	-4242	-2645	-3260	-4248	NA
Current account balance (% of GDP)	-0.1	-0.0	-0.1	-1.1	-1.2	-0.7	-0.8	-1.0	NA
Terms of Trade - SNA Basis	0.0	-0.0	0.1	-0.4	-6.0	1.9	1.6	0.9	NA

* Total investment excluding residential

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TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2494

Date: 17 November 2022

To: Minister of Finance (Hon Grant Robertson)

Deadline: None

Meeting With Dr Ngozi Okonjo-Iweala, WTO Director-General

You are meeting with Dr Ngozi Okonjo-Iweala, World Trade Organisation (WTO) Director General at **10.30am on Thursday 24 November.** You will be joined in the meeting by two Treasury officials (Natalie Labuschagne and Susie McKenzie), and three MFAT officials (Clare Kelly, Wendy Matthews and Anna Reid).

Objectives

The objectives for the meeting are to:

- Highlight the importance of trade and trade diversification to improving New Zealand's economic resilience and economic recovery post Covid-19.
- Confirm our support for the DG's leadership of the WTO, noting that the rules-based trading system underpins our economy as a trading nation.
- You could also share how New Zealand's is rethinking inclusive economic growth through our holistic well-being approach.

Biographical information

Dr Ngozi Okonjo-Iweala (ng-GOH-zi ock-ON-joh ee-WAY-luh) took up her position as WTO Director-General on 1 March 2021. She is a global finance expert, an economist and international development professional with over 30 years of experience.

Dr Okonjo-Iweala twice served as Nigeria's Finance Minister (2003-2006 and 2011-2015) and briefly acted as Foreign Minister in 2006, the first woman to hold both positions. She had a 25-year career at the World Bank as a development economist, rising to senior ranks.

Talking points

- Like many small nations, Aotearoa New Zealand greatly values the certainty and voice that the international rules-based trading system, with the WTO at its core, provides. For New Zealand, multilateral rules will always be the first best option.
- Building economic resilience at a time of global economic headwinds, and growing geostrategic tension is a priority for our Government. Trade, and trade diversification, is an essential part of this work.
- You could seek the DG's perspectives on the global economic context, including following her attendance at the G20 Summit in Bali. New Zealand's economy has

been resilient to disruptions from Covid-19, and the labour market remains tight. The outlook for activity in 2023 is fairly stagnant, and the unemployment rate is expected to be around 4.5% by the end of 2023.

- Reform of trade-distorting and environmentally harmful subsidies is New Zealand's top priority at the WTO.
- New Zealand has been applying a wellbeing approach to budgeting since 2019. This involves prioritising the wellbeing of people and the environment alongside economic growth. It aims to take a whole-of-government approach to issues and considers intergenerational outcomes. For our trade policy, this means we consider climate and the environment, as well as gender and equality alongside the economy.

Background

The Director-General (DG) is visiting Aotearoa New Zealand following a visit to the G20 in Indonesia, a fisheries summit in Fiji and a visit to Australia. While in Aotearoa New Zealand, the DG will meet with the Prime Minister, Minister of Foreign Affairs and Minister for Trade and Export Growth. She will also meet a range of New Zealand businesses, from Fonterra and Apples and Pears through to wahine Māori owned SMEs.

Trade is responsible for 30% of New Zealand's GDP and one in four New Zealanders' jobs relies on trade. In addition, MFAT research found that New Zealand goods exporting firms had on average 89% higher output-per-worker than non-exporting firms, as well as three times' higher sales, four times' higher capital intensities, and significantly higher intermediate consumption.

The Government's Trade Recovery Strategy recognises trade as a key driver of New Zealand's overall recovery from the economic impacts of COVID-19. The Strategy has been updated in 2022 to best support NZ businesses as they reconnect with partners, customers, and markets overseas.

The Trade Recovery Strategy builds on our Trade for All policy. It is focused on a recovery that:

- promotes sustainable and inclusive trade,
- lifts our exporters' capability and performance in market (including through improved market access),
- strengthens international and regional trade architecture, and
- builds resilience against future shocks.

Agriculture subsidies reform

There was no progress at the last Ministerial Conference (MC12, June 2022) in reducing trade distorting and environmentally harmful agricultural subsidies (referred to as "domestic support" in the WTO context). We want to see real negotiations on agricultural trade reform to ensure that agricultural trade can play its part in finding global solutions to climate change, poverty and broader sustainable development. New

Zealand's main message is that trade, including in agriculture, can deliver sustainable and inclusive growth for all WTO members.

Fisheries Subsidies Agreement

Despite the good outcome facilitated during MC12, the work is not yet done. We did not agree disciplines on overcapacity and overfishing and related special and differential treatment for developing and least developed country members. Negotiations continue ahead of MC13 and these matters were discussed by the DG and Pacific Ministers in Fiji.

Trade and Environment

Progressing negotiations on environmentally-harmful subsidies is a top priority for New Zealand and we are a long-standing advocate for Fossil Fuel Subsidy Reform (FFSR). We relaunched a Ministerial statement in June 2022, supported by 47 WTO Members with a work plan to advance concrete options for ambitious and effective disciplines on inefficient fossil fuel subsidies through capacity building, and exchange of information and reform experience.

WTO Funding

The WTO is facing budgetary-related liability pressure as it has not had a nominal increase since 2012. New Zealand's contribution for 2022 was approximately $809,000. The D-G has requested an extra 7.7% (approximately $60,000) as well as a separate one-off capital injection. The response from Members has been almost universally negative given the challenging economic context. However, as a firm supporter of the WTO we want to ensure we are constructive, notwithstanding our own domestic fiscal position.

Macroeconomic Outlook

The New Zealand economy has been resilient to disruption from COVID-19. Real GDP grew 1.7% in the June 2022 quarter following a contraction of 0.2% in the March quarter, which reflected the impact of Omicron. The easing of Omicron disruption, including the reopening of the international border, were the key drivers of June's increase. For the year ending June 2022, real GDP grew 1.0%.

The labour market remains exceptionally tight, which is supporting domestic demand. In the September 2022 quarter, employment and labour force participation rose to record highs, while the unemployment rate remained at a near-record low of 3.3%. Labour supply remains constrained as border restrictions have disrupted migration flows, contributing to the slowest rate of population growth since 1989. With the full reopening of the international border from the end of July, net migration inflows are expected to be restored in 2023, alleviating some skills shortages. The tight labour market is culminating in strong nominal wage growth[1], which rose to an annual rate of increase of 7.4% in the September 2022 quarter.

New Zealand's international border restrictions have been removed and a gradual recovery in international visitor spending is underway. Increased international tourism

[1] QES average ordinary time hourly earnings measure.

will support growth and help to narrow the current account deficit, which widened to 7.7% of GDP in the year ended June 2022.

Commodity export prices rose sharply in late 2021/early 2022, supporting the terms of trade at near-record high levels. More recently, prices have eased, in line with other global commodities. Import prices are expected to remain higher for longer, reflecting the continued strength of global core inflation, reducing the terms of trade.
Overall, the outlook for activity in 2023 is fairly stagnant, with softening domestic activity offset by rising exports (in large part reflecting the ongoing recovery in tourism). The unemployment rate is expected to be around 4.5% by the end of 2023 according to the latest RBNZ forecasts. The rapid pace of interest rate increases, both domestically and globally has increased the risk of a more significant slowdown in activity in 2023.

Inflation and interest rates

House prices increased 44% between the end of 2019 and late 2021 reflecting macroeconomic policy measures in response to the pandemic threat. Subsequently, higher interest rates and tighter credit conditions have contributed to falling house prices. House prices in October were around 12% below their late 2021 peak. A peak-to-trough decline of over 15% is expected.

Annual Consumer Price Index (CPI) inflation declined marginally to 7.2% in the September 2022 quarter, but the quarterly growth rate of 2.2% highlighted a persistent inflation impulse, driven by both domestic and international factors. The key drivers have been strong domestic demand pushing up against constrained supply, exacerbated by the shock to prices from global supply-chain disruption and the war in Ukraine.

The RBNZ has lifted the OCR to 3.5% at its October Monetary Policy Review from 0.25% in October 2021, and the August Monetary Policy Statement projected the OCR to be over 4.0% by June 2023. The RBNZ is widely expected to increase its projection OCR peak at the November Monetary Policy Statement, reflecting the ongoing strength of domestic inflation.

Wellbeing report

The New Zealand Government’s wellbeing approach to policymaking involves prioritising the wellbeing of people and the environment alongside economic growth. It aims to take a whole-of-government approach to issues and considers intergenerational outcomes.
Since 2019, New Zealand has been applying this approach to budgeting. Wellbeing analysis informs Budget strategy and priorities, and agencies are required to draw on evidence to show how the Budget initiatives they submit contribute to wellbeing outcomes. This analysis feeds into Budget initiative assessment, Budget package development, and communication of Budget decisions.

In 2020, the Public Finance Act (1989) was amended to require the Treasury to produce a Wellbeing Report, at least once every four years. Using indicators, the report must describe the state of wellbeing in New Zealand, how the state of wellbeing in New Zealand has changed over time, and the sustainability of, and any risk to, the state of wellbeing in New Zealand.

The Treasury will be launching the first Wellbeing Report, Te Tai Waiora, on 24 November.

Budget 2019 was the first time a wellbeing approach was explicitly and systematically applied to the Budget process in New Zealand. It marked a step change in both the focus of Budget decisions, and how such decisions are made, including the setting of Budget priorities.

Economic Security

Building economic resilience at a time of global economic headwinds, and growing geo-strategic tension is a priority for our government. Trade, and trade diversification, remains an important part to achieve that goal.

s6(a) [redacted]

The Government has taken a two-pronged approach to this challenge: taking action to build resilience and preparing for potential attempts at economic coercion against New Zealand.

The Government's work to build resilience to economic coercion is part of our broader, long-standing work on trade diversification. It has included concluding two significant Free Trade Agreements with the United Kingdom and European Union, increasing government support to exporters (e.g., removing non-tariff barriers), and working to support the ongoing reforms at the WTO.

s6(a) [redacted] The objective of this outreach is to share the Government's assessment of economic coercion risk, make it clear that businesses "own" the risk, that they should not expect financial support from government if disruption occurs, s6(a) [redacted]

Supply chain resilience

The Government's economic coercion work has largely been focused on risks to market access for New Zealand exporters. But while restrictions on a country's access to key imports is a much less common form of coercion, it has been used on occasion and poses potential risks to New Zealand.

The Government's response to this risk is part of broader work on improving the resilience of our supply chains, which is a priority under the Government's Trade Recovery Strategy. This effort is focused on the security of New Zealand's import supply chains, and the resilience of the logistics and infrastructure that support them.

The Director General has noted that Covid-19 and the Ukraine war have shown that certain supply chains are very concentrated amid a global focus on semiconductors and grains, and noted her views that the best way for the world to manage risks to be resilient is to diversify supply chains, not just reshoring to individual countries, but diversifying globally.

Supply chains are a key priority for the Indo-Pacific Economic Framework for Prosperity (IPEF). The Director General has noted publicly that so long as the framework is not discriminatory then it should not be a problem.

Susie McKenzie, Analyst, International, s9(2)(k)
Conor McBride, Manager, International,

COMMERCIAL-SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Social Wellbeing Committee Wednesday 23 November 2022

Date:	18 November 2022	**Report No:**	T2022/2535
		File Number:	MS-5-3-SWC

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11:00am Monday 21 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Thulacksha Thayarooban	Graduate Analyst, Communities Learning and Work	s9(2)(k)	s9(2)(g)(ii)	✓
Thomas Parry	Manager, Communities Learning and Work			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Social Wellbeing Committee Wednesday 23 November 2022

The Treasury is aware of ten items on the Social Wellbeing Committee agenda for Wednesday 23 November 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury **supports** the following papers, with briefings below:

- Establishing the strategic priorities for immediate COVID-19 vaccination and governance for the immunisation system
- s9(2)(f)(iv)

The Treasury **does not support** the following paper, with a briefing below:

- Investment to Increase Access to Medicines

The Treasury has **no comments** on the following papers on the agenda:

- Memorandum of Understanding between the Crown and Vietnam Veterans
- Amendment too the COIVD-19 Public Health Response (Infringement Offences) Regulations 2021
- s9(2)(f)(iv)
- Progress Update on Developing the National Action plan against Racism
- Policy Approvals for School Planning and Reporting Regulations
- Report of the Independent Expert on the Enjoyment of all Human Rights by Older Persons: New Zealand Response
- Consideration of Ex-Gratia Payment for Damages to Oranga Tamariki Caregiver

Establishing the strategic priorities for immediate COVID-19 vaccination and governance for the immunisation system

Hon Andrew Little, Minister of Health

Hon Dr Ayesha Verrall, Minister for COVID-19 Response

Treasury contact: Lydia Verschaffelt s9(2)(g)(ii)

Sign out contact: Jess Hewat s9(2)(g)(ii)

Description: This paper outlines the strategic priorities for COVID-19 immunisation over the next few months and the proposed new immunisation governance and accountability structure.

Comments: We support the COVID-19 immunisation programme's proposed key strategic priorities to protect those most at risk of the impacts of COVID-19 and address current inequities. However, given the strategy will not be finalised until mid-2023, there could be value in Ministers receiving additional visibility of the shorter-term strategy and planned activity to continue to increase primary dose and booster uptake. High levels of immunity and an ongoing vaccine rollout remains a crucial pillar of New Zealand's COVID-19 response, particularly as other measures are removed.

Treasury Recommendation: Support; and ask to be provided with information about short-term plans to increase COVID-19 vaccine uptake while the longer-term strategy is being developed.

Fiscal Implications: This paper has no direct financial implications. However, future vaccine purchasing needs will need to be accounted for in the upcoming Cabinet paper on the Vote Health COVID-19 funding request for the 2023 calendar year. Funding for future COVID-19 vaccine purchasing can be sourced from the existing balance in the '*Minimising the health impacts of COVID-19'* contingency and the urgent public health operating contingency that was established following the closure of the COVID-19 Response and Recovery Fund.

The present paper also notes fiscal implications associated with the design and implementation of the immunisation strategy, governance structure and associated support but does not specify a quantum for these costs.

Investment to Increase Access to Medicines

Hon Andrew Little, Minister of Health

Treasury contact: Lydia Verschaffelt s9(2)(g)(ii)

Sign out contact: Jess Hewat s9(2)(g)(ii)

Description: This paper proposes an increase to the Combined Pharmaceutical Budget (CPB) by $66 million in the 2023/24 financial year only to fund medicines that Pharmac has assessed as good value for money.

Comments: We recognise the value this increase to the CPB would provide by increasing the range of new medicines available to several different patient groups. However, as this request is out-of-cycle, it is unable to be effectively assessed and prioritised against other funding requests. This is particularly pertinent given the increasingly fiscally constrained environment of Budget 2023.

If this increase to the CPB is progressed, we are comfortable with Vote Health Managed Isolation and Quarantine underspends in 2022/23 being reprioritised for this purpose. However, we do not support the remainder of the funding being a call upon the Between Budget Contingency (BBC) and note this would restrict the balance available for any urgent calls upon the BBC.

Treasury Recommendation: Do not support, on the basis the proposal has not been assessed against other funding requests.

Fiscal Implications: The $66 million increase to the CPB in 2023/24 would be sourced from a $41.463 million reprioritisation of Managed Isolation and Quarantine health underspends in the 2022/23 year within Vote Health baselines, and $24.537 million as a call on the 2022/23 BBC.

This funding request is only for the 2023/24 financial year, not the full forecast period. If agreed, this increase in 2023/24 will further exacerbate the pre-existing CPB funding cliff in 2024/25 and require additional long-term investment at Budget 2024 if these medicines remain funded.

s9(2)(f)(iv)

COMMERCIAL-SENSITIVE

s9(2)(f)(iv)

COMMERCIAL-SENSITIVE

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00am on Monday 21 November 2022.

Thomas Parry
Manager, Communities Learning and Work

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

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IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet Economic Development Committee 23 November 2022

Date:	18 November 2022	**Report No:**	T2022/2555
		File Number:	MS-5-4-DEV

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiritapu Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11:00am – 11:45am Monday 21 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Giles Bollinger	Senior Analyst, Economic Strategy	s9(2)(k)	s9(2)(g)(ii)	✓
Chris Nees	Acting Manager, Economic Strategy			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet Economic Development Committee 23 November 2022

The Treasury is aware of 11 items on the Cabinet Economic Development Committee agenda for 23 November 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts for three items on the agenda.

- New Zealand Emissions Trading Scheme: 2022 Update to Limits and Price Control Settings for Units
- New Zealand Association to Horizon Europe: Negotiating Mandate
- Te Ara Paerangi: Future Pathways

The Treasury has no comments on the following papers on the agenda:

- Taking Action on Fuel Prices: Next Steps
- Foreign Reserves Management and Coordination Framework
- New Zealand Income Insurance: Better Business Case
- Supporting Commercial Bargaining for Online News
- Supporting Ongoing AM Transmission for Emergency Management Communications in Northland: Drawdown of Tagged Contingency Funding
- Regulatory Systems (Transport) Amendment Bill: Policy Approval
- Mandatory Unit Pricing for Grocery Products
- Targeted Business Research and Development Funding Appropriations: Transfer of Funds

IN-CONFIDENCE

New Zealand Emissions Trading Scheme: 2022 Update to Limits and Price Control Settings for Units

Hon James Shaw, Minister of Climate Change

Treasury contact: Tim Borren s9(2)(k)

Sign out contact: Nicky Lynch s9(2)(g)(ii)

Description:

This paper seeks agreement to update the New Zealand Emissions Trading Scheme (NZ ETS) limit and price control settings following public consultation, which included options recommended by the Climate Change Commission (CCC).

Comments:

The CCC has recommended a significant departure from the status quo settings, and this Cabinet paper recommends changing settings generally in line with the CCC's recommendations.

Over the longer term we are highly supportive of using pricing mechanisms to drive emissions reductions. However, the changes recommended by the CCC would represent very significant change and assume that the Government wants the NZ ETS to drive gross emissions reductions. In this regard these decisions could pre-empt decisions from the current review of the NZ ETS, and potentially result in misalignment with whatever Ministers ultimately decide about the role of the NZ ETS. We also appreciate there is a strong interest in cost-of-living impacts at the present time.

During Ministerial consultation, we recommended that the Minister of Finance ask for the Cabinet paper to include alternative options for Cabinet to consider alongside the Minister for Climate Change's preferred options [T2022/2280 refers]. Options have been included in the paper but have not been bundled in a way that makes it easy to understand what combination of options to choose to achieve different outcomes. We would not recommend deciding on each individual setting in isolation, as their effects could strongly interact.

We understand that the Prime Minister's Office may be discussing options further with key stakeholders, so a clearer preferred option set could emerge before the Cabinet Committee discussion.

If you do not yet have a preferred approach, we recommend that the discussion focus on what degree of change Ministers are comfortable with this year, and what you would like to achieve. For example, whether the Committee prefers:

- to achieve strong alignment with the CCC's recommendations
- an approach that has lower impacts on cost of living in the short term, but ramps up over time consistent with the direction recommended by the CCC, or
- minimal change pending the outcomes of the NZETS review.

With direction on what Ministers want to achieve, officials could then be asked to recommend the best set of options to achieve that prior to Cabinet confirming decisions.

For more detailed advice on these issues, refer our previous report of 28 October 2022 on this topic [T2022/2280 refers].

Treasury Recommendation:

Our preference would be for a more cautious approach to setting changes, particularly in the short term while the NZ ETS review concludes. We recommend Ministers agree in the first instance what you would like to achieve, and if necessary ask officials for further advice on which option set best achieves this.

Fiscal Implications:

Changes to NZ ETS settings will have direct impacts for government cash inflows through NZ ETS auctions. They are also likely to drive indirect revenue impacts through both how we account for the NZ ETS and through broader economic channels. These implications are not currently able to be estimated with any precision.

Refer T2022/2280 for more detailed advice on fiscal implications. s9(2)(g)(i)

IN-CONFIDENCE

s9(2)(j)

[redacted]

IN-CONFIDENCE

Te Ara Paerangi: Future Pathways

Hon Dr Ayesha Verrall, Minister of Research, Science and Innovation

Treasury contact: Marko Garlick s9(2)(k) [redacted]

Sign out contact: Kate Williamson s9(2)(k) [redacted]

Description:

The paper seeks agreement to publish a White Paper that lays out a reform of the public research system. The White Paper is a 'direction-setting' document that contains in-principle policy positions and signals future work. It proposes three phases:

1. Immediate workforce and people support – to be delivered in 2023
2. National Research Priorities – delivered from 2023 onwards
3. Institutional change (where required) – delivered from 2024 onwards.

Comments:

The Cabinet paper has undergone significant changes through consultation. s9(2)(f)(iv) [redacted] The paper now notes that Ministers will be presented with scaled and phased options when specific policy proposals are brought to Cabinet. s9(2)(f)(iv) [redacted]

Other changes to the paper include:

- measures of success that will track outcomes in the research system
- s9(2)(f)(iv) [redacted]
- signalling that further work will have particular focus on (a) increasing the economic and social impact of the research system (b) achieving alignment with the Government's Economic Plan, and (c) integration with Industry Transformation Plans.

Treasury Recommendation: Support

Fiscal Implications:

This paper has no direct fiscal implications. However, implementing the policy direction signalled in the White Paper will have costs associated with it, and these could be significant given the scale of ambition signalled in the White Paper. Indicative s9(2)(g)(i) [redacted] The paper indicates that Cabinet will be presented with a range of options for scaling and phasing when policy proposals are brought to Cabinet. The paper indicates that it is not feasible to support the reform through reprioritising from RSI baselines.

s9(2)(f)(iv) [redacted]

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00am on Monday 21 November 2022.

Chris Nees
Acting Manager Economic Strategy

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiritapu Allan
Associate Minister of Finance

_____/_____/_______

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet 21 November 2022

Date:	18 November 2022	**Report No:**	T2022/2550
		File Number:	CO-6-2-3-5

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11:00 am Monday 21 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ash Ratnayake	Team Coordinator and support, Governance and Accountability	s9(2)(k)	N/A (mob)	
Rose Austen	Team Leader, Governance and Accountability		N/A (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet 21 November 2022

The Treasury is aware of six substantive items and two oral items on the Cabinet agenda for 21 November 2022.

This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts for the following papers:

- Equitable Digital Access: Extending Service
- Better Protections for Contractors: Release of Consultation Document
- Repayable Capital Injection to Fire and Emergency New Zealand

The Treasury has **no comments** on the following papers on the agenda:

- Responding to Fleeing Drivers and Intimidating Behaviour using Vehicles
- COVID-19 Public Health Response (Extension of Act and Reduction of Powers) Amendment Bill: Approval for Introduction
- Oral Item: Release of Treasury's First Wellbeing Report
- Oral Item: Three Waters Reform Programme
- Ram Raids Offence

IN-CONFIDENCE

Equitable digital access for learners and whānau in 2023

Hon Chris Hipkins, Minister of Education

Hon Dr David Clark, Minister for the Digital Economy and Communications

Treasury contact: Danijela Tavich s9(2)(k)

Sign out contact: Laura King s9(2)(k)

Description: This paper seeks to extend the Equitable Digital Access programme, which expires in January 2023, to the end of June 2023. The programme provides free internet access to around 18,000 learner households who do not otherwise have this.

The paper requests $0.6 million operating funding from the between-Budget contingency (BBC) to support this. It also requests a fiscally neutral transfer of $3.15 million total within Vote Education to help fund the cost.

Comments:

We support the policy intent of the paper and the continuation of the Equitable Digital Access programme.

We support the requested transfer of $3.15 million. However, we do not support the funding request for $0.6 million from the BBC. The low level of funding should be able to be met through reprioritisation.

There is an outstanding question around the plan to phase out this programme from July 2023. You may wish to raise this as a query at Cabinet.

Treasury Recommendation:

Support, except for recommendation 5, which relates to the request for BBC funding. Instead, we recommend MoE meet the $0.6 million through reprioritisation within baseline funding. You might also consider requesting further information from officials regarding the phase out of the programme from July 2023.

Fiscal Implications:

Funding source								
Operating ($m)				Capital ($m)				
22/23	23/24	24/25	25/26 & outyears	21/22	22/23	23/24	24/25	25/26 & outyears
0.600	-	-	-	-	-	-	-	-

IN-CONFIDENCE

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Better Protections for Contractors – Release of Consultation Paper

Hon Wood, Minister for Workplace Relations and Safety

Treasury contact: Elliot Quitales / David Harrison s9(2)(k)

Sign out contact: Thomas Parry s9(2)(k)

Description: This paper seeks Cabinet's agreement to release a consultation paper on introducing a new test of employment status for some groups of contractors.

Comments:

Eleven different options to better protect contractors were previously publicly consulted on in 2019.

Cabinet's impact analysis requirements apply to the consultation paper as it has the effect of narrowing down the range of options being considered, but no Regulatory Impact Statement (RIS) accompanies the consultation paper, and the Treasury's Regulatory Impact Analysis Team have not exempted the proposal. Therefore, the paper **does not meet** Cabinet's requirements for regulatory proposals.

We note that a RIS including impact analysis on the full range of feasible options will be provided to support Cabinet's final decisions post-consultation.

Treasury Recommendation:

The Treasury recommends that you **support** this paper (noting that it has not complied with RIA process).

Fiscal Implications:

There are no direct fiscal implications arising from the proposal to consult in this paper. However, MBIE officials are preparing an associated Budget 2023 initiative to support the implementation of a new test of employment status.

IN-CONFIDENCE

Repayable Capital Injection to Fire and Emergency New Zealand

Hon Jan Tinetti, Minister of Internal Affairs

Treasury contact: Siobhan Duncan s9(2)(k)

Sign out contact: Colin Hall s9(2)(k)

Description: This paper seeks a repayable capital injection of $75.400 million to provide financial support to Fire and Emergency New Zealand (FENZ). This support is intended to facilitate a settlement of the Collective Employment Agreement between FENZ and the New Zealand Professional Firefighters Union (PFU).

Comments:

The Minister of Finance and the Minister of Local Government previously agreed to provide a repayable capital injection to support the settlement of the industrial dispute between FENZ and the PFU.

DIA's forecast financials show that with a levy increase in 2024/25 plus the repayable capital injection, FENZ would return to an operating surplus and maintain sufficient cash to meet its minimum working capital requirements ($50m). This includes meeting the ongoing costs of the settlement and repaying the principal and interest on the loan. This is based on a settlement of $145m which is the PFU counteroffer. The bargaining has been continuing but our understanding is that the PFU have indicated they will settle at this level.

The repayable capital injection of $75.400 million would be drawn down over three years from 2022/23 to 2024/25. The repayable capital injection is only intended to ensure that working capital levels are maintained until a levy adjustment can occur. As the repayable capital injection is expected to be repaid in full and with interest no later than 2032/33, it is deemed to be fiscally neutral.

An appropriation was established in 2017 of $10 million per annum to reflect the Crown contribution towards public good activities that Fire and Emergency performs that fall outside of the activities that the levies cover (such as attendance at medical emergencies). The paper invites the Minister of Internal Affairs to report back to Cabinet on the appropriate level of the Crown contribution to inform consideration of a potential future Budget bid.

Treasury Recommendation: Support

Fiscal Implications:

Funding source: The repayable capital injection is fiscally neutral and it will be repaid by 2032/33.									
Operating ($m)					Capital ($m)				
22/23	23/24	24/25	25/26	26/27 & outyears	22/23	23/24	24/25	25/26	26/27 & outyears
-	-	-	-	-	$25.400	$25.000	$25.000	-	-

IN-CONFIDENCE

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00 am on Monday, 21 November 2022.

Rose Austen
Team Leader, Governance and Accountability

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

RESTRICTED

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet External Relations and Security Committee 22 November 2022

Date:	18 November 2022	**Report No:**	T2022/2528
		File Number:	MS-5-4-ERS

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson) Associate Minister of Finance (Hon Dr Megan Woods) Associate Minister of Finance (Hon David Parker) Associate Minister of Finance (Hon Kiri Allan)	**Read** prior to the PreCab meeting with Treasury Officials.	Monday 21 November at 11.00am

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Susie McKenzie	Analyst, International	s9(2)(k)	s9(2)(g)(ii)	✓
Sarah Key	Team Leader, EQC Policy and International			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet External Relations and Security Committee 22 November 2022

The Treasury is aware of five items on the Cabinet External Relations and Security Committee agenda for 22 November 2022. This report provides the Treasury's comments and recommendations on the paper titled "Defence Policy Review: Engagement Plan" and identifies any relevant fiscal impacts.

The Treasury has no comments on the following papers on the agenda:

- Non-CabNet Item
- Climate Finance Portfolio – Funding for Climate Science for Ensuring Pacific Tuna Access and Tokelau Emergency Shelters
- Mitigating Risks of Arbitrary Detention for Diplomatic Leverage
- CPTPP: Approval and Authorisation to Sign an ISDS Side Letter with Chile.

RESTRICTED

Defence Policy Review: Engagement Plan

Hon Peeni Henare, Minister of Defence

Treasury contact: Michael Lonergan s9(2)(k) [redacted]

Sign out contact: Colin Hall s9(2)(k) [redacted]

Description: This paper seeks agreement to implement an engagement plan during late 2023 and early 2024 for the first two products in the Defence Policy Review.

Comments:

The engagement plan attached to the paper covers a range of stakeholders including the general public, Māori, defence industry, academia and defence personnel. The plan contains the questions to be asked in a public online survey, s9(2)(g)(i) [redacted]

The paper does not provide updates on the progress of the work to date and the key issues that will be surfaced in the Defence Policy and Strategy Statement, the first product in the Defence Policy Review. For example, s9(2)(g)(i) [redacted] implications for the remainder of the Policy Review process, including long term capability requirements for defence and associated fiscal implications. s9(2)(g)(i) [redacted]

Treasury Recommendation: Support the paper; s9(2)(g)(i) [redacted]

Fiscal Implications: The paper has no direct fiscal implications, as the costs of implementing the engagement plan will be met within existing baselines.

RESTRICTED

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11.00am on Monday 21 November.

Sarah Key
Team Leader, EQC Policy and International

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet Environment, Energy and Climate Committee Wednesday 23 November 2022

Date:	18 November 2022	**Report No:**	T2022/2552
		File Number:	MS-5-3-ENV

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11am Monday, 21 November 2022
Hon Dr Megan Woods **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11am Monday, 21 November 2022
Hon David Parker **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11am Monday, 21 November 2022
Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11am Monday, 21 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Guy Bennett-Longley	Analyst, Natural Resources	s9(2)(k)	s9(2)(g)(ii)	✓
Nicky Lynch	Manager, Climate Change			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet Environment, Energy and Climate Committee Wednesday, 23 November 2022

The Treasury is aware of 11 items on the Cabinet Environment, Energy and Climate Committee agenda for Wednesday, 23 November 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury has no comments on the following papers on the agenda:

- Essential Freshwater 2022 Amendments – seeking final agreement on wetland, technical, and stock exclusion amendments
- Approval to consult on amendments to the Exclusive Economic Zone and Continental Shelf (fees and Charges) Regulations 2013
- Proposed New Waste Strategy: Final Approach
- Decarbonising Transport Action Plan
- Clear Car Upgrade: Final Design Decisions for the Trial
- Amending the Resource Management (National Environmental Standards for Sources of Human Drinking Water) Regulations 2007
- Including long-term environmental outcomes in amendments to the Environmental Reporting Act 2015.

IN-CONFIDENCE

Agreement to implement a New Zealand Container Return Scheme

Hon David Parker, Minister for the Environment

Treasury contact: Tim Stevenson s9(2)(k) [redacted]

Sign out contact: Davin Hall s9(2)(k) [redacted]

Description: This paper seeks agreement to introduce a container return scheme (CRS) in New Zealand with a refundable deposit of either 10 or 20 cents.

Comments: s9(2)(f)(iv) [redacted] If this paper is still considered at the ENV committee on 23 November, we have outlined our current advice below.

We have had limited opportunity to review both the detail of the proposals and the Regulatory Impact Statement owing to a truncated consultation window and a significant volume of other waste reform papers. However, we provided initial advice on this paper as part of the suite of six Cabinet papers relating to waste minimisation (T2022/2397 refers), in which we noted:

- we support the intent of a CRS to improve the rates of recycling (from a current low base of approx. 45%)
- the deposit amount (10 or 20 cents) and the convenience of the return network would be the most important drivers of success
- there are important trade-offs to consider, with more return points adding costs to businesses, and a higher deposit amount increasing the price of beverages (despite the deposit amount being refundable for consumers), and
- we would prefer a more targeted mandatory return network (focused on larger retailers), in order to minimise costs on smaller businesses.

As part of continued engagement with the Ministry for the Environment around these points, the paper has been updated to state that it is the Minister for the Environment's expectation that mandated retail take back will apply to larger retailers such as supermarkets, and that it is likely smaller retail stores such as dairies will not be required to participate unless they wish to.

As part of considering whether to introduce a CRS in New Zealand, we also note:

- There are substantial implementation costs, which are intended to be financed by industry and business (for example, a supermarket would have to purchase or lease a Reverse Vending Machine), to be repaid over time by the scheme fee attached to beverage containers. s9(2)(f)(iv) [redacted]

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- The proposals to standardise kerbside recycling will also improve recycling rates, although the impact of this does not appear to have been quantified, making it difficult to compare the marginal costs and benefits of a CRS on top of this proposed change. The proposals could be sequenced to provide a better understanding of the net benefits of the deposit scheme.
- We note that the basis for the success of a CRS relies on the assumption that people will be sufficiently incentivised to participate in the scheme (the main driver of which will be the deposit amount). We are concerned there may be some optimism bias related to non-price drivers of the anticipated participation levels.
- There are equity considerations as part of the design of the system, with individuals living more rurally likely facing higher costs to claim their deposit refunds.

Treasury Recommendation: Defer so that the paper can be considered alongside or subsequent to the proposed new waste minimisation legislation

Fiscal Implications:

The paper notes:

- s9(2)(f)(iv)
-

Proposals for improving kerbside recycling and managing business food waste

Hon David Parker, Minister for the Environment

Treasury contact: Tim Stevenson s9(2)(k)

Sign out contact: Davin Hall s9(2)(k)

Description: This paper seeks agreement to:

1. Require all councils to collect recycling and food waste from households in urban areas
2. Standardise what recyclable materials are collected
3. Set performance standards to improve recycling rates, and
4. (In-principle) require businesses to separate food waste.

s9(2)(f)(iv)

Three of the proposals can be implemented under the current Waste Minimisation Act, but the fourth proposal to require businesses to separate food waste (for which in-principle agreement is sought) is dependent on the proposed new Act.

We note that the consultation period for this paper was truncated, and the Regulatory Impact Statement was not available, impacting our ability to understand and assess the proposals. Notwithstanding this, we are broadly supportive of the proposals in the paper, which would help to improve New Zealand's recycling rate and lower the methane emissions from waste disposal.

As noted in our advice on the suite of six Cabinet papers relating to waste minimisation (T2022/2397 refers), the proposals will have significant fiscal implications for local government and businesses. For local government, these costs are intended to be covered by the projected increase in waste levy revenue: by 2030 the annual costs are estimated to be between 30-40% of the total local government share of the levy revenue from 2030, although smaller councils will face higher costs as a proportion of revenue. $120 million has been made available by central government through the Waste Minimisation Fund to contribute toward the up-front infrastructure costs, estimated to be between $180 million to $210 million.

Businesses may face higher costs from the proposal to separate food waste, although this proposal is subject to further consultation.

Treasury Recommendation: Defer so that the paper can be considered alongside or subsequent to the proposed new waste minimisation legislation

Fiscal Implications:

The paper has no direct fiscal implications to central government, although as noted above $120 million has already been set aside through the Waste Minimisation Fund to contribute toward the up-front costs of the proposals.

Proposed legislative amendments to improve conservation management processes

Hon Poto Williams, Minister of Conservation

Treasury contact: Victoria Rhodes-Carlin s9(2)(k)

Sign out contact: Davin Hall s9(2)(k)

Description: This paper seeks legislative changes to improve the efficiency of concessions management and a number of small technical changes. These proposals reflect feedback from the public consultation in June 2022.

Comments: Treasury is supportive of the proposed legislative changes, particularly those related to concession management. These changes will reduce time and cost for stakeholders, tangata whenua, councils, and The Department of Conservation (DoC) by streamlining concessions processes.

They will permit greater allocation opportunities, transparency, clarity of rules, and enable more efficient management, such as generally authorising some activities (no concessions required or pre-approved activities). The technical amendments include changes to the auditing requirements for reserves boards. It is proposed that reserves boards would only be required to have their financial statements audited when their total operating expenditure is $550,000 or more. This change will require an amendment to the Public Finance Act. DoC has been working with Treasury and the Office of the Auditor-General on this amendment. Note that Cabinet agreed to the proposals in the Stewardship Land Bill being combined into the Conservation (Management and Processes) Amendment Bill at the drafting stage for a more efficient use of House and Select Committee time. **Treasury Recommendation: Support**
Fiscal Implications: The Regulatory Impact Statement (RIS) identifies the proposed improvements to concessions processes are estimated to save between 4.5% and 11% (net-benefit of $400,000 to $1,000,000 per year) of the cost of resourcing concession processes. However, some specific activities will be exempt from requiring individual concessions, which would not enable DoC to recover application processing costs or activity fees, however these are estimated to be minor (outlined in the RIS). Reserves boards will only need to have their financial statements audited when their total annual expenditure is $550,000 or more. No net fiscal implications have been identified in the paper, but there will be a minor loss of concessions revenue. Any costs arising from administering this proposal should be met from DOC baselines.

Report on the Centre for Climate Action on Agriculture Emissions, Investigation into an Early Adopter Fund and Investigation to Reduce Emissions on Pāmu Farms

Hon Grant Robertson, Minister of Finance

Hon Damien O’Connor, Minister of Agriculture

Hon David Clark, Minister for State Owned Enterprises

Treasury contact: Guy Bennett-Longley s9(2)(k)

Sign out contact: Davin Hall s9(2)(k)

Description: This paper provides a progress update on three actions from the Agriculture chapter of the Emissions Reduction Plan (ERP):

- establishment of the Centre for Climate Action on Agricultural Emissions;
- investigation of a potential Early Adopters Fund to incentivise the adoption of available mitigation technologies; and
- investigation of how the Government could support Pāmu to further reduce its gross emissions.

This is primarily a noting paper.

Comments: Treasury have been engaged in work to progress the Centre for Climate Action on Agricultural Emissions (“the Centre”), including establishment of the Crown-industry joint venture (JV) to drive development and commercialisation of agricultural emissions mitigation technologies.

We support the overall intent of the Centre and the JV to accelerate low emissions technologies for the agriculture sector.

Previously you received delegated authority, alongside the Prime Minister, Minister of Research, Science and Innovation, and the Minister of Agriculture to negotiate establishment of the Crown-industry JV [CAB-22-MIN-0105 refers]. We understand that MPI will soon seek agreement from joint Ministers to sign the shareholders’ agreement of the JV and take decisions on a suitable appropriation structure.

Based on the current draft of the joint Ministers briefing we have reviewed, we note:

- concerns with some of the proposed financing and shareholding arrangements in this joint Ministers briefing and intend to provide a Treasury comment to reflect this
- the potential for significant underspends, particularly in outyears as Budget 2022 agreed $122 million per annum ongoing to support the Centre.

Treasury Recommendation: Support, noting we intend to provide further comments on a related joint Ministers briefing once you receive it.

Fiscal Implications:

Budget 2022 allocated $339 million over four years, including $122 million per annum in outyear funding to accelerate the development of greenhouse gas mitigations technologies. Treasury expects any funding to support the JV, early adoption, or transition activities for industry to be drawn from this source of funds, or MPI's existing baseline.

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11am on Monday, 21 November 2022.

Nicky Lynch
Manager, Climate Change

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

Reference: T2022/2529

Date: 17 November 2022

To: Associate Minister of Finance (Hon Kiri Allan)

Deadline: 21 November 2022

Aide Memoire: Meeting with Ngā Pūkenga, 9.45-11.00 AM 21 November 2022

You have agreed to meet with members of Ngā Pūkenga, the group of te ao Māori thought leaders who work alongside Te Tai Ōhanga (the Treasury) to apply and develop He Ara Waiora.

The hui will take place 9.45-10.45 AM on 22 November 2022, at Te Tai Ōhanga, in the carved wharenui Ngā Mokopuna a Tāne. A runsheet for the hui is included at Appendix One.

You agreed to hold this hui with Ngā Pūkenga after considering our Treasury Report, Advancing and Applying He Ara Waiora [T2022-2247 refers]. The purpose of the hui is to discuss the overall strategy for embedding He Ara Waiora in the work of Te Tai Ōhanga.

Attendance and agenda

Four members of Ngā Pūkenga will attend the hui via MS Teams. Secretary to the Treasury Dr Caralee McLeish will attend this hui and speak for a very short time at the opening. Other members of the Executive Leadership Team will attend this hui in a listening, learning and support role. Members of the Te Ao Māori Strategy and Policy Team will attend in the same capacity. Speaking points to support your opening remarks are included at Appendix Two.

Following a short whakatau for you prior to this commencement of this hui, the suggested run sheet is as follows:

1. **Introductions** from those present (very brief);
2. **Opening remarks** – Secretary to the Treasury, Associate Minister of Finance, Chair of Ngā Pūkenga;
3. **Strategic direction** – checking in on the proposed priority actions for the next twelve months to embed He Ara Waiora; and
4. **Roles** – How can AMOF help to achieve this? How can Ngā Pūkenga support AMOF?

Further information to support your input into the discussion

Ngā Pūkenga are likely to be interested in both immediate practical implementation and strategy for the future. Topics of interest for them include:

- Future strategy for developing and applying He Ara Waiora, including your ambitions for the extent and speed of system change. They may ask for your opinion on what Ngā Pūkenga needs to prioritise to support He Ara Waiora.
- He Ara Waiora in annual Budget processes.
- Tools based on He Ara Waiora that can improve policy development processes. across the public service.

Future strategy

- This hui will provide a useful opportunity to check in that there is a shared vision for action over the next twelve months.
- Te Tai Ōhanga is doing work on embedding He Ara Waiora through the following:
    - The Budget 2023 process and Tukutuku Waiora project, both of which are outlined in more detail later in this paper.
    - Te Tai Waiora - the Wellbeing Report, which will be published on 24 November 2022, followed by 'Trends in Māori Wellbeing' background paper. We outlined some of the headline findings for Māori wellbeing in our previous Treasury Report on He Ara Waiora [T2022-2247]. A briefing on Te Tai Waiora is being held for Ngā Pūkenga and other Māori contributors later in the afternoon, at 1 PM on Monday 21 November.
    - Ngā Tohu Waiora – an initial indicator framework for He Ara Waiora being led by Te Puni Kōkiri, with the support of Te Tai Ōhanga.
    - A symposium in May 2023 to consolidate relationships and share practice between te ao Māori and government agencies in the application of He Ara Waiora.
- Over the next five years, Te Tai Ōhanga wants to see the application of He Ara Waiora contribute towards the following:
    - Measurable progress for New Zealanders, including Māori, towards Higher Living Standards. He Ara Waiora can help us measure success against Māori values and ambitions.
    - He Ara Waiora functions as a common language to discuss wellbeing between Māori and the Crown.
- Ngā Pūkenga has a sense of urgency about achieving system change through He Ara Waiora. Te Tai Ōhanga is also keen to make progress in its practical application, within the capacity and capability constraints across the public sector.
- Over a long timeframe, He Ara Waiora is intended to be non-political. It is a te ao Māori framework applied by Te Tai Ōhanga with Ngā Pūkenga's oversight and guidance.

He Ara Waiora in Budget processes

- Budget 2023 builds on the He Ara Waiora approach used in Budgets 2022 and 2021.
- The expansion of He Ara Waiora in Budget 2023 is being developed through the design of templates and guidance.
- He Ara Waiora plays a significant role in Value for Money (VfM) assessments of Budget initiatives. Your role in championing this analysis has been outlined in a previous Treasury Report [T2022/2319 refers].
- This year we are adding the 'Ends' of Te Taiao and Te Ira Tangata as part of the analysis.
- We have included He Ara Waiora in guidance and templates for New Spending and Climate Emergency Response Fund (CERF) Initiatives.
- We have identified a small number of flagship initiatives for which we will do deep dives into He Ara Waiora analysis, with the objective of producing exemplars to inform future Budget processes.
- As well as the 'main' Budget process for new initiatives, we have included He Ara Waiora in the purview of the Investment Panel, which evaluates significant investment proposals for which agencies are seeking Budget funding.
- You have previously suggested that Te Tai Ōhanga develop a slide pack for you to brief Ministerial colleagues on the application of He Ara Waiora in Budget 2023. We can support you to do this at an appropriate stage in the process.

He Ara Waiora policy tools

- Our previous briefing [T2022/2247] noted that Te Tai Ōhanga is running a project called Tukutuku Waiora. This aims to collect case studies of He Ara Waiora application and build policy tools to assist staff.
- Since then, on 20-21 October a small team from Te Tai Ōhanga met with two members of Ngā Pūkenga (Rangimarie Hunia and Sacha McMeeking) to capture their input into policy tools and guidance
- Ngā Pūkenga members observed that policy advice attempts to define and address narrow aspects of much larger policy problems.
- The policy toolkit discussed at the October wānanga had three possible elements to it:
    - Mai uta ki tai – a process for defining and scoping policy problems that pushes beyond narrow approaches and enables deep and cumulative approaches that address root causes and involve multiple players.
    - A guided, non-linear process of identifying issues, barriers, opportunities and impacts by working through to the centre of He Ara Waiora.
    - A comprehensive identification of the types of levers available to policy makers, with guidance on matching the right levers to the desired impacts.

- Te Tai Ōhanga is developing a project plan for Tukutuku Waiora, including further wānanga with Ngā Pūkenga to develop skeleton outlines of the above tools for further testing.

Phil Evans, Principal Advisor, Strategy and Performance, s9(2)(k)
Kara Nepe-Apatu, Manager Te Ao Māori Strategy and Policy, Organisational Strategy and Performance, s9(2)(k)

Appendix One: Run Sheet for AMOF meeting with Ngā Pūkenga, 9.45-11.00 AM 21 November 2022

Time	Process	Notes
9.30am	Staff meet in wharenui – Ngā Mokopuna a Tāne	Staff who are invited into the wharenui to be seated by 9.40am
9.45am	**Whakatau** • Karakia and mihi whakatau to AMOF • Opportunity for AMOF to respond to mihi • Waiata from staff – **Tai Aroha**	Kaikōrero will be Phil Evans - Principal Analyst, Te Ao Māori Strategy and Policy Team (Ngāti Mutunga, Kāi Tahu) Te Puna Wai, the Tai Ōhanga kapa haka group, will depart at the conclusion of this process.
9.55am	**Ngā Pūkenga / AMOF agenda:** 1. Very brief introductions from those present 2. **Opening remarks** – Secretary to the Treasury, AMOF, Chair of Ngā Pūkenga 3. **Strategic direction** – checking in on the proposed priority actions for the next twelve months to embed He Ara Waiora. 4. **Roles** – How can AMOF help to achieve this? How can Ngā Pūkenga support AMOF?	Phil Evans will provide some light touch chairing of the hui Ngā Pūkenga members attending by MS Teams: Rangimarie Hunia (Chair), Sacha McMeeking, Rikirangi Gage, Dame Naida Glavish. (Apologies from Kura Moeahu and Temuera Hall) Te Tai Ōhanga staff attending: • Dr Caralee McLeish • ELT members: Struan Little, James Beard, Tim Hampton, Dominick Stevens • Te Puna Aronui (Māori Staff members): Trevor Moeke, Phil Evans, Kara Nepe-Apatu, Ben Dickson, Anton O'Carroll, David Green.
10.45am	Meeting ends with closing karakia	

Appendix Two: Talking points for AMOF Opening Remarks

- I am keen to get your guidance on what you think we should prioritise over the next twelve months for He Ara Waiora. The big pieces we have underway are policy tool kits for staff, the Budget process and a symposium between te ao Māori and te kāwanatanga on He Ara Waiora.
- There is a general election next year, but up until the government system has to turn its attention to that, I am committed to helping apply He Ara Waiora in practical ways.
- I am keen to hear any guidance you can give to me, or to Te Tai Ōhanga, about how we can best do this.
- In terms of strategy, we are only limited by our imaginations. In terms of what we can achieve over the period leading up to the election, we are limited a bit by the capacity and capability in the public service.
- I also know that the Māori-Crown partnership is also a big call on the time of the Treaty partner. Your capacity is not unlimited either.
- This means we have to choose our actions carefully.
- One thing I thought I could do is to promote understanding of He Ara Waiora amongst my Ministerial colleagues ahead of crucial phases in Budget 2023.
- I will continue to encourage Te Tai Ōhanga to involve you in the development, application and review of its work.
- I know Te Tai Ōhanga plans to convene Ngā Pūkenga for a full meeting after Waitangi Day 2023 and I am keen to keep in touch after today.

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Lotto NZ 2023/24 Letter of Expectations

Date:	22 November 2022	**Report No:**	T2022/2376
		File Number:	CM-1-3-52

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	None	N/A
Minister of Internal Affairs (Hon Jan Tinetti)	**Agree** to sign the proposed Letter of Expectations for 2023/24 to the Chair of the New Zealand Lotteries Commission	7 December 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Amy Alder	Analyst, Commercial and Institutional Performance	s9(2)(k)	N/A (mob)	✓
Olivia Paterson	Principal Advisor, Commercial and Institutional Performance		N/A (mob)	

Minister's Office actions (if required)

Office of the Minister of Internal Affairs: Once signed **send** the attached letter to the Chair of the New Zealand Lotteries Commission. **Return** the signed report and a copy of the signed letter to the Treasury.

Note any feedback on the quality of the report

Enclosure: Yes
[Draft 2023_24 Letter of Expectations Lotto NZ (Treasury:4710623v1)]

Treasury Report: Lotto NZ 2023/24 Letter of Expectations

Purpose of Report

1. This report provides you with a draft Letter of Expectations (LOE) for the New Zealand Lotteries Commission (Lotto NZ) for your consideration and, if you agree, for signing and sending to the Board Chair.

General Content of the Letter of Expectations

LOEs are a key shareholding lever for communicating your expectations and influencing Crown companies' and entities' annual business planning processes

2. While not statutory documents, LOEs set out the Government's overarching priorities, and Ministers' specific and general ownership expectations of each Crown entity.

3. LOEs are generally sent to Chairs between October and December to allow time for companies and entities to incorporate Ministers' expectations in their business planning and statutory documents. Crown entities are then required to consult shareholding and responsible Ministers before finalising their statutory business planning documents.

General expectations

4. The attached draft LOE refers to the Government's priorities of keeping New Zealanders safe from COVID-19, accelerating the recovery and rebuild; and laying the foundations for a better future. The letter acknowledges that the post-COVID-19 operating environment and economic outlook are challenging and uncertain. The focus is on the importance of entities, where appropriate, focusing on delivering value in this environment through investing for future impact, supporting critical infrastructure and service investment and being financially prudent.

5. Annex 1 to the draft LOE sets out enduring expectations, including emissions reduction and climate change disclosure, and general governance expectations, including cyber security. Key business planning and reporting dates and processes for the 2023/24 financial year are also annexed to the draft LOE.

Proposed Expectations for Lotto NZ

6. We have consulted with Lotto NZ during the drafting of the LOE and have incorporated its feedback where appropriate.

7. The Department of Internal Affairs (DIA) was also consulted on the entity specific expectations and its feedback on the harm minimisation expectation, preferred language for harmful gambling and status of its gambling policy work has been incorporated.

8. The proposed entity-specific expectations for Lotto NZ build on those from last year, given the similar operating environment. The following expectations have had notable updates or additions since the previous LOE:

Balancing growth in sales with minimising harm from gambling

9. Following the Radio New Zealand (RNZ) series on Lotto NZ there has been increased focus on the impacts of its products on harm, underage gambling, and its harm minimisation measures, particularly for high-risk communities. Therefore, we have updated the LOE to recognise Lotto NZ’s current work towards reducing gambling harm and altered the wording to increase the focus on harm minimisation, including specific reference to communities who disproportionately experience harm from gambling.

Capital expenditure planning

10. Given Lotto NZ’s status as a public benefit entity, we have retained the expectation that Lotto NZ balance any capital expenditure with the need to distribute profits to the community.

11. s9(2)(b)(ii) [redacted] Given that Lotto NZ has a new capital project in development, the replacement of the core gaming system (now called Experience Driven Gaming, EDGe) we have updated this section to include the expectation that Lotto NZ ensures there is appropriate project governance in place to ensure that EDGe runs to time and budget.

Effective engagement with Legislative and Policy changes

12. The previous LOE focused on effective engagement with DIAs’ online gambling review. However, DIA has informed us that to better reflect the status of their gambling policy work the expectation should be raised to a higher level. We agree with DIA and have therefore lifted the wording of this section to reflect the expectation that Lotto NZ engages effectively on all proposed changes to legislation and policy over the 2023/24 financial year.

Next Steps

13. We request that the Minister of Internal Affairs either sign the attached draft LOE or provide feedback to the Treasury.

14. Once the LOEs have been signed and sent to the Chair, the Treasury, in consultation with Lotto NZ, will prepare the LOE for proactive release on the Treasury’s website. We will also consult with your office prior to releasing.

15. In response to the LOEs, Lotto NZ is expected to respond with its strategic issues letter by 28 February 2023. This letter is to acknowledge your expectations and outline any material issues that Lotto NZ expects to address during the next financial year.

Recommended Action

We recommend that you **agree** to sign the attached Letter of Expectations to the Chair of the New Zealand Lotteries Commission.

Agree/disagree.
Minister of Internal Affairs

Olivia Paterson
Principal Advisor, Commercial and Institutional Performance

Hon Grant Robertson
Minister of Finance

Hon Jan Tinetti
Minister of Internal Affairs

The attached Letter of Expectation will soon be available at:
https://www.treasury.govt.nz/publications/other-official-information/information-releases

RESTRICTED

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Report on Overseas Travel: Hon David Parker: APEC Finance Ministers Meeting, October 2022

Date:	21 November 2022	**Report No:**	T2022/2511
		File Number:	IM-6-1

Action sought

	Action sought	Deadline
Associate Minister of Finance (Hon David Parker)	**Sign** and **lodge** the attached draft Cabinet paper for consideration at Cabinet on Monday 28 November 2022.	10.00am, Thursday 24 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ben Lindsay	Analyst, International	s9(2)(k) [redacted]	s9(2)(g)(ii) [redacted]	✓
Conor McBride	Manager, International			

Minister's Office actions (if required)

Return the signed report to Treasury.

Sign and **lodge** the attached draft Cabinet paper.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Treasury Report: Report on Overseas Travel: Hon David Parker: APEC Finance Ministers Meeting, October 2022

Purpose of Report

1. This report provides you with a draft Cabinet paper, reporting back to Cabinet on your travel to Bangkok, Thailand from 19 October to 21 October 2022 to attend the Asia Pacific Economic Cooperation Finance Ministers Meeting (APEC FMM).

2. We recommend you lodge the paper by 10.00am, Thursday 24 November 2022, for consideration at Cabinet on Monday 28 November 2022.

The draft Cabinet paper reports back on your attendance at APEC FMM

3. The draft Cabinet paper summarises your key engagements at the APEC FMM and provides commentary on outcomes and key takeaways from the meeting.

4. Your engagements included:

   a core APEC FMM events, namely the three sessions on Global and Regional Economic and Financial Outlook, 2022 FMP Priorities, and Implementation of Cebu Action Plan;

   b a bilateral meeting with Canadian Associate Minister of Finance Hon Randy Boissonnault; and

   c informal pull-asides with Wally Adeyemo, Deputy Secretary of the United States Treasury, and Shinji Inoue, Senior State Minister of Finance for Japan.

5. The paper highlights that your attendance at the APEC FMM was an important demonstration of Aotearoa New Zealand's commitment to the Asia-Pacific, regional stability, multilateralism, and sustainable economic growth.

6. It notes that Finance Ministers could not achieve consensus on a Joint Ministerial Statement. In line with previous APEC meetings throughout 2022, conflicting views on including mention of Russia's illegal invasion of Ukraine precluded Finance Ministers' ability to achieve consensus. While this was not surprising, it was nonetheless disappointing given APEC's cooperation and consensus model.

7. The overarching commentary on the value of the APEC FMM is that despite there being no consensus on a Joint Ministerial Statement, the APEC FMM was a valuable event for Aotearoa New Zealand. It was a worthwhile opportunity to discuss economic challenges facing the region and to share insights on sustainable finance and digitalisation. Engaging directly with counterparts provided an opportunity to reconnect, cementing existing relationships and conveying Aotearoa New Zealand's priorities, while also demonstrating Aotearoa New Zealand's support for APEC and Thailand as host.

Recommended Action

We recommend that you:

a **sign** and **lodge** the attached draft Cabinet paper for consideration at Cabinet on Monday 28 November 2022.

Agree/disagree.

Conor McBride
Manager, International

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Final Cabinet Paper will soon be available at:
https://www.treasury.govt.nz/publications/information-release/finance-portfolio-cabinet-material

BUDGET-SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2568 BM-3-4-2

Date: 23 November 2022

To: Minister of Finance
(Hon Grant Robertson)

Deadline: None
(if any)

Aide Memoire: OECD Economic Outlook and New Zealand Country Note

This Aide Memoire informs you of the release of the OECD *Economic Outlook* (EO), released at 11pm NZST on 22 November 2022, which includes economic projections for the world economy and for each OECD member country. The New Zealand (NZ) country note and EO are attached.

To provide context for the NZ note and help you to communicate its key messages, this Aide-Memoire compares the OECD projections with the *Budget Economic and Fiscal Update* 2022 (BEFU) forecasts, the Treasury's latest public forecasts, and the forthcoming *Half-Year Economic and Fiscal Update* 2022 (HYEFU) forecasts which will be published on 14 December 2022.

Global Economic Outlook

The global economy is facing mounting challenges from high and persistent inflation, rising global interest rates, weakening confidence and continued uncertainty, particularly surrounding energy supply as a result of the war in Ukraine.

The OECD projections for global growth were revised up from April's EO by 0.1 percentage point (%age pts) in 2022, as activity has held up longer than previously anticipated, and revised down by 0.6 %age pts in 2023 as tighter monetary conditions dampen demand.

Energy supply uncertainty remains a significant downside risk to the outlook, particularly in Europe as winter approaches and gas supply remains heavily constrained.

The OECD cautions against fiscal policies that add to inflationary pressures, particularly energy subsidies, which will require higher policy rates. The OECD recommends fiscal policy focus on increasing energy security and diversifying energy supplies, through investment in green technologies.

Table 1: Summary of Economic Projections

	Real GDP Growth (annual average % change)			Inflation (annual average % change)		
	2022	2023	2024	2022	2023	2024
World	3.1	2.2	2.7	NA	NA	NA
OECD	2.8	0.8	1.4	9.4	6.5	5.1
US[1]	1.8	0.5	1.0	6.2	3.5	2.6
China	3.3	4.6	4.1	2.0	2.2	2.0
Euro area[2]	3.3	0.5	1.4	8.3	6.8	3.4
Australia	4.0	1.9	1.6	6.5	4.5	2.5
Canada	3.2	1.0	1.3	6.8	4.1	2.4
UK[2]	4.4	-0.4	0.2	8.9	6.6	3.3
NZ	2.1	1.0	1.2	7.3	5.2	3.2

1Inflation forecast is for Personal Consumption Expenditure Price Index (PCE)

2Inflation forecast is for Harmonised Index of Consumer Prices (HICP)

Note: The OECD uses expenditure GDP rather than the country's headline measure (eg. production GDP for NZ)

New Zealand Economic and Fiscal Outlook

The OECD projects New Zealand real GDP growth to slow to 1.0% in the 2023 calendar year, as rising interest rates dampen demand in the economy. This represents a downgrade of 1.0 %age pts from the April EO. Private consumption is expected to fall in 2023 due to falling house prices, rising debt-servicing costs and lower employment growth.

Inflation remains too high and further monetary policy tightening is recommended to return inflation to the midpoint of the 1-3% target band. The OECD assumes the Reserve Bank of New Zealand (RBNZ) raises the Official Cash Rate to 4.75%, where it remains until the middle of 2024. The OECD expect Consumers Price Index inflation to average 5.2% across 2023 and 3.2% in 2024.

The OECD expect fiscal consolidation across the forecast period, which supports monetary policy and helps to safeguard public finances in the long run. The OECD recommends that any fiscal support measures should be targeted and temporary, focused on cushioning the impacts of inflation on vulnerable households.

The OECD view risks to the projections as skewed to the downside, if tighter monetary conditions are required, and house prices fall further than anticipated.

Comparison to Treasury Forecasts

The OECD forecasts stronger economic growth in 2024 compared to the Treasury's HYEFU forecasts. The main driver of this is the Treasury's much weaker public consumption forecast. This reflects the Treasury's higher inflation forecast that causes a larger fall in real public consumption due to higher wage and cost pressures in the public sector, in addition to the unwind of COVID-19-related stimulus.

The OECD also forecasts stronger investment activity in 2023 and 2024 than the Treasury, likely reflecting the lower assumed peak in the OCR. The Treasury is forecasting investment to contract in both 2023 and 2024 as the impact of higher interest rates, and falling house prices weigh on the sector, particularly residential construction.

Table 2: Comparison Between OECD and Treasury Forecasts

		Year ended December		
		2022	2023	2024
Real expenditure GDP growth (annual average % change)	OECD	2.1	1.0	1.2
	BEFU 2022	3.1	2.0	1.0
	HYEFU 2022	2.4	1.1	0.6
Unemployment rate	OECD	3.3	4.0	4.6
	BEFU 2022	3.0	3.4	4.4
	HYEFU 2022	3.3	4.1	5.4
CPI Inflation (annual % change, year average)	OECD	7.3	5.2	3.2
	BEFU 2022	6.5	4.8	3.5
	HYEFU 2022	7.2	6.0	3.4

OECD Recommendations

The OECD make several policy recommendations for New Zealand:

- Strengthening mathematics and science teaching in primary schools and promoting digital apprenticeships would make New Zealand better positioned to take advantage of the digital transition and enhance long-term productivity growth, and

- To meet greenhouse gas emissions reduction targets, increases in the price of carbon emissions will need to be complemented by other measures, such as supporting the roll-out of a charging network for electric vehicles.

Henry Russell, Graduate Analyst, Forecasting, s9(2)(k)
Peter Gardiner, Manager, Forecasting, s9(2)(k)

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Letters of Expectations for 2023/24

Date:	23 November 2022	Report No:	T2022/2328
		File Number:	CM-1-0-M90101

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the key shareholder messages for the entities within the proposed Letters of Expectations for 2023/24 **Agree** for the Minister for State Owned Enterprises to sign the proposed Letters of Expectations for 2023/24 to the Chair of KiwiRail, Crown Infrastructure Partners, Christchurch International Airport, Dunedin International Airport and Hawke's Bay Airport **Agree** for the Minister of Agriculture to sign the proposed Letter of Expectations for 2023/24 to the Chair of Crown Irrigation Investments	7 December 2022
Associate Minister of Finance **Acting Minister for State Owned Enterprises** (Hon Dr Megan Woods)	**Agree** for the Minister for State Owned Enterprises to sign the proposed Letters of Expectations for 2023/24 to the Chairs of Airways, AsureQuality, Kordia and Quotable Value **Agree** for the Minister for Biosecurity to sign the proposed Letter of Expectations for 2023/24 to the Chair of Animal Control Products **Agree** for the Minister for Land Information to sign the proposed Letter of Expectations for 2023/24 to the Chair of Ōtākaro **Agree** to sign the proposed Letter of Expectations for 2023/24 to the Chair of NZ Post	7 December 2022
Associate Minister of Finance (Hon David Parker)	**Agree** for the Minister for State Owned Enterprises to sign the proposed Letter of Expectations for 2023/24 to the Chair of Transpower **Agree** for the Acting Minister for State Owned Enterprises to sign the proposed Letter of Expectations for 2023/24 to the Chair of NZ Post	7 December 2022
Minister for Biosecurity **Minister for Agriculture** **Minister for Land Information** (Hon Damien O'Connor)	**Agree** to sign the proposed Letter of Expectations for 2023/24 to the Chairs of Animal Control Products, Crown Irrigation Investments and Ōtākaro	7 December 2022
Minister for State Owned Enterprises (Hon Dr David Clark)	**Agree** to sign the proposed Letters of Expectations for 2023/24 to the Chairs of Airways, AsureQuality, Crown Infrastructure Partners, Kordia, KiwiRail (including NZ Railway Corporation), Quotable Value, Transpower, Christchurch International Airport, Dunedin International Airport and Hawkes Bay Airport	7 December 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Olivia Paterson	Principal Advisor, Commercial and Institutional Performance	s9(2)(k)	N/A (mob)	✓
Ann Webster	Manager, Commercial and Institutional Performance		N/A (mob)	

Minister's Office actions

All offices: Return the signed report to the Treasury.

Acting Minister for State Owned Enterprises' office: Once signed, **send** the attached letter to the Chair of NZ Post

Minister for State Owned Enterprises' office: Once signed, **send** the attached letters to the Chairs of Airways, AsureQuality, Crown Infrastructure Partners, KiwiRail, Kordia, Quotable Value, Transpower, Christchurch International Airport, Dunedin International Airport and Hawke's Bay Airport.

Minister for Biosecurity's office: Once signed, **send** the attached letter to the Chair of Animal Control Products.

Minister of Agriculture's office: Once signed, **send** the attached letter to the Chair of Crown Irrigation Investments.

Minister for Land Information's office: Once signed, send the attached letter to the Chair of Ōtākaro.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

DRAFT NZ Post LOE 2023-24.docx
DRAFT Airways Letter of Expectation FY23-24.docx
DRAFT AQ Letter of Expectation FY23-24.docx
DRAFT CIP Letter of Expectation FY23-24.docx
DRAFT Kiwirail Letter of Expectation FY23-24.docx
DRAFT Kordia Letter of Expectation FY23-24.docx
DRAFT QV Letter of Expectation FY23-24.docx
DRAFT Transpower Letter of Expectation FY23-24.docx
DRAFT CIAL Letter of Expectation FY23-24.docx
DRAFT DIAL Letter of Expectation FY23-24.docx
DRAFT HBAL Letter of Expectation FY23-24.docx
DRAFT Orillion Letter of Expectation FY23-24.docx
DRAFT CIIL Letter of Expectation FY23-24.docx
DRAFT Ōtākaro Letter of Expectation FY23-24.docx

The attached Letters of Expectation will soon be available at: https://www.treasury.govt.nz/publications/c

Treasury Report: Letters of Expectations 2023/24

Purpose of Report

1. The purpose of this report is to provide draft Letters of Expectations (LOEs) for the year ending 30 June 2024 for fourteen of the Crown-owned companies and entities[1]. We are seeking shareholding and responsible Ministers' consideration and approval of these LOEs.

2. The LOE is the primary vehicle by which shareholding and responsible Ministers set out their high level, strategic expectations of Crown companies and entities and is an opportunity to influence their strategic direction.

3. This report provides draft LOEs for the companies and entities in the following table and provides information for Minsters' consideration, about expectations for significant company and entity-specific matters.

Entity Name	Specific Significant Matters	Paragraph in cover report
Airways Corporation of New Zealand Limited (Airways)	N/A	
Animal Control Products Limited (trading as Orillion)	Diversification of product offerings	15 – 18
AsureQuality Limited (AsureQuality)	N/A	
Crown Infrastructure Partners Limited (CIP)	N/A	
Crown Irrigation Investments Limited (CIIL)	N/A	
KiwiRail Holdings Limited (KiwiRail), including New Zealand Railways Corporation	KiwiRail's confirmation as a state-owned enterprise brings greater focus on commercial performance and in facilitating public benefit delivery	19 – 21
Kordia Group Limited (Kordia)	N/A	
New Zealand Post (NZ Post)	Kiwi Group Holdings (KGH) divestment, special dividend and optimal capital structure	22 – 23
Ōtākaro Limited	Transition of Ōtākaro to a central Crown infrastructure delivery agency	24 – 25
Quotable Value Limited (QV)	Review of the Rating Valuations Rules	26 – 27
Transpower New Zealand Limited (Transpower)	N/A	
Christchurch International Airport Limited (CIAL)	Returning shareholder value	28 - 29
Dunedin International Airport Limited (DIAL)		
Hawke's Bay Airport Limited (HBAL)		

[1] These companies and entities are owned as state-owned enterprises, Crown entity companies, Public Finance Act Schedule 4A companies, and council-controlled organisations (the Airport companies) in which the Crown either a 50% ownership (DIAL and HBAL) or a minority ownership interest (CIAL 25%).

4. Additional Treasury reports, with draft LOEs, are being provided to shareholding or responsible Ministers of the other nine companies and entities as set out in the table below.

Entity Name	Report Due/Sent	Report #
The New Zealand Lotteries Commission	22 November 2022	T2022/2376
Network for Learning Limited	23 November 2022	T2022/2378
Education Payroll Limited		
Kiwi Group Capital Limited	23 November 2022	T2022/2458
Public Trust	23 November 2022	T2022/2527
Te Waihanga	30 November 2022	T2022/2520
Meteorological Service of New Zealand Limited (trading as MetService)	8 December 2022	T2022/2505
Landcorp Farming Limited (trading as Pāmu)	8 December 2022	N/A
Reserve Bank of New Zealand	12 December 2022	T2022/2427

Purpose and content of the LOEs

LOEs are a key shareholding lever for communicating your expectations and influencing Crown companies' and entities' annual business planning processes

5. While not statutory documents, LOEs set out the Government's overarching priorities, and Ministers' specific and general ownership expectations of each company and entity. LOEs are generally sent to Chairs between October and December to allow time for companies and entities to incorporate Ministers' expectations in their business planning and statutory documents. Companies and entities are then required to consult shareholding and responsible Ministers before finalising their statutory business planning documents.

6. All the attached draft LOEs refer to the Government's priorities of keeping New Zealanders safe from COVID-19, accelerating the recovery and rebuild; and laying the foundations for a better future. The letters acknowledge that the post-COVID-19 operating environment and the economic outlook are challenging and uncertain. The focus is on the importance of entities, where relevant, delivering value through investing for future impact, supporting critical infrastructure and service investment, and being financially prudent.

7. Annex 1 to the draft LOEs sets out enduring expectations, including emissions reduction and climate change disclosure, and general governance expectations, including on strengthening the director pipeline and cyber security. Annex 2 provides key business planning and reporting dates and processes for the 2023/24 financial year.

Enduring expectations

Carbon Neutral Government Programme (CNGP)

8. The draft LOE includes a section on the CNGP. The text for this has been developed in consultation with MfE.

9. Cabinet has decided that all SOEs are included in Tranche 3 of the CNGP. This means that MfE will include all SOEs when it reports on the CNGP to Cabinet. Inclusion in the CNGP does not require SOEs to provide information to MfE, and it does not require SOEs to take any specific actions regarding emissions reductions – i.e. SOEs have not been directed.

10. Under the CNGP, SOEs would report annually from 1 December 2023 on their verified emissions over the previous financial year and set a gross emission reduction target aligned to a 1.5 degree pathway. Under the SOE Act, Ministers cannot direct SOEs to set a gross emissions reduction target, and then take steps to meet the target. Therefore, reflecting that SOEs are companies under the Companies Act and boards are responsible for the principal objective of being a successful business, while SOEs are "included" in the CNGP, they can choose not to participate, or choose to partially participate (e.g. by reporting, but not by committing to offset remaining emissions from 2025 to become carbon neutral).

11. SOEs could choose to report on climate risks based on climate standards being developed by the XRB (Climate-related Disclosures, CRD) in addition to CNGP, or as an alternative to CNGP.

12. We have drafted the LOE to be clear about what SOEs being "included" in the CNGP means, and to avoid implying that SOEs are directed to participate in the CNGP. The LOE also makes it clear that if SOEs choose not to participate, Ministers still expect them to provide public reporting and transparency on climate related matters, such as through the CRD.

13. MfE will be seeking information from SOEs to report to Ministers – including from any SOEs that choose to opt out of CNGP. The LOE encourages SOEs to co-operate with MfE in providing reporting, without directing them, and on the assumption that MfE's requests for information will not impose significant compliance costs on SOEs.

Company and entity-specific expectations

14. Minsters are asked to note the following entity-specific matters included in draft LOEs.

Orillion

15. s9(2)(g)(i) [redacted] We are developing a strategic work programme to better understand these risks and drafted entity-specific expectations in the LOE to reflect our assessment of focus areas.

16. Due to Orillion's position in the domestic market, it is diversifying its product offerings, including those for offshore markets. The draft LOE acknowledges Orillion's significant contribution to New Zealand's biosecurity and reiterates expectations that this strategy does not pose risks to Orillion's long term sustainability or its ability to continue to provide products to the domestic market.

17. Orillion is preparing a licence agreement to commercialise a rat-selective toxin. The draft LOE encourages the Board to consider whether the aggregate investment exceeds Ministerial consultation thresholds, and that consideration be given to how investment can be managed consistently with its dividend policy.

18. s9(2)(g)(i) [redacted] The draft LOE requests that Orillion's Strategic Issues Letter outlines how the Board manages and mitigates key person or other risks.

KiwiRail

19. Ministers' decision to confirm KiwiRail's entity form as a state-owned enterprise (SOE) brings heightened expectations around KiwiRail's transformation to commercial self-sustainability and performing to a level that maximises public benefits from a resilient and reliable rail network.

20. Ministers' letter of September 2022, confirming that KiwiRail remains an SOE, does not represent a change in focus. The draft LOE therefore reinforces messages of previous LOEs, including:

    - a continued focus on the transition to above-rail commercial self-sufficiency, with the expectation that results match the projections
    - ensuring an efficient and effective investment programme with continual re-evaluation by the Board of the impact and effectiveness of investments, past, present and future
    - given the Government has invested heavily in rail with the expectation of significant public benefits outcomes, KiwiRail should maintain an awareness of, and report its contribution to, these outcomes, and
    - an expectation that engagement with the Crown is transparent and constructive, which includes comprehensive reporting to give transparency to above and below-rail performance and providing a full range of options if Crown support is sought.

21. The draft letter also highlights the need for KiwiRail to build credibility with stakeholders. For this to be effective, KiwiRail will need to deliver on improved health and safety and workplace relations, alongside constructive sector engagement.

New Zealand Post

22. NZ Post has stated that it needs to retain $400 million of the proceeds from the sale of its shareholding in Kiwi Group Holdings Limited (KGH) to support its transformation programme and maintain an investment grade credit rating. The draft LOE re-iterates shareholding Ministers' acknowledgement of this, together with the Board's commitment to building shareholder value through the retention and the planned capital investment programme (previously expressed in a LOE in June 2022).

23. The draft LOE encourage the Board to maintain prudent decision making in respect of capital expenditure, including ensuring new investments are supported by robust business cases. It continues the expectation that NZ Post returns any surplus capital to the Crown after considering the company's optimal capital structure and use of capital. The draft LOE also acknowledges the Board's commitment to formally review its cash flow forecasts and balance sheet every six-months in line with arrangements agreed with the Treasury, with the clear intention of ensuring an optimal capital structure including returning any surplus capital.

Ōtākaro

24. s9(2)(f)(iv) [redacted]

25. [redacted]

QV

26. Land Information New Zealand (LINZ) has advised that the Office of the Valuer General (OVG) will commence the review of the Rating Valuations Rules (Rules). The OVG will initially consider the format of audit information and will engage with councils and service providers. It will then review the District Valuation Roll content alongside other Rules. The OVG aims to formally consult on revised Rules s9(2)(f)(iv) and 9(2)(g)(i) [redacted]

27. [redacted]

Airports - Supply-side capacity and market constraints

28. The airport companies (CIAL, DIAL and HBAL) have had pleasing FY22 Q4 and strong starts to FY23 Q1, with significant growth in passenger numbers. These results have given reassurance that the outlook for the airport companies and the aviation sector is positive. Supply-side capacity constraints continue to be a challenge and market constraints will place pressure on the airport companies' costs, as airlines adjust to match the rebound in traveller demand.

29. The LOE for airports includes an expectation that they improve shareholder value over the longer term by investing in future development and growth opportunities, and to meet short-term financial targets, including paying dividends in line with the recovery of the aviation and tourism industry.

Next Steps

30. If the Minister of Finance, Associate Ministers of Finance, and the relevant Shareholding and responsible Ministers agree with the content of the draft LOEs, the next steps are, by **7 December 2022**, for:

    a the Acting Minister for State Owned Enterprises to sign the attached LOE for NZ Post and send it to the company's Chair b the Minister of Agriculture to sign the attached LOE for Crown Irrigation Investments and send it to the company's Chair

c the Minister for Biosecurity to sign the attached LOE for Animal Control Products and send it to the company's Chair

d the Minister for Land Information to sign the attached LOE for Ōtākaro and send it to the Chair, and

e the Minister for State Owned Enterprises to sign the attached LOEs and send them to the Chairs of Airways, AsureQuality, Crown Infrastructure Partners, KiwiRail, Kordia, Quotable Value, Transpower, and the Airport companies (CIAL, DIAL and HBAL).

31. In response to the LOEs, the companies' and entities' boards are expected to send a Strategic Issues Letter to their shareholding Ministers by 28 February 2023. This letter is to acknowledge Ministers' expectations and outline any material issues that the company or entity expects to address during the next financial year. These issues are expected to be addressed thought the entity's business plan and where appropriate reflected in public accountability documents.

32. Once LOEs have been signed by Ministers and sent to Chairs, Treasury will prepare LOEs for proactive release on the Treasury's website. We will liaise with each company and entity to identify and remove any commercially sensitive or confidential information and then consult with your offices on the proposed redactions prior to releasing.

Recommended Action

We recommend that you:

a **agree** for the Minister of Agriculture to sign the attached Letter of Expectations to the Chair of Crown Irrigation Investments

Agree/disagree. Minister of Finance	*Agree/disagree.* Minister of Agriculture

b **agree** for the Minister for State Owned Enterprises to sign the attached Letters of Expectations to the Chairs of KiwiRail, Crown Infrastructure Partners, Christchurch International Airport, Dunedin International Airport and Hawke's Bay Airport

Agree/disagree. Minister of Finance	*Agree/disagree.* Minister for State Owned Enterprises

c **agree** for the Minister for Biosecurity to sign the attached Letter of Expectations to the Chair of Animal Control Products

Agree/disagree. Associate Minister of Finance (Hon Dr Megan Woods)	*Agree/disagree.* Minister for Biosecurity

d **agree** for the Minister for Land Information to sign the attached Letter of Expectations to the Chair of Ōtākaro

Agree/disagree. Associate Minister of Finance (Hon Dr Megan Woods)	*Agree/disagree.* Minister for Land Information

e **agree** for the Minister for State Owned Enterprises to sign the attached Letters of Expectations to the Chairs of Airways Corporation of New Zealand, AsureQuality, Kordia and Quotable Value

Agree/disagree. Associate Minister of Finance (Hon Dr Megan Woods)	*Agree/disagree.* Minister for State Owned Enterprises

f **agree** for the Acting Minister for State Owned Enterprises to sign the attached Letter of Expectations to the Chair of NZ Post

Agree/disagree. Acting Minister for State Owned Enterprises (Hon Dr Megan Woods)	*Agree/disagree.* Associate Minister of Finance (Hon David Parker)

g **agree** for the Minister for State Owned Enterprises to sign the attached Letter of Expectations to the Chair of Transpower

Agree/disagree. Associate Minister of Finance (Hon David Parker)	*Agree/disagree.* Minister for State Owned Enterprises

Ann Webster
Manager, Commercial
Institutional Performance

David Stanley
Acting Manager, Commercial and
and Institutional Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance
Acting Minister for State Owned Enterprises

Hon David Parker
Associate Minister of Finance

Hon Damien O’Connor
Minister for Biosecurity
Minister of Agriculture
Minister for Land Information

Hon Dr David Clark
Minister for State Owned Enterprises

COMMERCIAL-IN-CONFIDENCE

T2022/2524 Commercial Performance State of Play as at 23 November 2022

To: Minister of Finance (Hon Grant Robertson)

Associate Minister of Finance, Acting Minister for State Owned Enterprises (Hon Dr Megan Woods)

Associate Minister of Finance (Hon David Parker)

Minister for State Owned Enterprises, Minister Responsible for the Earthquake Commission (Hon Dr David Clark)

From: Olivia Paterson, Principal Advisor, Commercial and Institutional Performance

Ann Webster, Manager, Commercial and Institutional Performance

This report provides an update on current issues in relation to commercial entities and public benefit entities within the Crown portfolio. Please tick a box if you would like more information on a topic.

1. New and notable issues

Crown portfolio – Commercial entities

More info?	Entity / Issue	Update
☐	**Crown Companies and Entities – Select Committee attendance** *(Amy Alder)*	Each year a subset of entities within the Crown companies and entities portfolio are requested to appear in front of Select Committee as a part of the Annual Review process. Attendance at Select Committee may be of interest to Ministers as these are public sessions that may draw media attention. To date, the Treasury has been informed that the following entities have been requested to appear at Select Committee:

Entity	Date	Select Committee
Reserve Bank of New Zealand	24 November 2022	Finance and Expenditure committee
Pāmu / Landcorp	24 November 2022	Primary Production Committee
NZ Post	8 December 2022	Economic Development, Science and Innovation select committee
RNZ	14 December 2022	Social Services and Community Committee
TVNZ	14 December 2022	Social Services and Community Committee
KiwiRail	16 February 2023	Transport and Infrastructure Committee
MetService	27 February 2023	Transport and Infrastructure Committee
Te Waihanga	TBC, late January – early February	Finance and Expenditure Committee
Crown Irrigation	TBC, February 2023	Primary Production Committee
Lotto NZ	TBC, February 2023	Social Services and Community Committee
Kordia	TBC, February 2023	Economic Development, Science and Innovation

COMMERCIAL IN-CONFIDENCE

<table>
<tr><th>More info?</th><th>Entity / Issue</th><th>Update</th></tr>
<tr><td></td><td></td><td><table><tr><td>Crown Infrastructure Partners</td><td>TBC, February 2023</td><td>TBC</td></tr></table>
We will provide you with regular updates on companies and entities attendance as details are confirmed. Officials at the Treasury will attend these sessions and update the offices on any items of note.</td></tr>
<tr><td>☐</td><td>Dunedin International Airport Limited (DIAL) – Special dividend

(Kylie Kuan)</td><td>On 10 November 2022, DIAL paid dividends of $1.0m. This included an ordinary dividend for FY22 of $0.4m, in line with DIAL’s dividend policy, and a special dividend of $0.6m that was previously withheld.

In FY21, DIAL paid dividends below its dividend policy (30% of adjusted NPAT rather than 60%) due to COVID-19 s9(2)(j) [redacted] (T2021/878 refers).

As passenger numbers rise and earnings return to positive, the Board is satisfied that DIAL has met the metrics required to pay the remaining FY21 dividends (i.e., the remaining 30% of FY21 adjusted NPAT). The Board’s consideration included that DIAL is carrying a positive operating cashflow of $0.2m per month.</td></tr>
<tr><td colspan="3">s9(2)(i) [redacted]</td></tr>
<tr><td>☐</td><td>MetService – Kelburn building

(Catalina De Mendoza)</td><td>MetService, [redacted] s9(2)(b)(ii) and 9(2)(ba)(i)

The Kelburn building is located on a reserve for local purposes administered by DOC. MetService and DOC have been considering the future and the long-term occupation of the Kelburn building since 2020. In September 2021, MetService notified DOC that it could not fund the seismic strengthening required and would vacate the site.

[redacted] s9(2)(b)(ii) and 9(2)(ba)(i)

s9(2)(g)(i) [redacted]</td></tr>
</table>

COMMERCIAL IN-CONFIDENCE

More info?	Entity / Issue	Update
☐	**MetService and the Wellington 'Science City' Property Project - Update** *(Zac Gadsby)*	Last week, Steve Maharey, Chair of the Wellington 'Science City' Property Project (the Project) s9(2)(ba)(i) [redacted] MetService has informed the Panel Chair and the Treasury that it will not continue its voluntary attendance in the Project and that it does not regard co-location as viable because it: • s9(2)(h) [redacted] • does not believe it has strong alignment with the practices and activities of the science focused Crown Research Institutes (CRIs). MetService considers that a better fit would be to co-locate with emergency management agencies such as the National Emergency Management Agency and/or Fire and Emergency New Zealand (which are both out of scope of the Project). The Board expects to decide on MetService's long-term location early in the next calendar year. The Treasury acknowledges the complexity of MetService's position. We will provide you with advice on this and other challenges it is facing in the performance update and Letter of Expectation briefing in December 2022.

2. Upcoming reports/Cabinet papers

Company	Report No.	Subject	Date
SOEs	T2022/2328	Omnibus Letters of Expectations 2023/24	23 November 2022
EQC & Southern Response	T2022/2283	Letters of Expectations 2023/24	23 November 2022
Public Trust	T2022/2527	Letters of Expectations 2023/24	23 November 2022
Kiwi Group Capital Ltd	T2022/2458	Kiwi Group Capital Limited: Letter of Expectations	24 November 2022
Te Waihanga	T2022/2520	Te Waihanga Letter of Expectations 2023/24	30 November 2022
RNZ, TVNZ and ANZPM	T2022/2564	Final and first annual reporting requirements for RNZ, TVNZ and ANZPM	1 December 2022
Education Payroll Ltd	T2022/2574	Minister Meeting Briefing: Meeting with EPL 8 December 2022	1 December 2022
s9(2)(b)(ii), 9(2)(i) and 9(2)(h)			
MetService	T2022/2505	MetService Performance Update and Letter of Expectations	8 December 2022
Pāmu	TBC	Pāmu Letter of Expectations 2023/24	8 December 2022
s9(2)(f)(iv)			
Reserve Bank of New Zealand	T2022/2427	Reserve Bank of New Zealand: Letter of Expectations for 2023/24	12 December 2022

3. Upcoming Governance and Appointments reports

Company	Report No.	Subject	Date	Minister
s9(2)(f)(iv)				
KiwiRail	T2022/2587	Talking points for APH	23 November 2022	Minister of Finance Minister for State Owned Enterprises
Reserve Bank of New Zealand	T2022/2540	Elevation Documentation for the Governor General	28 November 2022	Minister of Finance
Reserve Bank of New Zealand	T2022/2576	Talking points for APH	1 December 2022	Minister of Finance
s9(2)(f)(iv)				

4. Official Information Act (OIA) requests under action

Ministerial OIAs (MOIAs) under action

Company	Requestor	Report No, Subject	Draft reply due to office	Final reply due to requester	Minister
RBNZ	s9(2)(a)	20220479;5862 T2022/2455: Reappointment of Adrian Orr	29 November 2022	6 December 2022	Minister of Finance
NZ Post		20220467;OIA22-176; T2022/2449: Request for four reports	30 November 2022	14 December 2022	Acting Minister for State Owned Enterprises (Hon Dr Woods)

Treasury OIAs (TOIAs) under action

Company	Requestor	Report No, Subject	TOIA Inform due to office	Treasury reply due to requester	Minister receiving Inform
RBNZ	s9(2)(a)	20220480;T2022/2475: Reappointment of Adrian Orr	28 November 2022	6 December 2022	Minister of Finance

Olivia Paterson
Principal Advisor, Commercial and Institutional Performance

Ann Webster
Manager, Commercial and Institutional Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance
Acting Minister for State Owned Enterprises

Hon David Parker
Associate Minister of Finance

Hon Dr David Clark
Minister for State Owned Enterprises
Minister Responsible for the Earthquake Commission

COMMERCIAL IN-CONFIDENCE

Annex One: Entities covered by this State of Play*

Crown portfolio, excluding public benefit entities

Entities	Shareholding or Responsible Ministers
State owned enterprises	
KiwiRail New Zealand Railways Corporation	- Minister for State Owned Enterprises - Minister of Finance
Airways AsureQuality Kordia MetService Quotable Value	- Minister for State Owned Enterprises - Minister of Finance *delegated to Associate MoF (Hon Dr Megan Woods)*
Electricity Corporation of New Zealand Landcorp Transpower	- Minister for State Owned Enterprises - Minister of Finance *delegated to the Associate MoF (Hon David Parker)*
New Zealand Post	- Acting Minister for State Owned Enterprises (*Hon Dr Megan Woods*) - Minister of Finance *delegated to the Associate MoF (Hon David Parker)*
Orillion (Animal Control Products)	- Minister of Finance *delegated to Associate MoF (Hon Dr Megan Woods)* - Minister for Biosecurity
Mixed ownership model companies	
Air New Zealand	- Minister of Finance
Genesis Energy Mercury NZ Meridian Energy	- Minister for State Owned Enterprises - Minister of Finance
Airports	
Christchurch International Airport Dunedin International Airport Hawke's Bay Airport	- Minister for State Owned Enterprises - Minister of Finance
Crown entity companies	
Television New Zealand	- Minister of Finance - Minister for Broadcasting and Media
Statutory entities	
Public Trust	- Minister of Justice *delegated to Associate Minister of Justice (Hon Aupito William Sio)*
Other Crown-owned companies	
Kiwi Group Holdings	- NZ Post majority shareholder

Crown portfolio – Public benefit entities

Entities	Shareholding or Responsible Ministers
Crown entity companies	
Radio New Zealand	- Minister of Finance - Minister for Broadcasting and Media
Crown Irrigation Investments	- Minister of Finance - Minister of Agriculture
Schedule 4A entities	
Crown Infrastructure Partners	- Minister for State Owned Enterprises - Minister of Finance
Education Payroll	- Minister of Finance *delegated to Associate MoF (Hon Dr Megan Woods)* - Minister of Education
Network for Learning	- Minister of Finance *delegated to Associate MoF (Hon David Parker)* - Minister of Education
Ōtākaro	- Minister of Finance *delegated to Associate MoF (Hon Dr Megan Woods)* - Minister for Land Information
Southern Response Earthquake Services	- Minister Responsible for the Earthquake Commission - Minister of Finance
Statutory entities	
Te Waihanga	- Minister for Infrastructure
The New Zealand Lotteries Commission	- Minister of Internal Affairs

**The Treasury is the secondary monitor of Schedule 4A entities Research and Education Advanced Network New Zealand and City Rail Link Limited, and Crown Research Institutes (Institute of Environmental Science and Research, Landcare Research New Zealand, The New Zealand Institute for Plant and Food Research, National Institute of Water and Atmospheric Research, GNS Science International, AgResearch and Scion Group). The advice and commercial performance overview of these entities is provided to you by the Ministry of Business, Innovation and Employment or Ministry of Transport and is not included in the scope of this State of Play.*

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Annex Two: Companies' and Entities' year to date financial results to 30 September 2022

Commercially oriented entities

Q1 FY23 YTD	EBITDA (underlying)			Capex			Dividends			Commentary
NZDm	Actual	Budget	Var.	Actual	Budget	Var.	Actual	Budget	Var.	
SOEs										
Airways	4.8	s9(2)(ba)(i) [redacted]		6.6	s9(2)(ba)(i) [redacted]		–	s9(2)(ba)(i) [redacted]		EBITDA reflects COVID-19 recovery and lower labour costs. Capex reflects supply chain and resource constraints. Consultation on amendments to its Pricing Framework and Standard Terms and Conditions ahead of a one-off, out-of-cycle price reset closed on 20 October 2022 (results to be published online).
AsureQuality	2.8			2.1			2.9			Revenue and Opex were both above budget. However, higher Opex reflecting unfavourable labour and transportation costs resulted in below-budget EBITDA. Dividends paid were below-budget due to an unfavourable FY22 net profit.
Kiwi Group Holdings	86.6			3.1			23.8			Favourable results driven mainly by net interest income s9(2)(b)(ii) [redacted] The higher dividend was due to the pay out of excess cash from Kiwi Wealth ahead of the sale.
KiwiRail (above rail)	26.6			86.9			–			–
Kordia	6.6			2.8			2.0			The successful completion of the disposal of Kordia Solutions Australia has strengthened Kordia's balance sheet and allowed it to pay a dividend of $2 million s9(2)(b)(ii) [redacted]
Landcorp	(7.5)			12.2			5.0			EBITDA was favourable, driven by an over-provision in personnel costs in FY22. Capex was below budget due to project delays. Dividend payment was unfavourable as Landcorp has decided to retain funds in anticipation of worsening economic conditions.
MetService	2.3			1.6			–			Below budget Capex s9(2)(b)(ii) [redacted] lower than anticipated labour being directed to asset development (i.e., software) and instead being expensed.
NZ Post	21.7			30.8			–			EBITDA is s9(2)(b)(ii) [redacted] behind budget which has been driven by a softening in parcel volumes due to reduced ecommerce activity.
Orillion	1.9			0.0			0.6			Sales down on budget but expected to equal or exceed FY23 budget. Factory overhead costs above budget due to maintenance, repairs, and inward freight charges. Dividend above budget reflecting strong FY22 results.
QV	1.7			0.3			–			EBITDA is below budget due to additional resources required to complete rating valuations, and lower revenue from the commercial segment s9(2)(b)(ii) [redacted] Capex is below budget due to s9(2)(b)(ii) [redacted] but it is expected to pick up in Q2-Q4.
Transpower	144.3			93.6			72.0			–

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Q1 FY23 YTD	EBITDA (underlying)			Capex			Dividends			Commentary
NZDm	Actual	Budget	Var.	Actual	Budget	Var.	Actual	Budget	Var.	
Airports										
Christchurch Airport	27.0	s9(2)(ba)(i) [redacted]		3.8	s9(2)(ba)(i) [redacted]		–	s9(2)(ba)(i) [redacted]		s9(2)(b)(ii) [redacted]
Dunedin Airport	2.9			1.4			–			–
Hawke's Bay Airport	1.8			0.8			–			–
Other										
Public Trust	1.9			0.4			–			Lower personnel costs and timing of marketing spend contributed to a favourable EBITDA result.
TVNZ	9.4			0.7			–			Favourable ad revenue * [redacted] on budget), lower content spend * [redacted] on budget) and non-content costs * [redacted] on budget). TVNZ has * [redacted] share per PwC's Q1 TV market results. Capex rephased to later in FY23.
Total*	**248.3**			**243.9**			**82.5**			*s9(2)(b)(ii) [redacted]

* Excluding Kiwi Group Holdings, as it is a subsidiary of NZ Post. Total not weighted by ownership %.

Public benefit entities

Q1 FY23 YTD	Opex			Capex			Crown capital injected			Commentary
NZDm	Actual	Budget	Var.	Actual	Budget	Var.	Actual	Budget	Var.	
		s9(2)(ba)(i) [redacted]			s9(2)(ba)(i) [redacted]			s9(2)(ba)(i) [redacted]		
Crown Infrastructure Partners	65.1	[redacted]	[redacted]	0.0	[redacted]	[redacted]	–	[redacted]	[redacted]	Variances are due to timing of the grant expenses claims from build partners.
Crown Irrigation	0.2	[redacted]	[redacted]	–	[redacted]	[redacted]	–	[redacted]	[redacted]	–
Education Payroll	6.1	[redacted]	[redacted]	2.0	[redacted]	[redacted]	–	[redacted]	[redacted]	EPL's payroll timeliness and accuracy performance measures came in slightly under target due to the revised Performance Measurement Framework with the Ministry of Education and s9(2)(b)(ii) [redacted]
KiwiRail (below rail)	48.3	[redacted]	[redacted]	159.8	[redacted]	[redacted]	44.7	[redacted]	[redacted]	–
Lotto NZ	239.6	[redacted]	[redacted]	1.1	[redacted]	[redacted]	–	[redacted]	[redacted]	s9(2)(b)(ii) [redacted]
Network 4 Learning	12.0	[redacted]	[redacted]	1.4	[redacted]	[redacted]	–	[redacted]	[redacted]	
Ōtākaro	20.3	[redacted]	[redacted]	14.8	[redacted]	[redacted]	2.3	[redacted]	[redacted]	Opex and capex underspends due to weather and contractor delays on the Major Cycle Routes programme, Te Pae Convention Centre and Parakiore Rec and Sports Centre.
Reserve Bank of New Zealand	33.6	[redacted]	[redacted]	2.3	[redacted]	[redacted]	–	[redacted]	[redacted]	–
Southern Response	3.3	[redacted]	[redacted]	0.0	[redacted]	[redacted]	–	[redacted]	[redacted]	–
Radio NZ	12.5	[redacted]	[redacted]	1.5	[redacted]	[redacted]	1.6	[redacted]	[redacted]	Opex result driven by recruitment issues and higher staff costs. The forecast deficit for the year is expected to rise, but RNZ will manage this through deferral of maintenance and recruitment for some roles.
Total	**441.0**	[redacted]	[redacted]	**182.8**	[redacted]	[redacted]	**48.6**	[redacted]	[redacted]	

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THE TREASURY

Treasury Report: EPL and N4L 2023/24 Letter of Expectations

Date:	23 November 2022	**Report No:**	T2022/2378
		File Number:	CM-1-3-117-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**None**	None
Associate Minister of Finance (Hon Dr Megan Woods)	**Agree** that the Minister of Education should sign the attached Letter of Expectation for Education Payroll Limited.	7 December 2022
Minister of Education (Hon Chris Hipkins)	**Sign** the attached Letters of Expectations for Education Payroll Limited and The Network for Learning Limited.	7 December 2022
Associate Minister of Finance (Hon David Parker)	**Agree** that the Minister of Education should sign the attached Letter of Expectation for The Network for Learning Limited.	7 December 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Amy Alder	Analyst, Commercial and Institutional Performance, Services	s9(2)(k)	N/A (mob)	✓
Andrew Wood	Principal Advisor, Commercial and Institutional Performance, Services		N/A (mob)	

Minister's Office actions (if required)

All Offices: Return the signed report to the Treasury.

Hon Dr Megan Woods: Confirm to Minister Hipkins' office that Minister Woods has agreed to the Letter of Expectations being sent to Education Payroll Limited.

Hon Hipkins' office: Send the signed Letters of Expectations to the Chairs of the respective entities once confirmations are received from Minister Woods' and Minister Parker's offices that the Ministers have agreed to the Letters of Expectations being sent to the respective entities.

Hon Parker's office: Confirm to Minister Hipkins' office that Minister Parker has agreed to the Letter of Expectations being sent to The Network for Learning Limited.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)
DRAFT EPL Letter of Expectations 2023-24 (Treasury:4703672v1)
DRAFT N4L Letter of Expectations 2023-24 (Treasury:4720189v1)

The attached Letters of Expectation will soon be available at: https://www.treasury.govt.nz/publications/other-

Treasury Report: EPL and N4L 2023/24 Letter of Expectations

Purpose of Report

1. This report seeks agreement from the Minister of Education and the Associate Ministers of Finance on the draft 2022/23 Letters of Expectations (LOEs) for Education Payroll Limited (EPL) and The Network for Learning Limited (N4L).

Purpose and General Content of the Letter of Expectations

LOEs are a key shareholding lever for communicating your expectations and influencing Crown companies' and entities' annual business planning processes

2. While not statutory documents, LOEs set out the Government's overarching priorities, and Ministers' specific and general ownership expectations of each Crown entity.

3. LOEs are generally sent to Chairs between October and December to allow time for companies and entities to incorporate Ministers' expectations in their business planning and statutory documents. Crown entities are then required to consult shareholding and responsible Ministers before finalising their statutory business planning documents.

General expectations

4. The attached draft LOEs for EPL and N4L refer to the Government's priorities of keeping New Zealanders safe from COVID-19, accelerating the recovery and rebuild; and laying the foundations for a better future. The letters acknowledge that the post-COVID-19 operating environment and economic outlook are challenging and uncertain. The focus is on the importance of entities, where appropriate, focusing on delivering value in this environment through investing for future impact, supporting critical infrastructure and service investment and being financially prudent.

5. Annex 1 to the draft LOEs sets out enduring expectations, including emissions reduction and climate change disclosure, and general governance expectations, including cyber security. Key business planning and reporting dates and processes for the 2023/24 financial year are also annexed to the draft LOEs.

Proposed Entity Specific Expectations

6. We have consulted with the Ministry of Education (the Ministry) and the entities concerned during the drafting of these LOEs and have incorporated their feedback where appropriate.

Education Payroll Limited

7. s9(2)(b)(ii) [redacted]

8. We have addressed these, and other issues that have arisen since last year, in the entity specific expectations section of the LOE as follows:

a s9(2)(b)(ii) [redacted]

b There is room for improvement and engagement between EPL, the Ministry and Treasury on key issues. We have therefore reinforced the expectation that EPL increase the effectiveness of its engagement with the Ministry and the Treasury by:

- s9(2)(b)(ii) [redacted]
- providing information that illustrates the EPDP benefit realisation, and
- engaging with the Ministry as it progresses the Future of schools and Kura payroll strategy and work to address schools payroll legislative non-compliance issues.

c s9(2)(b)(ii) [redacted] Therefore, we have strengthened the previous expectation to include the continuation of programmes already in place to improve cyber security measures and working with N4L to ensure sector consistency.

9. The remaining expectations are similar, or the same, as last year's expectations.

The Network for Learning Limited

10. The following proposed entity-specific expectations for N4L have had notable updates or additions since the previous LOE:

a s9(2)(b)(ii) [redacted] We have therefore included a new expectation that N4L takes action to mitigate risks from the supply chain disruption and ensure the delivery of its work programmes.

11. The remaining expectations are similar, or the same, as last year's expectations.

Next Steps

12. We request that the Minister of Education either sign the attached draft LOEs or provide any suggested feedback to the Treasury.

13. Once the LOEs have been signed by the Minister of Education and sent to the Chairs, the Treasury, in consultation with EPL and N4L, will prepare the LOEs for proactive release on the Treasury's website. We will also consult with your offices prior to releasing.

14. In response to the LOEs, EPL and N4L are expected to respond with their strategic issues letter by 28 February 2023. This letter is to acknowledge your expectations and outline any material issues that EPL and N4L expect to address during the next financial year.

Recommended Action

We recommend that you:

a **agree** that the Minister of Education should sign the attached Letter of Expectations to Education Payroll Limited.

Agree/disagree.
Associate Minister of Finance
(Hon Dr Megan Woods)

b **agree** that the Minister of Education should sign the attached Letter of Expectations to The Network for Learning Limited.

Agree/disagree.
Associate Minister of Finance
(Hon David Parker)

c **sign** the attached Letters of Expectations to Education Payroll Limited and The Network for Learning Limited.

Agree/disagree.
Minister of Education
(Hon Chris Hipkins)

Andrew Wood
Principal Advisor, Commercial and Institutional Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance

Hon Chris Hipkins
Minister of Education

Hon David Parker
Associate Minister of Finance

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Public Trust - Letter of Expectations 2023/24

Date:	23 November 2022	**Report No:**	T2022/2527
		File Number:	CM-1-3-63-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the content of the report	None
Associate Minister of Finance (Hon Dr Megan Woods)	**Agree** that the Associate Minister of Justice should sign the attached Letter of Expectations for Public Trust	7 December 2022
Minister of Justice (Hon Kiri Allan)	**Note** the content of the report	None
Associate Minister of Justice (Hon Aupito William Sio)	**Sign** the attached Letter of Expectations to the Chair of Public Trust	7 December 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Alex Ng	Senior Analyst, Commercial and Institutional Performance	s9(2)(k)	s9(2)(g)(ii)	✓
David Stanley	Acting Manager, Commercial and Institutional Performance			

Minister's Office actions

All Ministers: Return the signed report to the Treasury

Minister Dr Megan Woods: Confirm to Associate Minister of Justice's office that Minister Woods has agreed to the Letter of Expectations being sent to Public Trust

Associate Minister of Justice: Send the signed Letter of Expectations to the Chair of Public Trust

Note any feedback on the quality of the report

Enclosure: DRAFT Public Trust Letter of Expectations 2023-24 (Treasury:4712273v1)

The attached Letter of Expectation will soon be available at:
https://www.treasury.govt.nz/publications/other-official-information/information-releases

Treasury Report: Public Trust - Letter of Expectations 2023/24

Purpose of Report

1. This report seeks the agreement of the Associate Minister of Finance (Hon Dr Megan Woods) and the responsible Minister (Associate Minister of Justice, Minister Sio) to sign the draft 2023/2024 Letter of Expectations (LOE) for Public Trust.

Purpose and Content of the Letter of Expectations

LOEs are a key shareholding lever for communicating your expectations and influencing Crown companies' and entities' annual business planning processes

2. While not statutory documents, LOEs set out the Government's overarching priorities, and Ministers' specific and general ownership expectations of each Crown entity.

3. LOEs are generally sent to Chairs between October and December to allow time for companies and entities to incorporate Ministers' expectations in their business planning and statutory documents. Crown entities are then required to consult shareholding and responsible Ministers before finalising their statutory business planning documents.

General expectations

4. The attached draft LOE refers to the Government's priorities of keeping New Zealanders safe from COVID-19, accelerating the recovery and rebuild; and laying the foundations for a better future. The letter acknowledges that the operating environment and economic outlook are challenging and uncertain. The emphasis is on the importance of entities, where appropriate, focusing on delivering value through investing for future impact, supporting critical infrastructure and service investment and being financially prudent.

5. Annex 1 to the draft LOE sets out enduring expectations, including emissions reduction and climate change disclosure, and general governance expectations, including cyber security. Key business planning and reporting dates and processes for the 2023/24 financial year are also annexed to the draft LOE.

Proposed Specific Expectations for Public Trust

6. We have consulted Public Trust during the drafting of this letter and have incorporated its feedback where appropriate.

7. s9(2)(b)(ii) [redacted] Public Trust has initiated a work programme to accelerate the delivery of its strategic goals and return the entity to profitability. The draft LOE contains an expectation that Public Trust work closely with the Treasury so that you are kept informed on progress towards these objectives.

8. The following proposed entity-specific expectations for Public Trust have had notable updates or additions since the previous LOE:

Retail and other core business services

9. COVID-19 has significantly and adversely affected Public Trust's financial performance with net profit of $5.4 million in 2019/20 declining to a net loss of $3.2m in 2021/22.

s9(2)(b)(ii)
[redacted]

10. We are proposing to change the wording of this section to strengthen the focus on the expectation that Public Trust should introduce strategic initiatives to lift its financial performance and to return the entity to profitability.

Deliver core services and education to a diverse and aging population (new expectation)

11. Consistent with its regulatory requirement to "*develop, promote, conduct, or otherwise participate in the business of providing comprehensive estate management and administration services, including associated legal, financial, and other services*"[1], we are proposing to add a new expectation for Public Trust to focus on:
    - broadening its customer base, and
    - increasing the uptake of wills and Enduring Power of Attorney (EPA)

12. Increasing the uptake of wills and EPAs would benefit New Zealanders and their whanau. It could also mitigate pressure on the court system by reducing the number of estates of people who died intestate.

Regulatory effectiveness (new expectation)

13. We are proposing to add a new expectation that Public Trust, as a statutory supervisor of the financial market, effectively performs its regulatory responsibilities under the financial markets and prudential supervision legislation, and also promotes collaboration and coordination thereby supporting an effective, integrated and coherent regulatory regime.

14. The rest of the entity-specific expectations are in line with previous year's expectations.

Next Steps

15. You are asked to either sign the attached draft LOE or provide any suggested modification and/or comments to the Treasury.

16. Ahead of signing the LOE and sending it to Public Trust, the Associate Minister of Justice may wish to discuss the attached draft LOE with the Minister of Justice who has delegated him day-to-day responsibility for Public Trust.

17. Once the LOE has been signed and sent to the Chair, the Treasury will prepare the LOE for proactive release on the Treasury's website. We will liaise with Public Trust to identify and remove any commercially sensitive or confidential information and then consult with your office on the proposed redactions prior to releasing.

[1] Section 8(1)(a) of the Public Trust Act 2001

Recommended Action

We recommend that you:

a **agree** that the Associate Minister of Justice should sign the attached Letter of Expectations to Public Trust

Agree/disagree.
Associate Minister of Finance

b **sign** the attached Letter of Expectations to the Chair of Public Trust

Agree/disagree.
Associate Minister of Justice

David Stanley
Acting Manager, Commercial and Institutional Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance

Hon Kiri Allan
Minister of Justice

Hon Aupito William Sio
Associate Minister of Justice

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Treasury Report: Crown Financial Institutions: 2023/24 Letters of Expectations

Date:	23 November 2022	**Report No:**	T2022/2248
		File Number:	CM-3-6-2-2

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Provide** feedback on the draft letters of expectation to Crown Financial Institutions (CFIs) **Send** these letters to the Board Chairs of the CFIs	7 December 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Jess Lee	Analyst, Commercial and Institutional Performance	s9(2)(k)	s9(2)(g)(ii)	
Robert Barton	Senior Analyst, Commercial and Institutional Performance			✓
Emily Howe	Manager, Commercial and Institutional Performance			

Minister's Office actions (if required)

Return the signed report to Treasury.

Send signed letters to Chairs of GSFA, NPF, Guardians, and ACC should the Minister agree to this draft.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Annual Letter of Expectations Guardians of NZ Superannuation 2023_24 (Treasury:4703356v1)
Annual Letter of Expectations ACC Investments 2023_24 (Treasury:4703354v1)
Annual Letter of Expectations GSFA 2023_24 (Treasury:4703355v1)
Annual Letter of Expectations NPF 2023_24 (Treasury:4703359v1)

The attached Letters of Expectation will soon be available at: https://www.treasury.govt.nz/pul

Treasury Report: Crown Financial Institutions: 2023/24 Letters of Expectations

Executive Summary

This report provides you with draft Letters of Expectations (LOEs) to the Chairs of Crown Financial Institutions (CFIs) for your review. The letters outline a draft of your expectations for 2023/24, for the following CFIs:

1 the Guardians of New Zealand Superannuation (the Guardians)

2 the Accident Compensation Corporation (ACC), with respect to its investment function

3 the Government Superannuation Fund Authority (GSFA); and

4 the Board of the National Provident Fund (NPF).[1]

The LOEs each contain a consistent set of expectations that are relevant to all of the CFIs. Where relevant, expectations specific to individual entities have also been included.

Should you have any comments or feedback, the Treasury will incorporate this before you send the letters to the relevant Board Chairs of each CFI.

Recommended Action

We recommend that you:

a **sign and send** the attached Letters of Expectations to the Chairs of the CFIs

Agree / disagree.

b **refer** this briefing to the Minister for ACC

Yes / no.

c **note** that the Minister for ACC will be providing the public policy Letter of Expectations to the ACC Board; and

d **note** that the Treasury will release the letters on our website in due course, and the CFIs also publish these letters.

Emily Howe
Manager, Commercial and Institutional Performance: Investment

Hon Grant Robertson
Minister of Finance

[1] NPF is not a Crown Entity but the accountability process as set out in the Crown Entities Act 2004 is used as the basis for setting owners' expectations.

Treasury Report: Crown Financial Institutions: 2023/24 Letters of Expectations

1 This report provides you with draft Letters of Expectations (LOEs) to the Chairs of Crown Financial Institutions (CFIs) for your review. The letters outline a draft of your expectations for 2023/24 for, the following CFIs:

a the Guardians of New Zealand Superannuation (the Guardians)

b the Accident Compensation Corporation (ACC), with respect to its investment function

c the Government Superannuation Fund Authority (GSFA); and

d the Board of the National Provident Fund (NPF).[2]

2 If you are comfortable with the letters, they can be sent directly to the CFI Boards.

Accountability Process

3 The LOE is the primary means for Ministers to set out their priorities and expectations for entities. Providing the letters at the start of the year means your expectations can be incorporated into business planning and strategy processes. The annual public accountability documents prepared by the Boards of each entity should respond to your expectations[3].

4 The timing of the CFI LOEs aligns with the usual process of providing letters from October to January each financial year.

5 An LOE is set out to be complementary to, and not in conflict with, underlying legislation. Legislation sets out the core purpose for the Crown Entity.

Other LOEs related to your shareholding responsibilities

6 Separate letter's relating to ACC's insurance function, and New Zealand Green Investment Finance Ltd., will be provided by the Minister for ACC and the Minister for Climate Change respectively. Separate letters are provided in order to reaffirm processes for which each Minister is responsible.

Expectations for All CFIs

7 The LOEs each contain a consistent set of expectations that are relevant to all of the CFIs. Where relevant, expectations specific to individual entities have also been included. This approach is consistent with prior years and reflects the need for a cohesive strategy relating to performance, risk management, and relationship matters across the CFIs.

8 Reflective of the long-term nature of the investment objectives and strategies of the CFIs, the LOE does not typically change significantly year on year. The draft letters continue to reflect the collaborative tone set out in recent years, to empower Boards where they are responsible, and improve Crown engagement on the overarching mandate undertaken by Boards.

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[2] NPF is not a Crown Entity but the accountability process as set out in the Crown Entities Act 2004 is used as the basis for setting owners' expectations.

[3] The Statement of Performance Expectations (one-year statement of performance) and Statement of Intent (minimum of three years medium-term strategy).

9 We have continued to use the four themes of Fit for Purpose, Crown Risk, Partnership, and Citizenship, as they have been well received and continue to provide a sound basis for Crown engagement.

10 We continue to expect all CFIs to be collaborative and constructive in their approach, and the work of the CFIs supporting the development of the Crown Responsible Investment Frameworks is cited as an example of this.

Specific Expectations for Individual Entities

11 There is also an opportunity to incorporate individual messages into each CFI's letter. The key messages we have incorporated this year are captured below.

Guardians

12 Comments to the Guardians signal your expectation that its expertise can be leveraged to support cross-Government delivery. Specific expectations in the Guardians letter cover the Independent Review due in 2024, the Responsible Investment framework, and the Venture Capital fund (VCF).

ACC

13 The ACC letter includes a section on engagement. This is intended to set the expectation that public announcements on, for example, setting carbon reduction targets are tested with officials and Ministers, providing an opportunity for Ministers to prepare a comment.

14 In carrying on from the last LOE, we have reiterated the expectation for ACC to undertake an independent review of its investment function. We consider the one-in-five-year independent review process, using world-class technical expertise, to be a valuable way to gain assurance over the management of such significant Crown funds. We expect the earliest this review would take place would be 2025.

15 Other specific expectations for ACC cover the Responsible Investment framework, TCFD reporting, the future NZ Income Insurance Scheme, and the building of a constructive relationship with Treasury officials.

GSFA and NPF

16 Comments for the **GSFA** and **NPF**, both legacy funds, are more operational. The key activity to watch for these agencies is under-performance of the actual investments relative to the benchmark portfolio(s). The recent GSFA statutory review provided insights and recommendations that can help address this.

17 The letter also covers the Responsible Investment framework, and the expectation of continuing implementation of the findings from the 2021 Independent review.

Next Steps

18 Unless you wish to have changes made, you can send these letters directly to the CFI Boards. We would expect any significant concerns they may have to be reflected in their strategic issues letters.

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THE TREASURY

Treasury Report: Monthly LSAP Indemnity Payments

Date:	24 November 2022	**Report No:**	T2022/2476
		File Number:	MC-1-2-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree to raise the cap on the monthly payments to the Reserve Bank of New Zealand (Reserve Bank) for losses on the Large Scale Asset Purchase bond portfolio. Note the monthly indemnity payment made to the Reserve Bank for losses incurred in October.	Thursday, 1 December 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Carlos So	Analyst, Macroeconomic and Fiscal Policy	s9(2)(k)	s9(2)(g)(ii)	✓
Renee Philip	Manager, Macroeconomic and Fiscal Policy			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

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Enclosure: Yes (attached)

Treasury Report: Monthly LSAP Indemnity Payments

Purpose of Report

1. This report seeks your agreement to increase the maximum monthly value on Large Scale Asset Purchase (LSAP) indemnity payments that can be authorised by the Secretary to the Treasury, in light of the updated settlement forecasts since the current limit was set. It also informs you of the monthly indemnity payment made to the Reserve Bank for their losses incurred in October 2022.

Increasing the monthly limit on delegated payments

2. We have previously requested that the Secretary to the Treasury be delegated authority to approve LSAP indemnity payments each month. In April 2022, this authority was delegated but only for values up to $250 million per month. Rising interest rates since late 2021 have increased interest payments on settlement cash and lowered the market value of the bonds held in the Reserve Bank of New Zealand's (Reserve Bank's) LSAP bond portfolio. Consequently, the Reserve Bank has been generating negative net interest margins since April 2022, and they are realising losses on sale on bonds sold to New Zealand Debt Management (NZDM) as part of the unwind of the LSAP bond portfolio.

3. While the losses from the LSAP programme will impact the Crown accounts, the payments under the indemnity have no net impact on the Crown's accounts regardless of the magnitude as the Reserve Bank balance sheet is consolidated onto the Crown's balance sheet.

4. When the original request to approve the delegation of authority was delivered, the monthly LSAP indemnity payments were not expected to exceed $250 million (T2022/857 refers). However, since then, bond yields have risen considerably, meaning that most of the monthly indemnity payments between January 2023 and June 2024 are expected to be above $250 million. The Reserve Bank's latest projections indicate that the value of the monthly payments is expected to rise to a maximum of $341 million, occurring in January 2023. However, these values will vary depending on movements in interest rates. Monthly payments to the Reserve Bank are expected to continue until the LSAP bond portfolio is fully unwound. Most of this is expected to occur by the end of 2027.

5. The Letter of Indemnity agreed between the Crown and the Reserve Bank requires the Crown to make these indemnity payments. The Secretary to the Treasury has authorised the monthly payments on behalf of the Crown since May 2022. If the monthly payment cap is not increased, you will be required to authorise the indemnity payments every month where the payment exceeds $250 million to meet the Crown's obligations.

6. Our recommended option is for the cap to be increased to $400 million. This is above the current forecast of the largest monthly payment and provides a buffer should bond yields rise further, thereby increasing losses incurred on the bond portfolio. The cap can be reviewed again if there is a high likelihood of the monthly payments exceeding the new value.

7. Another possibility is the removal of the cap on payments that can be authorised by the Secretary to the Treasury. With either option, we will continue with our monthly reporting informing you of each LSAP indemnity payment and the Reserve Bank's latest forecasts of upcoming payments.

8. Attached is the Delegation of Authority document, for you to update and sign if you choose to increase the cap on monthly payments.

9. **Annex 1** contains the required monthly reporting for the payment made in November.

10. **Annex 2** provides some additional background information about the LSAP programme.

Risks

11. The RBNZ might choose to increase the pace of LSAP bond sales to NZDM from the current rate of $5 billion per fiscal year, which would lead to higher monthly payments as additional losses on their LSAP bond portfolio are realised (if interest rates and interest rate expectations remain high relative to when the bonds were purchased).

Next Steps

12. Sign and return the updated Delegation of Authority document (included as an attachment) agreeing to a higher cap on monthly payments that can be authorised by the Secretary to the Treasury if that is desired.

Recommended Action

We recommend that you:

a **agree** to increase the $250 million cap on the monthly LSAP indemnity payments that can be authorised by the Secretary to the Treasury to $400 million.

Agree/disagree.

b **Note** the Treasury made an indemnity payment of $247,413,000.00 on 15 November 2022 covering LSAP losses during the month of October 2022.

Renee Philip
Manager, Macroeconomic and Fiscal Policy

Hon Grant Robertson
Minister of Finance

Annex 1: Large Scale Asset Purchase Programme Indemnity Payment for the month ended October 2022

This annex summarises the Large Scale Asset Purchase (LSAP) programme indemnity payment made to the Reserve Bank for their realised losses in October 2022.

Summary

- The Treasury made an indemnity payment of $247,413,000.00 on 15 November 2022. This payment reimbursed the Reserve Bank for the realised losses on LSAP bonds sold to New Zealand Debt Management (NZDM) and interest margin losses on the LSAP bond portfolio over the month of October 2022.

- The Reserve Bank had previously been earning net interest income on their bond holdings between March 2020 and March 2022 (Table 1), leading to a monthly payment of income to the Crown. As the Official Cash Rate (OCR) has risen, the monthly cost of servicing the LSAP bond portfolio has risen to the point where it exceeds the interest revenue from the bonds. In addition, rising interest rates have reduced bond prices, resulting in the Reserve Bank realising losses on bonds it sells to NZDM.

- The latest projections from the Reserve Bank indicate that the monthly indemnity payments will rise to a peak of $341 million to cover the losses realised in the month of December 2022 (Table 2), $91 million higher than the $250 million monthly payment cap that you delegated to the Secretary to the Treasury. This payment will need to be settled on 18 January 2023.

- You will need to approve any monthly payments above $250 million. The latest projections show that you will need to authorise most of the monthly payments for losses realised from the month of December 2022 through to May 2024.

- The size of the monthly payments is dependent on the combination of funding costs exceeding expected interest revenue from the bonds, and realised losses from the sale of bonds to NZDM.

- Rising interest rates since late 2021 have increased the size of the total expected LSAP indemnity payments over the life of the programme to around $9.652 billion as at October 2022. This reflects an indemnity value of around $9.213 billion as at the end of October (this is the most recent figure reported on the Reserve Bank's website), plus interest expenses of around $438 million paid to the Reserve Bank up to that date (Table 3).[1]

[1] In these figures the latest payment is included in the indemnity value rather than cumulative payments to date as the payment had not yet been settled on that date.

Table 1: Indemnity payments to / from the Treasury[2]

Payments for period ended		Amount ($m)
Annual	Year ended June 2020	15.6
	Year ended June 2021	195.1
	Year ended June 2022	63.0
Monthly	Jul-22	-225.3
	Aug-22	-238.0
	Sep-22	-248.5
	Oct-22	-247.4
	Nov-22	
	Dec-22	
	Jan-23	
	Feb-23	
	Mar-23	
	Apr-23	
	May-23	
	Jun-23	
Cumulative payments since start of LSAP programme		**-685.6**
Memo: Cumulative payments settled as at end October 2022 (excludes most recent payment)		*-438.2*

2 Negative numbers represent payments from the Treasury to the Reserve Bank to cover LSAP losses; positive numbers represent payments from the Reserve Bank to the Treasury to pass on any realised gains. Payments are made the following month after gains and losses are realised. Cells highlighted yellow indicate payments above the $250 million cap.

Table 2: Forecast indemnity payments over the months ahead (the actual payments will depend on how interest rates evolve)[2]

Payment for the month ended	Forecast amount as at 30 September 2022 ($m)
Nov-22	-214.3
Dec-22	-341.1
Jan-23	-288.4
Feb-23	-280.7
Mar-23	-329.0
Apr-23	-303.7
Jun-23	-292.0
Jul-23	-304.6
Aug-23	-296.9
Sep-23	-306.0
Oct-23	-307.4

Table 3: Total indemnity payments currently expected under the LSAP programme ($m)

Total payments made to the Treasury up to the end of October 2022	-438
Indemnity value as at end October 2022[3]	-9,213
Total expected indemnity payments[4]	-9,652

Note: The figures above are as at the end of the previous month as this corresponds to the most recent publicly available valuation of the indemnity on the Reserve Bank website.[5] In the figures above, the latest indemnity payment is included in the indemnity value rather than cumulative payments to date as the payment had not yet been settled at the date of the latest indemnity valuation.

3 The indemnity value is approximately equal to the sum of the net present value of all expected future indemnity payments yet to be settled. This figure will vary over time depending on the path of interest rates and as the actual payments are made. In addition, the indemnity value may not fully capture all influences on future indemnity payments, such as impacts arising from term premiums. The figure for total payments made to date is in nominal terms (not net present value).

4 This equals the sum of payments to date and the indemnity value. Figures may not sum due to rounding.

Annex 2: Additional background information on the LSAP programme

The LSAP programme is an additional monetary policy tool used by the Reserve Bank which played a role in supporting the economy during the COVID-19 pandemic.[6] The programme involves the Reserve Bank purchasing predominantly New Zealand Government Bonds (NZGBs) in the secondary market by paying settlement cash. This had the effect of switching the Crown's interest rate exposure from fixed interest to floating interest at the rate of the Official Cash Rate (OCR). LSAP purchases were halted in July 2021, after approximately $55 billion of bonds had been purchased.

The overall impact of the LSAP programme on the Crown's accounts and the wider economy is difficult to measure, but rough estimates suggest that there have been material impacts on the economy. For example, the Reserve Bank estimated that in August 2020 NZGB yields were at least 50 basis points lower, and potentially more than 100 basis points lower, than they would have been without the LSAP programme. The fiscal savings from lower bond yields and wider economic impacts have not been included in the estimates of the expected losses above but need to be considered when estimating the overall cost of the programme.

6 The Reserve Bank has additional information about the LSAP programme on its website: https://www.rbnz.govt.nz/monetary-policy/monetary-policy-tools/large-scale-asset-purchases

DELEGATION BY THE MINISTER OF FINANCE IN RELATION TO PAYMENTS UNDER LETTER OF INDEMNITY TO THE RESERVE BANK OF NEW ZEALAND

Date: November 2022

From: **Minister of Finance**

To: **Secretary to the Treasury**

1. Background

The Minister of Finance and the Reserve Bank of New Zealand Te Pūtea Matua (**RBNZ**) entered into a Memorandum of Understanding (**MOU**) dated 21 March 2020 regarding the use of alternative monetary policy (**AMP**) tools. The MOU set out a process by which the RBNZ may request an indemnity from the Crown pursuant to section 65ZD of the Public Finance Act 1989 in relation to any financial losses arising out of, or in connection with, the use of AMP tools in Aotearoa New Zealand.

Pursuant to that MOU, letters of indemnity have been provided by me in relation to the RBNZ's Large Scale Asset Purchase Programme (**LSAP**). The most recent letter of indemnity, dated 9 August 2020, amended, consolidated and restated an earlier letter of indemnity dated 10 May 2020.

2. Delegation

Pursuant to clause 5 of Schedule 6 of the Public Service Act 2020, I the Honourable Grant Robertson, **MINISTER OF FINANCE**, delegate to the **SECRETARY TO THE TREASURY** (and any person acting in such role from time to time), the authority to:

(a) make and/or authorise any payments to RBNZ required to be made pursuant to the Letter of Indemnity dated 9 August 2020 (and any later amended, consolidated and/or restated versions of that indemnity) (the **Letter of Indemnity**);

(b) pay any related expenses incurred by the Crown;

(c) do anything necessary or incidental to (a) or (b) above.

Before making any payments under this delegation, the Secretary to the Treasury must be satisfied that the relevant terms of the Letter of Indemnity in relation to payment have been complied with.

3. Term of Delegation

This delegation shall come into effect on the date of signature of this delegation and shall continue in force until the date on which this delegation is revoked in writing.

4. Monetary Limits on Delegation

Any payments made under this delegation are limited to a maximum of $400 million per calendar month.

4. Reporting to Treasury

The Secretary to the Treasury (or their representative) must report to me every calendar month on payments that are made (if any) under the Letter of Indemnity.

5. Previous Delegation Revoked

With effect from the date of this delegation, the previous delegation dated 26 April 2022 in relation to payments under letter of indemnity to the Reserve Bank of New Zealand is revoked.

SIGNED by the **MINISTER OF FINANCE,**
the Honourable Grant Robertson

____
Signature

In the presence of:

Signature of witness

Name of witness: ______________________________

Occupation: ______________________________

Address: ______________________________

TE TAI ŌHANGA
THE TREASURY

Reserve Bank
of New Zealand
Te Pūtea Matua

Deposit Takers Bill: select committee timetable and associated risks and timeline for the implementation of the Depositor Compensation Scheme

To	Hon Grant Robertson Minister of Finance		**Date**	21 Nov 2022
Authorised by	Christian Hawkesby Deputy Governor Reserve Bank	Mary Llewellyn-Fowler Acting Manager, Financial Markets The Treasury	**Report No**	RBNZ #5983 T2022/2457
Prepared by	David Hargreaves Manager, Policy Projects		**Security**	In-Confidence

Action Sought

Action sought	Deadline
Note the tight timeframes for the Select Committee process for the DTA as currently planned. Confirm your preferred option for the anticipated commencement date of the DCS assuming passage of the DTA in this Parliament. Indicate if you would like further advice on the risks to passage of the DTA in this Parliament and alternative options. Note that a commencement date for the DCS of late 2024 would require consultation in April and May 2023.	

Reserve Bank Contact for Telephone Discussion (if required)

Name	Position	Telephone
David Hargreaves	Manager, Policy Projects, RBNZ	s9(2)(a)

Actions for the Minister's Office Staff

Return the signed report to the Reserve Bank

Note any feedback on the quality of the report.	

Attachments

Deposit Takers Bill: select committee timetable and associated risks and timeline for the implementation of the Depositor Compensation Scheme

Purpose of Report

1. This report outlines the delivery risks of the current select committee timeline for the Deposit Takers Bill (the 'Bill') and also proposes a revised commencement date for the Depositor Compensation Scheme (DCS).

2. The current timeline has the passage of the Bill in this Parliament with the commencement of the DCS roughly six months later (i.e. early 2024). The key challenges to this are completing secondary legislation that the DCS requires (given the likelihood the Bill will not pass until near the end of this Parliament) and providing industry with sufficient time to implement.

Select Committee and the DTA

3. The Bill is currently before the select committee with submissions having closed on 10 November, although we note that the NZBA has been given a two week extension. We have received 28 submissions to-date. FEC are currently due to report back to the House on 27 March.

4. With the Christmas and New Year breaks the normal six month timeframe for select committee has in effect been truncated into five months. This provides for a complicated timeline for the Reserve Bank. The length and complexity of the Bill is pertinent.

5. We understand from the Clerk that the FEC may reconvene after the holiday break around 1 February, which would require the Reserve Bank to provide the Departmental Report to you by mid-January. With final submissions not being received until 24 November (and the initial meeting and hearings currently planned for December 7) this leaves little time for the Reserve Bank to review and respond to submissions, consider any policy changes (with Treasury), and run the report through RBNZ governance processes. The select committee will also have limited opportunities to engage with officials between submissions and the Departmental report.

6. We are bringing this to your attention to note the mid-Jan date (when we will provide the Departmental Report to your office, on the current schedule) and also the possibility that the select committee could ultimately need to seek a delay to its report back date to Parliament.

7. We suggest continuing to aim to pass the Bill this term, but note that there is a risk that there is insufficient Parliamentary time, particularly if the election is earlier than expected or select committee feedback throws up complex issues or there is a need for detailed Supplementary Order Papers. If useful, we can provide further advice on options if passage of the DTA does not occur this term. The key consequence would likely be a delay to the start-date for the DCS beyond the dates discussed below.

Timing of the commencement of the DCS

8. We have been working to enable the commencement of the DCS six months after enactment of the DTA (i.e. early 2024). In support commencement of the DCS we will need to have regulations in place that flesh out important detail (pay out conditions, eligible products, relevant arrangements, levies etc.) about the operation of the DCS.

9. In March 2022, we envisaged introduction of the DTA in July (RBNZ#5918), but ultimately it happened in September. This means that Bill will now likely not be passed until the end of this Parliament, meaning it is unlikely to be possible to also make the required regulations through Order-in-Council during this Parliamentary term as originally planned.

10. Due to the election period and consultation requirements our current view is that the earliest the DCS will now be able to be implemented is September 2024, with the relevant regulations being made in May-June 2024, assuming the Bill is passed by this Parliament.

11. To meet this timeline, subject to your approval, we would need to consult on key policy issues in April–May next year. This would be a discussion paper related to matters like the Statement of Funding Approach; levies; pay out conditions and eligible products. This would allow us to speed up the formal consultation on those regulations and documents.

12. If you would prefer all of the consultation to instead take place following the passage of the Bill and the election period, we think the commencement of the DCS could be early January 2025.

13. The timeline for each option (assuming the current select committee deadline remains 27 March 23) would be:

	Option 1	Option 2
Departmental report due	1 Feb 23	
Select committee report back date	27 Mar 23	
Consultation on key policy issues	Apr-May 23	n/a
Legislative process	Apr-Jul 23	
Consultation on key policy issues	Nov-Dec 23*	Jan-Mar 24
Regulations exposure draft consultation	Mar-Apr 24	Jun-Jul 24
Regulations made	May-June 24	Sept-Oct 24
DCS commencement	Sept 24	Jan 25

*for this option a second consultation is required following enactment to meet the requirements of the Act

14. Industry has expressed a desire for the DCS to only be implemented when it is able to be fully implemented. The earliest this would be possible is 2026 following the development and implementation of the single customer view[1] (SCV) files, however this date is subject to ultimately determining the SCV approach and working with

[1] Single customer view files will aggregate all accounts of a depositor to allow for quick payment and also to calculate the total of insured deposits for levy calculations.

industry on implementation timeframes. Our view continues to be that it is feasible to start the scheme prior to this, and the revised timetable (option one or two above) will help meet industry's needs. However we acknowledge that until SCV files are developed a pay-out will require significant manual resource to determine entitlements and pay compensation, which means compensation is likely to take longer and increases the risks of errors.

15. Based on your decisions, we will develop a plan for communicating the revised timeline and would be happy to consult with your office as we do that if useful.

Recommendations

It is recommended that you:

a) **note** the tight timeframes for the Select Committee process for the DTA as currently planned

noted

b) **confirm** your preferred option for the anticipated commencement date of the DCS assuming passage of the DTA this Parliament

late 2024 / early 2025

c) **indicate** if you would like further advice on the risks to passage of the DTA this Parliament and alternative options

yes / no

d) **note** that a commencement date for the DCS of late 2024 would require consultation in April and May 2023

noted

Hon Grant Robertson
Minister of Finance

Christian Hawkesby
Deputy Governor
Reserve Bank of New Zealand

Mary Llewellyn-Fowler
Acting Manager, Financial Markets
The Treasury

IN CONFIDENCE

Reserve Bank of New Zealand
Te Pūtea Matua

Issues Paper on Private Innovation in Money

To	Hon Grant Robertson Minister of Finance	**Date**	24 November 2022
Authorised by	Karen Silk Assistant Governor / GM Money Group	**Report no**	5988
Prepared by	JC Somers Senior Policy Analyst Money and Cash	**Security**	In-Confidence

Action Sought

Action sought	**Deadline**
Note the upcoming publication of the Future of Money Issues Paper on Private Innovation in Money on 7 December 2022	7 December 2022

Reserve Bank Contact for Telephone Discussion (if required)

Name	**Position**	**Telephone**
Ian Woolford	Head of Money and Cash	s9(2)(a)
Robbie Taylor	Manager Money and Cash Policy	

Actions for the Minister's Office Staff

Note any feedback on the quality of the report.	

Attachments –

- **Final Draft of Future of Money – Private Innovation in Money Issues Paper**
- **Draft Press Release**

Publication of the Future of Money Issues Paper on Private Innovation in Money

Purpose

1. The Reserve Bank's Money and Cash Department – Tari Moni Whai Take is releasing an Issues Paper on Private Innovation in Money. A final design proof copy and a final draft media release are attached for your information, ahead of publication on Wednesday, 7 December 2022.ext

Private Innovation in Money Issues Paper

2. This Issues Paper on Private Innovation in Money complements other Future of Money – Te Moni Anamata Issues Paper released last year on stewardship, central bank digital currency and cash system redesign.

3. The Issues Paper seeks public feedback on the Reserve Bank's current thinking on:

    a. the opportunities and risks posed by innovation in private money;

    b. how these might impact the Reserve Bank's objectives as the steward of money; and

    c. the regulatory responses that could be required to deliver our stewardship objectives.

4. The Issues Paper also outlines the Reserve Bank's plan to monitor private innovation in money, and investigate the development of further regulatory response, taking into account public feedback. Feedback on this paper closes on 3 April 2023.

Draft Communications Strategy

5. The Issues Paper will be published on the Reserve Bank's website and publicised by media release, interviews, stakeholder emails (about 4000), and a social media campaign. A video explainer will be published to assist potential submitters. The Reserve Bank will undertake targeted engagement with key stakeholders, such as cryptoasset service providers, and consider offering public webinars in 2023 depending on the level of interest.

Recommendation

6. It is recommended that you:

    a) **note** the upcoming publication of the Future of Money Issues Paper on Private Innovation in Money on Wednesday, 7 December 2022

IN CONFIDENCE

Hon Grant Robertson
Minister of Finance

Karen Silk
Assistant Governor
Reserve Bank of New Zealand

23 November 2022

Attachment 1: Draft Issues Paper

Reserve Bank
of New Zealand
Te Pūtea Matua

The Future of Money – Private Innovation in Money

Te Moni Anamata – *Te auahatanga tūmataiti i roto i te moni*

An Issues Paper inviting public feedback
before 3 April 2023

Final Draft Embargoed until 7 December 2022

www.rbnz.govt.nz/futureofmoney

ISSUES PAPER

-

Navigating this Issues Paper

Sections 1–3 of this paper introduce the Reserve Bank's stewardship role regarding private money, including the objectives, approach, focuses, and scope.	• Introduction • Stewardship of money • What our stewardship interest captures
Section 4 articulates the fundamental opportunities we see in a level playing-field for money and payments, for both existing and new forms of money.	• Opportunities for greater competition and further innovation
Section 5 describes the risks we think would need to be managed if new forms of private money become more widely used.	• Risks with private innovation in money
Section 6 outlines our proposed response, given the current state.	• The Reserve Bank's proposed response
The Appendices provide background material.	

Disclaimer:

This Issues Paper uses real-world examples (e.g., Bitcoin or Ethereum) for illustrative purposes. The discussion of these schemes should not be read as endorsing or rejecting particular schemes.

Contents

Glossary of key terms

Terms	Definitions
Cash	Banknotes and coins, which in New Zealand are issued solely by the Reserve Bank.
Central bank money	Money issued by the Reserve Bank (cash is an example of central bank money).
Cryptoassets	Digital tokens that rely on cryptographic methods and non-traditional payment infrastructure to be transacted and stored.[1]
Crypto-exchanges	A firm or sole practitioner who, by way of business, provides one or more of the following services: • exchanging or arranging, or making arrangements with a view to the exchange of, cryptoassets for money or money for cryptoassets or one cryptoasset for another; • operating a machine which utilises automated processes to exchange cryptoassets for money or money for cryptoassets; or • holding private cryptographic keys on behalf of its customers in order to hold, store and transfer cryptoassets.[2]
Cryptography	A mathematical and computational practice of encoding and decoding data that is used to validate and secure transactions in a decentralised or non-intermediated manner.[3]
Crypto-wallet	The device (a piece of software, hardware, or paper) in which cryptoassets can be stored. The wallet stores a combination of cryptographic public and private keys.[4]
Custodial service	The provider of wallet or exchange services that holds cryptographic/ private keys on behalf of their customers.
Decentralised Autonomous Organisations (DAOs)	A general term for a group that uses blockchain (see below) and related technologies to coordinate its activities, for example, by locking agreements/rules into automatically executing computer codes.[5]
Decentralised Finance (DeFi)	Financial applications run by smart contracts on a blockchain, typically a 'permission-less' (i.e., public) chain that aims to provide financial services without using centralised entities.[6]

[1] Also see IRD (n.d., 'What cryptoassets are'): "Cryptoassets are cryptographically secured digital representations of value that can be transferred, stored or traded electronically."
[2] GOV.UK
[3] OECD (2022)
[4] GOV.UK (2022)
[5] World Economic Forum (2022a)
[6] Aramonte et al. (2021)

Terms	Definitions
Distributed ledger technology (DLT)/	DLT refers to a technology that enables the operation and use of distributed ledgers.
Distributed ledger/ Blockchain	Distributed ledger refers to an information repository that keeps records of transactions, and that is shared across, and synchronised between, a set of network participants (nodes) using a consensus mechanism. This allows relatively autonomous network participants to maintain a single source of truth. Blockchain refers to a type of DLT where transactions are recorded with an immutable cryptographic signature, grouped in blocks and linked together through cryptographic signatures (of the previous block).[7]
Lender of last resort	In times of financial crisis, commercial banks may not be able to get (short-term) funding from other commercial banks or wholesale investors who themselves are subject to financial pressures. This may lead to a bank run where people withdraw their balances, even if the underlying business is sound. A lender of last resort, typically central banks, will provide banks with the liquidity they need (to be repaid later as the market is stabilised).[8]
Mining	A process that creates new blocks and achieves consensus (agreement) on the blocks to add to the blockchain,[9] which validates and records transactions of cryptoassets. In a proof-of-work scheme, miners or nodes will expand their computing power to solve mathematical puzzles for the right to run this process and receive a reward for it.
Monetary policy	What the Reserve Bank sets to achieve its twin objectives of maintaining price stability and supporting the maximum sustainable level of employment. The Reserve Bank's primary monetary policy tool is the Official Cash Rate.
Monetary sovereignty	Where a nation has autonomy in relation to central bank money and monetary policy.
Monetary system	A large interconnected network that combines all forms of money and the payment systems that allow them to be accessed and exchanged. The monetary system supports the larger financial system, where money and other assets are used in investment and other activities.
On-chain/off-chain	On-chain transactions are transactions carried out on a blockchain network from start to finish (e.g., the transfer of tokens from one holder to another). Off-chain transactions involve, for example, the exchange of

[7] See Regulation (EU) 2022/858 on Distributed Ledger Technology Market Infrastructures, R3 (n.d., 'what is blockchain').
[8] ECB (2019)
[9] IRD(n.d., 'Mining cryptoassets')

Terms	Definitions
	real-world assets the tokens represent.
Payment system	A set of instruments, procedures, and rules for the transfer of funds between or among participants; the system includes the participants and the entity operating the arrangement.[10]
Private money	Money created by private entities that is, in practice, a private 'IOU' (the most common type in New Zealand being commercial bank transaction accounts offered to individuals and businesses).
Public/private key	Public and private keys are strings of numbers that are mathematically related to each other via a one-way function (i.e., it's virtually impossible to compute the private key from the public key). Knowing the private key associated with a public key (i.e., the address) allows users to 'own' and transfer tokens associated with that address without requiring personal identification.[11]
Retail payment	Payments made from a person to another person, business or government agency.
Stablecoins	A type of cryptoasset that aims to stabilise its value relative to other conventional assets, including central bank money.
Stewardship	The responsible management and oversight of a system to create long-term value and sustainable benefits for society.

[10] Bank for International Settlements (2012)
[11] Aurer, Bohme, and Wadsworth (2020)

Executive Summary

This Issues Paper explores Private Innovation in Money with a focus on opportunities and risks this may offer New Zealand, and the ability of the Reserve Bank of New Zealand – Te Pūtea Matua to meet our objectives as the steward of money.

By 'private innovation in money', we mean novel arrangements that claim to provide new forms of money or associated services, using new technologies, financial models or organisational forms. Cryptoassets, including stable coins, are key examples of these arrangements, but they are not the only ones. The use of the DLT technology to tokenise bank deposits, for instance, would be another example. Therefore, we intend to take a technology-neutral approach to innovations.

In this Issues Paper, we are seeking feedback on our assessment of:

- the opportunities and risks posed by private innovation in money;
- how these innovations might impact the Reserve Bank's objectives as the steward of money; and
- what regulatory responses that could be required to help deliver those objectives in the context of private innovation in money.

Private innovation in money involves complex issues ranging from financial stability, to consumer protection, to anti-money laundering and other contentious policy areas.

We are working with other members of the Council of Financial Regulators (CoFR) to address cross-cutting risks and shared challenges (for example, regulating Decentralised Autonomous Organisations). A statement of CoFR's position on cryptoassets can be found below:

Read the statement of CoFR's position on cryptoassets on its website

This Issues Paper is written from the perspective of the Reserve Bank as a steward of money. This perspective means we are primarily interested in the application of innovation to money, or things that are used like money. This stewardship role is derived from section 9(1)(c) of the Reserve Bank of New Zealand Act 2021, and our 'Central banking objective.' One of our statutory functions in this area is to monitor technological developments in money under section 116(c)(iv).

Our high-level stewardship objective is that *New Zealand has reliable and efficient money and payments systems that support innovation and inclusion.*

While central bank money is at the heart of what we do, we also have a strong interest in how the money and payments system works with new and existing forms of private money. At the heart of this system is a longstanding relationship between central bank and private bank money that we often take for granted.

The emergence of cryptoassets using new technology is now challenging the way people think about this relationship. This is happening alongside a range of broader developments in the money and payments system, including:

- concerns about existing inefficiencies in private money (e.g. in cross-border payments), and calls by some for wholesale 'disruptions' in money;
- the perceived need for and benefits offered by new forms of money in an ever more digitalised economy (e.g., web3 and the metaverse);
- the claim of cryptoassets to be 'money' and the potential for them to be used this way, which purports to address those new or existing demands above;
- the declining use of cash, the only public alternative to new and existing forms of private money, and the potential impact on central bank money as the value anchor; and
- the growth of cryptoassets without regulatory safeguards, or a value anchor in central bank money.

These developments draw into question how the Reserve Bank's response and what tools we need for that response. We approach this question with some 'priors' (or assumptions).

- Competition: competition is a foundation for trust and efficiency in private money.
- Choice: competition enables greater choices, but people's ability to effectively exercise choice matters too.
- Trust: the current level of trust in private money across the board should be preserved.
- Same risk, same regulation: there should be a level playing-field between different forms of private money.

Currently, our core tool to influence the provision of private money is our ability to issue central bank money and its relevance as a value anchor, a vehicle of monetary policy, and a lender of last resort. This is not just about producing banknotes and coins, and is distinct from the Reserve Bank's longstanding prudential regulatory functions. In the future we may also have a central bank digital currency, which would be another form of central bank money. The stewardship role and monitoring function under the Reserve Bank of New Zealand Act 2021 mentioned above will enable the Reserve Bank to respond more effectively to changes.

Still, more may be needed to encourage competition, choice and trust in money products available to New Zealanders. We also need to take a proactive approach to address risks that, once they emerge, could be difficult to reverse. Such an approach should be technology-neutral and technical matters themselves (for example, the relative merits of different types of cryptographic methods) are outside our scope. However, we should not be not blind to the implications of technology.

As the steward of money, cryptoassets used simply for speculative investment are outside our scope. However, we are conscious that assets used as money on a smaller scale may also pose risks to consumers and may lead to further uptake. In the latter circumstance, market discipline and a 'buyer beware' approach are insufficient to deliver efficiency and other stewardship outcomes.

Other risks posed by private innovation in money, such as to financial stability, are within the scope of existing legislative regimes, in particular, the Financial Markets Infrastructure Act 2021.

Our current assessment is that the uptake of cryptoassets for use as money is limited. However, cryptoassets appear to be embedded as an asset class, and wider use may occur over time. It is therefore timely to reflect on the opportunities and risks related to new forms of money more generally.

In terms of opportunities, we consider that beneficial innovation in private money using new technology may help broaden access to the money and payment system from outside the banking sector. Broadening access supports competition, which is key to delivering efficiency and supporting further innovation.

At the same time, we see a range of general risks that new forms of money could pose to users, even if they are not widely used. These include fraud and theft, AML/CFT, and technology and cyber risks. Some forms of cryptoassets, particularly stablecoins, also pose a range of further risks related to the stability of the asset's value, the ability and costs of redeeming the stablecoin for fiat currency, and the solvency of the issuer of the stablecoin. It is important that these risks are adequately managed, including through regulatory measures where needed.

In addition, several risks also need to be managed if new forms of money become significant. These risks are often associated with externalities resulting from strong network effects which constrain market efficiency and impact consumers.[12]

The first possible risk is the potential for new forms of money to be bundled with other products or services offered by dominant players in other markets, such as technology or commercial platforms. Some of these platforms operate dominant networks, allowing money issued by them to scale quickly, recreating barriers to entry, and extracting excessive rents.

Secondly, new forms of money should not fragment trust in private money or efficiency benefits to the wider economy that are currently achieved through 1:1 convertibility and prudential regulation. Therefore, our regulatory framework needs to remain robust. Any changes to promote competition and further innovation should deliver the same level of trust and efficiency.

Thirdly, significant uptake of new forms of money not denominated in NZD could potentially undermine our monetary sovereignty or, at the very least, complicate the implementation and transmission of monetary policy. It may be desirable to have safeguards against this so that beneficial innovation in money can occur without constant vigilance over monetary sovereignty concerns.

In response to emerging opportunities and risks, we are developing a monitoring framework to understand how the market for new forms of money is developing and the implications for the monetary system, so we can act if necessary. This framework will use a wider range of metrics to assess the significance of new forms of money to New Zealanders, such as the extent of use for day-to-day payments or concentrated use within some communities.

Provided that the risks can be managed, we consider that regulators should be open to alternative business models for the issuance of money. Internationally, the stances of regulators range from proposing to heavy regulation of innovation in money to openness to new forms of money with a lighter regulatory touch. Overseas experience will provide useful

[12] By 'externality' we mean a consequence of an industrial or commercial activity that affects other parties without this being reflected in market prices, and hence solely relying on market mechanisms may not achieve desirable outcomes.

starting points to explore what alternative regulatory models may be required and what they might look like.

Further work could explore how providing regulatory certainty might enable beneficial innovation to emerge. This would allow society to benefit from the innovation provided by new forms of money and the technology that underpins it, while addressing the risks described above.

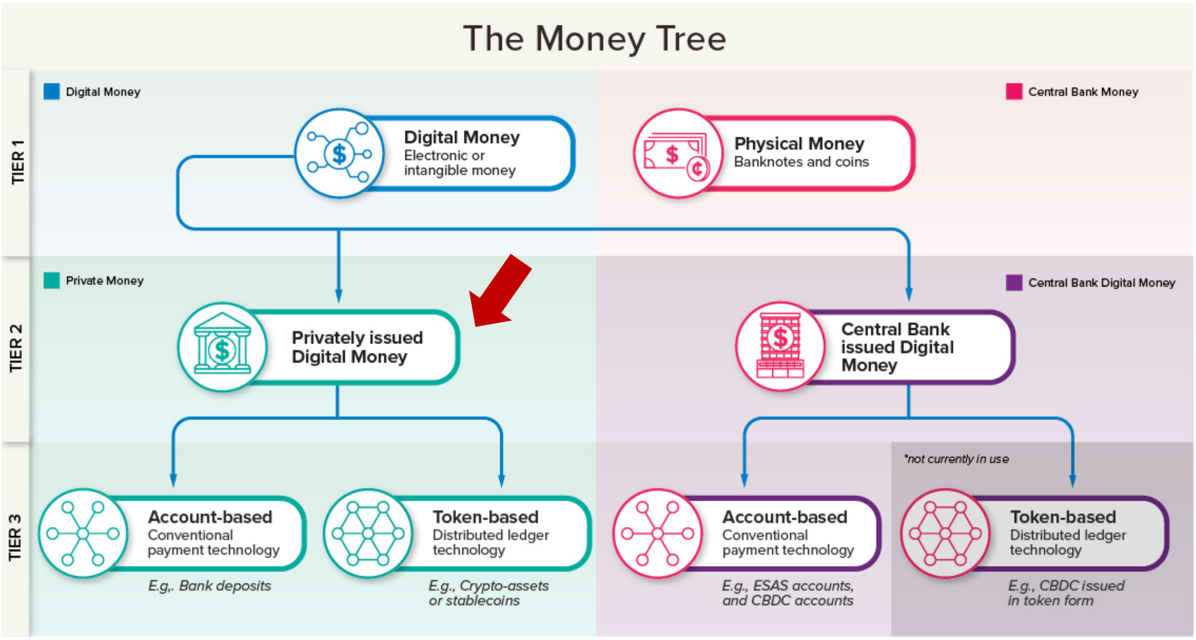
1. Introduction

In 2021, the Reserve Bank launched a public consultation on the Future of Money – Te Moni Anamata. This consultation comprised three Issues Papers that launched the Reserve Bank's role as steward of money in New Zealand, and introduced our work investigating a central bank digital currency (CBDC) and redesigning the cash system:

- Future of Money – Stewardship Te Moni Anamata – Kaitiakitanga;
- Future of Money – Central Bank Digital Currency Te Moni Anamata – Aparangi ā Te Pūtea Matua;
- Future of Money – Cash System Redesign Te Moni Anamata – He Whakahou i te Pūnaha Moni.

The stewardship Issues Paper highlighted concerns about stablecoins. This Issues Paper expands on these concerns and broadens the discussion to innovation in private money and how that could impact the existing monetary system.

Figure 1 The Money Tree



Source: updated from Wadsworth (2018) using Kahn and Roberds' (2009) token- and account-money distinction. Note the Reserve Bank has monopoly right to issue banknotes and coins.

Private money (Figure 1) comprises two types. Account-based private money uses conventional payment technology and is already digital. This form of money makes up more than 90% of the total volume of money held by the public, while cash makes up the rest.[13]

Account-based private money is private because it is a liability of commercial banks ('bank money' from here on). It is, in essence, an 'I owe you' (IOU) to the account holders. This IOU is backed by the bank's assets, such as mortgages.[14]

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[13] Together they make up what is called Narrow Money (M1), which comes closest to what is commonly perceived to be money (see Column C to E of RBNZ (2022a)). Central bank money is also available in the form of Electronic Settlement Accounts System (ESAS) balances (at around $40 billion), which is not available to members of the public.

In other countries, account-based private money issuers also include 'electronic money institutions' (or e-money institutions), which do not lend and are backed solely by central bank reserves or deposits.[15]

When we refer to innovations in private money in this paper, we include new forms of money that can be token-based and may utilise new distributed ledger technology. Cryptoassets (including stablecoins) take the same form, though not all of them can successfully fulfil the claim to be money (Appendix 4 illustrates how cryptoassets can differ significantly along several dimensions). Conversely, new forms of money can equally be based on conventional technologies but use new non-bank business models. While cryptoassets are the catalyst of our work, we aim to take a technology-neutral approach to include all forms of innovation.

This Issues Paper outlines our current thinking about innovation in private money and seeks feedback on:

- the opportunities and risks posed by innovation in private money;
- how these might impact the Reserve Bank's objectives as the steward of money; and
- the regulatory responses that could be required to deliver our stewardship objectives.

Section 2 describes the Reserve Bank's role as the steward of money. Section 3 defines the Reserve Bank's stewardship interest. Section 4 discusses the key opportunities we see with innovations in private money, and section 5 discusses the main risks that need to be addressed. Section 6 outlines our proposed response. Section 7 concludes and outlines how you can provide feedback to us.

[14] A mortgage is a liability of the borrower. But from the bank's perspective as the lender, it is an asset in the form of future repayments it can expect from mortgage holders.

[15] This is known as 'e-money' in New Zealand. For example, PayPal is an electronic money institution under UK/EU regulation. Money is stored in PayPal accounts but, unlike banks, this is not considered a deposit and cannot be lent out for profit. Nor can they promise a return on the fund. They are not protected by deposit insurance schemes.

2. Stewardship of money

The emergence of cryptoassets, and their claim to provide an alternative to conventional money, is challenging the way many people think about private money. This draws into question how we should respond as a central bank.

2.1 Defining our role and objectives as the steward of money

Our role as the steward of money derives from section 9(1)(c) of the Reserve Bank of New Zealand Act 2021, and our 'Central banking objective', alongside our 'Financial stability' and 'Economic' objectives.

Our main interest is in ensuring the core roles of central bank money as a trusted value anchor and in supporting inclusion and wellbeing. However, we also have a broader interest in money and payments, given that central bank money is impacted by developments in the wider money and payments system.

To monitor, assess and measure the impact of policy choices on the money and payments system, we are using the following objective statement ('Money and Payments Objective'):

> *New Zealand has reliable and efficient money and payments systems that support innovation and inclusion.*

2.2 Core drivers for considering innovation in private money

Private money is as old as money itself, and banks are the dominant providers of private money in the modern monetary system. Cryptoassets, on the other hand, are a new development. Volatility in crypto-markets, including the recent collapse of algorithmic stablecoin TerraUSD and FTX, is a hallmark of an industry still developing, and further consolidation may come as the market matures. However, cryptoassets show no sign of going away (see Appendix 2 for the technological and market context). It is, therefore, incumbent on governments and regulators to step back and assess the opportunities, risks and appropriate responses to this increasingly significant development.

There are several core drivers of our work in developing a response to the emergence of cryptoassets, including the following:

- concerns about existing inefficiencies in private money (e.g., in cross-border payments), underlining the appeal for wholesale 'disruptions' in money;
- perceived needs for and benefits offered by new forms of money in an increasingly digitalised economy (e.g. web3 and the metaverse);
- claims of cryptoassets to be 'money' and the potential for them to be used in this way, which purports to address those new or existing demands above;
- market growth of such assets without the central bank money anchor or regulatory safeguards; and
- declining use of cash as the only public alternative to new and existing forms of private money and the potential impact on central bank money as the value anchor.

Ultimately, the question we are trying to answer through this consultation is:

> To respond to the emergence of new forms of money, what additional regulatory powers may be needed that appropriately balance risks and opportunities?

Other jurisdictions similar to ours are asking the same question. Some have already gone further and broader in their regulatory responses. We are following these developments closely and useful lessons that may be learned, as summarised in Appendix 5.

2.3 The assumptions that guide our approach

In line with our stewardship objectives, we make the following assumptions about innovation in private money and how we should approach it.

Competition: a competitive market with effective incentives for innovation and continuous improvement is the foundation for trust and efficiency in private money.

Choice: a competitive market provides more choices for New Zealanders. However, choices in private and central bank money need to be meaningful to support both market discipline and inclusion.

Trust: we value the high level of trust in private money across our current system, regardless of who issues it. This means that users of money must be able to have a high degree of trust in it. The money itself must be able to facilitate economic exchanges efficiently and with minimum transaction costs.

Same risk, same regulation: there should be a level playing-field between different forms of private money. Regulation should be calibrated to the new technological context and adjusted where risks differ, or new risks emerge.

2.4 Our high-level approach

To achieve our stewardship objectives, the Reserve Bank's core tool to influence the provision of private money is our ability to issue central bank money. Central bank money must remain relevant as a value anchor, a means to implement monetary policy, and a lender of last resort.

In the future, New Zealand may have a central bank digital currency (CBDC). A CBDC would be a digital publicly-provided counterpart to private money, which is already digital. It may make central bank money a more effective lever to incentivise competition and innovation, and potentially lessen the need for more stringent regulation.

Our new stewardship role is broader than our historical function as the issuer of banknotes and coins. We now have a legislative mandate to monitor technological developments in money (section 116 of the Reserve Bank of New Zealand Act 2021). This means assessing trends, developments and changes; supporting the system to adapt to substantive changes; and helping manage risks and promoting opportunities. Such risks and opportunities will inevitably be impacted by trends in the wider ecosystem, e.g. the growth of decentralised finance or the modernisation of payment systems. We will need to address their implications.

However, more may still be needed in the form of new regulatory tools to ensure that new forms of money emerge in a way that supports our Money and Payments Objective. Besides meeting private needs, new forms of money should support greater reliability, efficiency,

Questions:

1. *Do you agree with the core drivers, assumptions and high-level approaches that we have described in relation to our work on private innovation in money?*
2. *Is there anything else we should consider?*

innovation and inclusion in New Zealand's money and payments.

3. What is captured by our stewardship interests

Money is a broad concept and there is a variety of definitions. As a central bank, we have a range of interests in money.

3.1 We are interested in whatever may be used as money in practice

One way to think about money is through the economic definition of money as a medium of exchange, store of value, and unit of account.[16] This definition speaks to how money is used and whether a particular product is suited to being used as such.

Stablecoins with a credible mechanism to maintain a stable value are more likely than other cryptoassets to meet this economic definition of money. Therefore, they likely will be more attractive to users and thus occupy our focus. However, it remains possible for other cryptoassets to become more widely used as money, despite their apparent deficiencies in light of the economic definition.

For example, El Salvador made Bitcoin legal tender alongside the US dollar in 2021. The government was able to bring about a low but nevertheless material level of use (20 percent reported acceptance by businesses and 4 percent of sales) through government endorsement, subsidy and other interventions.[17]

We plan to take a broad and pragmatic view of money as our starting point. We are interested in whatever is used to pay for things, make cultural and social exchanges, save for the future and pay people for their efforts, and the risks and opportunities arising from such uses. This broad view will enable us to better respond to potentially unexpected changes in how society views and adopts money.

3.2 Significant forms of private money can affect our interests

To be clear, we are not proposing to ban the use of certain coins or to limit how people choose to pay and be paid. There is currently no restriction, for example, on opting to have one's wages paid in bitcoins, foreign currencies, community 'currencies' or other tokens, provided such choices do not affect others.[18] In fact, we generally welcome well-grounded innovation that increases diversity in the forms of trusted money and payment options, as this supports choice and competition (see section D below).

When cryptoassets appeal to the notion of money to promote their adoption, they are leveraging off the trust we generally place in existing forms of money. Not all such claims are credible. Take, for example, a stablecoin that does not provide an effective means for its holder to liquidate it into fiat currency when they want to withdraw, or where the value is not effectively stabilised. We are concerned that situations like these could create friction and uncertainties, erode trust in money more generally, and lead to wider harm.

'[16] One thesis about new forms of money is that the functions of money as a medium of exchange and a store of value would evolve into specialisations. It may be useful to distinguish the 'store of value' in relation to investment here. In one sense the store of value simply involves the custodianship of a thing of value that allows it to be spent over time. This doesn't necessarily imply the value has to be time- and inflation-adjusted, which likely involves some risk-taking for a risk-adjusted return.

[17] Alvarez F, D Argente & D Van Patten (2022)

[18] The Wage Protection Act 1983 requires that wages be payable in money – defined as legal tender – by default (see sections.2 and 7 of the Wage Protection Act 1983 No 143 (as at 01 July 2022), Public Act on New Zealand Legislation), unless explicitly agreed otherwise.

Further, suppose these new forms of money become significant in their use. They may also pose the same kinds of risks as traditional commercial bank private money. When new forms of money become ubiquitous, the ability to refuse payment in that form of money is effectively limited. Similar limitations can also result from, for example, a significant imbalance in bargaining power in certain contexts. The alternative to not accepting a certain form of money is to potentially not be paid. In these circumstances, market discipline and a 'buyer beware' approach alone risks harm to users, damaged trust in money, and reduced reliability and efficiency of our money and payments.

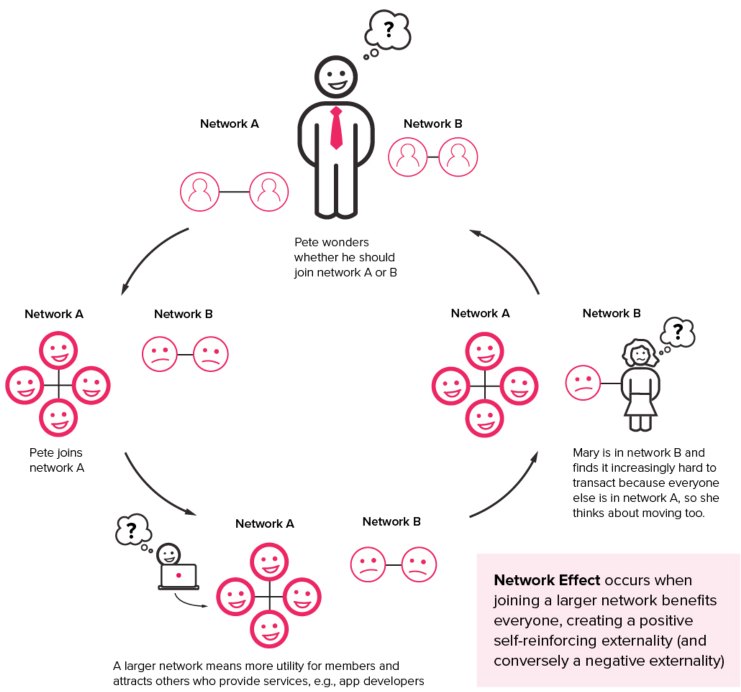
3.3 Current uptake of cryptoassets is low, but it may increase over

Currently, the uptake of cryptoassets for monetary use in New Zealand is fairly limited. Nevertheless, there appears to be growing interest in such assets for investment or speculation purposes that may still add momentum to wider uptake (see Appendix 2). Therefore we should not dismiss the potential for greater uptake here in New Zealand as well as globally.

Several other drivers may increase uptake:

- competition between underlying currencies of stablecoins (or, less likely, unbacked cryptoasset) over their economic underpinnings or differences in monetary policy (e.g., different interest rates prescribed by central banks);
- responses to new and existing unmet demands for convenience and digital functionality, e.g., smart contracts, DeFi or cross-border uses bypassing existing inefficiencies and/or regulatory frameworks; and
- self-reinforcing network effects (see Figure 2 below), where the expansion of the network can incentivise uptake in its own right rather than consumer demand for the specific money or payment product.

Figure 2 Network effect



There is a small but growing body of research on how potential uptake may be modelled for the emerging crypto market.[20] Box 1 provides an example of one approach. However, quantifying or predicting uptake is challenging, with few examples of mass adoption in similar jurisdictions to New Zealand.

Box 1: Estimating Cryptoasset Uptake as Money
In 2019 the European Central Bank estimated the potential uptake of Libra/Diem using data on PayPal and Yu'E Bao (a Chinese payment platform-tied money market fund). They calculated that the Libra association could attract €15.3 billion to €292.8 billion from users in the Euro area.[19] This would have made such a scheme one of the largest money market funds in the EU. Its holding of euros would make up between 0.3% and 5.8% of the M1 supply.

The calculation was based on assumptions about the number of Facebook users in the Eurozone (about 240 million) and reference points for individual holdings (e.g., the average amount of PayPal account balance (€64) and percentage of income stored on Yu'E Bao (€1,220)).

The potential for mass uptake is greater in the case of global stablecoins denominated in foreign currencies. Moreover, the competitive edge of a global stablecoin may lie in its ability to leverage existing social media or online shopping networks to rapidly upscale and achieve market dominance (and, in turn, distort consumer responses) through disruption. The potential impacts of this are discussed in more detail below.

This is why global stablecoins have been an area of focus for regulators. Although the Libra/Diem project driven by Facebook/Meta has not come to fruition, this is in large part thanks to the reaction from global regulators (as opposed to, say, the lack of commercial commitment). In section 6, we outline a monitoring framework that would enable us to track changes in uptake.

3.4 Existing regulatory regimes

Private innovation in money, particularly cryptoassets and stablecoins, presents a wide range of connected and evolving risks. Some of these risks are the subject of existing regulatory regimes, including financial stability, market conduct, AML/CFT, tax compliance, privacy, fraud and other crimes. We have not focused on many of these in this paper. However we see their effective management as important preconditions for widespread consumer use of new forms of money.

[19] Adachi, M, M Cominetta, C Kaufmann and A van der Kraaij (2020)

[20] Another example is the research on potential demand for digital currencies based on the shift towards digital payment methods. Li (2021), for example, found that a baseline design of CBDC could achieve 4% to 52% market share. Since the attributes used in Li's study do not include preferences for central bank vs. private money, the findings could provide a starting point for estimating uptake of a *digital* currency (before the preference for central bank versus private digital currencies is taken into account). Another strand of literature builds on econometric models that explicitly consider the utility of money, and shows that, in theory, cryptoassets and conventional money can co-exist, when they are used as money, at least for a period of time before one or the other is crowded out, with different implications for consumer welfare, monetary policy operation and so on (Benigno, 2021; Benigno, Schilling and Uhlig, 2019; Cong and Mayer, 2021; Yu, 2022; Zhu and Hendry, 2021).

The Reserve Bank is responsible for protecting and promoting the stability of New Zealand's financial system.[21] The CPMI and IOSCO have recently issued additional guidance confirming that the Principles for Financial Market Infrastructures (PFMI)[22] are relevant for stablecoins. They have also clarified how some of the key principles should apply to cryptoassets used for payments or settling financial market transactions.[23]

The Reserve Bank supports this assessment and is working with the Financial Markets Authority to translate the PFMI into legally binding standards as part of implementing the Financial Markets Infrastructure Act 2021. We will continue to monitor potential risks to financial stability and ongoing work in this area by international bodies.

We also recognise that there are shared challenges and best practices that may be applied across specific subject matters. These include, for example, the challenge associated with regulating decentralised autonomous organisations (DAOs). We discuss these challenges more in section 6.

Cryptoassets also pose interesting questions regarding the operation of AML/CFT regulations.[24] On the one hand, the anonymity offered by some cryptoassets presents challenges for AML/CFT compliance. On the other hand, we have heard claims, particularly from cryptoasset service providers, that everyone dealing with cryptoassets is treated as presenting an insurmountable challenge for AML/CFT compliance. These providers struggle to access basic banking services as a result.

Box 2 Transmission of Financial Stability Risks

According to the Financial Stability Board, cryptoassets could transmit financial stability risks through:

(i) financial sector exposures to cryptoassets and related entities;

(ii) wealth effects, i.e., the degree to which changes in the value of cryptoassets might impact their investors, with subsequent knock-on effects on the financial system;

(iii) confidence effects, through which developments concerning cryptoassets could impact investor confidence, potentially in the broader financial system; and

(iv) extent of cryptoassets' use in payments and settlements.

These cross-cutting risks will likely require a coordinated response across the public sector, including the Council of Financial Regulators (CoFR) and other agencies in this area. Appendix 1 illustrates how CoFR agency regulatory interests intersect. CoFR's statement on cryptoassets can be found here:

https://www.cofr.govt.nz/news-and-publications/cryptoassets-statement.html.

Other issues are outside the scope of this paper. In this Issues Paper, we assume that the relationship between central bank money and private money continues to matter. We are

[21] Section 9 of the Reserve Bank of New Zealand Act 2021 No 31 (as at 01 September 2022), Public Act 9 Bank's objectives – New Zealand Legislation
[22] The PFMI are issued by the Committee on Payments and Market Infrastructures (CPMI), which is part of the Bank for International Settlements, and the International Organization of Securities Commissions (IOSCO).
[23] CPMI-IOSCO (2022); Financial Stability Board (2020)
[24] We note that the recently concluded statutory review of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 has recommended a number of measures to enhance the effectiveness of the regime. We will continue to engage with agencies responsible for the AML/CFT regime to explore cross-cutting issues. (see Allan 2022)

not assessing the hypothetical case of whether they should, or could, replace one another because of a preference for public versus private money. [25]

Similarly, some discussions about cryptoassets concern the choice of monetary regimes rather than money itself. For example, Bitcoin proposes a fixed monetary supply and, some argue, can be seen as a return to the gold standard. These monetary regimes (fixed supply and gold standard) could be adopted without Bitcoin, and the trade-offs associated with these models are well-understood. These are outside the scope of this paper.

Questions:

3. *What do you see as the biggest issues with private innovation in money?*
4. *Do you agree with how we frame the focus on stablecoins? Are there other forms of innovations we should be looking at?*

[25] 'Free Banking' refers to the historical period (particularly in the US) before the emergence of central banks where commercial banks could freely issue banknotes in the national currency against their chosen reserve. See Hockett, RC (2019),

4. Opportunities for greater competition and further innovation

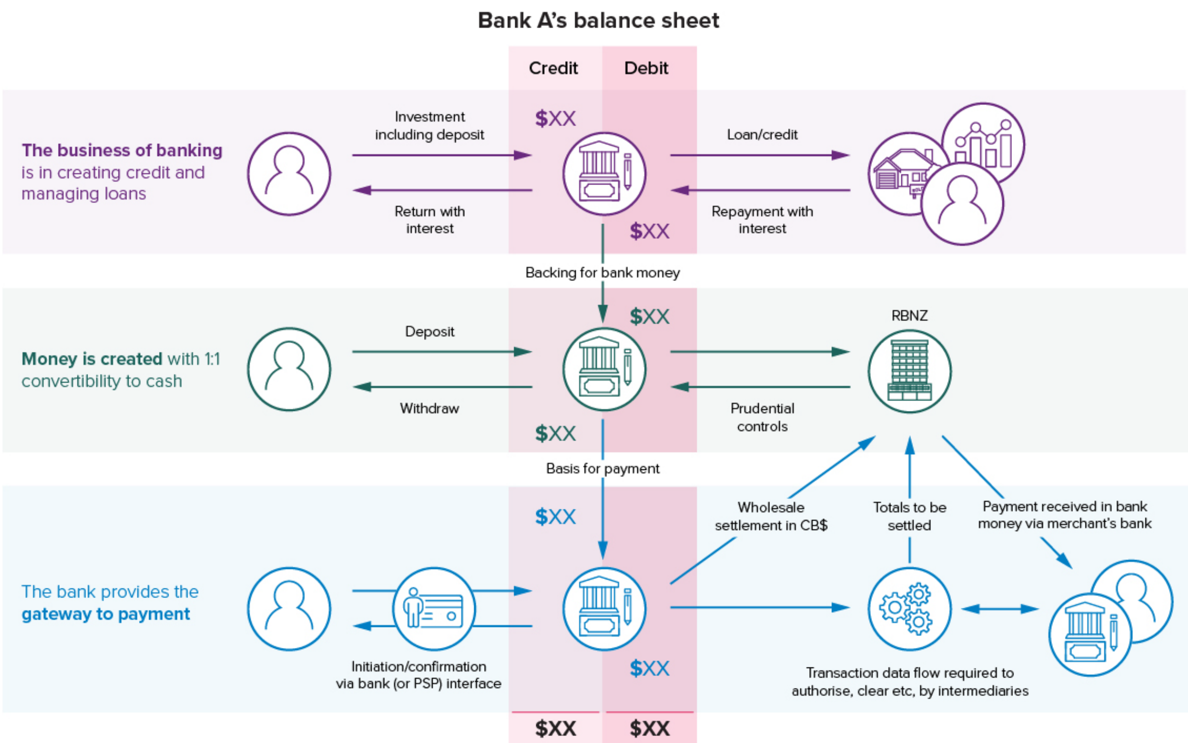
Our current system of money and payments has banks at the centre. This system provides a high level of trust, as banks are highly regulated and resilient, and, therefore, a strong pillar of the money and payments system.

However, that is not to say that the existing system is perfect. New forms of money may be able to deliver money more efficiently at a lower cost than banks, and serve niche-use cases that are non-commercial for banks. In this sense, new forms of money may support greater efficiency, innovation and inclusion in our money and payments system. However, they must be able to do this without undermining the system's reliability.

4.1 The role of banks in our money and payment system

The traditional role of banking is in creating credit and managing loans. In doing so, banks create liabilities that become private money.[26] In turn, the predominance of bank money means banks are a key gateway to the electronic payment system. To access digital forms of money, users need to access their bank accounts. They also need banks and payments service providers (along with a smartphone or computer, power and data) to facilitate the transfer of money between bank accounts and to make purchases.

Figure 3: The bundling of banking, money and payments[27]



[26] Such a distinction already exists between current and savings accounts. The former is readily available, but the latter may have some restrictions (e.g., withdrawal limits and/or forgoing interest).
[27] Please refer to Dudson, et. al. (2022) for a detailed description of the payments system in New Zealand.

4.2 Banks provide a uniform standard of trust

A feature of our current system is the high, relatively uniform standard of trust, no matter who issues money. All private money is supported by *the same* central bank value anchor and prudential regulations within a well-established legal and institutional framework. There is no separate regime for money issuers.

The ability to convert money in a bank account 1:1 into central bank money and money held in another bank account underpins trust and efficiency in our monetary system. Similarly, regulations ensure that customers have a clear legal claim over the money held in their bank account. They also ensure that banks must maintain sufficient liquidity to meet customer demands on their accounts and hold sufficient capital to withstand severe shocks.

Without 1:1 convertibility or regulation, people must work out the value of money themselves (and the assets that back the money). With cryptoassets, variable transaction costs have to be considered, too (see Figure 6 p.29). People have to exercise due diligence over complex factors as if they are making an investment.

But, unlike investors, people who need money in a day-to-day context to buy groceries or pay for a train ticket, for example, are likely to find the costs of due diligence, transaction fees and calculating exchange rates too challenging. Even if they are willing to do this, they might not be able to do it effectively because of the presence of information asymmetry. Faced with the risks and uncertainties, they may resort to, for example, discounting the value of money they receive from others. They would have to exchange one type of money for another they prefer. This might mean that they have to go through money exchangers, as we do with foreign currencies, for their day-to-day use of money. This adds costs and extra layers of inefficiency to the system.

Without trust across the system, monetary transactions will become more like barter. The efficiency gains from private money as a reliable *medium* of exchange that lubricates other exchanges in the economy would be lost.

Efficiency is not the only benefit of a common monetary network with a shared anchor in central bank money. Such a network also supports choice and inclusion. It helps to 'internalise' the network effects that would otherwise mean larger banks would dominate the smaller ones. Because of this, people can choose their bank without losing their access to money.

4.3 Regulation can support trust in other providers of money

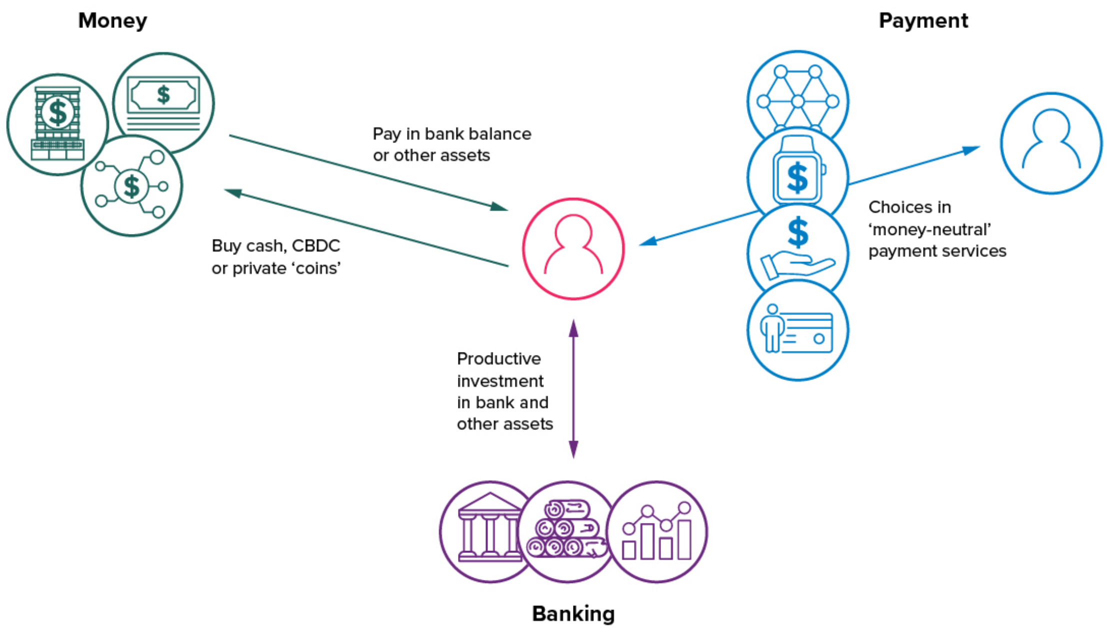
While the existing banking system sustains a high level of trust, there are high barriers to entry into the banking sector. Such barriers reflect the necessary scale, connections and financial resources required of banking businesses, due to their importance in a modern economy, and the risks they need to manage as large financial intermediaries and lenders. However, these barriers to entry are a constraint on competition.

This system need not be the only model of trusted private money, and we should not preclude new models simply because they carry risk. Regulations can play an important role in limiting risk, so it is worth exploring whether regulation might be developed to support a similar level of trust in new forms of money, as is currently enjoyed by banks.

4.4 A more open ecosystem could enhance competition

One opportunity of the new technology might be the ability to establish a new ecosystem for money and payments that enhances competition and innovation. In such an ecosystem, issuers of money would not need to compete with banks in the provision of wider banking services (credit and lending) or rely on banks to access the money and payments market. Figure 4 below illustrates this.

Figure 4: An alternative model to access the money and payments ecosystem



However, within this framework, there would be new risks to manage, and regulation would still be required. There is a risk that, without an approach that supports safe innovation, opportunities for greater competition and innovation will be lost, consumers will be worse off, and those that want to seek out the opportunities of this new technology must do so in markets with low regulation where users have limited legal protections.

At the same time, we are sceptical of claims that crypto-based, e.g. the likes of bitcoin or ether, payment solutions will always outperform conventional solutions across all dimensions of speed, scalability, convenience or costs (see Box 3 below). Such claims have yet to be proved. Other ways to apply blockchain or DLT technology that are not tied to a preference for (pseudo) anonymity or that draw on a legitimate source of trust, could potentially deliver better performance and value-add.

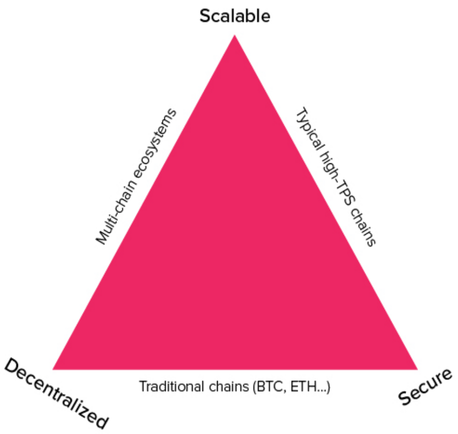
Box 3: Crypto-based payment solutions

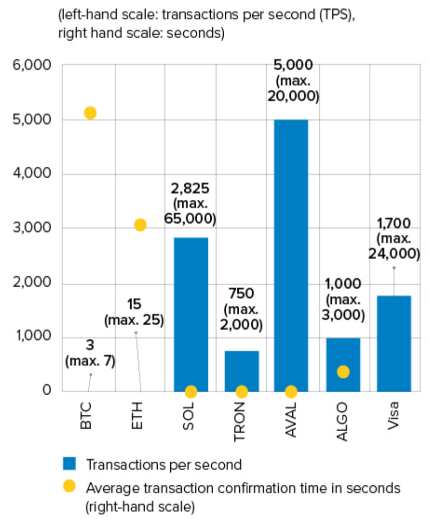
A fundamental argument for employing crypto-based solutions is that they enable transactions without the need for trusted third parties to verify and record transactions, among other thin, but instead relying on decentralised networks secured with cryptography.

Some regard decentralisation as intrinsically important. Other benefits could include enabling peer-to-peer interactions; enhanced security and resilience; some (but not absolute) privacy or anonymity; cost-saving and efficiency where existing systems are not well-coordinated or reliable; and support for additional capabilities, e.g., smart contracts.

However, the utility of crypto-based solutions depends on context and individual needs. For example, crypto-based solutions may be useful for cross-border transactions across multiple uncoordinated systems governed by different regulatory regimes. On the other hand, conventional solutions, such as real-time payment systems, could work better in a domestic context where there is a high degree of system and regulatory harmonisation.

In other words, crypto-based solutions are not without trade-offs. A key trade-off is between security, decentralisation, and scalability/speed. This is captured by the so-called Buterin trilemma (below left),[28] where only two out of the three objectives can be achieved. The figure on the right-hand side shows the transaction speed of crypto-based versus conventional payment channels.[29]





[28] Figure adopted from Buterin (2021)
[29] Figure from Adachi, M et al (2022)

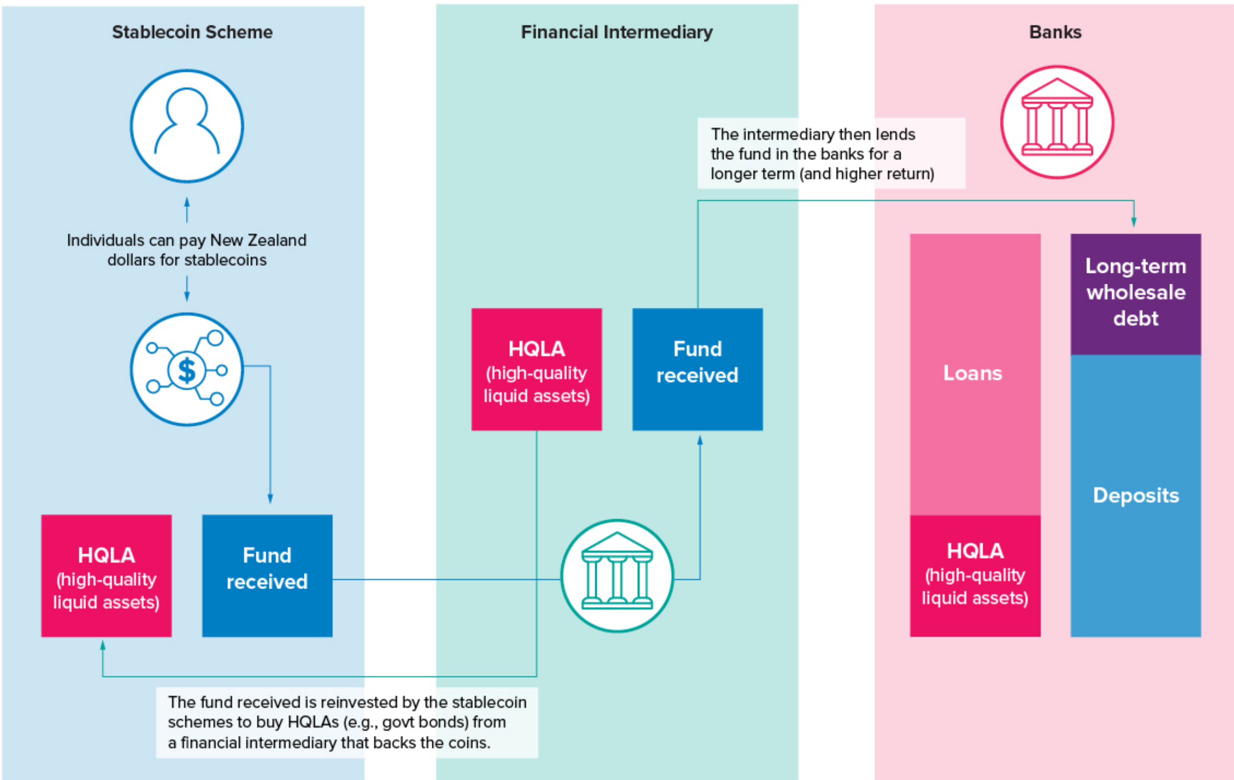
4.5 Changes to our existing banking system are already afoot

If alternative models of money become more significant, we may see banks respond positively to changes. They can compete with alternative providers directly, for example, by allowing more innovation within their existing networks, through such initiatives as Open Banking-.

As we are already seeing, some may be integrating new technologies to improve their current service offerings. Others may become more specialised in providing long-term wholesale debt that supports other intermediaries to provide or manage the assets for retail stablecoin services.

Figure 5 below illustrates the possibility of an alternative set of arrangements, as conceived by the Bank of England.

Figure 5: Alternative banking/financing arrangements



Adapted from Bank of England (2021) Figure 1.2

Questions:

5. *Do you agree that there is a significant opportunity to enhance competition and further innovation in a New Zealand context?*

5. Risks with private innovation in money

Private innovation in money poses a range of risks. We have categorised the key risks into four broad categories:

1. Risks to holders and users of money.
2. Risks to competition with new dominant service providers.
3. Risks to trust across the monetary system.
4. Potential risks to monetary sovereignty.

The last three risks identified above are associated with potential market failures in the form of network externalities and information asymmetry. They can also threaten our ability to use monetary policy to deliver our economic objectives, as a central bank.

While the risks are relatively easy to identify qualitatively, there is a lack of quantitative evidence about their magnitude or impact.[30] With better monitoring (see section 6 below), we may be able to fill some of these gaps, but not all.

5.1 Risks to holders and users of money

Users and holders of new forms of money are exposed to various risks. It is important that users fully appreciated and are able to manage them adequately. These risks fall into the following areas:

- AML/CFT: the anonymity or pseudo-anonymity some cryptoassets offer can pose challenges for managing money laundering and terrorist financing risks.
- Cyber risks: given the technology-dependence of new forms of money, users and holders of some new forms of money are exposed to cyber risks and weaknesses in technology. There have been several recently reported incidents of digital asset exchanges being hacked and digital assets taken.[31]
- Value stability: stablecoins take a variety of different approaches to stabilising their assets, with varying degrees of legal certainty and robustness. The absence of appropriate, high-quality, and stable assets backing a stablecoin could lead to a rapid loss of value in certain market conditions. There is often also a lack of transparency about the nature of the assets held to back the stablecoin, and a lack of oversight or regulation to ensure stablecoins remain appropriately backed over time.
- Redemption: the legal claim of stablecoin holders to redeem their stablecoin for fiat currency can also be unclear. The ability to redeem a stablecoin in a timely fashion, at par value and based on transparent fees and charges would be important for the wider use of stablecoins.
- Solvency: the financial strength of stablecoin issuers is often unclear, with little transparency about the nature of the capital and liquidity they hold. Consequently,

[30] World Economic Forum (2022b)
[31] See Chainanalysis (2022b), which reports that the value of criminal activities facilitated by cryptoassets reached an all-time high of US $14 billion globally.

stablecoin issuers may not be resilient to unexpected downturns in market conditions.

While the uptake of new forms of money in New Zealand is currently small, the absence of a regulatory framework effectively addressing some of these risks could undermine trust in these new forms of money and the opportunities they could present. An alternative argument could be that as uptake is currently low and limited largely to speculative investment, we should not consider regulation at this point and instead rely on 'buyer beware'.

The challenge here is to balance the potential costs and benefits of regulation against potentially rapid developments in the sector. Our preliminary view is that the risks identified above need to be addressed to realise the potential benefits of diversifying the money and payments landscape.

5.2 Risks to competition with new dominant providers of money

The emergence of new technologies can help bring more competition to money and payments. However, such benefits may be reduced or compromised. Large social media or online shopping networks ('Big Techs') can opt to 're-bundle' money and payments services with their platforms, similar to how money and payments products are currently bundled with banking and other services like insurance, mortgages or credit cards.[32] [33]

These platforms can exhibit the same strong network effects and two-sided market issues, contributing to limited competition in money and payment systems. 'Big Techs' controlling these platforms have the resources, size and reach to compete with banks, or even central banks. They can rapidly upscale and entrench their presence in the existing money and payments system, which can limit the ability of others to respond. Their access to new capabilities in data gathering and analytics that could be 'monetised', or used to cross-subsidise their payment services, is an additional and potentially important advantage (and may raise other concerns such as privacy). [34] [35]

Other jurisdictions have been grappling with the issues of regulating 'Big Techs' for some time. The European Union, for example, found new legislation was necessary to ensure interoperability and thereby remove barriers to switching to competing networks.[36] Such concerns also underline the reservations by regulators about global stablecoins, such as the now-defunct Libra/Diem project.[37]

In New Zealand, the Commerce Commission is responsible for monitoring the retail payment system and regulating designated retail payment networks to promote competition

[32]Brunnermeier K, et al. (2019)

[33] 'Big Techs' are large dominant forms in the information technology sector, such as Amazon in online shopping, and Facebook in social media.

[34] For example, customers may be offered discounts for providing certain information about themselves that could be resold by platforms to advertisers or sellers. This is not necessarily a problem, and the balance of trade-offs (between efficiency and privacy, say) may be attractive if the existing payment system is inefficient (Chiu and Koeppl, 2022).

[35] There are a number of other ways that the operation of Big Techs could be detrimental to competition. See Smith & Geradin (2022).

[36] https://www.europarl.europa.eu/news/en/press-room/20220701IPR34364/digital-services-landmark-rules-adopted-for-a-safer-open-online-environment. In the US it has proven difficult to bring digital platforms under existing antitrust rules, and new legislative proposals have been introduced to Congress. https://www.bloomberg.com/graphics/2022-tech-antitrust-bill/

[37] For example, President's Working Group on Financial Markets (2021). Castens et. al. (2021) noted that when Big Tech platforms achieve dominance in payment services, the costs to merchants could be even higher than conventional card schemes (p.5).

and efficiency in the system, under the newly assented Retail Payment System Act 2022 (also see Appendix 1). Peer-to-peer retail payment networks may be monitored and could be recommended for designation if competition or efficiency issues arise. The Commission also enforces general competition law in accordance with the Commerce Act 1986, which applies to all markets for goods and services, including private money.[38]

To further our stewardship interest, we will need to work closely and proactively with the competition authorities, such as the Commerce Commission, particularly as the underlying competition problems in non-money networks are challenging to resolve.[39]

We think that a proactive stance is also needed to consider how the regulatory system can provide a level playing-field now and in a possible future where 'Big Techs' may have more of a presence in money and payments. We will need to preserve viable entry points for challengers who are unlikely to be able to compete with 'Big Techs' on bundled social media or shopping platform services (or with banks and others on banking and financial services).

5.3 Risks to trust across the monetary system

The proliferation of new forms of private money not anchored to fiat currencies or accompanied by regulatory safeguards can potentially fracture the high level of trust across the current money and payments system.

There are substantive difficulties with information asymmetry to the consumer's detriment. The issue today is not so much with the lack of access to data, but with the quality of data, the complexity of information, and the absence of disclosure standards and external accountability.

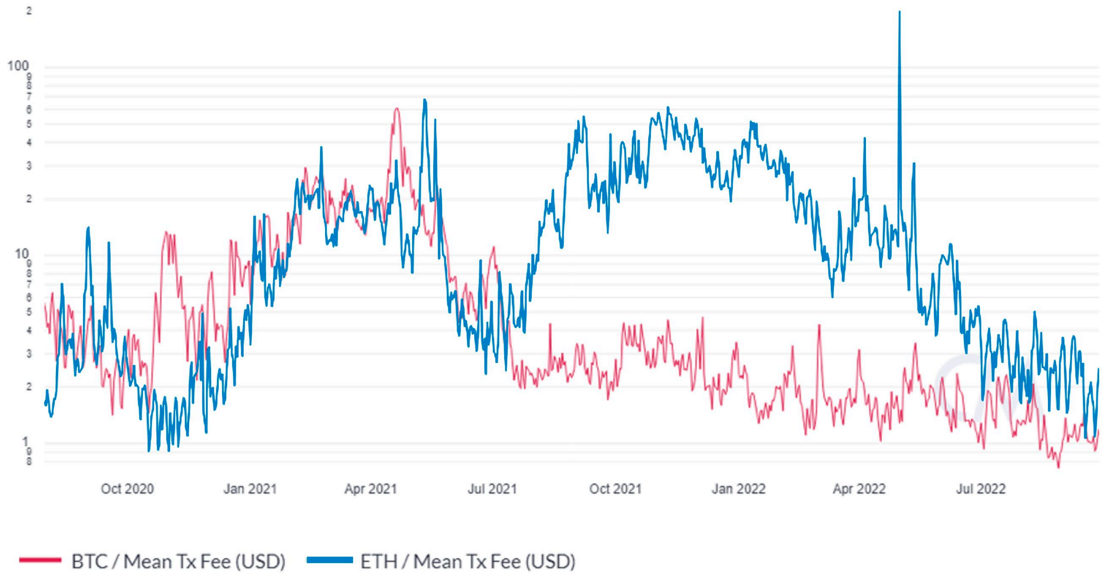
It could be difficult for users to assess, to start with, how much it costs to pay with some new forms of money in addition to what they paying for. The values are volatile, driven by (often-misguided) beliefs and speculation, and fees are ever-changing depending on the unpredictable state of a network. This stands in contrast with the relative stability of conventional payments networks, where fees are, at the very least, predictable.

In addition, when the value is unstable relative to conventional assets such as fiat money and other cryptoassets, many exchange rates need to be tracked for sound trading within a highly fragmented market. The lack of interoperability between cryptoassets could also create further friction in the exchange. Despite the intention to do away with conventional intermediaries such as banks, the cryptoasset market requires new types of intermediation. Even if such intermediation can be highly efficient, there remains a cost. This intermediation, such as digital-asset exchanges, also presents additional risk and regulatory challenges.

[38] The Commerce Act 1986 applies to markets for goods and services where goods include personal property of every kind ,whether tangible or intangible. (See section 2 of the Commerce Act 1986 No 5 (as at 05 October 2022), Public Act, at New Zealand Legislation)

[39] Ibáñez Colomo (2020)

Figure 6: Average transaction cost on Ethereum and Bitcoin networks (USD log scaled)



Source: Coinmetrics via messari.io

Figure 7: Relative exchange rates comparison (Sep 2021 base)

Source: Google Finance

On the other hand, the cryptoassets market continues to be dominated by Bitcoin and Ethereum, which shows the impact of a network effect.[40] This dominance, within an otherwise highly fragmented landscape, arguably invokes the worst of both worlds between centralisation and decentralisation. There is nothing to suggest that such competition will deliver better efficiency, shared prosperity or welfare.

The decentralised design also adds to the uncertainty. Such a design is aimed at facilitating 'trustless' transactions, a central value proposition for crypto-assets. With it, users can securely transact with each other without the need to trust or even know who is processing the payments or updating the ledger.

[40] See Buterin (2014) for a useful analysis that unpacks the network effects from a market insider viewpoint.

However, the safeguards against a malicious third party alone do not address the need for trust between people and institutions in the real world that protects both parties to the transactions. For example, while the proof of ownership based on the possession of private keys may be absolute, what this means in legal or economic substance terms is less clear. The lack of clarity can create problems in the case of theft, or the right to redemption for underlying assets, or as a minority stakeholder in a majoritarian governance protocol.

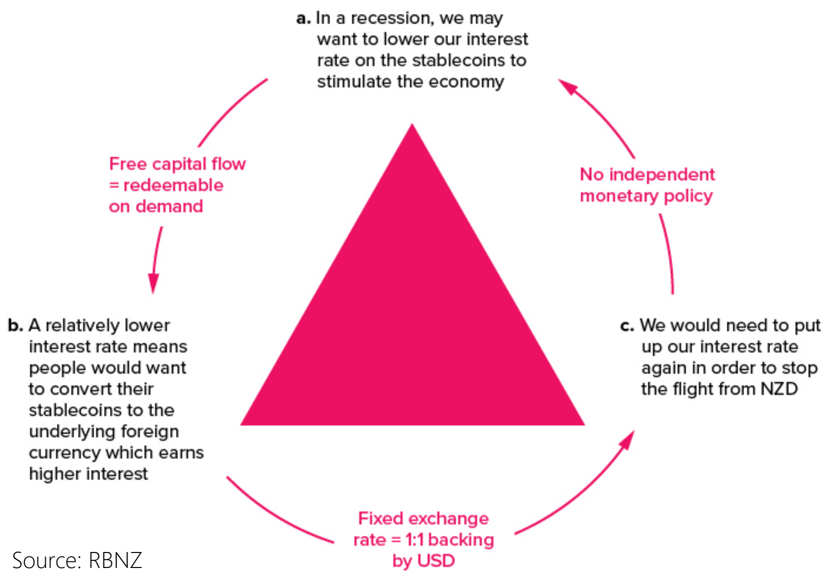
It is also unclear how such 'trustless' arrangements would support other objectives, such as inclusion, which are crucial for the wider social and economic system. While some of these objectives may seem less important in the case of non-dominant money and payment forms, they come into sharp focus once network effects start to show.

5.4 Potential risks to monetary sovereignty

It is possible that significant adoption by individuals and businesses of non-NZ dollar (NZD) denominated money, such as a global stablecoin, could displace the NZD even when the latter's soundness is not in question. This would threaten monetary sovereignty and potentially financial stability.[41] While the likelihood of such a risk is low,[42] the consequences are great if they do eventuate.

In the extreme, New Zealand could become heavily 'dollarised' with, for example, the universal adoption of a foreign-currency-backed stablecoin. This would be equivalent to a scenario where we peg the NZD to the US dollar (USD) and allow free capital movement. It is well established that monetary policy would not be independent in that case (see Figure 8). We would face the prospect of having to adopt other countries' monetary policies and hurting our own real economy, as monetary policy becomes inconsistent with the state of the New Zealand economy.

Figure 8: A stablecoin trilemma



Source: RBNZ

[41] We define monetary sovereignty as 'having access to independent monetary policy as an effective tool to achieve price stability and sustainable employment and respond to economic shocks'.

[42] The risks of 'dollarisation' or 'cryptoisation' are much more immediate in emerging markets and developing economies, where there are existing weaknesses in the national currency, than in advanced economies. However, this does not mean that there is no risk for the latter (IMF 2021).

However, it is less clear what may happen if a substantial part of our economy becomes dominated by other currencies, but the New Zealand dollar is still fairly widely used (i.e. we have a dual-currency, rather than dollarised, system). As a small open economy, there is already extensive use of foreign currencies, including for invoicing and transactions, particularly in our export sector.[43] The mere presence of a new choice would not alter this.

Consider a simple scenario where some New Zealanders have mortgages denominated in a USD-pegged stablecoin issued by a domestic bank, which also keeps a stock of these coins to lend. Some goods are also priced in such a stablecoin.

With an increase in OCR, these New Zealanders would not be affected immediately. However, those who have NZD obligations would face a rising burden regardless, which would cool the economy.

A higher OCR would also support the appreciation of NZD. This would amplify the effect (as people exchanged other currencies for NZD in pursuit of higher returns), leading to declining exports and increasing imports, which would drive down the domestic production of those goods. This, too, would cool the economy.

However, mortgages and goods priced in USD-denominated stablecoins would also become relatively cheaper, increasing consumption demand and output in that part of the economy. Provided the share of the two denominations is not too disproportionate, this might offset the cooling effect to some extent, but not entirely.

Overall, the effect of a policy change could be reduced and unevenly borne. We may have to increase the OCR more aggressively to achieve the same effect, with greater costs, more complex economic flows, and more unintended consequences.[44] Such complication would not occur, should the stablecoin be backed by the NZD.

Questions:

6 Do you agree with the key risks to the stewardship of money identified here?
7. Are there any other risks that we should consider? How significant are they?

[43] These are often then swapped back to NZD to reduce mismatch risks.
[44] The illustration is drawn from the dollarisation literature (see Eichengreen and Tille 2006).

6. The Reserve Bank's proposed response

Given the potentially significant impact of cryptoassets and other innovations on our monetary system, the Reserve Bank's view is that we should develop options for responding to the emerging issues about innovations in money now, while acknowledging that our responses may evolve as the market does.

6.1 We propose to develop a monitoring framework

We plan to work across the Reserve Bank and with other regulators to develop a monitoring framework, in line with our new monitoring mandate and the CoFR statement. This framework will also help us determine the size and urgency of further work.

This framework could include key measures, similar to those used to assess systemically important financial market institutions (e.g., interconnectedness, substitutability, concentration, complexity and size).

We also propose to monitor a wider range of metrics relevant to assessing whether or not a new form of money may become widely used. These would include the extent to which they are used:

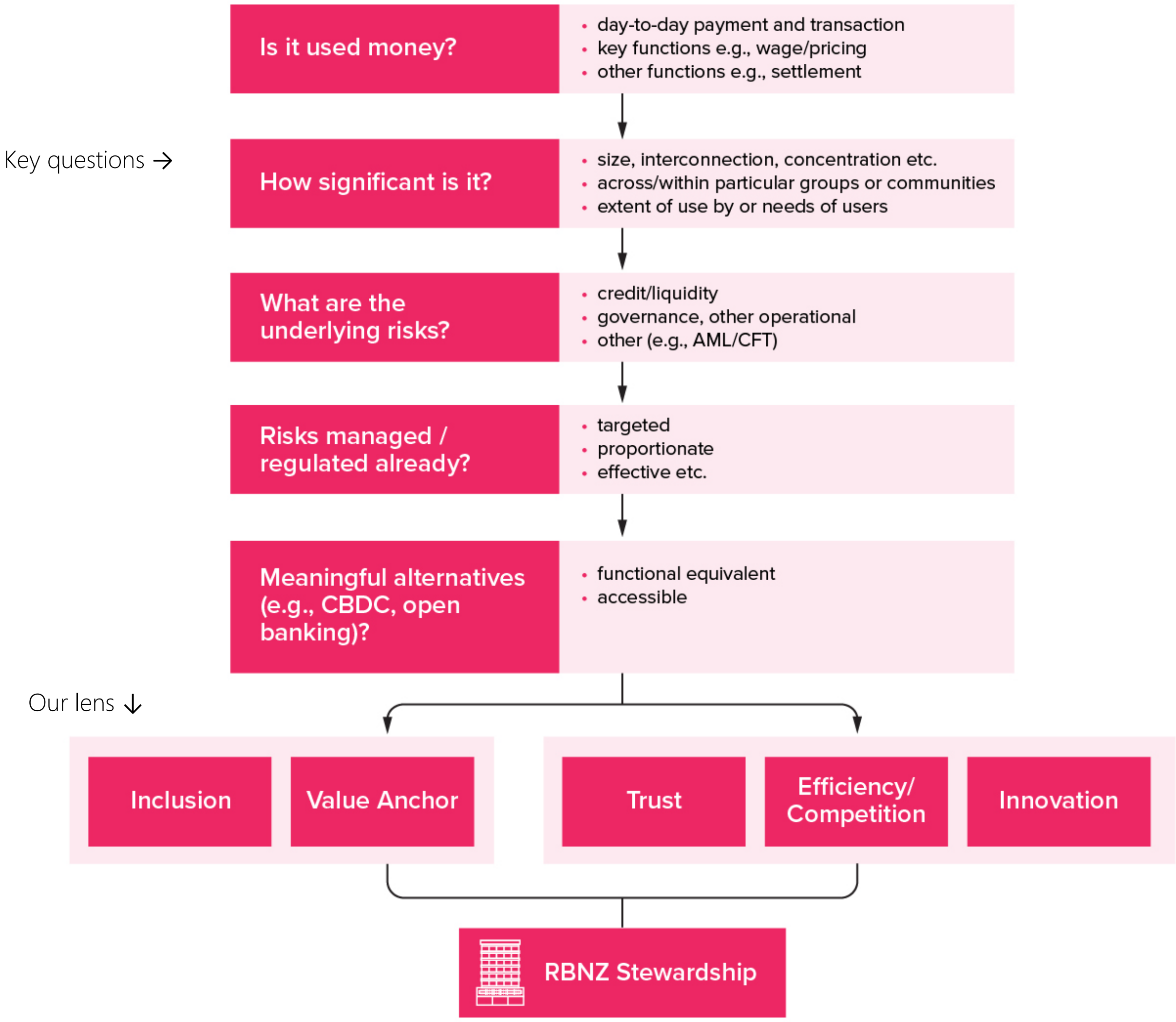
- by New Zealanders for day-to-day transactions and savings;
- for key economic functions, e.g., paying wages/setting prices/interbank settlement; or
- as part of a bundle of services, e.g., media platforms.

Additionally, we may need to consider non-economic factors. For example, suppose new forms of money become more widely used within some communities for cross-border remittance and have a material or even disproportionate impact on these communities. Some start-ups in New Zealand have been exploring such use cases, given the existing inefficiencies in this area. In that case, these new forms of money would be a matter of concern.

We may also need to monitor the wider ecosystem, e.g., exchanges, wallets, financial services, or blockchain infrastructure/technology. If new forms of money become more widely used, the wider ecosystem will need to support the core services to achieve our stewardship objectives.

Concerning specific innovations, Figure 9 below outlines the questions we can ask to assess whether further responses are necessary. In Appendix 3, we illustrate how these might apply to real-world examples.

Figure 9: Framework for assessing stewardship interest



If certain innovations are of significant interest to us, we will assess further the relevance, nature and magnitude of the opportunities and risks to develop formal assessment criteria. These criteria might include the likes of the following.

Table 1: Possible Further Measurements of Risks

Risks and opportunities	Possible measurements
Risks to consumers/users	Exposure to the risks of the underlying financial arrangements, as well as others, e.g., legal risks, by consumers and users Level of consumers' and users' understanding and capability to assess and manage such risks individually Availability of recourse and remedy in the event of disputes
Enhancing efficiency and innovation	Number of new providers of money or other service providers supported by the new entrant Number of new options/improvements e.g. cost savings enabled by new entrants or existing players

Risks and opportunities	Possible measurements
Risks to competition	Durable market positions/market share Scale and importance Number of dependent service providers
Risks to trust and reliability	Number of non-interoperable schemes Relative stability of value or arbitrage opportunities arising from, for example, the credit and liquidity risks of underlying financial arrangements Transaction costs to customers
Risks to monetary sovereignty	Proportion of use of non-NZD denominated money Ability to determine/transmit alternative monetary policy Ease of switching

6.2 We are open to considering alternative models

In this Issues Paper, we suggest that regulatory frameworks may need to be developed or adapted to realise the key benefits of new technologies while managing risks. This regulation could accommodate alternative business models and overlay services for the issuance of money.

The starting point of our approach is the 'same-risk same-regulation' principle. This means that, all else being equal, no change in the regulatory approach may be required.[45]

For example, stablecoins issued by regulated banks, which simply offer a tokenised form of deposit, may entail no changes in, for example, the rights of customers to 1:1 convertibility with central bank money. Therefore, it may be the case that the current regulatory approach could be applied to such products.

However, cryptoassets on the current market clearly pose risks unrelated to technology. For example, consider stablecoins that claim to be 'fully backed' and imply a comparable level of convertibility with fiat money to bank deposits. The quality and composition of backing assets – and even the reality of whether there is genuine backing – can vary significantly. They can pose more credit or liquidity risks than banks depending on how they invest the asset backing (e.g. they may invest in commercial entities rather than mortgages).

The regulation of banks helps to bridge the gap between the inherent risks of financial investment, and the promise of a safe, liquid, medium of exchange for non-investors. If appropriately calibrated, regulations could support a wider range of entities in the same way and, in turn, more safe choices for New Zealanders.

While current regulatory frameworks may be useful starting points on a 'same risk, same regulation' basis, there are likely to be limits. Further work will be needed to refine what alternative regulatory models would look like and to weigh their costs, including to the public, against the potential benefits. More immediately, we also want to better understand whether such models would be a viable basis to support innovation, considering the potential trade-offs.

There are also further challenges in regulatory design, once a need for regulation is established. Decentralised autonomous organisations (DAOs) are one example of such

[45] But all else is not equal – see the discussion below.

challenges that can have far-reaching implications beyond the money and payments system. These challenges must nevertheless be addressed if new and, potentially, existing regulations are to work effectively.

DAOs have been a popular governance model for some cryptoasset projects. In a DAO, tokenised membership can be transferred without the need for a central party to register. Decisions about scheme operation or asset management can be made digitally (perhaps more frequently and efficiently) by a large, changeable membership. They can also be automated or predetermined by 'smart contracts'.

Such arrangements contrast sharply with the usual corporate form that regulation (such as prudential regulation) anticipates and leverages off. There is no legal framework that provides certainty about the DAO structure.[46] The lack of a central point of accountability can create challenges for regulatory compliance and enforcement.

The cross-border, digital nature of crypto-driven schemes poses another set of challenges that must be worked through. Challenges in regulating online, cross-border activities are not new. A regulatory regime targeting harmful digital communications has been in place since 2015 (and the Christchurch Call[47]). And the global regulatory framework for anti-money laundering has been operating for some time. There are lessons we can draw upon to ensure regulatory regimes are successful. Among other things, international regulatory coordination is likely essential.

We may also need a smarter way of targeting regulations; for example, by regulating key on- and off-ramps to the real economy (e.g. fund transfer from banking institutions to crypto exchanges). Supporting beneficial innovation with regulatory certainty could also be an effective way to crowd out harmful innovation.

Questions:

8. *Do you agree with our proposed monitoring approach? Is there anything else we should monitor?*
9. *Do you agree that we should be open to alternative models of money? Can they work in a New Zealand context?*

[46] According to one scholar, DAOs are likely to be treated as partnerships in New Zealand, which means they do not have the protection of limited liability as corporations do, among other things (Sims 2019). Also Tse (2019).

[47] he Christchurch Call to Action Summit (also called the Christchurch Call), was an initiative co-led by New Zealand and France to address terrorism and violent extremism online, two months after the Christchurch mosque shootings of 15 March 2019.

7. Conclusion

We need to continue to monitor the development of the cryptoasset market and other innovations in money and payments, particularly those with the potential for wider use.

We believe regulatory frameworks need to respond in a balanced way to the opportunities arising from enhanced competition and beneficial innovation in private money on the one hand, and consumer or user welfare and the risks to sustained competition, trust, and monetary sovereignty on the other. Getting the balance right directly impacts our stewardship objectives, particularly reliability, efficiency and innovation.

As with other regulators domestically and globally, we are open to new forms of private money and alternative regulatory models that can support new entrants outside the traditional banking model and innovations within it, provided risks can be managed.

New technologies have changed some of the risks but will not do away with them. Some regulations would likely be needed. We consider it important to provide regulatory certainty about our interests in money, and how we intend to safeguard it, starting from a 'same-risk, same-regulation' basis.

Better regulatory certainty would provide innovators with the confidence to experiment within safer parameters. In other jurisdictions, the sector has responded positively to recent regulatory developments. Embedding effective regulatory safeguards in innovations would allow society to benefit from new technology and arrangements, while minimising the potential for harm to individuals and society.

With your feedback, our next step is to consider whether additional legislative powers are needed and what alternative regulatory models will look like. Further consultation will occur if any regulatory changes are considered necessary.

Questions:

10. *What issues do you think we should prioritise in developing further regulatory response? For example, should we prioritise issues about the rights of stablecoin holders, or the use of DAOs, or something else?*

8 Have Your Say

We welcome your views on the issues and proposed approaches outlined in this paper. We have listed the questions below. Please indicate whether you are providing general comments or specific responses to the questions listed below.

Feedback closes at 10 am on Monday, 3 April 2023

You can:

- email us at futureofmoney@rbnz.govt.nz
- or post your feedback to:

  Future of Money
  Money and Cash Department
  Reserve Bank of New Zealand
  PO Box 2498
  Wellington 6140

- or, if none of the above options are suitable then please phone us on 04 474 8693 between 10 am-4 pm Monday-Friday (except on and between Friday, 24 December and Monday, 10 January), and we'll arrange a time to call you back.

We intend to publish a summary of responses to the Issues Paper by mid-2023. Please note that your name and submission will be released publicly, unless you request otherwise

Feedback Prompts

1. Do you agree with the core drivers, assumptions and high-level approaches that we have described in relation to our work on private innovation in money? (S.2)

2. Is there anything else we should consider? (S.2)

3. What do you see as the biggest issues with private innovation in money? (S.3)

4. Do you agree with how we frame the focus on stablecoins? Are there other forms of innovations we should be looking at? (S.3)

5. Do you agree that there is a significant opportunity to enhance competition and further innovation in a New Zealand context? (S.4)

6. Do you agree with the key risks to the stewardship of money identified here? (S.5)

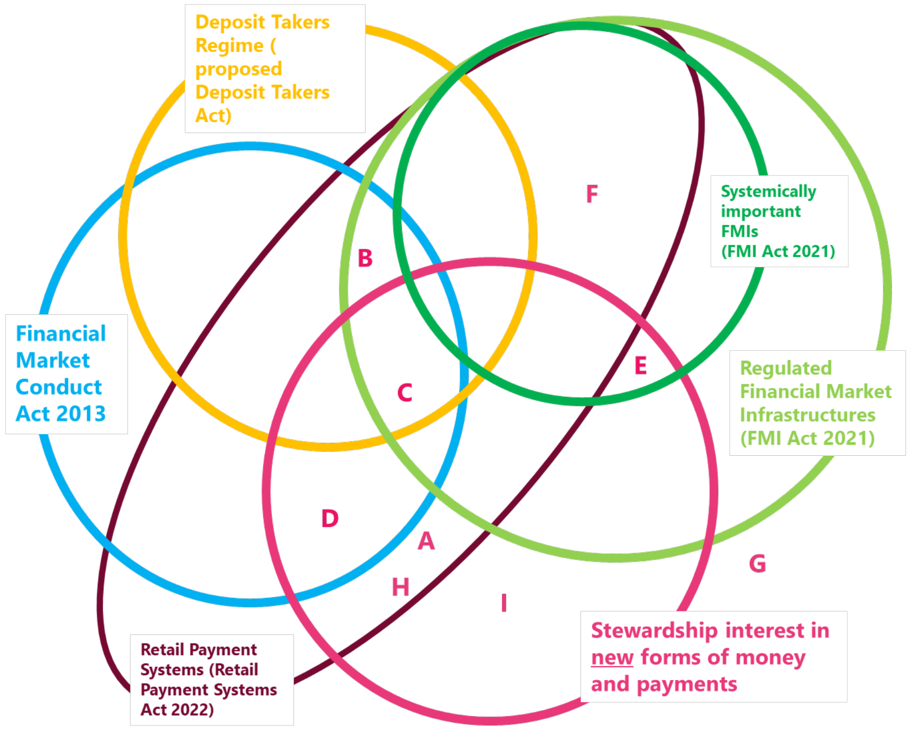
7. Are there any other risks that we should consider? How significant are they? (S.5)

8. Do you agree with our proposed monitoring approach? Is there anything else we should monitor? (S.6)

9. Do you agree that we should be open to alternative models of money? Can they work in a New Zealand context? (S.6)

10. What issues do you think we should prioritise in developing further regulatory response? For example, should we prioritise issues about the rights of stablecoin holders, or the use of DAOs, or something else?

Appendix 1: Current Regulatory Landscape



Types of tokens based on hypothetical use as money

- **A. Bitcoin (and other unbacked crypto assets) widely used**
- **B. Conventional bank money**
- **C. Bank-issed stablecoins**
- **D. 'Diem/Libra (as a money market fund) widely used**
- **E. JP Morgan Coin (used for interbank settlement)**
- **F. Conventional card payment schemes (if assessed as significant)**
- **G. Stablecoin based on a trust model used solely on small crypto-exchanges**
- **H. Stablecoin based on a trust model widely used**
- **I. Bitcoin widely used but only for speculation/saving/remittance**

Note that other regulatory regimes, such as the AML/CFT regulatory framework or the treatment of cryptoassets for tax purposes, are not depicted here.

Appendix 2: The technological and market context

Technological innovations, including distributed ledger technology, blockchain and cryptography, provide a secure way to maintain a public ledger of transactions (or information generally) without the need for a trusted intermediary. They have a wide range of applications in an increasingly digital economy,[48] which are not limited to money, such as:

- supporting traceability and transparency through complex supply chains with a multiplicity of participants and incentives (e.g. tracking carbon credits);
- enabling cost-effective tokenisation of goods and services as well as assets that facilitate efficient trading (e.g. micro-payments or distributed energy market or other tokenised assets); and
- supporting further value-add services (e.g. smart contracts or DAOs).

While there are obvious difficulties with valuation, PwC estimated the global value of blockchain technology will reach US$422 billion by 2025 and US$1.76 trillion by 2030.[49]

Currently, the impact of these technologies is most visible in the financial sector, specifically in the form of cryptoassets, including so-called 'cryptocurrencies'. These assets can have a wide range of attributes, as mapped out in Appendix 3.

Figure 10: Total cryptoasset market capitalisation

Source: coinmarketcap.com

Globally, the market capitalisation of cryptoassets stands at US$1 trillion (August 2022),[50] down from a peak of nearly US$3 trillion eight months prior. The market for cryptoassets has been highly volatile and speculative.

The most recent downturn saw the high-profile collapse of Terra, the largest 'algorithmic' stablecoin (and tenth-largest cryptoasset), valued at $60 billion (see Figure overleaf).

[48] Ministry of Business, Innovation and Employment (2022), Long-term Insights Briefing on the future of business for Aotearoa New Zealand, https://www.mbie.govt.nz/dmsdocument/20250-the-future-of-business-for-aotearoa-new-zealand

[49] PwC (2020), Time for Trust: How blockchain will transform business and the economy, https://www.pwc.com/timefortrust

[50] Market capitalisation is calculated by the reported price of a token multiplied by the number of minted tokens. This is simply used as an indicative measure. Unlike market capitalisation for stocks, it is not based on robust and well-regulated methodology (Zumbrun 2022, Aug 5)

Figure 11: Terra price in USD

Source: Coinmarketcap.com

Reliable and up-to-date data on uptake is limited in New Zealand. The uptake of cryptoassets appears to be low compared with other countries, although robust data and research are limited. A 2021 survey by Chainanalysis.com ranked New Zealand 96 out of 157 countries globally (Australia ranked 38).[51]

Anecdotal evidence suggests that such assets have fairly limited use as a means of payment and do not yet fulfil an essential function of money. Swyftx, a crypto-exchange, documented only 24 New Zealand businesses accepting crypto as payment, while Easycrypto listed 57, including other types of entities.[52]

Nevertheless, there appears to be increasing interest. For example, a recent survey from the Financial Markets Authority indicates New Zealanders are slightly more likely to consider buying cryptoassets (9%) than investing in managed investment funds (8%). Among users of retail trading platforms, 27.5% of respondents had invested in cryptocurrencies, with an average exposure of about 3.2% in their investment portfolios. In addition, 33% noted they would consider investing in the following 12 months.[53]

Feedback from two of New Zealand's largest crypto exchanges suggests that the average exposure per user to cryptoassets is between $2,500 and $4,000, with individual exposures between $20 and $2 million. Bitcoin and Ethereum make up 50% to 75% of trades by value.[54]

We also note increasing interest in cryptoasset-based systems from key institutions, e.g. banks and clearing houses. For example, ANZ has conducted a proof-of-concept experiment with an ANZ stablecoin that settles on-chain with tokenised carbon credits.[55] Increasing activities in this space will warrant close attention.

[51] Chainalysis (2022a). Based on an online survey of around 6,000 New Zealanders, Finder.com reports that 7% of New Zealanders own cryptoassets, ranking New Zealand 23rd out of 27 countries monitored (compared to 22% in Australia, ranked 4th, and 13% in the US).

[52] https://swyftx.com/nz/blog/who-accepts-bitcoin-in-nz/ (dated 16 Feb 2022), https://hub.easycrypto.com/nz/businesses-accepting-bitcoin-in-new-zealand (dated 5 Jul 2022).

[53] FMA (2021)

[54] Information provided by the FMA.

[55] https://media.anz.com/posts/2022/03/anz-completes-landmark-stablecoin-payment

Appendix 3: Cryptoasset scenarios of potential concern

Key questions	Domestic bank issued NZD stablecoins	Domestic non-bank stablecoins with HQLA	Global non-NZD stablecoin (as a money market fund)	Popular non-fungible tokens	Unbacked crypto widely adopted overseas
Is it used as money?	Designed for general use just like bank deposit	Designed for payment services	Designed for general purpose and (initially) deployed through existing platform	Not used as money	Potentially for a range of general use
How widely is it used?	Potentially widely by existing/new customers for a range of use	Potentially used widely but may be of a smaller scale than banks	Potentially widely leveraging the existing platform backed by considerable capital	Can be widely adopted	Potentially high uptake confined to ex-pat communities
What are the underlying risks?	Same risks as bank deposits and potentially AML/CFT measures	Lower risks related to the backing asset than banks, not necessarily for other risks eg governance or operation	Potential complex range of credit, liquidity, and other risks, with cross-border redemption enforcement/ regulatory challenges	Speculation/investment risk	Volatility/ speculation without legal claim to stabilising assets. Other risks eg AML/CFT, fraud
Are existing money/payment banking regulatory framework adequate?	Underlying risks already subject to extensive regulations	Not subject to prudential regulation but may be regulated in other ways eg trust law	May be regulated elsewhere and on well established models	Unlikely to be subject to regulation	Unlikely to be subject to regulation
Does it affect central bank objectives?	NZD-based open to non-bank customers	NZD-base open to non-bank customers	USD-based requiring access to platform, could compete with NZD	Open to all customers	Disproportionate impact within a relatively small community
Does it affect stewardship objectives?	Does not create substantially different arrangement or change the current market	New challenger entering the market with services not bundled to banks, keeps the uniformity of money	New challenger that potentially crowds out others, may not keep the uniformity of money	Does not compete in money/payment space or disrupts the uniformity of money	Only competititve within a niche market eg remittance
Do they trigger stewardship concerns?	No concern	Some concern if governance and other risks are not addressed, otherwise supportive	Significant concerns about monetary sovereignty, potential reduction in competition and loss in efficiency even if no prudential concerns	No concern given this clearly isn't used as money	Some concerns about wider social objectives but no system-wide concerns given its insignficance
Is there a privately-issued alternative lessen our concerns?	Yes	Yes	No	irrelevant	Yes (if it supports same use eg remittance
Would a CBDC lessen our concerns?	Yes	Yes	Yes	Irrelevant	No (if not available overseas)

Note: The deeper-shaded colour of cells indicates a higher likelihood of concern.

Appendix 4: Types of cryptoassets

		Bitcoin	Tether	USDC	Frax	Terra	Luna	ANZ A$DC	Teche-mynt
Token type	Primary/Native	✓					✓		
	Protocol-based (based on other token platforms)		✓	✓	✓	✓		✓	✓
Used for	Payment/Exchange/'Store of value'	✓	✓	✓	✓	✓		✓	✓
	Investment/asset/securities (eg shares)								
	Utilities (access to service or function eg voting)						✓		
Value-backing extent	None	✓				✓			
	Partially backed / collateralised				✓		✓*		
	Fully backed / collateralised		✓	✓				✓	✓
Backing type	None	✓							
	Cash or deposits		✓	✓				✓	✓
	Other high-quality liquid assets (eg govt bonds)		✓	✓					
	Other financial assets (eg commercial loans)		✓						
	Other crypto-assets (different issuer)				✓*		✓*		
	Other crypto-assets (same issuer)					✓*			
Stabilising policy	None	✓							
	Non-Algorithmic		✓	✓	✓*		✓*	✓	✓
	Algorithmic				✓	✓			
Claim type	None	✓					✓		
	Other (eg as contractually specified by issuer)		✓*	✓*	✓*	✓*			
	Debt							✓	
	Equity								
	Custodial/Trust								✓

Note: this table is for illustrative purposes only and does not constitute regulatory assessments.

Notes on selected tokens

Bitcoin: the largest and oldest scheme that is not backed or stabilised (see below). Bitcoin is designed to facilitate peer-to-peer payment without going through a financial intermediary. https://bitcoin.org/bitcoin.pdf

Tether: the largest stablecoin that aims to keep a 1:1 peg with US dollars, backed by a range of assets (see Appendix 4). Tether operates on the Ethereum chain as a smart contract.

Tether does not guarantee on-demand redemption and reserves the right to delay redemption, withdraw Tether tokens, or substitute for in-kind redemption of reserve assets rather than US dollars (s.3 Tether Terms of Service).
https://tether.to/en/legal/

USDC: the second-largest stablecoin issued by Circle and pegged to the US dollar. According to the contractual Terms, USDC is fully backed by an equivalent amount of US-dollar-denominated assets held by Circle with US-regulated financial institutions in segregated accounts apart from Circle's corporate funds, on behalf of, and for the benefit of, users.

Redemption in fiat on demand is only guaranteed for those holding a Circle Account, which is only available to institutions (e.g. crypto exchanges).

https://www.circle.com/en/legal/usdc-terms. & https://www.circle.com/en/legal/user-agreement

Frax: Frax is a 'fractional-algorithmic stablecoin' (pegged 1:1 to USD). It is partly backed by a USDC reserve and partly backed by its own token. The ratio between the two is adjusted depending on the market value of Frax. The ratio is determined by an algorithm that monitors the demand for Frax on crypto exchanges. Lower demand for Frax reflects lower confidence in Frax, which is countered by the algorithm that increases the USDC reserve ratio.
https://messari.io/report/frax-a-fractional-algorithmic-stablecoin

Terra/Luna:[56] Terra is an algorithmic stablecoin linked to Luna, an unbacked token by the same entity. Terra and Luna are convertible. If the price of Terra is under pressure, Terra can be converted to Luna to reduce supply, assuming there is demand for Luna (or converted to USD, in which case the demand for Terra drops further).
http://docs.terra.money/docs/learn/protocol.html

Luna is a (native) utility token granting the right to vote for/propose changes on the Terra platform. Luna can be used to pay for transaction fees on the platform, or as 'stakes' that qualify holders to validate transactions. Luna is not backed. However, the Luna Foundation holds bitcoin reserves to shore up the demand for Luna (and therefore Terra) if the market falls.

ANZ-A$DC: A$DC is a proof-of-concept Australian-dollar backed (fully-backed) stablecoin. The backing asset is held by ANZ, in separate depository accounts.[57]

Techemynt: Techemynt is backed by New Zealand dollars cash or equivalent held in a trust account where the beneficial owners of the token have the rights to the underlying asset.
www.techemynt.com/

[56] This mechanism only works if there is a demand in Luna. The failure of Terra/Luna in 2022 reflects a market where both tokens were under pressure. The Luna Foundation was unable to drive up Luna demand by liquidating its bitcoin reserve (estimated at US$2.4 billion), which itself contributed to the fall in overall market confidence.
[57] See above fn56

Appendix 5: Regulatory initiatives in selected jurisdictions

The European Union (EU)

The Markets in Crypto-Assets (MiCA) Regulation is expected to come into force by the end of 2022.

The objective of the MiCA is to provide legal certainty; support innovation; instil consumer and investor protection and market integrity; and ensure financial stability (Explanatory memorandum, p.2).[58]

The MiCA will cover three overarching categories:

- asset-referenced tokens stabilised by assets other than a single fiat currency (ARTs);
- e-money tokens, which are backed by a single fiat currency (EMTs); and
- other cryptoassets (excluding those already regulated) (Article 3).[59]

Key provisions under the MiCA include disclosure via white papers with further specific requirements for different tokens. For example, tokens which are not ARTs or EMTs are required to state 'unambiguously' that 'the cryptoassets may lose their value in part or in full' (Article 4(5)(a)).

ARTs and EMTs must be authorised (Titles III & IV). A full suite of prudential measures applies in addition to disclosure requirements and is subject to a range of prudential controls.

Prudential regulations for ARTs include safeguards such as governance (including business continuity) (Article 30), own funds (Article 31), rules on the reserve of assets backing, the custody of reserve assets and restrictions on investment (Article 32, 33, 34). They will also be required to establish the rights of token holders (including winding down policy). In addition, ARTs must have a registered office in the EU.

EMTs, such as single fiat currency-backed stablecoins, must offer redemption for fiat currency at par on demand. They are subject to existing prudential regulations of electronic money institutions, which prescribe similar requirements as outlined in the paragraph above.

EMTs and ARTs considered 'significant' would be subject to supervision and more stringent prudential requirements, such as tighter liquid management provisions and higher own fund requirements. They will also be required to maintain interoperability with other service providers other than the issuer (Article 41 (1)–(3)). Separately, the EU is also considering the Digital Markets Act to limit big online platforms' market power.[60]

Regulators would be able to refuse authorisation on the ground that the applications' business model may pose a serious threat to monetary policy transmission or monetary sovereignty (Article 19(2)(c)). Stablecoins not denominated in the euro will be limited to 1 million transactions and 200 million euros.

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[58] The references in this subsection are to the proposal text (See the European Commission 2022 [2020])

[59] 'Cryptoasset' is defined as digital representation of value or rights which may be transferred and stored electronically, using distributed ledger technology or similar.

[60] https://www.europarl.europa.eu/news/en/press-room/20220315IPR25504/deal-on-digital-markets-act-ensuring-fair-competition-and-more-choice-for-users

The United Kingdom

The Financial Services and Markets Bill was introduced to the UK parliament in June 2022, following earlier consultations by HM Treasury and the Bank of England on cryptoassets and stablecoins.[61]

One objective of the Bill that relates specifically to cryptoassets is to '[reinforce] the UK's position as a leading centre for technology as we safely adopt crypto assets', which echoes the broader theme of enhancing competitiveness and growth of the UK financial markets.[62]

The Bill refers to a 'digital settlement asset' (DSA), defined as a 'digital representation of value or right', which can be used for payments, and is not limited to those using distributed ledger technology (Clause 21). In practice, the focus is on stablecoins.[63] The planned next step is to consult on regulatory approaches to other types of cryptoassets.[64]

The key provisions of the Bill are to extend the existing payments regulatory regimes, retaining the overlapping roles of regulatory authorities explicitly. The Bill takes an enabling, rather than prescriptive, approach, specifically, enabling HM Treasury to:

- establish a Financial Conduct Authority (FCA) authorisation and supervision regime, based on existing electronic money and payments regulation, to mitigate conduct, prudential and market integrity risks;
- recognise the operators of systemic payment systems and systemic service providers using digital settlement assets for regulation by the Bank of England, to mitigate financial stability risk;
- designate DSA payment systems to be regulated by the Payment Service Regulator to address competition/innovation, user interests and access issues;
- use the tools under the Financial Markets Infrastructure Special Administration Regime, to mitigate systemic risks to financial stability; and
- align regulations related to financial stability to avoid duplication.

Monetary sovereignty is not specifically referred to in the Bill. However, the previous Bank of England consultation notes that a key objective of the Bank is maintaining 'public confidence in the role of sterling as the unit of account for virtually all transactions in the UK economy'.[65] It also notes that non-sterling-denominated digital money would raise additional issues outside the scope of its consultation.

[61] The references to specific clauses are to the Financial Services and Markets Bill [2022] No.181 2022-23 (UK.) at https://bills.parliament.uk/bills/3326

[62] https://www.gov.uk/government/speeches/mansion-house-speech-by-the-chancellor-of-the-exchequer

[63] Explanatory notes relate to the Financial Services and Markets Bill at https://publications.parliament.uk/pa/bills/cbill/58-03/0146/en/220146en.pdf, para 190.

[64] Ibid. para 195.

[65] Bank of England (2021), p.14.

The United States

The US has yet to introduce federal legislation for stablecoins or cryptoassets. [66] However, in September 2022, President Biden outlined an extensive framework following his Executive Order issued earlier.[67] This framework includes the additional steps the Administration will take to:

Protecting Consumers, Investors, and Businesses

- encourage regulators like the Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC) to aggressively pursue investigations and enforcement actions within their mandate;
- encourage Consumer Financial Protection Bureau (CFPB) and Federal Trade Commission (FTC), to redouble their efforts to monitor consumer complaints and to enforce against unfair, deceptive, or abusive practices;
- encourage agencies to issue guidance and rules to address current and emergent risks, and collaborate to address acute risks, including sharing data on consumer complaints;
- increase public awareness led by the Financial Literacy Education Commission (FLEC) to help consumers understand risks, identify frauds and report misconducts.

Promoting Access to Safe, Affordable Financial Services

- encourage the adoption of instant payment systems, like FedNow, including in government payments;
- consider the proposal for a federal framework to regulate non-bank payment providers;
- prioritize efforts to improve the efficiency of cross-border payments;
- support research to ensure that digital asset ecosystems are designed to be usable, inclusive, equitable, and accessible by all.

Fostering Financial Stability

- supporting financial institutions to better manage cyber vulnerabilities by sharing information and utilising a range of tools;
- progress cross-agency work to identify, track, and analyse emerging strategic risks that relate to digital asset markets, including the impact on US allies.

Advancing Responsible Innovation

- develop a Digital Assets Research and Development Agenda and back public education on safe and responsible digital asset use;
- encourage financial regulators to provide innovators with regulatory guidance, best-practices sharing, and technical assistance;
- consider further tracking digital assets' environmental impacts, developing appropriate performance standards, and supporting local authorities to mitigate environmental harms;
- examine establishing a standing forum to convene federal agencies, industry, academics, and civil society.

[66] However there have been bi-partisan attempts to introduce such measures. See https://www.coindesk.com/policy/2022/09/21/us-stablecoin-bill-negotiations-wrestled-over-digital-dollar-approval-source/. The Administration has also called for Congress to act in this area.
[67] Presidential Working Group Financial Markets (2021); The White House. Office of the Press Secretary (2022, September 16)

Reinforcing Our Global Financial Leadership and Competitiveness

- continue and expand their leadership roles on digital assets work at international organizations and standard-setting bodies, e.g. the G7, FSB, Financial Action Task Force (FATF);
- increase collaboration with—and assistance to—partner agencies in foreign countries through global enforcement bodies like the Egmont Group, bilateral information sharing, and capacity building;
- explore further technical assistance to developing countries building out digital asset infrastructure and services;
- help cutting-edge US financial technology and digital asset firms find a foothold in global markets for their products;

Fighting Illicit Finance

- consider urging Congress to extend relevant financial legislation to digital assets, and raise the penalties, and extend US jurisdiction to overseas criminals;
- continue to monitor the development of the digital assets sector and its associated illicit financing risks, and complete a risk assessment on decentralised finance;
- continue to expose and disrupt illicit actors and address the abuse of digital assets;
- enhance dialogue with the private sector to ensure that firms understand existing obligations and manage illicit financing risks

The Framework also highlights that a US CBDC – a digital form of the US dollar – has the potential to offer significant benefits in the policy areas touched on above. It encourages the Federal Reserve to continue its ongoing CBDC research and for a Treasury-led interagency group to consider the potential implications of a US CBDC.

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Attachment 2: Draft Media Release

Reserve Bank of New Zealand
Te Pūtea Matua

News Release

Date	7 December 2022
Time	10:00am

Reserve Bank consults on potential need for regulation of new money forms

The Reserve Bank of New Zealand – Te Pūtea Matua is seeking feedback on its proposed approach to the opportunities and challenges from new forms of private money such as cryptoassets, including stablecoins.

"Our objective is for New Zealand to have a reliable and efficient money and payments system that supports innovation and inclusion. We certainly think that competition in private money is healthy. But, we need a level playing field where regulation matches risk across all technologies, consumers have real choice in how they pay and save, and trust in private money is preserved," says Ian Woolford. Head of Money and Cash.

"On the flip side, new forms of private money can also pose risks to users and to the economy more generally. We may need to address private forms of money that don't appropriately safeguard the interests of users, or which misuse market dominance. We need to ensure neither the stability of the financial system nor our ability to influence the economy through the likes of interest rates are lost," says Mr Woolford.

"There is wide range of regulatory approaches being taken around the world. Our focus will be on striking the right balance between enabling innovation, treating all private money forms fairly, and managing the risks for users and the broader economy. Our consultation is asking for feedback on where that balance lies and the role of regulation in achieving this," said Mr Woolford.

The issues paper "The Future of Money – Private Innovation in Money" and background information is available online. Te Pūtea Matua will be offering stakeholder webinars and other opportunities to discuss the paper in February and March, with feedback closing on 3 April 2023.

Mr Woolford said that currently cryptoassets are used for high-risk and speculative investments. "Nevertheless, some cryptoassets may become more widely used as money in the future and it is the Reserve Bank's responsibility to prepare for this. As part of our response we are developing a monitoring framework to watch and assess developments," Mr Woolford said.

Cryptoasset Digital tokens that rely on cryptographic methods and non-traditional payment infrastructure to be transacted and stored.

Stablecoin A type of cryptoasset that aims to stabilise its value relative to other conventional assets, including central bank money.

More information

- Issues Paper: Future of Money – Te Moni Anamata – Private Innovation in Money
- Media release (with linked speech): Payments industry challenged to step up the innovation (9 November 2022)
- Cryptoassets: a statement from the Council of Financial Regulators (September 2022)
- Financial Markets Authority Cryptocurrencies (consumer information), Crypto asset service providers (industry information)

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NOTES FOR RBNZ (NOT FOR PUBLICATION)

Status	Awaiting approval
Drafter	Peter Northcote with JC Somers and Robbie Taylor
Approvals required from	Ian Woolford, Karen Silk
Any consultation or approvals?	FYIs only
Release date and time	10am Wednesday 7 December 2022
Information/data classification	Standard – normal website editing procedures
Distribution ahead of release to and who is sending	ELT Board MoF COFR Web/social teams
Recommended media response plan for if we get questions	Peter Northcote to triage

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: The Financial Statements of the Government of New Zealand for the four months ended 31 October 2022

Date:	24 November 2022	**Report No:**	T2022/2465
		File Number:	BM-1-2-1-2023-4

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Agree** that the Financial Statements of the Government to the end of 31 October 2022 be presented to the House on 1 December 2022 **Provide** a copy of your press release to the Treasury by 5pm, 30 November 2022 for fact checking **Note** the contents of this report and that they are embargoed until 10am on 1 December 2022 **Note** the information on the 31 October 2022 Financial Statements of Government	30 November 2022
Associate Minister of Finance (Hon Dr Megan Woods)	**Note** the contents of this report and that they are embargoed until 10am on 1 December 2022	30 November 2022
Associate Minister of Finance (Hon David Parker)	**Note** the contents of this report and that they are embargoed until 10am on 1 December 2022	30 November 2022
Associate Minister of Finance (Hon Kiri Allan)	**Note** the contents of this report and that they are embargoed until 10am on 1 December 2022	30 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Michelle Fernandez	Government Reporting Accountant	s9(2)(k)	N/A (mob)	✓
Kamlesh Patel	Deputy Chief Government Accountant, Fiscal Reporting		N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury. **Provide** a copy of the Minister of Finance's press release to the Treasury for fact checking. (Minister of Finance's office only).

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: The Financial Statements of the Government of New Zealand for the four months ended 31 October 2022

Executive Summary

This report outlines the financial results of the Government for the four months ended 31 October 2022 compared against monthly forecasts based on the *2022 Budget Economic and Fiscal Update (BEFU 2022)* and the results against the same period for the previous year.

Where applicable these results will be considered in the preparation of our fiscal forecasts for the *Half-Year Economic and Fiscal Forecasts (HYEFU 2022)*. We will be providing you a report on the final fiscal forecasts on Wednesday 30 November 2022. Going forward the monthly Financial Statements of the Government will be compared against monthly forecasts based off the fiscal forecasts included in the HYEFU 2022.

Similar to last month, higher than expected interest rates since the *BEFU 2022* forecast are having an impact on a number of fiscal aggregates. Both interest revenue and finance costs were higher than forecast, while the valuation of some assets and liabilities have also been influenced by changes in interest rates. In addition, this month's results were also influenced by the results reported for 30 June 2022, which were broadly stronger than expected. Both these factors have been considered in our updated forecasts for the HYEFU 2022, so these variances are expected to close when we report the results for next month.

Table 1 – 31 October 2022 results compared to *BEFU 2022* forecasts

	Year to date				*Full Year*
	October 2022 Actual $m	October 2022 BEFU 2022 Forecast $m	*Variance BEFU 2022 $m*	*Variance BEFU 2022 %*	June 2023 BEFU 2022 Forecast $m
Core Crown tax revenue	**36,211**	36,273	*(62)*	*(0.2)*	116,098
Core Crown revenue	**39,951**	39,632	*319*	*0.8*	125,700
Core Crown expenses	**41,759**	41,244	*(515)*	*(1.2)*	127,051
Core Crown residual cash	**(12,795)**	(11,519)	*(1,276)*	*(11.1)*	(29,280)
Net debt	**70,120**	66,599	*(3,521)*	*(5.3)*	74,972
as a percentage of GDP	***19.5%***	*18.5%*			*18.7%*
Gross debt	**129,187**	121,004	*(8,183)*	*(6.8)*	130,219
as a percentage of GDP	***35.9%***	*33.7%*			*32.4%*
Operating balance before gains and losses	**(2,783)**	(3,063)	*280*	*9.1*	(6,634)
Operating balance (excluding minority interests)	**(2,858)**	(1,647)	*(1,211)*	*(73.5)*	(1,632)
Total borrowings	**217,517**	211,932	*(5,585)*	*(2.6)*	230,618
Net worth attributable to the Crown	**164,857**	122,337	*42,520*	*34.8*	122,401
as a percentage of GDP	***45.9%***	*34.0%*			*30.5%*

The only notable variances in the key operating fiscal indicators were in **core Crown residual cash** and the **operating balance,** which were both weaker than expected. The higher core Crown residual cash deficit was mainly owing to higher operating payments as a result of higher interest and higher than forecast spending in the health sector partly offset by lower capital cash flows as a result of investment timing differences. While the higher operating balance deficit was largely driven by the net losses on financial instruments being $1.7 billion unfavourable than the gain forecast.

As at 31 October 2022 **net debt** was $70.1 billion (19.5% of GDP), $3.5 billion higher than forecast. The variance is primarily a result of market movements since the *BEFU 2022* forecasts, with losses on financial instruments being higher than forecast. In addition, Crown entity borrowings were higher than forecast as a result of losses on derivatives, which has contributed to this variance. The variance in net debt has reduced somewhat since last month reflecting a slight rebound in market conditions.

Gross debt at $129.2 billion (35.9% of GDP), was $8.2 billion higher than forecast due to multiple factors, including derivative liabilities being greater than forecast, borrowings by the Reserve Bank for operational purposes and other borrowings by the Treasury.

Total borrowings were $217.5 billion, $5.6 billion higher than forecast. Offsetting the variance in gross debt were RBNZ settlement deposits which are less than forecast by $4.2 billion. In addition, Crown entity borrowings were higher than forecast while SOE's borrowings were lower than forecast.

While we do not expect any significant changes to the results prior to publication, as we are still finalising the results, any significant changes will be communicated to your office.

Recommended Action

We recommend that you:

a **agree** that the Financial Statements of the Government for the four months ended 31 October 2022 be presented to the House on 1 December 2022.

Agree/disagree.

b **note** the release date for the 31 October 2022 financial statements is 1 December 2022 at 10.00am and the results are embargoed until that time.

c **note** that most key fiscal indicators discussed in this report are broadly in line with forecast.

d **provide** your press release to accompany the publication of the 31 October 2022 financial statements to the Treasury by 5pm on 30 November 2022 for fact checking.

Kamlesh Patel
Deputy Chief Government Accountant

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

Purpose of Report

1. This report outlines the financial results of the Government for the four months ended 31 October 2022 compared against monthly forecasts based on the *BEFU 2022* forecast. This report also outlines the result against the same period for the previous year.

Year-to-date results compared to *BEFU 2022*

Table 2 – 31 October 2022 results compared to *BEFU 2022* forecasts

	Year to date				Full Year
	October 2022 Actual[1]	October 2022 BEFU 2022 Forecast[1]	*Variance* [2] *BEFU 2022*	*Variance BEFU 2022*	June 2023 BEFU 2022 Forecast[3]
	$m	$m	*$m*	*%*	$m
Core Crown tax revenue	**36,211**	36,273	*(62)*	*(0.2)*	116,098
Core Crown revenue	**39,951**	39,632	*319*	*0.8*	125,700
Core Crown expenses	**41,759**	41,244	*(515)*	*(1.2)*	127,051
Core Crown residual cash	**(12,795)**	(11,519)	*(1,276)*	*(11.1)*	(29,280)
Net debt[4]	**70,120**	66,599	*(3,521)*	*(5.3)*	74,972
as a percentage of GDP	***19.5%***	*18.5%*			*18.7%*
Gross debt	**129,187**	121,004	*(8,183)*	*(6.8)*	130,219
as a percentage of GDP	***35.9%***	*33.7%*			*32.4%*
Operating balance before gains and losses	**(2,783)**	(3,063)	*280*	*9.1*	(6,634)
Operating balance (excluding minority interests)	**(2,858)**	(1,647)	*(1,211)*	*(73.5)*	(1,632)
Total borrowings	**217,517**	211,932	*(5,585)*	*(2.6)*	230,618
Net worth attributable to the Crown	**164,857**	122,337	*42,520*	*34.8*	122,401
as a percentage of GDP	***45.9%***	*34.0%*			*30.5%*

1 Using the most recently published GDP (for the year ended 30 June 2022) of $359,476 million (Source: Stats NZ).
2 Favourable variances against forecast have a positive sign and unfavourable variances against forecast have a negative sign.
3 Using BEFU 2022 forecast GDP for the year ending 30 June 2023 of $401,466 million (Source: The Treasury).
4 The net debt indicator includes core Crown advances, Crown entity borrowings and the financial assets and borrowings of the New Zealand Super Fund (NZS Fund). Net core Crown debt (the previous headline net debt indicator) was $141.7 billion (39.4% of GDP) and the forecast for 30 June 2023 is $163.7 billion (40.8% of GDP).

2. **Core Crown tax revenue** for the four months ended 31 October 2022 was $0.1 billion (0.2%) below the *BEFU 2022* forecast. The most notable variances were:

- Source deductions revenue was $0.6 billion (4.4%) above forecast, owing to continued strength in the labour market. This trend will probably continue in the coming months as employment indicators as published by Statistics New Zealand remain strong.

- GST revenue was $0.2 billion (2.3%) below forecast. The drop in private consumption in the June quarter signalled some weakness in general consumer sentiment, and this has likely continued in the September quarter and beyond. Confirmation of this will occur when GDP numbers are released on 15 December 2022.

- Other indirect taxes were $0.2 billion (23.1%) below forecast, mainly owing to below forecast road user charges and fuel excise duty. The extension of the temporary reduction in these taxes through to January 2023 was made after the forecasts were published and are therefore not included.

3. We have completed the tax forecasts for the HYEFU 2022 forecast which will incorporate the tax outturns to date. The HYEFU 2022 forecast for core Crown tax revenue in 2022/23 is $2.2 billion higher than the 2022 BEFU forecast. Most of this increase is in source deductions, owing to stronger forecasts for employees' compensation, particularly wages. We are now also expecting stronger-than-BEFU terminal tax in the business income taxes for the 2022 tax year, which should be realised later in the 2022/23 fiscal year. These forecast increases largely persist through the forecast period.

Table 3 – 31 October 2022 core Crown tax revenue compared to forecast

Tax type	Actual ($m)	BEFU 22 Forecast ($m)	Variance to BEFU 22 ($m)	Variance to BEFU 22 (%)
Source deductions	**15,083**	14,451	632	4.4
Other individuals tax	**2,786**	2,922	(136)	(4.7)
Corporate tax	**5,930**	6,051	(121)	(2.0)
Other direct taxes	**730**	690	40	5.8
GST	**9,445**	9,666	(221)	(2.3)
Customs and Excise duties	**1,595**	1,658	(63)	(3.8)
Other indirect taxes	**642**	835	(193)	(23.1)
Core Crown tax revenue	**36,211**	36,273	(62)	(0.2)

4. **Core Crown tax receipts** for the four months to October 2022 were also $0.1 billion (0.2%) below the *BEFU 2022* forecast, which is close to forecast, with timing differences in some taxes.

Table 4 – 31 October 2022 core Crown tax receipts compared to forecast

Tax type	Actual ($m)	BEFU 22 Forecast ($m)	Variance to BEFU 22 ($m)	Variance to BEFU 22 (%)
Source deductions	**15,099**	14,375	724	5.0
Other individuals tax	**2,373**	2,462	(89)	(3.6)
Corporate tax	**6,317**	6,031	286	4.7
Other direct taxes	**806**	758	48	6.3
GST	**9,088**	9,955	(867)	(8.7)
Customs and Excise duties	**1,536**	1,501	35	2.3
Other indirect taxes	**656**	854	(198)	(23.2)
Core Crown tax receipts	**35,875**	35,936	(61)	(0.2)

5. Although core Crown tax revenue was below forecast, overall **core Crown revenue** was $0.3 billion higher than forecast largely driven by higher than forecast Emissions Trading Scheme (ETS) revenue and interest income.

6. **Core Crown expenses** at $41.8 billion were $0.5 billion above forecast, the variances in core Crown expenses include:

- *Finance costs* were higher than forecast by $0.5 billion, with the key driver being interest costs on settlement deposits (which are floating rate debt) at the RBNZ, resulting from a higher than expected official cash rate.
- *Health expenses* were higher than forecast by $0.4 billion with COVID-19 related vaccine spending that was forecast to be spent in 2021/22 being spent in the period to 31 October 2022. Hospital and specialist related spending was also ahead of forecast in October, with this variance being mainly timing in nature.
- *Transport and communications expenses* were higher than forecast by $0.3 billion, as a result of funding to mitigate the impact of temporary decreases in fuel excise duty and road user charges, public transport fares and railway track user charges initiative.
- *Housing and community development* expenses were lower than forecast by $0.3 billion, as a result of market conditions slowing KiwiBuild property sales (which means less costs of sales as the properties are sold) and spending under the Housing Acceleration Fund being capital in nature, rather than operating as forecast.
- *Economic and industrial services* expenses were $0.2 billion less than forecast which is largely due to lower than forecast grants and lower than forecast spending on the COVID-19 response.

Table 5 – 31 October 2022 core Crown expenses compared to forecast

Core Crown expenses	Actual ($m)	BEFU 22 Forecast ($m)	Variance to BEFU 22 ($m)	Variance to BEFU 22 (%)
Finance costs	**1,733**	1,267	(466)	(36.8)
Health	**9,818**	9,420	(398)	(4.2)
Transport and communications	**1,629**	1,363	(266)	(19.5)
Housing and community development	**791**	1,062	271	25.5
Economic and industrial services	**1,284**	1,473	189	12.8
Education	**5,995**	6,099	104	1.7
Social security and welfare	**14,053**	14,141	88	0.6
Other	**8,189**	7,986	(203)	(2.5)
Core Crown expenses (excluding top-down adjustment)	**41,759**	41,544	(215)	(0.5)
Top-down expense adjustment	**-**	(300)	(300)	100.0
Core Crown expenses excluding losses	**41,759**	41,244	(515)	(1.2)

7. The **OBEGAL** deficit of $2.8 billion was largely in line with forecast, as the above-mentioned variances in core Crown revenue and core Crown expenses broadly offset. The results of the Crown entity segment were better than forecast which mainly relates to ACC levies being higher than forecast, which was partly offset by SOE segment's results being weaker than forecast by $0.2 billion largely as a result of the $0.3 billion impairment of physical assets.

8. The **operating balance** was a $2.9 billion deficit, $1.2 billion more than the forecast deficit as a result of:

   - Net losses on financial instruments of $0.3 billion were $1.7 billion unfavourable to the forecast gain. The losses largely reflect weaker investment returns from the Government's investment portfolios and losses on derivative instruments. In the prior month, the variance in net losses on financial instruments was $4.1 billion, with the difference narrowing in the current month.
   - Partially offsetting the losses on financial instruments were net gains on non-financial instruments which were $0.2 billion favourable compared to the forecast loss. This was mainly from actuarial gains on ACC claims liability of $1.6 billion which were significantly offset by the losses on Emissions Trading Scheme (ETS) of $1.3 billion. The actuarial gains were primarily driven by the change in discount rate assumptions partially offset by an adjustment in inflation assumptions since the BEFU 2022 forecasts were prepared. While the losses on the ETS reflects the increase in New Zealand unit price to $85.00 as at 31 October 2022 from $76.00 as at 30 June 2022.

9. The **core Crown residual cash** deficit of $12.8 billion was $1.3 billion more than the deficit forecast. Operating receipts were close to forecast with offsetting decrease in tax receipts and increase in other receipts. Operating payments were $1.8 billion more than forecast as a result of higher interest payments and higher than forecast spending in the health sector (e.g. rapid antigen testing, personal protective equipment and vaccine). Capital cash flows were lower than forecast by $0.6 billion, largely driven by timing differences in the Ministry of Transport's investment in NZTA and MBIE's investments in Crown entities being less by $0.3 billion and $0.2 billion, respectively.

10. At 31 October 2022 **net debt** was $70.1 billion (19.5% of GDP) which was $2.5 billion higher than forecast. At 30 June 2022 actual net debt was higher than forecast by $0.7 billion. Although net debt was close to forecast at year-end, this was due to some offsetting factors, with adverse valuation changes being offset by an improved residual cash result. Since 30 June 2022, unfavourable valuation movements in financial assets and liabilities have continued resulting in a higher net debt position. Further, Crown entity borrowings were also higher than forecast as a result of ACC's losses on derivatives. The residual cash deficit mentioned above has also influenced the variance in net debt.

11. ACC uses derivatives to hedge certain exposures in its investments. At a total Government level, the derivative financial liabilities are offset by other investment assets, such as marketable securities and at an overall balance sheet level, a minimal impact is expected.

Table 6 – 31 October 2022 reconciliation of net debt and net core Crown debt

	Year to date				Full Year
	October 2022 Actual $m	October 2022 BEFU 2022 Forecast $m	*Variance BEFU 2022 $m*	*Variance BEFU 2022 %*	June 2023 BEFU 2022 Forecast $m
Net core Crown debt	**141,688**	**145,248**	***3,560***	***2.5***	**163,683**
Include					
Core Crown advances	(29,969)	(30,218)	*(249)*	*(0.8)*	(38,545)
Net NZSF financial assets and borrowings	(56,412)	(62,523)	*(6,111)*	*(9.8)*	(66,677)
Crown entity borrowings	14,813	14,092	*(721)*	*(5.1)*	16,511
Net Debt	**70,120**	**66,599**	***(3,521)***	***(5.3)***	**74,972**
%of GDP					
Net core Crown debt	39.4%	40.4%			40.8%
Net debt	**19.5%**	**18.5%**			**18.7%**

12. **Gross debt** at $129.2 billion (35.9% of GDP), was $8.2 billion higher than forecast due to multiple factors, including derivative liabilities being greater than forecast, borrowings by the Reserve Bank for operational purposes and other borrowings by the Treasury. Repurchases of government bonds did not occur as expected due to market conditions and euro commercial paper issuances which were not in forecast have also contributed to the higher than forecast core Crown borrowings.

13. **Total borrowings** were $217.5 billion, $5.6 billion higher than forecast. Offsetting the variance in gross debt were RBNZ settlement deposits which are less than forecast by $4.2 billion. Higher than forecast Crown entity borrowing were largely driven by ACC's higher derivatives in loss offsetting, while the SOE borrowings were lower than forecast. The lower than forecast SOE borrowings is largely due to Kiwibank's lower actual deposit growth and debt issuances partly offset by its higher than forecast derivatives in loss.

14. **Net worth attributable to the Crown** at $164.9 billion was $42.5 billion higher than forecast. The key driver of this is the stronger year end results, leading to the starting position being $44.0 billion stronger than was forecast, largely as a result of year end asset valuations and the OBEGAL deficit being $9.3 billion lower than expected.

Year-to-date results compared to 31 October 2021

Table 7 – 31 October 2022 results compared to 31 October 2021 actuals

	Year to date				*Full Year*
	October 2022 Actual[1] $m	October 2021 Prior Year Actual[2] $m	*Variance[3] to 2021 $m*	*Variance to 2021 %*	June 2022 Prior Year Actual[4] $m
Core Crown tax revenue	**36,211**	31,793	*4,418*	*13.9*	108,458
Core Crown revenue	**39,960**	34,604	*5,356*	*15.5*	117,516
Core Crown expenses	**41,759**	41,858	*99*	*0.2*	125,641
Core Crown residual cash	**(12,796)**	(14,231)	*1,435*	*10.1*	(27,043)
Net debt[5]	**70,120**	47,632	*(22,488)*	*(47.2)*	61,850
as a percentage of GDP	***19.5%***	*13.9%*			*17.2%*
Gross debt	**129,187**	113,725	*(15,462)*	*(13.6)*	118,950
as a percentage of GDP	***35.9%***	*33.3%*			*33.1%*
Operating balance before gains and losses	**(2,808)**	(7,762)	*4,954*	*63.8*	(9,691)
Operating balance (excluding minority interests)	**(2,852)**	(11,026)	*8,174*	*74.1*	(16,932)
Total Borrowings	**217,517**	183,754	*(33,763)*	*(18.4)*	203,965
Net worth attributable to the Crown	**164,863**	139,921	*24,942*	*17.8*	167,036
as a percentage of GDP	***45.9%***	*40.9%*			*46.5%*

1 Using the most recently published GDP (for the year ended 30 June 2022) of $359,476 million (Source: Stats NZ).
2 Using prior year published GDP (for the year ended 30 June 2021) of $341,978 million (Source: Stats NZ).
3 Favourable variances against forecast have a positive sign and unfavourable variances against forecast have a negative sign.
4 Using published GDP (for the year ended 30 June 2022) of $359,476 million (Source: Stats NZ).
5 The net debt indicator includes core Crown advances, Crown entity borrowings and the financial assets and borrowings of the New Zealand Super Fund (NZS Fund).

15. **Core Crown tax revenue** for the four months ended October 2022 was $4.4 billion (13.9%) above the same period last year. The largest movements came from:
    - Source deduction revenue was up $1.7 billion (12.8%) on last year, owing to a stronger labour market, characterised by strong wage growth.
    - GST revenue was up $1.5 billion (18.5%), owing to year-on-year growth in nominal consumption that is in part being driven by higher inflation levels.
    - Corporate tax revenue was $1.1 billion (22.2%) mainly owing to growth in provisional tax revenue estimates.
    - Other direct taxes were up $0.2 billion (48.7%), owing to stronger dividend withholding tax revenue.
    - Other individuals' tax individuals' tax revenue was up $0.2 billion (8.9%) mainly owing to growth in terminal tax revenue.
    - Customs and excise duties tax were down $0.2 billion (9.9%), owing to the reduction in the fuel excise rate, road user charges and lower demand for excisable goods.

16. The drivers of the stronger tax revenue mentioned above also impacted **core Crown tax receipts** which were $5.4 billion (17.9%) up on the corresponding period last year.

17. In addition, revenue from interest bearing investments and the ETS were more than the same time last year, driven by an increase in the price of New Zealand Units and interest rates. This has contributed to **core Crown revenue** being $5.4 billion above the same period last year.

18. **Core Crown expenses** at $41.8 billion were close to the same period last year. However, the composition of expenses has changed significantly since last year, with the most notable changes including:

    - Spending on COVID-19 business support measures like the wage subsidy scheme and resurgence support payments have not been required in the first quarter of the 2022/23 fiscal year leading to expenses being around $5.0 billion lower than the same period last year.
    - Health expenditure was $1.2 billion higher than last year, reflecting additional funding provided at Budget 2022 and additional cost for the public health response to COVID-19.
    - Finance costs are up by $1.1 billion on last year, reflecting increase in interest rates and borrowings since October 2021.
    - The introduction of the Cost of Living Payment and funding to compensate the National Land Transport Fund from the temporary reduction in fuel excise levies and road user charges have increased expense by around $1.0 billion since the same period last year.
    - New Zealand Superannuation payments are up by $0.5 billion, reflecting an increase in the number of recipients and payment rates (which are indexed to wage growth).

19. The **OBEGAL** deficit has improved by $5.0 billion from the same time last year owing to the changes noted above in core Crown revenue.

20. The **operating balance** deficit was smaller than the same time last year by $8.2 billion as a result of:

    - Net gains on non-financial instruments were $0.2 billion this year compared to $3.5 billion net losses last year which mainly resulted from the actuarial gains on ACC liability of $1.6 billion compared to last year's $0.9 billion actuarial losses partly offset by the losses on ETS which were smaller by $1.6 billion compared to last year.
    - Net losses on financial instruments were $0.3 billion this year compared to $0.6 billion net gains last year.

21. The **core Crown residual cash** deficit was $12.8 billion, $1.4 billion less than the cash deficit for 31 October 2021. Net operating cash outflows were $3.0 billion higher than the previous year, while net capital payments were $1.6 billion lower than the same period last year.

22. **Net debt** was $22.5 billion higher than for the same time last year and as a share of the economy, net debt increased to 19.5% of GDP from 13.9% of GDP a year earlier. The increase in net debt was driven by funding needed to cover some of the residual cash deficit since October 2021 and losses in financial instruments particularly from the investment portfolio managed by the New Zealand Superannuation Fund. In addition, Crown entity borrowings increased primarily due to higher Kāinga Ora borrowings and ACC's losses on its derivatives.

23. **Net worth attributable to the Crown** was $164.9 billion (45.9% of GDP) at 31 October 2022, $24.9 billion higher than at 31 October 2021. This is primarily owing a stronger starting net worth position for the four months ended 31 October 2022, mostly driven by an increase in the property revaluations of $30.8 billion and decreases in the valuation of $1.6 billion from the defined benefit retirement plan liability, offset by an $8.5 billion reduction in taxpayer funds due to the operating balance deficits last year.

Next Steps

24. The Financial Statements of the Government for the four months ended 31 October 2022 are **embargoed** and due to be released on Thursday **1 December 2022** at 10:00am.

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for 29 November Meeting of the Climate Response Ministers Group

Date:	24 November 2022	**Report No:**	T2022/2551
		File Number:	

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Note** advice from Treasury for your participation in the Climate Response Minsters Group meeting on 29 November.	29 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Tom Wilson	Senior Analyst, Climate Change	s9(2)(k) [redacted]	s9(2)(g)(ii) [redacted]	✓
Nicky Lynch	Manager, Climate Change			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for 29 November Meeting of the Climate Response Ministers Group

Executive Summary

There are four items on the Climate Response Ministers Group (CRMG) meeting agenda.

s9(2)(f)(iv)

s9(2)(f)(iv)

[redacted]

Regarding the third item on agricultural emissions pricing, public consultation has ended, and Ministers will take further policy decisions prior to the release of a public report in December. Pricing agricultural emissions remains a critical step for meeting New Zealand's climate change objectives, supporting efficient economy-wide cost allocation, and delivering on the Government's economic vision.

It is important that any further amendments to the pricing policy consider the system's durability, flexibility, efficacy, credibility, and independence as well as its implementation feasibility. We also think it is important that focus is given to managing the economic impacts and transition in a manner that supports change at an appropriate pace. Lead agencies should also explore options for supporting fiscal sustainability of the system, noting that there may be trade-offs to manage between fiscal sustainability and the pricing policy's efficacy.

Recommended Action

We recommend that you:

a **Note** the recommended talking points provided in Appendix 1 of this document.

b **Refer** this report to the Minister Responsible for the Earthquake Commission.

Referred / not referred

Nicky Lynch
Manager, Climate Change

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

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Treasury Report: Briefing for 29 November Meeting of the Climate Response Ministers Group

Purpose of Report

1. The Climate Response Ministers Group (CRMG) is meeting on Tuesday 29 November. The agenda will cover three items:

   - s9(2)(f)(iv) [redacted]
   - Item 3. Agricultural Emissions Pricing

2. We have not received the final CRMG papers, but we do not anticipate that the final materials will alter the views expressed in this report.

s9(2)(f)(iv) [redacted]

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s9(2)(f)(iv)

[redacted]

IN-CONFIDENCE

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

IN-CONFIDENCE

s9(2)(f)(iv)

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

[redacted]

Item 3: Agriculture Emissions Pricing (Minister of Climate Change, Minister of Agriculture)

36. Talking points are provided in **Appendix 1**. This is primarily a noting item.

37. Public consultation concluded on 18 November 2022. In early December Ministers will take decisions on the pricing policy ahead of the release of a public report later in December that will outline how the Government intends to price agricultural emissions.

38. At the time of providing this briefing, we have not received updated policy proposals from lead agencies. Therefore, our advice is preliminary on that basis and focusses on areas we think require further analysis before final policy decisions are taken.

Recommended focus areas for final decisions

Consultation raised several key themes

39. The public consultation has garnered significant feedback from the agriculture sector and environmental groups. While we have not had the opportunity to consider this feedback in detail, we understand specific concerns raised by the sector with the Government's draft proposal include: the scale and pace of land use change expected to occur by 2030; the scientific basis of New Zealand's gross methane targets; the degree of industry input in setting levy prices; the scope and scale of sequestration that would be recognised on farm; whether collectives will be able to be formed to manage emissions liabilities, and; whether temporary relief will be provided to highly impacted subsectors.

40. In considering submissions and taking final policy decisions, we suggest Ministers and lead agencies focus on the following points.

    a) The efficacy of the system in supporting emissions reductions and its overall effectiveness. Specifically, we think analysis should emphasise the importance of setting prices in an economically efficient and independent manner to enable the system to deliver on its core objectives.

    b) The durability and flexibility of the system so that it can be built on and enhanced over time to support deeper, long-term reductions past 2030.

c) s9(2)(f)(iv) [redacted]

d) Supporting implementation feasibility, as any policy decisions taken now that add further complexity to delivery elevate the risk of needing to trigger the processor-level back up option or delay the 1 January 2025 go-live date.

e) The fiscal sustainability of the system (discussed in further detail below).

41. We will provide you further advice as policy proposals are refined in the lead up to the publication of the December report.

Fiscal sustainability of the system

Design should pursue fiscal sustainability but there are trade-offs to consider

42. You previously directed Treasury officials to provide you further advice on the fiscal sustainability and neutrality of the proposed system.

43. We suggest you raise at the CRMG the importance of designing the pricing system in a manner that mitigates the need for ongoing Crown funding and ensures that surplus revenue be prioritised towards areas of highest value. s9(2)(f)(iv) [redacted]

44. There is a spectrum of options available from full to partial cost recovery. We have highlighted potential design choices for Ministers to consider that may help mitigate fiscal sustainability risks in **Appendix 3**.

45. Design options to promote fiscal sustainability include:

a) s9(2)(f)(iv) [redacted]

b) allowing flexibility in fixing or floating levy prices for a set period of time (e.g. allowing changes in-year versus fixing annually or less frequently);

c) s9(2)(f)(iv) [redacted]

d) [redacted]

46. In considering these options, we observe two key trade-offs.

a) A fiscal sustainability-efficacy trade-off: Improving the system's fiscal sustainability may decrease its efficacy in driving abatement as the Government's proposal relies on incentive payments for mitigation actions and sequestration to drive emissions reductions.

b) A near-term versus long-term benefit trade-off: Prioritising near-term draws on levy revenue (e.g., by increasing the scope and rate of reward for sequestration and incentive payments) may reduce the available revenue for funding activities that have longer-term and deeper benefits for the sector (e.g., investment in R&D supporting technology innovation).

47. Given the complex interaction between the various policy components, the resultant price signal, and how land use change will respond, it is difficult to identify the optimal balance within these trade-offs at this point without further analysis.

48. We recommend that Ministers remain open to a range of options for managing fiscal sustainability s9(2)(f)(iv) [redacted]

49. [redacted]

Uncertainty over the balance of revenue and costs means we cannot yet determine if the system will be fiscally neutral

50. As key policy choices have yet to be taken, we cannot yet make the determination whether the system will be fiscally neutral. In general, to be considered fiscally neutral, the pricing system would need to align to two key principles, as follows.

a) For operating expenditure (e.g., ongoing administration, any payments for incentives or sequestration), there should be no fiscal impact to OBEGAL or net debt over the forecast period of 5 years (inclusive of the current fiscal year).

b) For capital expenditure (e.g., capitalised establishment costs), there should be no fiscal impact to net debt over a 10-year time horizon.

51. Implementing policy design choices that reduce uncertainty in the balance of revenue with costs will improve the likelihood of the system being fiscally neutral. We will provide you further advice on this once final policy decisions have been taken and quantitative modelling is completed.

Appendix 1. Suggested talking points

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

[redacted]

Item 3. He Waka Eke Noa
Note the importance of carefully considering changes to the policy following consultation with a view to supporting the system's efficacy, credibility, independence, durability, and flexibility – particularly over price setting. Note that any policy decisions that add further complexity to the implementation programme elevate the risk of needing to trigger the processor-level back up option or delay the 1 January 2025 go-live date. s9(2)(f)(iv) [redacted]

s9(2)(f)(iv)

Appendix 3. Example options for improving the fiscal sustainability of the agricultural emissions pricing system

Policy component	Uncertainty	Potential mitigations
Long-lived gas levy (source of revenue) Revenue is a function of the volume of emissions, the discount level set, and the prevailing NZU market price ***Methane levy (source of revenue)*** Revenue is a function of the volume of emissions relative to the performance against our gross methane emissions target (i.e., higher emissions, lower performance, higher levy price, higher revenue)	There is *moderate uncertainty* over the future price of NZUs and therefore the long-lived gas levy There is *moderate uncertainty* in outyears over how much abatement will be achieved and therefore the level of methane levy needed to achieve gross targets Overall, we expect that levy revenue may gradually decrease over the long-term. Lead agency indicative modelling suggests a \$100m – \$140m revenue surplus to 2030, but this is highly sensitive to underlying assumptions for available offsets and their cost	s9(2)(f)(iv)
Incentive payments (draw on revenue as an offset) Offset is a function on the scope of available technologies/actions and the marginal rate for rewarding their uptake (which needs to be set at a rate higher than the levy)	There is *moderate uncertainty* over the demand for technology mitigation uptake on farm There is *high uncertainty* over what technologies may become available in future and their efficacy (and therefore the demand and rate of reward needed to support uptake) Under conservative technology availability assumptions (which will understate demand), payments are estimated to range from \$66m – \$72m to 2030	
Sequestration (draw on revenue as an offset) Offset is a function on the scope of sequestration recognised and the marginal rate for rewarding their uptake (which needs to be set at a rate higher than the levy)	There is *very high uncertainty* over the quantum of certain types of sequestration available on-farm due to an absence of data on small plantations of this nature	

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s9(2)(f)(iv)

[redacted]

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: NZGIF Letter of Expectations for 2023/24

Date:	23 November 2022	**Report No:**	T2022/2340
		File Number:	CM-1-3-119-3

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Agree** to the Minister of Climate Change sending the attached Letter of Expectations to the NZGIF Board **Note** that the Treasury will release the letters on our website in due course, and the CFIs also publish these letters	7 December 2022
Minister of Climate Change (Hon James Shaw)	**Agree** to sign and send the attached Letter of Expectations for NZGIF **Note** that the Treasury will release the letters on our website in due course, and the CFIs also publish these letters	7 December 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Emily Howe	Manager, Commercial and Institutional Performance	s9(2)(k)	s9(2)(g)(ii)	✓
Jess Lee	Analyst, Commercial and Institutional Performance			

Minister of Climate Change's Office actions (if required)

Send the signed letter to the Chair of NZGIF

Return the signed report to the Treasury

Note any feedback on the quality of the report	

Enclosure: Yes (attached)
Annual Letter of Expectations NZGIF 2023_24 (Treasury:4703358v2)

Treasury Report: NZGIF Letter of Expectations for 2023/24

Purpose of Report

1 This report provides you with a draft Letter of Expectations (LOE) addressed to the Chair of New Zealand Green Investment Finance (NZGIF) for your review. The letter outlines a draft of your expectations for the 2023/24 financial year.

2 The LOE also contains a consistent set of expectations that are relevant to all of the Crown Financial Institutions (CFIs). Where relevant, expectations specific to NZGIF have also been included. Should you have any comments or feedback, the Treasury will incorporate this before you send the letter to the Board Chair.

Accountability Process

3 The LOE is the primary means for Ministers to set out their priorities and expectations for entities. Providing these letters in November/ December means your expectations can be incorporated into business planning and strategy processes. The annual public accountability documents prepared by the Board of NZGIF would respond to your expectations.[1]

4 If you are both comfortable with the letter, we recommend the Minister for Climate Change send it directly to the NZGIF Board Chair.

5 The timing of previous LOE's for NZGIF has been driven by previous Budget processes, however this LOE aligns with the usual process of providing letters from October to January each financial year.

Specific expectations for NZGIF

6 The LOE builds on the messaging provided last year and reflects NZGIF's shift from a company at establishment phase to one focusing on growth.

7 There are no statutory obligations regarding the delivery of the LOE, but it would be useful to send this letter alongside the other CFI's letters of expectations between October and January. As noted, this allows entities time to action any specific expectations before key reporting documents are due in the new year.

8 Specific expectations in NZGIF's letter include:

a The role of NZGIF: the letter reiterates the differences between NZGIF's purpose and that of private institutions. It also adds an expectation that NZGIF continues to grow its presence in the market by working with the wider investment community.

b Governance: the letter covers the Owners Expectations Manuel, noting that NZGIF should be familiar with it to ensure shareholder expectations are being met.

[1] The Statement of Performance Expectations (one-year statement of performance) and Statement of Intent (minimum of three years medium-term strategy).

c Diversity and engagement: the letter contains a short paragraph encouraging the NZGIF Board to continue working on diversity and engagement through the executive team and staff.

d s9(2)(f)(iv) [redacted]

e Government engagement: the letter outlines specific expectations for NZGIF regarding engagement with Government agencies. This is in line with recent conversations with Minister's around NZGIF's engagement with other agencies working in the climate space.

Expectations for All CFIs

9 As per prior years, the LOEs each contain a consistent set of expectations that are relevant to all of the CFIs, reflecting the need for a cohesive strategy relating to performance, risk management, and relationship matters across the CFIs.

10 Reflective of the long-term nature of the investment objectives and strategies of the CFIs, the LOE does not typically change significantly year on year. The draft letter continues to reflect the collaborative tone set out in recent years, to empower the Board where they are responsible, and improve Crown engagement on the overarching mandate undertaken by the Board.

11 We have continued to use the four themes of Fit for Purpose, Crown Risk, Partnership, and Citizenship, as they have been well received and continue to provide a sound basis for Crown engagement.

12 We continue to expect all CFIs to be collaborative and constructive in their approach.

Next Steps

13 If you agree with the content of the attached letter, please send it directly to the NZGIF Board Chair. We would expect any significant concerns to then be reflected in the strategic issues letters received from NZGIF.

14 Should you have feedback on the letter, officials can incorporate this.

Recommended Action

We recommend that you:

a **agree** to the Minister of Climate Change sending the attached letter of Expectations to the NZGIF Board

Agree / disagree.
Minister of Finance

b **agree to sign and send** the attached Letter of Expectations to the Board Chair of NZGIF; and

Agree / disagree.
Minister of Climate Change

c **note** that the Treasury will release the letters on our website in due course, and the CFIs will also publish these letters.

Emily Howe
Manager, Commercial and Institutional Performance

Hon Grant Robertson
Minister of Finance

Hon James Shaw
Minister of Climate Change

Attached letter will soon be available at: https://www.treasury.govt.nz/publications/other-official-information/information-releases

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Toka Tū Ake and Southern Response Letters of Expectations 2023/24

Date:	23 November 2022	**Report No:**	T2022/2283
		File Number:	CM-1-3-15-3-3

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	For your information	No deadline
Minister Responsible for the Earthquake Commission (Hon Dr David Clark)	**Note** the contents of this report **Agree** to sign and send the Letter of Expectations to the Chair of Toka Tū Ake Earthquake Commission **Agree** to sign and send the Letter of Expectations to the Chair of Southern Response	29 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Adam Stachurski	Analyst, Commercial and Institutional Performance: Investment	s9(2)(k)	s9(2)(g)(ii)	✓
Emily Howe	Manager, Commercial and Institutional Performance: Investment			

Minister's Office actions (if required)

Minister Responsible for the Earthquake Commission: **Return** the signed report to the Treasury.

Send the signed Letters of Expectations to the Chair of Toka Tū Ake Earthquake Commission and the Chair of Southern Response

Note any feedback on the quality of the report	

Enclosure: Yes (attached)
Annual Letter of Expectations EQC 2023_24 (Treasury:4708511v1)
Southern Response LOE FY24 (Treasury:4722426v1)

Treasury Report: Toka Tū Ake and Southern Response Letters of Expectations 2023/24

Purpose of Report

1 This report provides you with draft Letters of Expectations (**LOE**) to sign and send to the Chairs of the Toka Tū Ake Earthquake Commission (**TTA**) and Southern Response Earthquake Services Limited (**Southern Response**) for the 2023/24 financial year (attached). Alternatively, you may wish to request amendments to the draft LOEs.

Background to the Business Planning Process

LOEs are a key lever for communicating your expectations and influencing Crown companies' and entities' annual business planning processes

2 Responsible Ministers send an LOE to each Crown entity board ahead of each financial year (which begins 1 July). The LOE is intended to commence the annual business planning process for each entity. The annual business planning process is made up of the following aspects:

a The LOE for a Crown entity includes specific expectations for the entity, general expectations that apply across Crown entities and dates relevant to the business planning process. The LOE provides an opportunity for the responsible Minister to influence the strategic direction of the entity and its Statement of Intent (**SOI**) and Statement of Performance Expectations (**SPE**).

b The SOI sets out how a Crown entity intends to create value for the New Zealand public over the medium to long term. It provides the Crown entity's board with a mechanism for publicly setting out the entity's strategic objectives and how it will achieve these. Under the Crown Entities Act 2004 (the **CE Act**), Crown entities are required to prepare an SOI at least once every three years. TTA's SOI was most recently updated in June 2021, accordingly TTA is due to prepare an updated SOI as part of the 2024/25 business planning process.

c The SPE enables the responsible Minister to participate in setting the annual performance expectations of Crown entities and provides a base against which performance can be assessed. Crown entities are required by the CE Act to publish an SPE annually.

3 The dates relevant to the 2023/24 business planning process are included in the attached draft LOE for the 2023/24 financial year.

Proposed 2023/24 Expectations for Toka Tū Ake EQC

4 The draft LOE for the 2023/24 financial year is consistent with the LOE for the 2022/23 financial year [T2021/2888 refers]. We have updated certain past expectations to align with our understanding of your priorities and we have removed expectations that are no longer relevant.

5 Set out below is additional background context to the TTA-specific expectations that have been included in the draft LOE (attached).

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a *Strategic Introduction:* We have included a strategic introduction in this year's LOE. TTA is experiencing significant change with the introduction of the Natural Hazards Insurance Bill and while it continues to rebuild on the back of the Canterbury earthquakes. Accordingly, it sets an expectation for the Board to remain cognisant of its core policy objectives and to consider how it will plan and prepare over the coming year.

b *The Natural Hazards Insurance Bill:* We have included a draft expectation highlighting the importance of TTA continuing to engage with Treasury officials to contribute where necessary to the Natural Hazards Insurance Bill as it moves through Parliament.

c *Financial Risk Management Statement and Risk Financing:* We have included an expectation for TTA to work closely with the Treasury in developing the Financial Risk Management Statement, which forms part of the Natural Hazards Insurance Act.

s9(2)(f)(iv) [redacted]

We have also signalled your expectation for TTA to remain well positioned to meet costs of future claims as it renews its reinsurance programme next year. This is a particular challenge for TTA as reinsurance markets continue to harden as a result of reinsurers realising multi-year losses, the COVID-19 pandemic, and the war in Ukraine. s9(2)(b)(ii) [redacted]

d *The Inquiry into the Earthquake Commission*: Progress to give effect to the recommendations of the 2018 Public Inquiry is well advanced, but some of these work streams may take a long time to deliver. We continue to signal your expectations in these areas, specifically themes around preparedness, community engagement, and client focus.

e *Canterbury Completion:* Although all circa 179,000 Canterbury claimants have had at least one settlement, these claims can re-open. This is mainly due to repair quality, additional damage that is realised after settlement, or foundational concerns. As at 30 September 2022 there were 858 open claims. As in previous years, we have included a draft expectation that TTA makes every effort to resolve all re-opened Canterbury claims and to inform the Treasury of any material change to the estimated liabilities relating to the Canterbury earthquakes.

f *On-sold Programme:* TTA has informed the Treasury of the increased costs of administering the Crown's On-sold Programme. Inflation and supply chain issues are increasing the costs of household repair inputs but these should remain within TTA's latest estimates. There is also pressure within the service fee appropriation due to building delays. Accordingly, we have included a draft expectation for TTA to manage any cost increases and to keep Treasury appraised of any material changes to its current estimates and timelines.

g *Resilience:* TTA has a key role in providing natural hazard research and education to help protect the people and residential properties of New Zealand. The development of TTA's risk modelling capabilities is of particular importance to inform its risk mitigation and risk transfer strategies (such as reinsurance), and as a key input into its natural disaster event response planning. We have retained the expectation that TTA continues the work it currently has underway in this area and keeps the Treasury informed of its progress.

h *Significant Legal Issues (both actual and potential):* We have included an expectation stressing the importance that Crown Law and the Treasury are made aware of any significant legal action that may be brought against TTA as soon as possible, especially where a legal case may result in a precedent that could have material legal or financial consequences for TTA and the Crown. Of particular interest is the On-sold Class Action that the High Court approved in September 2022. We are working with TTA to estimate costs and will keep you appraised of any updates.

i *Consultation with the Treasury:* We continue to build on the close relationship we have with TTA and it is important that this continues into 2023/24 so that we can provide you with independent advice on strategic, operational, and financial performance and risks. Accordingly, we have included a draft expectation that TTA continues to consult with the Treasury on material strategic issues and risks and influences on operational and financial performance.

j *Performance expectations:* Although TTA met most of its 2021/22 SPE targets, a number of the measures relating to customer focus of non-Canterbury claims were below targets and some declining from 2020/21 measures. We have included an expectation for this to be a focus area for TTA.

Proposed 2023/24 Expectations for Southern Response

6 The proposed entity-specific expectations for Southern Response build on those from last year [T2021/2888 refers], with additional focus on Southern Response's pathway towards wind down. The key focus areas remain the following expectations:

a achieving the timely and enduring resolution of all remaining valid customer claims

b implementing the Crown's package for eligible policyholders who cash settled with Southern Response before October 2014 (the **Package**) in a timely, efficient and customer-centric manner that enables customers to move forward with their lives

c engaging with the Independent Oversight Committee (**IOC**) in an open and transparent manner in relation to the Package; and

d efficiently and effectively managing Southern Response through its final phase while working with Treasury to assess future options.

7 As you have directed, we have emphasised that Southern Response will need to work with the Treasury as we assess options for the future of the company.

8 The Package is forecast to be largely completed by the end of the 2023/24 financial year. We have asked Southern Response to provide the Treasury with more information on how the closing stages of the Package will be undertaken and will continue to monitor the progress of this along with the IOC.

Next Steps

9 Please either sign the attached draft LOEs for the 2023/24 financial year (attached as Appendix 1 and 2) or provide any amendments to the Treasury.

10 Once the LOEs have been signed by the Minister Responsible for EQC and sent to the respective Chairs, the Treasury will prepare the LOEs for proactive release on the Treasury's website. We will liaise with TTA and Southern Response to identify and remove any commercially sensitive or confidential information, and then consult with your offices on the proposed redactions prior to releasing.

Recommended Action

We recommend that you:

a **agree** to sign and send the 2023/24 Letter of Expectations to the Chair of Toka Tū Ake Earthquake Commission

Agree / disagree.
Minister Responsible for the Earthquake Commission

b **agree** to sign and send the 2023/24 Letter of Expectations to the Chair of Southern Response Earthquake Services Limited

Agree / disagree.
Minister Responsible for the Earthquake Commission

Emily Howe
Manager, Commercial and Institutional Performance: Investment

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr David Clark
Minister Responsible for the Earthquake Commission

_____/_____/_______

Attached letters will soon be available at: https://www.treasury.govt.nz/publications/other-official-information/information-releases

BUDGET-SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Half Year Economic and Fiscal Update 2022 Draft Specific Fiscal Risks

Date:	25 November 2022	**Report No:**	T2022/2557
		File Number:	BM-2-9-2-2-2-2022-6-M90891

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the Statement of Specific Fiscal Risks and main elements of the high-level narrative to be included in the Half Year Economic and Fiscal Update 2022 **Provide** feedback, in particular on the specific fiscal risks highlighted in this report **Inform** the Treasury of any other matters that should be considered for inclusion as specific fiscal risks	29 November 2022

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Emma Harris	Graduate Analyst, Budget Management	s9(2)(k)	s9(2)(g)(ii)	✓
Lucy Connell	Team Leader, Budget Management			

Minister of Finance's Office Actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: **Yes (attached)**

Treasury Report: Half Year Economic and Fiscal Update 2022 Draft Specific Fiscal Risks

Executive Summary

This report provides you with a draft Statement of Specific Fiscal Risks for publication in the upcoming *Half Year Economic and Fiscal Update 2022* (HYEFU). It also seeks your feedback on the publication of several new specific fiscal risks (SFRs).

At each Economic and Fiscal Update (EFU), the Treasury is required to publish a Statement of Specific Fiscal Risks as part of the *Risks to the Fiscal Forecasts* chapter (“Risks chapter”). SFRs are risks that may have a material impact on the fiscal outlook, but are too uncertain in timing or quantum to include in the forecasts. SFRs disclosed in the Risks chapter cover potential policy changes, cost pressures and cost variances.

SFRs are disclosed, regardless of whether and how they can be managed, to support transparency and avoid pre-judging future decisions of the Government or any future government.

Through this EFU, several changes are being made to improve the overall readability of the document. This includes a more concise executive summary and overview in the Risks chapter. We have attached the main elements of the high-level HYEFU narrative (subject to finalisation of the fiscal forecasts) to assist with consideration of the draft Budget Policy Statement. The near-final executive summary will be provided to you, along with near-final versions of the other HYEFU chapters, on 2 December.

Recommended Action

We recommend that you:

a **provide** feedback by Tuesday 29 November on the Statement of Specific Fiscal Risks and high-level HYEFU narrative attached to this report;

b **note** the changes to the structure of the HYEFU, including the Risks chapter, since the *Budget Economic and Fiscal Update 2022,* as set out from paragraph 7 of this report;

c **note** the removal of the cross-portfolio *COVID-19 Business Support* specific fiscal risk, and the moving of general COVID-19 related risks to the Overview section;

d **note** the removal of the *New Zealand Income Insurance Scheme* specific fiscal risk, and its replacement with a broader, cross-portfolio new specific fiscal risk *New Zealand Income Insurance Scheme Implementation and Employer Levies;*

e **indicate** whether the *Learning Support for Ākonga Māori* specific fiscal risk should be published in the Statement of Specific Fiscal Risks, as set out in paragraph 23 of this report;

Publish/do not publish

f s9(2)(f)(iv) [redacted]

g **indicate** whether a specific fiscal risk related to Cost-of-Living Payments should be included in the Statement of Specific Fiscal Risks;

Include/do not include

h **inform** officials of any additional matters you consider should be captured in the Statement of Specific Fiscal Risks; and

i **note** the Treasury is still completing final edits of the overall Risks chapter and a revised version will be provided as part of the near-final HYEFU that you will receive on 2 December prior to publication.

Lucy Connell
Team Leader, Budget Management

Hon Grant Robertson
Minister of Finance

Treasury Report: Half Year Economic and Fiscal Update 2022 Draft Specific Fiscal Risks

Purpose of Report

1. This report provides you with a draft Statement of Specific Fiscal Risks to be included in the *Risks to the Fiscal Forecasts* chapter ("Risks chapter") for publication in the upcoming *Half Year Economic and Fiscal Update 2022* (HYEFU). It seeks your feedback on all specific fiscal risks (SFRs), particularly those which are discussed from paragraph 23 of this report.

2. Also attached to this report are the main elements of the high-level HYEFU narrative (subject to finalisation of the fiscal forecasts). This is provided to assist in your consideration of the draft Budget Policy Statement, which has been provided to you in a separate report [T2022/2539 refers].

3. This report covers the following with regards to SFRs:

   a Information on the process on criteria for publishing risks in the Statement of Specific Fiscal Risks at each Economic and Fiscal Update (EFU);

   b Changes to the structure of the Risks chapter for HYEFU; and

   c Risks relating to future policy decisions for potential disclosure

4. We ask that you focus attention on those SFRs which have been added, or have materially changed, since the *Budget Economic and Fiscal Update 2022 (BEFU).* These are set out in the *New Risks* and *Changed Risks* sections, which are set out from page 14 and page 19 respectively of the attached Statement.

5. Note that the Risks chapter remains subject to revisions and edits as we continue to engage with vote teams and agencies on the material that is to be published and await Cabinet decisions that will affect these risks. We expect, however, that any further changes to the SFR narratives would be minor in nature. We will inform you of any significant changes in the covering advice to the near-final HYEFU on 2 December.

6. Also note that we are currently considering additional wording around the wider Three Waters reform programme. If included, this will be provided to you in the near-final Risks Chapter on 2 December for your feedback.

Changes to HYEFU and Risks Chapter Structure

7. As noted, we are undertaking overall efforts to improve the readability of the broader HYEFU document, which includes a more succinct executive summary, as well as changes to the Risks chapter.

8. The draft executive summary will reflect insights captured in the advice you have recently received on the preliminary fiscal forecasts [T2022/2426 refers], as well as the economic and tax forecasts [T2022/2452 refers]. Attached to this report are the main elements of the high-level narrative, which will be reflected in this summary. Note that it is subject to any changes resulting from the finalisation of the fiscal forecasts, on which you will be advised next week.

9. With regards to the Risks chapter, changes are being made to the 'Overview' section by outlining the fiscal and economic implications of various scenarios. While this is intended to provide a more concise and cohesive risk analysis, it will cover much the same scope as previous EFUs.

10. The Overview will discuss the ongoing impact of COVID-19 on the fiscal and economic outlook; however, this discussion will be less detailed than in previous EFUs. This is consistent with New Zealand's evolving response to the pandemic, and the reduced impact of protective measures on the economy (e.g. the opening of borders, winding down of MIQ). The Overview will also highlight risks in the Transport portfolio, bringing together several SFRs in a high-level narrative.

11. In addition, the 'updated' and 'unchanged' risks have been moved to an appendix in this HYEFU. This serves to measurably reduce the length of the Risks chapter, and focuses the reader's attention on new and changed risks.

12. We consider this revised structure presents the information in a more accessible and readable format, while continuing to comply with PFA requirements.

Process and Criteria for Specific Fiscal Risks

13. The purpose of the Statement of Specific Fiscal Risks (within the Risks chapter of each EFU) is to disclose fiscal risks that are likely to have a material effect on the fiscal and economic outlook, but are not certain enough in timing or in quantum to include in the fiscal forecasts. These risks can be positive or negative or net neutral, and can relate to capital, operating expenses or revenue.

14. Section 26U of the Public Finance Act 1989 (PFA) requires each EFU to disclose "all Government decisions and other circumstances that may have a material effect on the fiscal and economic outlook" to the fullest extent possible.

15. You are required to sign a Statement of Responsibility by 7 December 2022, affirming that:

    a you have communicated to the Secretary to the Treasury:

        i all policy decisions with material economic and fiscal implications that the Government has made before the day on which the fiscal forecasts are finalised (9 November 2022 for this EFU),

        ii all other circumstances with material economic or fiscal implications that you are aware of before that day, and

    b the disclosures in the EFU are consistent with Part 2 of the PFA, except for matters that are withheld under section 26V, where disclosure might cause serious disadvantage to the New Zealand Government or economy.

16. The Secretary to the Treasury is required to sign a Statement that she has supplied an EFU to the Minister of Finance that incorporates the fiscal and economic implications of those decisions and other circumstances. Her Statement also certifies that the EFU has been prepared by the Treasury using its best professional judgement.

17. An SFR is disclosed in the Risks chapter if it meets the following criteria:

    a *Materiality* – the matter is likely to have a fiscal impact of $100 million or more over the forecast period.

b *Likelihood* – the matter might be approved, or the risk might occur within the forecast period (ie, there is a 20% to 50% chance of the matter being approved or occurring). Matters with a greater than 50% chance of approval or occurrence, and which can be quantified for particular years with reasonable certainty, are included in the fiscal forecasts.

18. The Treasury's professional judgement is involved in determining which risks meet the materiality threshold for publication, particularly given the uncertainty around their timing and quantum. These judgements are tested by an internal Risks Committee in the preparation of the chapter to ensure consistency across all portfolios.

19. Section 26V(a) of the PFA states that you may determine a matter be excluded from the EFU if disclosure would:

a prejudice the substantial economic interests of New Zealand;

b prejudice the security or defence of New Zealand, or the international relations of the Government;

c compromise the Government in a material way in negotiation, litigation or commercial activity; or

d result in a material loss of value to the Government.

20. In making this determination, section 26V(b) of the PFA also requires that you consider if there is any reasonable or prudent way the Government can avoid that prejudice, compromise or material loss by:

a making a final decision before the day on which the forecast financial statements are finalised;

b incorporating the fiscal implications of the matter, or the nature of the matter, into the EFU but without reference to its fiscal implications; or

c in the case of a statement, by incorporating the statement into the EFU.

21. There are no new SFRs proposed to be withheld as part of HYEFU 2022. For awareness, the Ministry of Education originally suggested withholding two risks under s26V(a)(iii) – that disclosure would likely to compromise the Government in a material way in negotiation, litigation, or commercial activity:

- Wānanga legislative framework – Te Wānanga o Aotearoa and Te Whare Wānanga o Awanuiarangi; and
- Wānanga funding and the Crown's Te Tiriti Obligations to Wānanga.

22. However, the Treasury did not consider these risks met the threshold for exclusion under section 26V(a), as the matters discussed are already in the public domain. After consultation with the Ministry (whereby slight amendments were made to the risk descriptions), it was agreed that both risks could be published.

Risks Relating to Future Policy Decisions

23. We are seeking your specific feedback on the following two risks submitted by the Ministry of Education. The Risks Committee considers that publication of these specific fiscal risks may be premature, given both risks relate to inquiries which Cabinet has not yet decided to act on:

BUDGET-SENSITIVE

Title	Narrative	Risk Type
Learning Support for Ākonga Māori	Following the Māori Affairs Select Committee Inquiry into Learning Support for Ākonga Māori, Ministers are considering high-level options for the equitable delivery of learning support in Māori Medium Education / Kaupapa Māori Education. The main fiscal risk reflects the likely need to develop new services, requiring new funding and workforce development. A further risk is that the planned approach to collecting information (Te Rito) will need to be adapted so that individual education providers and the education system as a whole capture improved data on the needs of Ākonga Māori and effective Kaupapa Māori responses to those needs.	New Risk Policy Change – Expenses and Capital

s9(2)(f)(iv) [redacted]

24. The risk related to Learning Support for Ākonga Māori was submitted ahead of BEFU 2021, but was not published as the Risks Committee determined it did not meet the probability threshold for publication. However, the Māori Affairs Select Committee Inquiry has progressed and the Committee is due to report back to Parliament with recommendations before Christmas. The Risks chapter already contains an SFR titled *Work Programme to Grow Māori Medium and Kaupapa Māori Education.* This risk could be expanded to cover the Select Committee inquiry into Learning Support for Ākonga Māori if you consider the inquiry does not create a separate specific fiscal risk.

25. s9(2)(f)(iv) [redacted]

26. Please indicate whether these risks should be published in HYEFU 2022, based on your knowledge of Government priorities and the likelihood of potential policy decisions being made that would have a material impact over the forecast period.

27. We are also seeking your feedback on whether the possibility that the Government may make future Cost of Living Payments is included as an SFR. While Cabinet has not made decisions on whether such payments should be made, given New Zealanders will likely continue to face cost of living pressures into 2023, demand for these payments may continue. The cost of potential future payments is not accounted for in the fiscal forecasts.

28. If you consider an SFR related to Cost of Living Payments should be included, the Treasury vote team (working with Inland Revenue as needed) will progress drafting for inclusion in the consolidated risks section.

Next Steps

29. If you have any additional information on matters that should be considered for inclusion as SFRs, or any questions on the Risks chapter, please raise these through your office by Tuesday 29 November.

30. We will continue to edit the SFRs as we engage on an ongoing basis with Treasury vote teams and agencies. Following the incorporation of any feedback you provide, we will provide you with a revised version of this chapter, along with other chapters of HYEFU on 2 December.

Event Briefing – NZBA industry lunch 29 November 2022

To	Rt Hon Jacinda Ardern Prime Minister Hon Grant Robertson Minister of Finance Hon David Clark Minister of Commerce and Consumer Affairs	**Date**	25 November 2022
Authorised by	Christian Hawkesby Deputy Governor	**Report no**	5989
Prepared by	Enzo Cassino, Financial System Analysis	**Security**	In-Confidence

Action Sought

Action sought	Deadline
Note the background information ahead of your NZBA industry lunch on 29 November 2022.	29 November

Reserve Bank Contact for Telephone Discussion (if required)

Name	Position	Telephone
Kerry Watt	Director, Financial Stability Assessment and Strategy	s9(2)(a)
Enzo Cassino	Adviser, Financial System Analysis	

Actions for the Minister's Office Staff

Return the signed briefing to the Reserve Bank.

Note any feedback on the quality of the report.	

Event Briefing – NZBA industry lunch 29 November 2022

Purpose

1. To provide you with background information for a banking industry lunch organised by the New Zealand Bankers Association (NZBA) to be held on 29 November 2022.

Recommendation

2. It is recommended that you:

   a) **Note** the background information ahead of your NZBA industry lunch on 29 November 2022.

Rt Hon Jacinda Ardern
Prime Minister

Hon Grant Robertson
Minister of Finance

Hon David Clark
Minister of Commerce and Consumer Affairs

Christian Hawkesby
Deputy Governor
Reserve Bank of New Zealand

25/11/2022

Background information

1. In this briefing note we provide background information on topics requested for the banking industry lunch organised by the NZBA to be held on 29 November. The paper is divided into the following sections:
   i. The Reserve Bank of New Zealand / Te Pūtea Matua's (RBNZ) recent engagement with the NZBA and retail banks
   ii. Regulatory initiatives affecting the banking industry being developed by the RBNZ, including the Deposit Compensation Scheme (DCS)
   iii. Recent changes to banks' capital requirements
   iv. Data on banks' profitability, and
   v. A summary of measures to support bank customers, both through the impact of COVID-19 and more widely.

The RBNZ's recent engagement with the NZBA and retail banks

2. The importance of the RBNZ's engagement and relationships with the banking industry is highlighted by our *Relationship Charter* with regulated entities. The Charter sets out principles for maintaining the best possible regulator-regulated relationships and commits the RBNZ and the financial sector to a mutual understanding of how both parties will work together to achieve this aspiration.

3. We operationalise the Charter through an established schedule of prudential supervisory engagements with bank boards and senior management led by the Deputy Governor or the Director and senior management of the Prudential Supervision Department. These engagements cover a broad range of topics including banks' safety and soundness, risk strategy, governance and business priorities, risks and issues.

4. Additional meetings are regularly organised either with individual banks and groups of banks to discuss various topics. Recent examples included engagement as part of our stress testing programme and our current thematic review of entity governance; and consultations and workshops on proposed policy developments, prioritisation and proportionality.

5. The RBNZ also hosts semi-annual industry workshops with bank directors, senior officers and the industry association to outline the RBNZ's prudential policy and supervisory work plans and to exchange views and receive input from the industry. The NZBA is often an attendee as well as helping to co-ordinate some of this activity. Three notable recent examples are:

   i. The RBNZ has engaged regularly with the NZBA and retail banks through Tāwhia hui and individually, on Māori access to capital. On Friday 11 November, senior RBNZ staff met with bank board Chairs in a meeting facilitated by the NZBA. The meeting focused on the banking industry response to the Improving Māori Access to Capital issues paper. Bank Chairs endorsed their Heads of Institutional Banking, Heads of Māori Banking and CROs to attend a meeting with the RBNZ early next year to discuss ways to address the barriers identified in the report. The RBNZ will continue to engage with NZBA and banks on Māori access to capital as we progress towards action planning and furthermore delivery of potential solutions.

ii. The RBNZ is an observer on the NZBA's development work with banks to prepare for the implementation of the Climate Related Disclosures Act, and in particular to ensure alignment of the RBNZ's work with industry on climate-related stress testing.

iii. The Council of Financial Regulators (CoFR), which includes the RBNZ, the Financial Markets Authority (FMA), Commerce Commission, Treasury and MBIE, regularly interacts with the banking industry and the NZBA. CoFR has setup a **Banking Forum** which includes CoFR members and the NZBA. A particular focus of the Forum at present is working together to improve the co-ordination, alignment and efficiency of the regulatory reform initiatives currently underway across the industry.

Regulatory initiatives

6. The RBNZ has a significant programme of work underway to review and modernise the prudential legislation for banks. This is part of our transition towards a regulatory approach that is more closely aligned with international practice, a feature of which will be enhanced monitoring and more regular reviews and updates of policy settings. This is important to maintain a resilient financial system.

7. The breath of the work underway, in addition to feedback from the industry regarding the impost of the scale of regulatory changes, has meant that during the past six months we have undertaken an enhanced prioritisation of our regulatory initiatives. Despite this, we expect banks to continue to invest in capacity and capability to manage regulatory change, as this promotes financial stability from which all New Zealanders benefit. Details of the key regulatory initiatives are presented below.

Deposit Takers Act (including the Deposit Compensation Scheme)

8. The new Deposit Takers Act (DTA) responds to the International Monetary Fund's (IMF) review of our financial sector regulatory framework from 2016/17, enabling a more comprehensive prudential framework that is more consistent with international norms. The bill has had its first reading in Parliament and is being reviewed by the Finance and Expenditure Committee at present. The DTA will enhance the prudential framework, moving to a single regulatory framework for banks and non-bank deposit takers. This includes:
    i. the introduction of the Depositor Compensation Scheme (DCS);
    ii. a more graduated set of enforcement powers that should allow formal enforcement to occur when circumstances justify it;
    iii. a clearer set of "resolution" powers for the Reserve Bank to manage distressed deposit takers if necessary; and
    iv. the use of a legislative instrument - standards - as the key tool for imposing prudential requirements on deposit takers.

9. The current schedule for the DTA and the DCS presumes the DTA passes in mid-to-late 2023 and the DCS is then targeted to be up and running in early 2024. Banks have noted concerns around this schedule, and suggested preparations for the DCS will take longer than anticipated. One issue is that it will be harder to achieve fast compensation after a failure if banks' systems to support the DCS are not yet fully in place. Banks have

also suggested that building interim solutions may slow the preparations for the steady state scheme. The Minister of Finance has recently received related advice from the RBNZ and Treasury (RBNZ #5983 refers). If this comes up, we suggest noting that you are aware of these concerns and understand they are being explored with officials, and may also arise in the select committee process.

10. You could also acknowledge that the DTA and DCS represent large changes for the banks. At the same time, as noted above, the RBNZ expects banks to be continuing to invest in capacity and capability to manage regulatory change, as this promotes financial stability from which all New Zealanders benefit.

Debt-to-Income Ratios for Macro-prudential Policy

11. The Memorandum of Understanding on macro-prudential policy between the RBNZ and the Minister of Finance was updated in 2021 to include debt serviceability restrictions. Following consultation, in April we announced that we will proceed with designing a framework for operationalising debt-to-income (DTI) restrictions. We are currently consulting on the draft regulatory framework for DTI restrictions with a view to making final decisions on the framework in early 2023.

Branch Policy Review

12. The RBNZ is conducting a review of policy settings for registered branches of overseas banks, as they apply both to current registered branches and future applicants. The objective of the review is to create a simple, coherent, and transparent policy framework for branches that promotes financial stability. We published the second consultation paper in August. Key proposals include:

- that all branches in New Zealand be restricted to engaging in wholesale business (that is with corporates, institutions and other wholesale investors), meaning they could not take retail deposits or offer products or services to retail customers;
- to limit the maximum size of a branch to NZ$15 billion in total assets; and
- that the relevant subsidiary and branch are sufficiently separate, and any identified risks are mitigated by specific conditions of registration.

13. The proposals in the consultation paper aim to allow branches to provide benefits to the financial system through innovation and competition, while also mitigating risks that branches present to financial stability. The consultation closed on 16 November and we are currently reviewing submissions from stakeholders. We expect to communicate final policy decisions in 2023 and have proposed a three-year transition period for branches to be fully compliant with the new policy settings.

Liquidity Policy Review

14. We are undertaking a comprehensive review of our bank liquidity policy. The current liquidity policy was introduced in 2010. The purpose of the review is to ensure that the policy remains fit for purpose to promote financial stability by lowering the risk of liquidity problems affecting deposit takers. We released the first consultation paper for this review in February 2022, which contained the proposed issues and scope for the review, as well as the principles we proposed be used to guide the review and our decision-making. The comment period for this first consultation closed in April 2022 and we have since

finalised the principles for the review. We expect to release a second consultation in late January 2023.

Other Regulatory initiatives

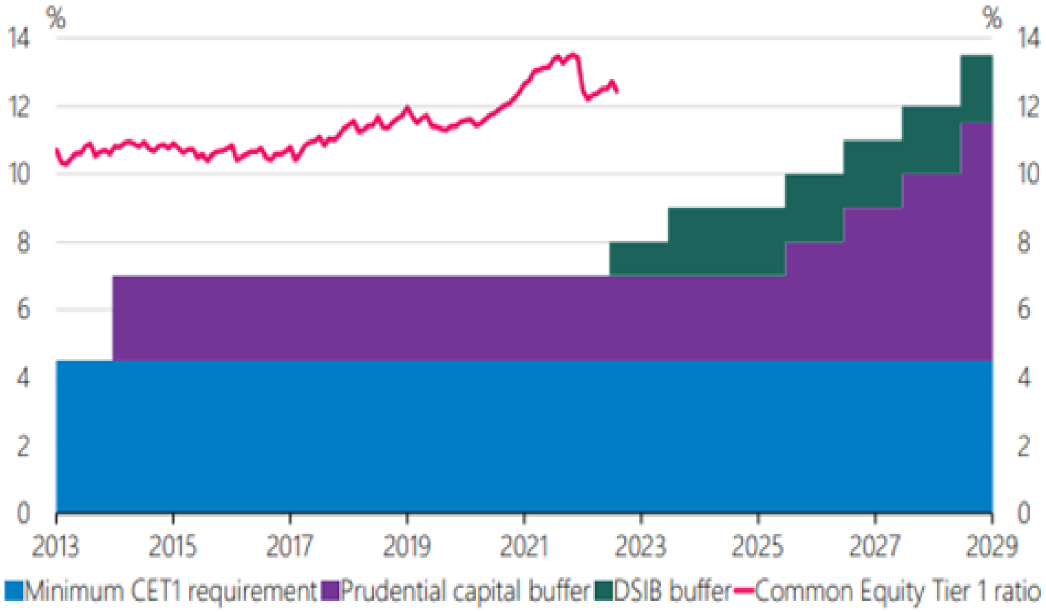
15. It is important to note that there are a range of other regulatory initiatives beyond changes to the prudential regime that are or are likely to impact the industry. This includes RBNZ's Future of Money work looking at both the future of cash and proposals for development of a central bank digital currency (CBDC). Beyond the RBNZ, the implementation of the Conduct of Financial Institutions Act, led by the FMA is underway and MBIE's work on the Consumer Data Right also continues.

Bank capital requirements

16. In December 2019 the RBNZ announced the final decisions of its review of bank capital. Increased capital holdings ensure that banks are better positioned to withstand economic challenges and ensure that financial stability is maintained. The key decisions included banks' total capital requirement increasing from a minimum of 10.5 percent (including buffers) to 18 percent for the four largest banks and 16 percent for the remaining smaller banks.

17. A seven-year transition to the new requirements was delayed by two years due to COVID-19, and is now on track for the new requirements (including buffers) to be fully implemented by 2028 (Figure 1).

Figure 1: Banking system Common Equity Tier 1 capital ratio and transition path to new requirements



18. Banks have been gradually increasing their capital levels in recent years. They are currently comfortably above the existing minimum requirements (including buffers) and are well-placed to meet the higher requirements that are being phased in. There are no

indications that the higher capital levels have led to a restriction in the availability of credit. Banks have also maintained strong profitability while increasing capital.

19. The RBNZ is currently completing consultation on a number of technical aspects of how capital requirements are implemented. One of these consultations (closing on 30 November 2022) covers the treatment of any equity investments by banks into the Business Growth Fund (BGF) announced in the 2022 Budget. If banks choose to make an equity investment into the BGF our current rules would give this a high 'risk weight' for capital calculations, reflecting the risks associated with equity investments. We have proposed reducing the risk weight to reflect the lower risk associated with the diversified nature of the investments undertaken by the BGF.

Bank industry profitability

20. Banking industry profits after tax were around $7 billion in the year to June 2022. Nominal profits have increased in line with growth in banks' balance sheets, reflecting growth in the economy and demand for credit as a whole. Profitability ratios, such as return on assets, return on equity and net interest margin, are around pre-pandemic levels (Table 1). A profitable banking system fosters financial stability, as banks' earnings underpin their capital ratios and therefore their ability to keep supporting credit provision in challenging economic environments.

21. Profitability fell during 2020 as banks increased their provisioning for expected losses from increases in non-performing loans as a result of the COVID-19 pandemic. As non-performing loans have remained lower than expected banks have been able to reduce their provisioning for losses, resulting in lower impairment expenses and increased profits during 2021 and 2022.

Table 1: Banking Industry Profitability - Summary Statistics

Year to June	Net Profit After Tax $m	Return on Assets %	Return on Equity %	Net Interest Margin %
2018	5,697	1.1	13.6	2.1
2019	6,001	1.1	13.8	2.1
2020	4,261	0.7	9.2	1.9
2021	5,823	0.9	11.7	2.0
2022	6,994	1.1	12.6	2.1

Bank interest margins and fees

22. Net interest margins, which measure the difference between the interest income a bank makes on its lending, and the interest costs of a bank's funding e.g. deposits, are currently sitting around their average during the past decade, after a slight drop during the period where interest rates were falling in 2020.

23. Fee income has become a relatively less important part of banks' revenues over time, falling from around 28 percent of total income in 2001 to around 11 percent recently. Adjusted for inflation, per capita bank fees are around 47 percent lower today than 20 years ago. To a large extent, the declining value of bank fees in New Zealand reflects ongoing declines in banks' operating costs due to the digitalisation of banking and economies of scale.

Measures to support bank customers

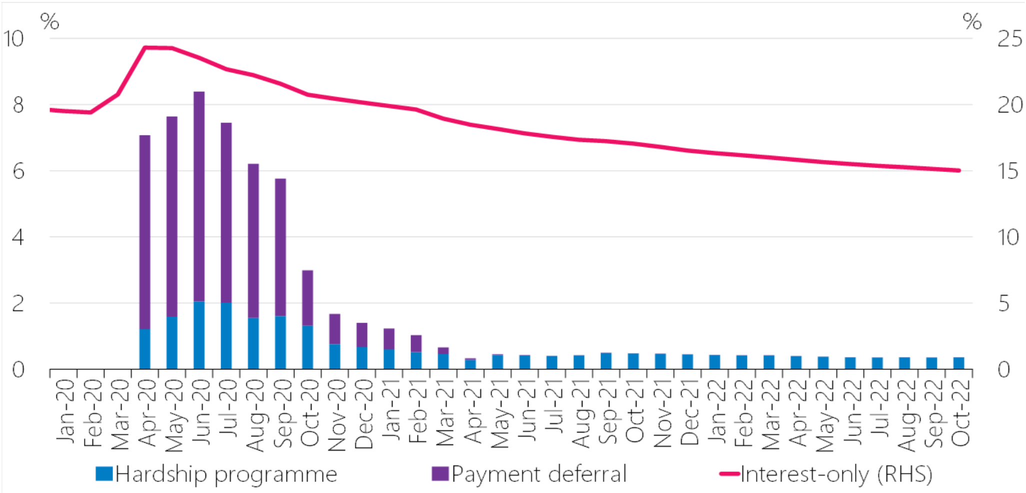
24. With increased capital buffers banks are well placed to support consumers through periods of economic hardship. This was demonstrated after the outbreak of COVID-19. More recently, the NZBA has stated that banks are ready to support customers through difficult circumstances.[1] Individual banks have announced a range of additional measures to support their customers' financial wellbeing. These include proactive reviews and contacting customers who may come under financial pressure as interest rates rise and the economy slows, as well as increasing resourcing of customer contact centres (branches, call centres). Banks are also promoting a broad range of initiatives aimed at overall community financial wellbeing – for example, helping customers to access Government support schemes where eligible, providing low interest lending to improve houses' energy efficiency, and offering low or zero interest lending to community groups (see more detail below in Annex 1).

COVID support provided by banks to mortgage borrowers

25. After the outbreak of COVID-19 banks provided support to mortgage holders through a range of measures, such as payment deferrals (mortgage holidays), hardship programmes and allowing borrowers to switch to interest-only mortgages. The share of mortgage lending covered by these support schemes has fallen steadily since its peak in the middle of 2020 (Figure 2).

Figure 2: Residential mortgage lending on payment deferrals, hardship programmes, and interest-only mortgages
(Share of total mortgage lending)

[1] Banks ready to support customers through tough times - New Zealand Bankers' Association (nzba.org.nz)



COVID support through the Business Finance Guarantee Scheme

26. The Business Finance Guarantee Scheme (BGFS) concluded on 30 June 2021. Total approved exposure for the BGFS was $2.86 billion. The stock of bank loans outstanding under the BGFS peaked in July 2021 at around $2.7 billion. Since then the stock outstanding has declined to $2.2 billion as some of the loans have been repaid. 4035 borrowers signed up under the scheme by the cut-off date.

Annex 1: Initiatives from banks to support customers

Initiatives announced by the five largest banks include:

ASB

- Completed 25,000 Financial Wellbeing Reviews with its customers, proactively contacted 63,000 customers regarding credit management actions and 37,000 regarding positive savings actions.
- Applied additional resources in its contact centre to reduce wait times and have also established a support hub on the ASB website to help guide customers to find the right support for their circumstances.
- Directing customers who may be eligible for some Government support to its Support Finder digital tool. Since launch, more than 20,000 people have accessed the tool and customers have received over $20m in previously unclaimed financial support.

ANZ

- Stood up a team to closely monitor customers for signs they might be concerned about managing their finances or coming under financial pressure as interest rates rise and the economy slows.
- Bolstered the bank's Customer Financial Wellbeing team and has been proactively reaching out to those who showed signs of needing reassurance and support.

BNZ

- Committed to standing behind business customers, supporting them in investing and growing operations, taking into consideration current economic situation.
- Expanded its community partnerships, including supporting Good Shepherd NZ to offer all Good Loans interest free, working with PaySauce to provide more New Zealanders with access to their pay early if they need it, and supporting the expansion of Habitat for Humanity NZ's home repair programme to help more New Zealanders live in warm, dry homes.

Westpac

- Opening branches an additional 370 hours a week across the country, increasing contact centre staffing to reduce call wait times and opening a new regional contact centre in Hamilton.
- Proactively reaching out to customers at risk of hardship, or who are about to experience large mortgage rates increases, to offer assistance with options and expanded the 'Extra Care' team, which focuses on customers in vulnerable circumstances.
- Expanded Westpac Warm Up loans to allow home loan customers to make homes more energy efficient by borrowing up to $40,000 over five years at zero percent interest. s9(2)(b)(ii) and 9(2)(ba)(i)

Kiwibank

- Supported more customers in financial hardship – 219 more people have received interest free Ngā Tāngata loans.
- 452 Kiwibank customers chose to block gambling websites, avoiding $6.75m on gambling spend.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet 28 November 2022

Date:	25 November 2022	**Report No:**	T2022/2610
		File Number:	CO-6-2-3-5

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	10:15 am Monday 28 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ash Ratnayake	Team Coordinator and support, Governance and Accountability	s9(2)(k)	N/A (mob)	
Rose Austen	Team Leader, Governance and Accountability		N/A (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet 28 November 2022

The Treasury is aware of six substantive items and two oral items on the Cabinet agenda for 28 November 2022.

This report provides the Treasury's comments and recommendations on below key items and identifies any relevant fiscal impacts.

- Taking Action on Fuel Prices: Next Steps
- Funding for the Hamilton West By-Election

The Treasury has **no comments** on the following papers on the agenda:

- Final Report by Dame Karen Poutasi on the Death of Malachi Subecz
- Draft Food and Beverage Industry Transformation Plan: Release for Public Consultation
- Oral Item: Government Support for the Continued Operation of the Ski Field at Mt Ruapehu: Update
- Oral Item: Youth Crime Update

Additional briefings may be provided to your office on the following papers:

- Pay Adjustment in the Public Service
- New Zealand Emissions Trading Scheme: 2022 Update to Limits and Price Control Settings for Units

Taking Action on Fuel Prices: Next Steps

Hon Grant Robertson, Minister of Finance

Hon Dr Megan Woods, Minister of Energy and Resources

Hon Michael Wood, Minister of Transport

Treasury contact: Olivia Maxwell s9(2)(g)(ii)

Sign out contact: Mark Hodge s9(2)(g)(ii)

Description: This paper seeks agreement to an exit approach, or next steps, on the temporary reductions to fuel excise duty (FED) and road user charges (RUC), temporary track user charges (TUC) reimbursement, as well as half-price public transport fares. These measures currently end on 31 January 2023.

Comments:

Exit approach to current measures: As we have previously advised, we do not consider that an extension to FED, RUC and TUC reductions would offer value for money or effective support with respect to cost-of-living outcomes. We do not consider that the risk of supply/demand issues as a result of a hard exit is significant, however, if this is of particular concern to Ministers then we would recommend a short phase-down only, with a view to balancing any such risk against the significant cost of even a short extension.

Broader fiscal pressures: In taking decisions through this paper, we recommend you have regard to broader fiscal pressures. In particular, noting the emphasis on savings and reprioritisation through Budget 2023, some options through this paper could significantly reduce the amount of returned funding that may otherwise have been available to Budget Ministers to trade-off towards key Budget 2023 priorities with higher value for money. As we have previously advised, further extensions to FED and RUC reductions may amplify precedent risks with respect to a public expectation of being shielded from fuel price increases – this may make it more challenging for Ministers to take action to address pressures on the National Land Transport Fund.

Future of half price public transport: Whilst we are supportive in principle of measures to support mode shift to public transport, we do not consider that across-the-board half-price fares are an effective measure to achieve that outcome. Rather, we encourage Ministers to focus any new spending in this area on measures which improve the frequency, reliability and accessibility of public transport in the first instance. We consider that the Community Connect scheme (providing half price fares to Community Services Cardholders, currently scheduled to supersede existing measures on 31 January) will provide appropriate, targeted ongoing support to groups for whom cost of living is most likely to be a significant barrier to public transport uptake.

Treasury Recommendation: Treasury's preference is for a hard exit from measures. If Ministers prefer a phased exist, then Treasury recommends the short phase-down option.

Fiscal Implications: The fiscal implications of the policy decisions in this paper will vary significantly depending on the option chosen. The cost of an extension and/or phase down for up to six months could be up to $786m (as well as $100m in funding to address shortfalls/pressures up to 31 January). The cost of a decision to phase down or extend the measures by up to six months is to be managed outside of allowances, indicatively offset by Covid Response and Recovery Fund underspends returned through the October Baseline Update process.

The paper also seeks to agree a preferred approach for the future of half-price public transport. The paper does not agree to the fiscal implications of such a decision at this stage, or the preferred funding source, but indicative ongoing operating costs of half-price public transport could be $130-$150m per annum.

Funding for the Hamilton West By-Election

Hon Kiri Allan, Minister of Justice

Treasury contact: Laura de Haan s9(2)(g)(ii)

Sign out contact: Colin Hall s9(2)(g)(ii)

Description: This paper seeks Cabinet agreement to provide $1.045 million operating funding from the Between-Budget Contingency for the Hamilton West by-election.

Comments:

On 14 November you received a letter from Minister Allan seeking your approval to proceed to Cabinet with a request for $1.445 million from the Between-Budget Contingency (BBC) for the Electoral Commission (the Commission) to deliver the Hamilton West by-election.

You agreed to support this BBC request at a reduced amount of $1.045 million. The Cabinet paper has been updated to reflect this reduced amount, and the Commission has noted that it can contribute the difference ($0.400 million) from within baselines.

Treasury Recommendation: Support.

Fiscal Implications: The paper seeks $1.045 million operating funding from the Between-Budget Contingency for the Electoral Commission to fund the Hamilton West by-election. The amount will be appropriated into the multi-year appropriation covering 2022/23-2023/24 and will be spent in 2022/23.

Funding source: Between-Budget Contingency									
Operating ($m)					Capital ($m)				
22/23	23/24	24/25	25/26	26/27 & outyears	22/23	23/24	24/25	25/26	26/27 & outyears
1.045									

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 10:15 am on Monday, 28 November 2022.

Rose Austen
Team Leader, Governance and Accountability

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet Business Committee 28 November 2022

Date:	25 November 2022	**Report No:**	T2022/2612
		File Number:	CO-6-2-3-5

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	10:15 am Monday 28 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ash Ratnayake	Team Coordinator and support, Governance and Accountability	s9(2)(k)	N/A (mob)	
Rose Austen	Team Leader, Governance and Accountability		N/A (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet Business Committee 28 November 2022

The Treasury is aware of three substantive items and one oral item on the Cabinet Business Committee agenda for 28 November 2022.

This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts for the following paper:

- Lowering the Voting Age

The Treasury has **no comments** on the following papers on the agenda:

- Oral Item: Immigration Update
- Extending Tax Exemption for Non-resident Offshore Oil Rig and Seismic Vessel Operators

An additional briefing may be provided to your office on the following expected late paper:

- Establishment of the Royal Commission into New Zealand's COVID-19 Response and Preparation for a Future Pandemic

SENSITIVE

s9(2)(f)(iv)

[redacted]

SENSITIVE

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 10:15 am on Monday, 28 November 2022.

Rose Austen
Team Leader, Governance and Accountability

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

IN-CONFIDENCE

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

TE TAI ŌHANGA
THE TREASURY

Joint Report: Confirming the costs to Vote Social Development of reopening the Parent Category Resident Visa

Date:	25 November 2022	**Report No:**	T2022/2351 REP/22/11/1171
		File Number:	SH-3-6-M90182

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree to the recommendations	9 December 2022
Minister for Social Development and Employment (Hon Carmel Sepuloni)	Agree to the recommendations	9 December 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Jeanne Barnard	Senior Analyst	s9(2)(k)	s9(2)(g)(ii)	✓
Maudie Johnson-Hunter	Senior Policy Analyst			✓
Keiran Kennedy	Manager, Welfare & Oranga Tamariki			
Polly Vowles	Manager, Income Support Policy			

Minister's Office actions (if required)

Return the signed report to The Treasury and the Ministry of Social Development. Refer a copy of this report to the Minister of Immigration (Hon Michael Wood)

Enclosure: No

Joint Report: Confirming the costs to Vote Social Development of reopening the Parent Category Resident Visa

Recommended Action

We recommend that you:

a **note** on 3 October 2022, Cabinet agreed to reopen the Parent Category Resident Visa, with additional costs of $9.3 million to Vote Social Development due to increased welfare support through the increased number of visas and lower income thresholds [CAB-22-MIN-0421]

b **note** there was some uncertainty around the costs, and Cabinet authorised the Minister of Social Development and Employment and the Minister of Finance to jointly agree to the final costings

c **note** the Ministry of Social Development have confirmed the costs are the same as those noted in the Cabinet paper

d **agree** to the final costings of $9.3 million (net) over the next five years

Agree/disagree.	*Agree/disagree.*
Hon Grant Robertson	Hon Carmel Sepuloni

e **note** if you agree, the finalised costs will be included in the 2022/23 Supplementary Estimates and will be met from Imprest Supply in the interim, with the costs managed outside of allowances, with a flow-on increase to net debt and decrease to OBEGAL [CAB-22-MIN-0421]

f **refer** this report to the Minister of Immigration for his information.

Refer/Not referred.	*Refer/Not referred.*

Keiran Kennedy **Manager, Welfare & Oranga Tamariki**	Polly Vowles **Manager, Income Support Policy**
Hon Grant Robertson **Minister of Finance**	Hon Carmel Sepuloni **Minister for Social Development and Employment**
_____/_____/_______	____/_____/_______

Joint Report: Confirming the costs to Vote Social Development of reopening the Parent Category Resident Visa

Purpose of Report

1. To seek your agreement to the final costs to Vote Social Development of reopening the Parent Category Resident Visa.

The Parent Category Residence Visa has been re-opened

2. On 3 October 2022, Cabinet agreed to reopen the Parent Category Resident Visa (the Parent Visa), accepting expressions of interest from 12 October 2022, and selecting existing expressions of interest from 14 November 2022 [CAB-22-MIN-0421].
3. Cabinet also agreed to increasing the annual cap on the number of Parent Visas from 1,000 to 2,500 per annum, and lowering the income thresholds. The income threshold for one sponsor has been lowered from 2x the median wage to 1.5x the median wage, and from 3x the median wage to 2x the medium wage for joint sponsors. If sponsoring more than one parent, the income threshold has been lowered from 1x the median wage per parent (up to six parents) to 0.5x the median wage per parent.
4. Re-opening the Parent Visa has associated costs for Vote Social Development, as there are increased costs to welfare support provided by the Ministry of Social Development (MSD). MSD estimated the costs to be $9.3 million through the increased number of visas and lower income threshold.

The costs outlined in the Cabinet paper have been confirmed

5. Due to some uncertainty around the cost to Vote Social Development, Cabinet authorised the relevant appropriation Minister (Minister of Social Development and Employment), and the Minister of Finance to jointly agree to the specific amount of funding required, up to the $9.3 million approved by Cabinet, once finalised costings have been completed by officials [CAB-22-MIN-0421].
6. The uncertainty around the costing arose as the Treasury noted the costings in the Cabinet paper may have been overestimating the cost of the proposals to the welfare system, as MSD assumed a higher uptake of benefits due to changes to the income thresholds which would have inflated the cost.

MSD has confirmed the costs to Vote Social Development are the same as outlined in the Cabinet paper

7. Officials have confirmed that the final cost to Vote Social Development is $9.3 million, over the forecast period.
8. To estimate the cost of an increased cap and lower income threshold for the Parent Visa, MSD used a combination of research conducted by Sapere in 2017 on the Parent Visa and administrative data held by MSD.
9. The Sapere report calculated the fiscal impact of people granted the Parent Visa by analysing their use of publicly funded services in their first five years of residence in New Zealand following being granted the visa. The research looked at welfare up-take in 2011, where no income threshold applied, and in 2013, following the introduction of an income thresholds equivalent to just over 2x median wage at the time. The report found:
    - 33-35% welfare uptake in the 2011 cohort

- 3-4% welfare uptake in the 2013 cohort

10. To estimate the cost MSD assumed benefit uptake of 5%, to reflect a higher take-up than the 2013 cohort given the lower proposed income threshold for the reopening of the Parent Visa. This assumption is at the low end, with uptake likely to be between 5-10% based on the Sapere research. The issue the Treasury noted is that the new income thresholds are now nominally higher than when they were last set, but MSD has assumed an increase in cost. This is because the thresholds are set as a proportion of median wage, and the median wage has increased due to wage growth. While the new thresholds may be nominally higher, in real terms they have been lowered, and this leads to an increased cost to welfare.

11. The costing includes:

    - the marginal increase from 1,000 to 2,500 visas granted per year, and
    - the marginal increase from a lower income threshold for all visas (a reduction from 2x median wage with 3% assumed benefit uptake, to 1.5x median wage with 5% benefit uptake).

12. The Parent Visa has been reopened since14 November 2022, however there is a lag while people with existing Expressions of Interest are contacted, applications are worked through, and successful applicants make plans to travel to New Zealand. Therefore, based on advice from the Minister of Business, Innovation and Employment, MSD have assumed no increased costs for the year 2022/23, with costs gradually increasing from 2023/24 as applicants arrive in New Zealand.

Next steps

13. If you agree, the finalised costs of re-opening the Parent Visa to Vote Social Development will be included in the 2022/23 Supplementary Estimates and will be met from Imprest Supply in the interim.

14. As agreed by Cabinet, the costs will be managed outside of allowances, with a flow-on increase to net debt and decrease to OBEGAL [CAB-22-MIN-0421].

BUDGET-SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Half Year Economic and Fiscal Update 2022 - Final Fiscal Forecasts

Date:	30 November 2022	**Report No:**	T2022/2614
		File Number:	BM-1-2-3-2022-2

Action sought

	Action sought	**Deadline**
Minister of Finance (Hon Grant Robertson)	**Note** the contents of this report	5 December 2022

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**		**1st Contact**
Kamlesh Patel	Deputy Chief Government Accountant, Fiscal Reporting	s9(2)(k)	s9(2)(g)(ii)	✓
Jayne Winfield	Chief Government Accountant, Fiscal Reporting			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Half Year Economic and Fiscal Update 2022 - Final Fiscal Forecasts

Executive Summary

The fiscal forecasts for the 2022 *Half Year Economic and Fiscal Update* (*Half Year Update*) were completed on 28 November 2022.

The forecasts reflect the Treasury's final economic forecasts, Government decisions up to 28 November 2022, any probable decisions (e.g. extension in the reduction in rates for fuel excise duty and road user charges) and other significant information that has become available since completing our preliminary fiscal forecasts.

The key assumptions underpinning the final fiscal forecasts have been included in this report. We have also included the historical time series of key fiscal information in Annex One.

Table 1 – Key fiscal indicators

Year ended 30 June	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
$ billion						
Core Crown tax revenue	108.5	118.1	124.9	132.0	141.2	149.1
Core Crown revenue	117.5	130.2	137.3	144.7	154.1	161.8
Core Crown expenses	125.6	129.3	134.5	140.1	144.9	149.8
Total Crown OBEGAL	(9.7)	(3.6)	(0.5)	1.7	6.2	9.3
Core Crown residual cash	(27.0)	(25.4)	(17.6)	7.4	4.6	6.4
Net debt	61.9	78.7	88.2	83.1	78.7	68.2
Net core Crown debt	128.9	154.6	172.6	165.8	161.9	156.0
Total borrowings	204.0	229.9	240.6	255.4	255.5	264.0
Gross debt	119.0	139.0	158.9	179.5	183.5	193.5
Total Crown operating balance	(16.9)	(0.7)	5.2	7.6	12.5	16.2
Net worth attributable to the Crown	167.0	166.2	171.4	178.9	191.4	207.6
% of GDP						
Core Crown tax revenue	30.2%	29.9%	30.3%	30.3%	30.7%	30.8%
Core Crown revenue	32.7%	33.0%	33.3%	33.2%	33.5%	33.4%
Core Crown expenses	35.0%	32.8%	32.6%	32.2%	31.5%	30.9%
Total Crown OBEGAL	(2.7%)	(0.9%)	(0.1%)	0.4%	1.4%	1.9%
Core Crown residual cash	(7.5%)	(6.4%)	(4.3%)	1.7%	1.0%	1.3%
Net debt	17.2%	19.9%	21.4%	19.1%	17.1%	14.1%
Net core Crown debt	35.9%	39.2%	41.8%	38.1%	35.2%	32.2%
Total borrowings	56.8%	58.2%	58.3%	58.7%	55.5%	54.5%
Gross debt	33.1%	35.2%	38.5%	41.2%	39.9%	39.9%
Total Crown operating balance	(4.7%)	(0.2%)	1.3%	1.7%	2.7%	3.3%
Net worth attributable to the Crown	46.5%	42.1%	41.5%	41.1%	41.6%	42.9%

The fiscal outlook is expected to improve over the forecast period. In the near-term the improvement is faster when compared to the Budget Economic and Fiscal Update 2022 (*Budget Update),* however by the tail end of forecast period this trend reverses.

The **operating balance before gains and losses (OBEGAL)** continues to be in deficit in the current year and then narrows to nearly being balanced in the following year before returning to a modest surplus of $1.7 billion in the 2024/25 year. OBEGAL surpluses continue to rise and reach $9.3 billion or 1.9% of GDP by 2026/27.

The improvement in OBEGAL across the forecast is reflective of a decline in the level of growth in core Crown expenditure, largely from the ending of most COVID-19 spending and the smaller level of funding set aside for future Budget operating allowances. In contrast growth in tax revenue remains relatively stable over the forecast period primarily reflecting the outlook of nominal GDP.

Core Crown residual cash is also expected to be in deficit in the first two years of the forecast period, before returning to a surplus of $7.4 billion in 2024/25, largely following a similar trend to OBEGAL.

Net debt is expected to peak in 2023/24 at 21.4% of GDP and decline to 14.1% of GDP by the end of the forecast period. This near-term increase is in part due to funding the residual cash deficits and an increase in Crown entity borrowings. Compared to the *Budget Update* net debt is expected to be higher across all years, largely reflecting the decision to increase the multi-year capital allowance (MYCA) and the weaker starting position of the New Zealand Superannuation Fund's investment portfolio due to weaker market conditions experienced in recent times.

Compared to the **preliminary fiscal forecasts** most of the key fiscal indicators improved up until near the end of the forecast period. Changes since the preliminary fiscal forecasts primarily relate to the inclusion of stronger tax revenue forecasts from a stronger forecast for nominal GDP, however this has been more than offset by higher benefit expenses, the decision to increase the Climate Emergency Response Fund and the increase to MYCA by the end of the forecast period.

We are currently in the process of drafting the Fiscal Outlook chapter to be included within the 2022 *Half Year Update* document, which will be provided to you Friday 2 December 2022. We are intending to include boxes in the chapter to discuss significant in-year decision and the pressures on Budget allowances (similar to what was included in the 2022 *Budget Update*) and an update on some operational aspects of the new net debt indicator.

We understand there maybe sometime at the Weekly Agency Meeting on Monday 5 December 2022 to discuss the Fiscal Outlook chapter and answer any questions you may have on this report.

Recommended Action

We recommend that you:

a **note** that the Treasury's final fiscal forecasts for the 2022 *Half Year Economic and Fiscal Update* (*Half Year Update*) were finalised on 28 November 2022.

b **note** that the final fiscal forecasts include the Treasury's final economic forecasts, Government decisions up to 28 November, any probable decisions and other material information.

c **note** that the fiscal outlook continues to improve with OBEGAL expected to return to a surplus of $1.7 billion in 2023/24, while net debt peaks at 21.4% of GDP and starts to fall from the 2023/24 year.

d **note** that OBEGAL is expected to stronger in the near-term compared to the 2022 *Budget Update,* but then weaker over the rest of the forecast period.

e **note** that the net debt track is higher than the 2022 *Budget Update*, largely reflecting the weaker starting position of the New Zealand Superannuation Fund's investment portfolio and the decision to increase the multi-year capital allowances.

f **note** that in most years key indicators have improved since our preliminary fiscal forecasts.

g **note** that we will be providing you with a draft of the Fiscal Outlook chapter, to be included within the *Half Year Update* document, on Friday 2 December 2022 and in addition to our standard boxes, the chapter will include boxes on:

- in-year decisions and pressures on Budget allowances; and
- update on the new net debt indicator.

Jayne Winfield
Chief Government Accountant

Hon Grant Robertson
Minister of Finance

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Purpose of Report

1. The purpose of this report is to outline the forecasts for the key fiscal indicators, discuss changes since the 2022 *Budget Economic and Fiscal Update* (Budget Update) and the preliminary fiscal forecasts, highlight the key messages likely to be reflected in our fiscal outlook chapter, and outline the key assumptions underpinning these forecasts. The report is broken into the following sections:
   - Key trends in the fiscal outlook;
   - Changes since the 2022 *Budget Update*;
   - Changes since the preliminary fiscal forecasts;
   - Key messages for the Fiscal Outlook chapter; and
   - Summary of key fiscal assumptions.

2. Annex One provides a table summarising the fiscal forecasts, including a historical time series of key fiscal indicators.

Key trends in the fiscal outlook

3. The trends in the key fiscal forecasts are broadly consistent with what was communicated in our preliminary fiscal forecasts [T2022/2426 refer]. With the operating balance before gains and losses (OBEGAL) expected to improve and return to surplus in the 2024/25 year, while net debt starts falling in both nominal terms and as a percentage of GDP from 2023/24.
4. By the end of the forecast period, the OBEGAL surplus gets close to 2.0% of GDP, while net debt falls to nearly 14.0% of GDP, both consistent with the Government's main fiscal objectives. A summary of the key fiscal indicators is outlined in Table 1.
5. The expected improvement in the fiscal outlook is underpinned by stable growth in tax revenue, reflective of the strength of near-term activity and higher inflation which results in a strong outlook for nominal GDP. In contrast the growth in core Crown expenses stays relatively flat, as temporary COVID-19 spending is expected to fall away after 2022/23 and smaller levels of funding are set aside for future Budget operating allowances.
6. The OBEGAL deficit in the current year is expected to be $3.6 billion and then falls to be close to a balanced position in the next year. There is a possible chance now that OBEGAL could even return to surplus in the 2023/24 year.
7. While most fiscal indicators are expected to improve over the forecast period, the notable exceptions to this trend are gross debt and core Crown finances costs. Gross debt is expected to continually rise over the forecast period, reaching $193.5 billion by 2026/27, while core Crown finance costs, nearly treble from the level reported in the 2021/22 year to be $8.0 billion in 2026/27.
8. The increase in gross debt is largely due to higher levels of Government bonds from the impact of exiting the Reserve Bank's Large Scale Asset Programme (LSAP) and Kāinga Ora borrowings now assumed to be funded by the Crown rather than through private markets. However, both of these increases in Government bonds are largely offset by a reduction in borrowings that do not form part of gross debt, therefore the overall impact on total borrowings is minimal.

9. The rising profile of core Crown finance costs are primarily reflecting the impact of higher interest rates and the funding of Kāinga Ora borrowings. Core Crown finance costs were $2.8 billion in the 2021/22 year rising to $5.7 billion in the current year.

10. More details on the trends in key indicators will be provided in the draft Fiscal Outlook chapter for the 2022 *Half Year Update*, which will be provided to you on Friday 2 December 2022.

Changes since the 2022 Budget Update

11. Overall, in the near-term most key operating indicators are stronger than previously expected, but then weaker for the remainder of forecast period. The net debt track is slightly higher than previously expected, which is driven by a combination of the weaker starting position of the New Zealand Superannuation Fund (NZS Fund) investment portfolio, along with the decision to increase the multi-year capital allowance (MYCA). A comparison of the key fiscal indicators to the 2022 *Budget Update* forecasts is included in Table 2 below.

Table 2 – Changes in key fiscal indicators compared to the 2022 *Budget Update*

Year ended 30 June $ billion	Actual 2021/22	Forecast 2022/23	 2023/24	 2024/25	 2025/26	 2026/27
Core Crown tax revenue - Half Year Update 2022 - final	**108.5**	**118.1**	**124.9**	**132.0**	**141.2**	**149.1**
Core Crown tax revenue - Budget Update 2022 - final	108.5	116.1	122.7	129.9	138.5	
Total Change		**2.0**	**2.2**	**2.1**	**2.7**	
Core Crown expenses - Half Year Update 2022 - final	**125.6**	**129.3**	**134.5**	**140.1**	**144.9**	**149.8**
Core Crown expenses - Budget Update 2022 - final	125.6	127.1	131.1	134.1	138.2	
Total Change		**(2.2)**	**(3.4)**	**(6.0)**	**(6.7)**	
OBEGAL - Half Year Update 2022 - final	**(9.7)**	**(3.6)**	**(0.5)**	**1.7**	**6.2**	**9.3**
OBEGAL - Budget Update 2022 - final		(6.6)	(2.6)	2.6	7.0	
Total Change		**3.0**	**2.1**	**(0.9)**	**(0.8)**	
Residual cash - Half Year Update 2022 - final	**(27.0)**	**(25.4)**	**(17.6)**	**7.4**	**4.6**	**6.4**
Residual cash - Budget Update 2022 - final		(29.3)	(9.3)	7.9	17.7	
Total Change		**3.9**	**(8.3)**	**(0.5)**	**(13.1)**	
Net core Crown debt - Half Year Update 2022 - final	**128.9**	**154.6**	**172.6**	**165.8**	**161.9**	**156.0**
Net core Crown debt - Budget Update 2022 - final		163.7	173.3	165.4	147.9	
Total Change		**9.1**	**0.7**	**(0.4)**	**(14.0)**	
Net debt[1] - Half Year Update 2022 - final	**61.9**	**78.7**	**88.2**	**83.1**	**78.7**	**68.2**
Net debt[1] - Budget Update 2022 - final		75.0	83.6	76.4	69.5	
Total Change		**(3.7)**	**(4.6)**	**(6.7)**	**(9.2)**	
% of GDP, June years						
Net core Crown debt - Half Year Update 2022 - final	**35.9**	**39.2**	**41.8**	**38.1**	**35.2**	**32.2**
Net core Crown debt - Budget Update 2022 - final		40.8	41.2	37.5	31.9	
Net debt[1] - Half Year Update 2022 - final	**17.2**	**19.9**	**21.4**	**19.1**	**17.1**	**14.1**
Net debt[1] - Budget Update 2022 - final		18.7	19.9	17.3	15.0	

1 Net debt includes core Crown advances, Crown entity borrowings and the NZS Fund.

OBEGAL is stronger in the near-term, but then weaker

12. The OBEGAL deficit over the next two years are forecast to be smaller compared to the 2022 *Budget Update*. However, from 2024/25 OBEGAL surpluses are lower than previously expected. The near-term improvement is largely driven by core Crown tax revenue. Although the improvement in core Crown tax revenue continues over all years of the forecast period, it is more than offset by higher expenditure from 2024/25 onwards.

13. Despite a weaker economic outlook for 2023, the recent strength in activity and higher inflation result in a higher forecast of tax revenue compared to the 2022 *Budget Update*. The forecast for core Crown tax revenue have been revised up by over $2.0 billion per annum, since the 2022 *Budget Update*. For further analysis on tax revenue forecasts refer [T2022/2191] and [T2022/2452].

14. In the current year core Crown expenses are around $2.0 billion higher compared to the 2022 *Budget Update.* Near the end of the forecast period core Crown expenses are close to being $7.0 billion higher than previously expected. The main drivers of the increase are:

    - **Finance costs** are expected to increase by $1.4 billion in the current year and by 2025/26 were higher by $3.3 billion. This has largely been driven by higher interest rates and a larger bond programme due to increased lending to Kāinga Ora.
    - A top-up the **Climate Emergency Response Fund** (CERF) has resulted in expenditure being higher by around $0.4 billion per annum from 2023/24 year.
    - s9(2)(j) [redacted]
    - **Benefit expenses** are initially lower than previously expected but then higher, largely owing to a stronger wage track, as most benefits are indexed to wage growth.

15. In addition, the increase in the forecast of interest rates since the 2022 *Budget Update* have resulted in a stronger outlook for core Crown interest revenue and the results of ACC.

Overall residual cash is $18.0 billion weaker than the 2022 Budget Update

16. Overall, core Crown residual cash deficits are cumulatively $18.0 billion higher than the 2022 *Budget Update*. The same drivers as OBEGAL discussed above (with the exception of ACC results) will influence on residual cash, however as most of these impacts broadly offset over the comparable forecast years, they only make a minimal contribution (around $1.2 billion) to the weaker residual cash position. A significant portion of the change in residual cash is driven by capital investments, in particular:

    - the decision for Kāinga Ora borrowings to be through the Crown rather than the private market going forward, has added around $14.0 billion to the residual cash deficit over the forecast period;
    - the decision to increase the MYCA to $12.0 billion has increased the funding available by $4.6 billion, compared to the 2022 *Budget Update*.
    - the forecast for the Funding for Lending programme (FLP) has been reduced by around $3 billion reflecting lower expectation around the take-up of the programme, partially offsetting the above-mentioned factors.

While net debt is also weaker, but not by the same level as residual cash

17. Compared to the 2022 *Budget Update,* net debt is expected to be $9.2 billion or 2.1% of GDP higher by 2025/26.

18. Although the residual cash changes were $18.0 billion weaker, the changes from the capital investments relating to Kāinga Ora and FLP mentioned above also impact on financial assets that are included in the calculation of net debt, therefore do not flow through to impact on the forecast of net debt.

19. The weaker starting position of the NZS Fund's financial investment portfolio due to market conditions and the decision to increase the MYCA are the key factors driving the increase in net debt compared to the 2022 *Budget Update*.

Changes since the preliminary fiscal forecasts

20. Overall, when compared to our preliminary fiscal forecasts most indicators are stronger, but then weaker by the end of the forecast period. The OBEGAL results are forecast to be stronger up until 2026/27, while net debt is lower until 2025/26 (refer figure 1 and 2). The main changes since the preliminary fiscal forecasts primarily relate to:

- the impact of the final economic forecasts on tax revenue and benefit expenses;
- the decision to increase the CERF and MYCA; and
- rephasing of expenditure.

Figure 1 – OBEGAL comparison

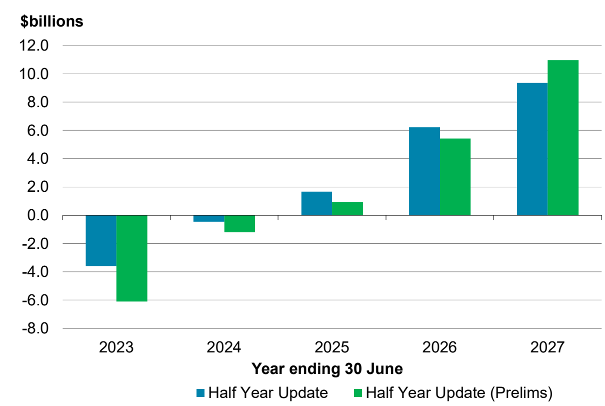
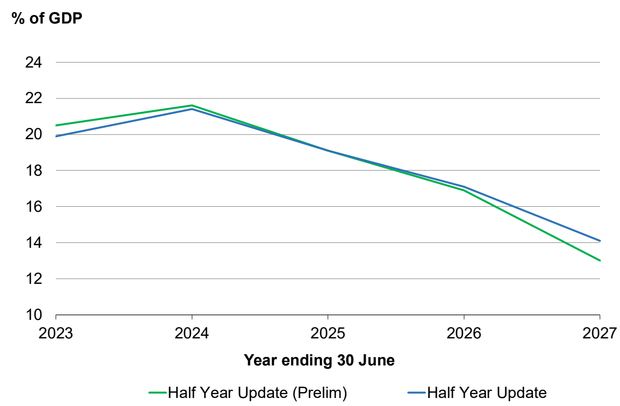


Figure 2 – Net debt comparison



21. A stronger outlook for nominal GDP has contributed to tax revenue being revised up by around $2.0 billion in the current period and on average around $1.0 billion per annum over the rest of the forecast period.

22. The forecast for wage growth is also higher than expected in the preliminary fiscal forecasts, which has resulted in an increase in the cost of most benefit types that are indexed to wage growth. From 2023/24 benefit expenses are on average $0.6 billion higher than in the preliminary forecasts.

23. Since the preliminary fiscal forecast the CERF has been topped up by $2.1 billion, reflecting additional cash proceeds from the ETS. From the 2023/24 year around $1.9 billion of the top-up is assumed to fund operating expenditure, with the rest used for capital expenditure.

24. There have been some changes in the phasing of expenses which have been pushed out into the 2026/27 year.

25. The above-mentioned factors have been the main drivers of the changes in OBEGAL since the preliminary fiscal forecasts. As well as these factors net debt has also been influence by the Government's decision to increase the MYCA to $12.0 billion which has added $6.3 billion of capital expenditure to the forecasts. The remaining $2.8 billion of the $9.1 billion increase to the multi-year capital allowances is expected to fall outside of the forecast period.

Fiscal Outlook chapter

26. We are currently in the process of drafting the Fiscal Outlook chapter for inclusion in the 2022 *Half Year Update* document. You will receive an initial draft of this chapter, alongside the other chapters on Friday 2 December 2022.

27. The Fiscal Outlook chapter will broadly follow a similar structure to the 2022 *Budget Update*. The key messages that we intent communicating in the chapter include:

    - Tax revenue is expected to increase over the forecast period with this growth primarily driven by economic condition. It will be critical to explain to users why the worsening economic outlook for 2023 does not influence our tax revenue forecasts.
    - Despite most COVID-19 fiscal support measures ending, a significant lift in core Crown expenses is expected in the 2022/23 year. We plan to explain the key drivers of the increase in core Crown expenses, excluding the impact of COVID-19 spending. The expense story for the 2022/23 year will also touch on the level of our top-down adjustment, which is higher than usual.
    - After the current year core Crown expenses are expected to gradually decline as a share of the economy, we plan to explain the key drivers underpinning this trend.
    - The movement in interest rates have had a significantly influence on a few areas of the forecasts. In particular, the interest rate track has increased the forecast level of interest revenue and finance costs. In addition, the costs incurred by ACC are now lower due to a higher discount rate being used to value the ACC outstanding claims liability.
    - Despite net debt starting to fall in nominal terms, this is not the case for gross debt. It will be important to explain to users why the trend in these two indicators are different.

28. In addition to the standard boxes on key judgements and assumptions and other fiscal indicators[1], we are planning to include two other boxes in the Fiscal Outlook chapter.

    - ***Box 1 – In-year decisions and pressures on Budget allowances***. The objective of this box is to provide transparency around decisions by the Government since the 2022 *Budget Update*. This will include disclosure around the movement in funding envelopes (e.g. Budget allowances and CERF) and any material decision met from outside of the funding envelopes (e,g. reduction in fuel excise duty and road user charges). This box will also have an updated analysis on how much funding may be needed to meet future cost pressures (refer page 45 and 46 of the 2022 *Budget Update*).
    - ***Box 2 – Update on the new net debt indicator.*** The main objective of this box is to outline recent developments from the implementation of the new net debt indicator. The box will mostly be technical in nature focussed on explaining why the newly established Crown entity Kiwi Group Capital's borrowings is not captured in the net debt measure and changes in the fiscal management approach.

[1] Includes the cyclically-adjusted balance, structural balance and total fiscal impulse.

Summary of key fiscal assumptions

29. The fiscal forecasts are based on the final economic forecasts (completed on 9 November 2022), Government decisions up to 28 November 2022, information provided by individual entities coupled with central adjustments made by the Treasury for items which are not captured in individual entity forecasts. Summarised below are some of the key assumptions worth noting that have required some degree of judgement by the Treasury in finalising these fiscal forecasts.

Budget allowances

30. The forecast for new operating spending remains unchanged from the amounts signalled at Budget 2022. While the MYCA has been increased to $12.0 billion for Budget 2023 through to Budget 2026.

Table 3 – Budget allowances in the 2022 *Half Year Update*

	Operating (Average)	Capital
Budget 2023	$4.5 billion	$12.0 billion
Budget 2024	$3.0 billon	
Budget 2025	$3.0 billion	
Budget 2026	$3.0 billion	

31. As at the forecast finalisation date, some of the Budget operating allowance for Budget 2023 and Budget 2024 have already been allocated. Taking into consideration these pre-commitments the fiscal forecast will show an average of $1.8 billion funding is available to still allocate at Budget 2023 and an average $2.6 billion for Budget 2024.

32. Overall, $11.2 billion remains available in the MYCA following the assumed funding likely to be allocated as part of the cost escalation process. It is assumed that $8.3 billion of the amount remaining in the MYCA will be allocated over the forecast period.

Top-down adjustment

33. The top-down adjustment is a central adjustment to expenditure forecasts (both operating and capital) to reflect departments' tendency to use appropriations (upper spending limits) rather than best estimates when preparing their forecasts. The level of the central top-down adjustment is dependent on the quality of forecasts received from departments. Based on our analysis, the central top-down adjustments included in the 2022 *Half Year Update* forecasts are set out in Table 4. These are broadly consistent with what was assumed in the preliminary fiscal forecasts.

Table 4 – Top-down adjustments in the 2022 *Half Year Update*

$millions	2022/23	2023/24	2024/25	2025/26	2026/27
Operating	6,400	1,800	1,200	1,100	900
Capital	2,850	1,450	500	325	225
Total	**9,250**	**3,250**	**1,700**	**1,425**	**1,125**

s9(2)(j)

[redacted]

New Zealand Income Insurance Scheme

35. The New Zealand Insurance Scheme (NZIIS) is assumed to start in the last quarter of 2024/25 and the levies generated from the scheme are assumed to be used to cover the administration costs of the scheme and the compensation to displaced employees. Since the preliminary fiscal forecasts, Cabinet have made an ‘in-principle’ decision to consult on an indicative initial levy rate of 2.0% of salary and wages for the scheme, which is lower than rate previously used for our assumption, which was 2.77%.

36. As signalled the assumed revenue and expenses from the scheme will be individually disclosed in our fiscal forecast, so it will be evident the numbers have shifted from 2022 *Budget Update*.

Table 6 – Revenue and expenses from NZIIS in the 2022 *Half Year Update*

$millions	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Levy income	-	-	800	3,400	3,600
Operating expenses from the scheme	-	-	(800)	(3,400)	(3,600)

Next Steps

37. We are currently in the process of drafting our Fiscal Outlook chapter that accompanies the final fiscal forecasts. A draft of this chapter will be sent to you on Friday 2 December 2022. Given the timeframes from when we finalised our fiscal forecasts this chapter will be an initial draft. The fiscal forecasts will also be reflected into the Government’s 2023 Budget Policy Statement.

38. We understand there maybe sometime at the Weekly Agency Meeting on Monday 5 December 2022 to discuss the Fiscal Outlook chapter and answer any questions you may have on this report.

BUDGET-SENSITIVE

Annex One - Historical Time Series

June years	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
$millions															
Revenue and expenses															
Core Crown tax revenue	58,651	61,563	66,636	70,445	75,644	80,224	86,468	85,102	97,983	108,458	118,061	124,937	132,018	141,156	149,128
Core Crown revenue	63,805	67,093	72,213	76,121	81,782	86,778	93,474	91,923	104,968	117,515	130,194	137,328	144,671	154,060	161,844
Core Crown expenses	69,962	71,174	72,363	73,929	76,339	80,576	86,959	108,832	107,764	125,641	129,331	134,528	140,081	144,859	149,799
Surpluses															
Total Crown OBEGAL	(4,414)	(2,802)	414	1,831	4,069	5,534	7,429	(23,057)	(4,560)	(9,691)	(3,631)	(461)	1,659	6,221	9,344
Total Crown operating balance	6,925	2,939	5,771	(5,369)	12,317	8,396	389	(30,040)	16,159	(16,931)	(725)	5,216	7,567	12,549	16,204
Cash position															
Core Crown residual cash	(5,742)	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)	(13,767)	(27,043)	(25,364)	(17,610)	7,389	4,592	6,440
Debt															
Gross debt[1]	77,984	81,956	86,125	86,928	87,141	88,053	84,449	102,257	100,835	118,950	138,989	158,864	179,452	183,527	193,455
Net debt	25,298	25,208	22,825	23,193	16,249	11,219	5,432	35,710	35,921	61,850	78,655	88,206	83,147	78,737	68,209
Net debt (excl. NZS Fund)	47,960	51,333	52,131	53,229	51,548	50,763	50,822	79,930	95,188	117,115	137,476	153,322	153,787	155,428	151,373
Net core Crown debt[2]	55,835	59,931	60,631	61,880	59,480	57,495	57,736	83,375	102,080	128,873	154,625	172,600	165,815	161,865	156,025
Total borrowings	100,087	103,419	112,580	113,956	111,806	115,652	110,248	152,717	162,560	203,965	229,918	240,602	255,433	255,532	264,040
Net worth															
Total Crown net worth	70,011	80,697	92,236	95,521	116,472	135,637	143,339	115,782	157,193	174,319	173,527	178,970	186,473	198,878	214,968
Total net worth attributable to the Crown	68,071	75,486	86,454	89,366	110,532	129,644	136,949	110,320	151,469	167,036	166,246	171,409	178,941	191,443	207,571
Nominal expenditure GDP (revised actuals)	218,832	236,893	245,595	258,858	275,525	295,671	310,164	318,522	342,064	359,387	394,778	412,678	435,268	460,280	484,352
% GDP															
Revenue and expenses															
Core Crown tax revenue	26.8	26.0	27.1	27.2	27.5	27.1	27.9	26.7	28.6	30.2	29.9	30.3	30.3	30.7	30.8
Core Crown revenue	29.2	28.3	29.4	29.4	29.7	29.3	30.1	28.9	30.7	32.7	33.0	33.3	33.2	33.5	33.4
Core Crown expenses	32.0	30.0	29.5	28.6	27.7	27.3	28.0	34.2	31.5	35.0	32.8	32.6	32.2	31.5	30.9
Surpluses															
Total Crown OBEGAL	(2.0)	(1.2)	0.2	0.7	1.5	1.9	2.4	(7.2)	(1.3)	(2.7)	(0.9)	(0.1)	0.4	1.4	1.9
Total Crown operating balance	3.2	1.2	2.3	(2.1)	4.5	2.8	0.1	(9.4)	4.7	(4.7)	(0.2)	1.3	1.7	2.7	3.3
Cash position															
Core Crown residual cash	(2.6)	(1.7)	(0.7)	(0.5)	0.9	0.5	(0.2)	(7.4)	(4.0)	(7.5)	(6.4)	(4.3)	1.7	1.0	1.3
Debt															
Gross debt[1]	35.6	34.6	35.1	33.6	31.6	29.8	27.2	32.1	29.5	33.1	35.2	38.5	41.2	39.9	39.9
Net debt	11.6	10.6	9.3	9.0	5.9	3.8	1.8	11.2	10.5	17.2	19.9	21.4	19.1	17.1	14.1
Net debt (excl. NZS Fund)	21.9	21.7	21.2	20.6	18.7	17.2	16.4	25.1	27.8	32.6	34.8	37.2	35.3	33.8	31.3
Net core Crown debt[2]	25.5	25.3	24.7	23.9	21.6	19.4	18.6	26.2	29.8	35.9	39.2	41.8	38.1	35.2	32.2
Total borrowings	45.7	43.7	45.8	44.0	40.6	39.1	35.5	47.9	47.5	56.8	58.2	58.3	58.7	55.5	54.5
Net worth															
Total Crown net worth	32.0	34.1	37.6	36.9	42.3	45.9	46.2	36.3	46.0	48.5	44.0	43.4	42.8	43.2	44.4
Total net worth attributable to the Crown	31.1	31.9	35.2	34.5	40.1	43.8	44.2	34.6	44.3	46.5	42.1	41.5	41.1	41.6	42.9

1. Excludes Reserve Bank settlement cash and bank bills.
2. Excludes advances.

BUDGET-SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Te Waihanga Letter of Expectations 2023/24

Date:	30 November 2022	**Report No:**	T2022/2520
		File Number:	CM-1-3-125

Action sought

	Action sought	Deadline
Minister for Infrastructure (Hon Grant Robertson)	**Agree** to sign the attached Letter of Expectations for Te Waihanga	14 December 2022

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Michael Moore	Principal Advisor, Commercial and Institutional Performance	s9(2)(k)	✓
Ann Webster	Manager, Commercial and Institutional Performance		

Minister's Office actions

Return the signed report to the Treasury

Email a signed copy of the attached Letter of Expectations to the Chair of Te Waihanga, copied to the Treasury

Note any feedback on the quality of the report

Enclosure: Te Waihanga Draft Letter of Expectations 2023-24 (Treasury:4722697v1)

The attached Letter of Expectation will soon be available at:
https://www.treasury.govt.nz/publications/other-official-information/information-releases

Treasury Report: Te Waihanga Letter of Expectations 2023/24

Purpose of Report

1. This report contains the draft 2023/24 Letter of Expectations (LOE) for the New Zealand Infrastructure Commission, Te Waihanga (Te Waihanga) for your consideration and approval.

Purpose and Content of the Letter of Expectations

LOEs are a key lever for communicating your expectations and influencing Crown entities' annual business planning processes

2. While not statutory documents, LOEs set out the Government's overarching priorities, and Ministers' specific and general ownership expectations of each Crown entity.

3. LOEs are generally sent to Chairs between October and December to allow time for entities to incorporate Ministers' expectations in their business planning and statutory documents. Crown entities are then required to consider responsible Ministers' feedback before finalising their statutory business planning documents.

General expectations

4. The attached draft LOE refers to the Government's priorities of keeping New Zealanders safe from COVID-19, accelerating the recovery and rebuild; and laying the foundations for a better future. The letter acknowledges that the operating environment and economic outlook are challenging and uncertain. The emphasis is on the importance of entities, where appropriate, focusing on delivering value through investing for future impact, supporting critical infrastructure and service investment and being financially prudent.

5. Annex 1 to the draft LOE sets out enduring expectations, including emissions reduction and climate change disclosure, and general governance expectations, including cyber security. Key business planning and reporting dates and processes for the 2023/24 financial year are also annexed to the draft LOE.

Proposed Specific Expectations for Te Waihanga

6. The draft LOE follows a similar set of specific expectations as set out in the 2022/23 LOE sent in February 2022. These included:

   a the role of Te Waihanga as primary advisor to the Government on infrastructure matters;

   b delivery of Rautoki Hanganga o Aotearoa, the New Zealand Infrastructure strategy;

   c additional delivery and support functions;

   d special topic reports; and

   e the Budget process.

7. These have been augmented in the draft LOE to reflect clearer expectations for Te Waihanga on matters such as input to the Auckland Light Rail project, progressing the Infrastructure Strategy, and in clarifying expectations around the manner in which Te Waihanga can contribute most positively to the sector.

8. As per the prior LOE, the specific expectations focus on the successful delivery of outputs under the core functions of Te Waihanga, and effective engagement with relevant officials and other stakeholders. Effective engagement includes working with agencies to clarify lines of responsibility where shared interests exist and consulting appropriately with agencies where Te Waihanga advice could result in changes to agencies' work programmes.

9. More specifically, the draft LOE builds upon the prior year's LOE by highlighting the expectation that Te Waihanga:

   a contributes collaboratively to the Auckland Light Rail project and makes the most of the opportunity to add value to the planning process;

   b has a role in any solution proposed. Te Waihanga should identify the role it will play as part of the solution in any proposal to Ministers;

   c strikes a balance between expressing its independent views and maintaining its influence with decision-makers;

   d having completed the successful delivery of the Infrastructure Strategy, will now work with government agencies and entities to support the implementation of the Response and assist in the delivery of priorities outlined in the Response;

   e continues to maintain a focus on workforce needs; and

   f takes a focussed and prudent approach, given its financially constrained environment.

10. The draft LOE also reminds Te Waihanga that it is due to submit a revised SOI, should reflect the expectations raised in the letter. The SOI must be produced at least once every three years and sets the context for the annual Statement of Performance Expectations (SPE).

Next Steps

11. If you agree with the content of the attached draft LOE, we recommend you sign the LOE and send it to the Chair of Te Waihanga.

12. Following receipt of the LOE, the board of Te Waihanga will provide:

   a its response to the LOE in its Strategic Issues Letter, due to you by 28 February 2023; and

   b a draft SOI and SPE, due to you by 30 April 2022, with the final due by 30 June 2022.

Recommended Action

We recommend that you **agree** to sign and send the attached Letter of Expectations for 2023/34 to the Chair of the Te Waihanga.

Agree/disagree.

Ann Webster
Manager, Commercial and Institutional Performance

Hon Grant Robertson
Minister for Infrastructure

OIA 20230023
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RESTRICTED

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Minister Parker October 2022 Travel to APEC Finance Ministers' Meeting

Date:	28 September 2022	**Report No:**	T2022/2081
		File Number:	IM-6-1

Action sought

	Action sought	Deadline
Associate Minister of Finance (Hon David Parker)	**Lodge** the attached Cabinet Paper Approval for Travel Hon David Parker October 2022 Travel to APEC Finance Ministers' Meeting with the Cabinet Office by 10am Thursday 29 September	Thursday 29 September 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Susie McKenzie	Analyst, International	s9(2)(k)	s9(2)(g)(ii)	✓
Conor McBride	Manager, International			

Minister's Office actions (if required)

Return the signed report to Treasury.

Lodge the attached Cabinet Paper *Memorandum for Cabinet; Approval for Travel Hon David Parker* with the Cabinet Office by **10am Thursday 29 September**.

Refer to the Offices of the proposed Acting Ministers; Hon Andrew Little, Hon Stuart Nash and Hon Kiritapu Allan.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

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Treasury Report: Minister Parker October 2022 Travel to APEC Finance Ministers' Meeting

Purpose of Report

1. This Report provides the necessary Cabinet Paper (*Annex 1: draft Memorandum for Cabinet; Approval for Travel Hon David Parker*) which seeks Cabinet approval for your travel to the Bangkok, Thailand, departing on 18 October 2022 and returning to New Zealand on 22 October 2022, to attend the APEC Finance Ministers' Meeting (FMM).

Travel Itinerary

2. Your indicative itinerary is as follows:

    a Fly from Wellington, New Zealand to Bangkok, Thailand on 18 October

    b Finance Ministers' Retreat on 19 October

    c Finance Ministers' Meeting and press conference on 20 October

    d Fly from Bangkok, Thailand to Wellington, New Zealand on 21 October

APEC Finance Ministers' Meeting overview

You are attending the APEC Finance Ministers' Meeting (FMM) as Associate Finance Minister

3. The APEC Finance Ministers' Meeting (the **FMM**) provides opportunities to engage with your counterparts across the Pacific and Southeast Asia. This meeting is also an opportunity to build off New Zealand's successful APEC 2021 host year, which is of particular importance with the United States hosting APEC 2023.

4. This years' FMM has two main themes; Sustainable Finance and Digitalisation for Digital Economy. There are two core meetings, the FMM itself and the Finance Ministers' Retreat, an open discussion between Ministers.

5. The primary deliverable for the entire FMM is the Finance Ministers' Joint Ministerial Statement (the **Joint Statement**). The FMM will also include a general update on the Global and Regional Economic Outlook.

Objectives of the trip

6. As set out in the attached Cabinet paper, attendance at FMM provides an opportunity to build on New Zealand's successful APEC host year in 2021 to:

   a support the US in their priority selection for their 2023 host year,

   b to promote the message that New Zealand is open for business,

   c to support the reconnecting New Zealand initiative,

   d and engage with our Asia-Pacific partners.

Bilateral engagements

7. The FMM presents opportunities for bilateral meetings with your counterparts in other economies. At this stage, we recommend you have bilaterals with:

   a US Deputy Secretary of the Treasury, Wally Adeyemo. Topics could include economic recovery from the pandemic and economic inequality.

   b Japanese Finance Minister Shunichi Suzuki. Topics could include the Indo-Pacific Economic Framework, inflation, and deflation.

   c Singaporean Deputy Prime Minister and Minister of Finance, Lawrence Wong. Topics could include the economic recovery from the pandemic, inflation.

8. We will work to secure these bilateral engagements and provide additional briefing materials to you in a broader briefing pack for the APEC FMM.

Russia's invasion of Ukraine is causing tension within APEC

9. s6(a) [redacted]

10. We are working with the MFAT to mitigate any risks associated with participating in a forum that includes Russia while still promoting APEC's spirit of economic cooperation. Our mitigation measures include not participating in the traditional 'family photo' and no Ministerial bilateral participation with Russia unless directly relating to New Zealand's interests, and then only at Officials level.

11. We are consulting with likeminded economies on the drafting of the Joint Statement to ensure that our condemnation of Russia's illegal invasion is included in the text. While we will make every effort to secure a Joint Statement that represents New Zealand's interests, APEC operates on a consensus model, and it is unlikely that consensus will be reached.

12. If we cannot reach consensus on the Joint Statement, we will seek your agreement to be part of a side-statement with other likeminded APEC economies. We will provide you with further details if necessary.

Acting Ministers

13. For the period of your absence Hon Andrew Little has agreed to be Acting Attorney-General, Hon Kiritapu Allan has agreed to be Acting Minister for Environment, and Hon Stuart Nash has agreed to be Acting Minister for Oceans and Fisheries, and Acting Minister for Revenue.

Staffing

14. You will travel with one staff member from your office.

Cost of Travel

15. The estimated cost of this trip is $27,216. This will be charged to Vote: Internal Affairs: Members of the Executive – Travel, made up as follows:

Airfares and on-ground travel	$20,966
Accommodation: staff members only	$1,200
Other expenses, including transport and meals	$1,500
Contingency (15%)	$3,550
Total	**$27,216**

Next Steps

16. If you approve, the attached draft Cabinet Paper will be considered at Cabinet on Monday 3 October.

17. We are working to secure APEC FMM engagements and bilateral meetings, as well as the specific administrative details for your travel and stay in Bangkok and return to Wellington. We welcome your feedback on your priorities for the trip.

18. We will provide a briefing pack to support your attendance at FMM and any bilateral engagements that are secured.

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Recommended Action

We recommend that you:

a) **agree** to lodge the attached Cabinet Paper *draft Memorandum for Cabinet; Approval for Travel Hon David Parker* by **10am Thursday 29 September**.

Agree/disagree

b) **agree** to inform the Labour Party Whips of intention to travel and the dates of your departure and return.

Agree/disagree

c) **refer** to the Offices of the proposed Acting Ministers during your absence, Hon Andrew Little, Hon Stuart Nash and Hon Kiritapu Allan

Refer/not referred

Conor McBride
Manager, International Team

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Office of the Associate Minister of Finance

Cabinet committee

Approval for Travel: Hon David Parker

Proposal

1 I am seeking the approval of Cabinet for travel from New Zealand to Bangkok, Thailand on the 18 October 2022 and returning to Auckland on 22 October 2022.

Background

2 The purpose of this trip is to attend the Asia-Pacific Economic Cooperation (APEC) Finance Ministers' Meeting in Bangkok, Thailand.

3 I will attend the APEC Finance Ministers' Meeting, as part of the APEC Finance Ministers' Process (FMP). FMP has served as a forum for APEC member economies to address regional macroeconomic and financial policy issues and priorities. One of the main priorities of the FMP is to progress the Cebu Action Plan (CAP) and Aotearoa Plan of Action which aligns well with New Zealand's economic recovery approach post-COVID-19.

4 Our successful APEC host year in 2021 provides a significant opportunity to build on that experience to:

a) support the US in their priority selection for their 2023 host year
b) to promote the message that New Zealand is open for business
c) to support the reconnecting New Zealand initiative
d) and engage with our Asia-Pacific partners.

5 My programme will include representing New Zealand in the final drafting of the APEC Finance Ministers' Joint Ministerial Statement and bilateral engagements with Asia-Pacific counterparts and senior officials.

6 I will travel with one staff member from my office.

7 See the CabGuide section on human rights implications for information on the requirements for considering human rights issues when developing policy.

Costs

8 The estimated cost of this trip is $27,216. This will be charged to Vote: Internal Affairs: Members of the Executive – Travel, made up as follows:

Airfares and on-ground travel	$20,966
Accommodation: staff member only	$1,200
Other expenses, including transport and meals	$1,500
Contingency: (15%)	$3,550
Total	**$27,216**

9 The Prime Minister has approved the travel in-principle.

10 I will notify the Whips of my absence.

Acting Ministers

For the period of my absence the following Ministers will act in my portfolios:

a)	Attorney-General:	Hon Little
b)	Environment:	Hon Allan
c)	Oceans & Fisheries:	Hon Nash
d)	Revenue:	Hon Nash .

Recommendations

I recommend that Cabinet:

1 authorise my absence from New Zealand for travel to Thailand from 18 – 22 October 2022;

2 agree that I be accompanied by one staff member from my office;

3 approve the expenditure of 27,216 for travel expenses for myself and one staff member; as a charge to Vote: Internal Affairs: Members of the Executive – Travel; and

4 agree that in my absence the following ministers act in my portfolios: Hon Little (Attorney-General), Hon Allan (Environment), Hon Nash (Oceans & Fisheries), and (Revenue).

Authorised for lodgement

Hon David Parker
Attorney-General
Minister for the Environment
Minister for Oceans and Fisheries
Minister of Revenue
Associate Minister of Finance

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Airport Companies - 2022 Annual General Meeting Proxies

Date:	07 October 2022	**Report No:**	T2022/2078
		File Number:	CM-1-3-4-0

Action sought

	Action sought	Deadline
Acting Minister of Finance (Hon David Parker)	**Sign** the attached proxy forms for the Airport Companies' 2022 Annual General Meetings	17 October 2022
Minister for State Owned Enterprises (Hon Dr David Clark)	**Sign** the attached proxy forms for the Airport Companies' 2022 Annual General Meetings	17 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Kylie Kuan	Analyst, Commercial and Institutional Performance	s9(2)(k)	✓
Ann Webster	Manager, Commercial and Institutional Performance		

Minister's Office actions

Return the signed proxy forms and report to the Treasury.

Note any feedback on the quality of the report	

Enclosure:

CIAL 2022 AGM - Notice of AGM (Annex 1) (Treasury:4702475v1)
CIAL 2022 AGM - Proxy Form MOF (Annex 2) (Treasury:4702500v1)
CIAL 2022 AGM - Proxy Form MFSOE (Annex 3) (Treasury:4702503v1)
HBAL 2022 AGM - Notice of AGM (Annex 4) (Treasury:4702518v1)
HBAL 2022 AGM - Proxy Form MOF (Annex 5) (Treasury:4702520v1)
HBAL 2022 AGM - Proxy Form MSOE (Annex 6) (Treasury:4702528v1)
DIAL 2022 AGM - Notice of AGM (Annex 7) (Treasury:4702509v1)
DIAL 2022 AGM - Proxy Form MOF (Annex 8) (Treasury:4702513v1)
DIAL 2022 AGM - Proxy Form MSOE (Annex 9) (Treasury:4702517v1)

Treasury Report: Airport Companies - 2022 Annual General Meeting Proxies

Purpose of Report

1. This report requests that shareholding Ministers sign the attached proxy forms for the Annual General Meetings (AGMs) of Christchurch International Airport Limited (CIAL), Dunedin International Airport Limited (DIAL) and Hawke's Bay Airport Limited (HBAL) (together, the Airport Companies).

Background

2. The Crown holds a 25% shareholding in CIAL, and 50% shareholdings in DIAL and HBAL. The remaining shares of the Airport Companies are held by the respective councils, although through a holding company for DIAL and CIAL.

3. Under section 120 of the Companies Act 1993, the board must hold an AGM not later than 6 months after the balance date of the company (before 31 December 2022). As has been the case in previous years, the Treasury will attend the Airport Companies' AGMs and, if appointed as your proxies, can vote on behalf of shareholding Ministers to action the items on the agenda.

4. The Airport Companies' boards have called the following AGMs:

   - CIAL – 26 October 2022, 5.00pm at Christchurch International Airport,
   - HBAL – 31 October 2022, 10.00am at Hawke's Bay Airport, and
   - DIAL – 8 November 2022, 10.30am at Dunedin International Airport.

5. Notices of the AGMs of the Airport Companies are attached as Annexes 1, 4 and 7. The agenda of the meetings includes routine items such as:

   - Confirm the minutes of the 2021 AGM.
   - Adopt the 2021/22 annual report and financial statements.
   - Note any dividends declared.
   - Record the appointment of the auditor.

6. CIAL and DIAL do not have any further AGM agenda items. In addition to the above, HBAL's 2022 AGM agenda contains two further items:

   - To approve directors' fees. The Treasury understands that HBAL's Board has requested an increase in board fees. The Treasury will provide advice on this matter within the next two weeks for shareholding Ministers' consideration by end of October 2022, in time for the AGM. If we receive Ministers' decisions prior to HBAL's 2022 AGM, proxy holders will act in accordance with that decision. If we do not receive Ministers' decisions before the AGM, proxy holders will act in accordance with shareholding Ministers' previous agreement in 2019 to directors' fees (T2019/2233 refers).

   - To discuss any dividends for the 2021/22 financial year (FY22). We expect the discussion to be centred around HBAL's shareholders' expectations on dividend payments.

     - To increase HBAL's shareholder value in the medium- to long-term, HBAL aims to consider the need for investment following a period of capital expenditure project delays since the onset of COVID-19, as well as the desire for revenue diversification to ensure operational resilience.

  - As indicated by the Minister for State Owned Enterprises at our meeting with him on 29 September 2022, the aviation sector is forecasting better returns as borders internationally reopen and travel resumes. The Treasury proposes conveying to HBAL that shareholding Ministers expect HBAL to strike a balance between maximising shareholder value in the short-term (i.e., dividends) and the medium- to long-term (i.e., reinvestment for future growth), within an overall expectation that profitability and, therefore, returns and dividends, will increase to at least pre-COVID-19 levels.

7. We will express a similar expectation for profitability, returns and dividends to increase in line with the aviation industry's recovery to all Airport Companies in the FY23/24 Letters of Expectations to be sent by the end of the 2022 calendar year.

8. The proxy forms have been drafted as follows:

   - CIAL's proxy form does not allow shareholders to direct the proxy holder on how to vote. However, the Crown is a minority shareholder in CIAL and there are no substantive matters for shareholders to vote on.
   - HBAL's proxy form also does not allow for direction. There are additional agenda items to be discussed during HBAL's, as noted in paragraph six and included in the recommended actions.
   - DIAL's proxy form allows for shareholders to direct their proxy holders on how to vote.

Delegated proxies

9. The Minister of Finance and the Minister for State Owned Enterprises are equal shareholders of CIAL and HBAL with both Ministers required to sign the proxy forms. The Crown's shareholding of DIAL is in the name of Her Majesty the Queen, so the proxy can be signed by either the Minister of Finance or the Minister for State Owned Enterprises. For ease of execution of proxy forms, we have also provided two proxy forms for DIAL so that either Minister can return signed documents.

10. The proxy forms allow shareholding Ministers to appoint two proxy holders.

    - Treasury officials are the proposed primary proxy holders for all Airports Companies' AGMs.
    - If the Treasury officials are unable to travel to the AGMs, the Chairs of the Airport Companies are the proposed secondary proxy holders for CIAL and DIAL. Due to HBAL's agenda items on directors' fees and dividends, we have not proposed giving the Crown's secondary proxy to HBAL's Chair, so the secondary proxy holder is also proposed to be officials at the Treasury.

Results of financial year ended 30 June 2022

11. The highlights of the Airport Companies' performance for FY22 are as follows:

    - CIAL – passenger numbers were 31% below budget due to the extended Auckland lockdown over the first half of FY22, which led to a lower revenue of $139 million compared to budgeted revenue of $167 million. Net profit after tax (NPAT) was $37 million ahead of budget, primarily driven by the favourable revaluation of the investment property, land and buildings portfolio. CIAL has declared a dividend for FY22 of $2.8 million in line with its dividend policy.

- HBAL – passenger numbers were 25% below budget, also due to the extended Auckland lockdown. This led to lower revenue of $6.7 million compared to budgeted revenue of $7.9 million, and a small net loss of $0.7 million compared to a budgeted NPAT of $0.2 million. No dividends have been declared yet for FY22.
- DIAL – passenger numbers were 23% below budget, primarily driven by the same reason impacting CIAL and HBAL. This led to lower revenue of $13.4 million compared to budgeted revenue of $15.2 million, and an unfavourable NPAT of $0.7 million compared to a budgeted NPAT of $1.9 million. No dividends have been declared yet for FY22.

12. Although all Airport Companies' year-to-date revenues for FY22 were below budget, their revenues for the final quarter of FY22 exceeded budget, showing clear signs of recovery. The continued uncertainty around the recovery trajectory for international air travel and the capacity of airlines are key challenges for the Airport Companies in the next few years. However, as noted, with borders internationally reopening and travel resuming, better returns are forecast and should be expected from Airport Companies.

Recommended Action

We recommend that you:

a **agree** for HBAL's Annual General Meeting proxy holders to request HBAL to consider both short- and medium-term shareholder value through a balance between distributing dividends and reinvestment in the company, noting the improving outlook for air travel

Agree/disagree. Acting Minister of Finance	*Agree/disagree.* Minister for State Owned Enterprises

b **agree** for HBAL's Annual General Meeting proxy holders to confirm the rate of directors' fees consistent with Ministers' most recent decisions (advice yet to be provided in October 2022, or consistent with prior decisions made in T2019/2233)

Agree/disagree. Acting Minister of Finance	*Agree/disagree.* Minister for State Owned Enterprises

c **sign** the attached proxy forms for the Airport Companies' 2022 Annual General Meetings.

Agree/disagree. Acting Minister of Finance	*Agree/disagree.* Minister for State Owned Enterprises

Ann Webster
Manager, Commercial and Institutional Performance

Hon David Parker **Acting Minister of Finance**	Hon Dr David Clark **Minister for State Owned Enterprises**
_____/_____/_______	_____/_____/_______

PO Box 14001
Christchurch 8544
New Zealand
Telephone (+64 3) 358 5029

christchurchairport.co.nz

Notice of General Meeting

Notice is hereby given that the annual meeting of shareholders of Christchurch International Airport Limited will be held in the Aoraki Room, Level 4, Car Park Building, 30 Durey Road, Christchurch Airport on Wednesday 26 October 2022 commencing at 5.00pm.

BUSINESS

1. Apologies.
2. To record shareholders proxies.
3. To confirm and adopt the minutes of the annual meeting of shareholders held on 27 October 2021 which were approved by the Board at its meeting held on 29 November 2021 and to consider any matters arising from the minutes.
4. Chairman's Address.
5. Chief Executive's Report.
6. To receive and consider the Annual Report for the year ended 30 June 2022, including the financial statements and the Auditors' Report thereon.
7. To record the reappointment of Audit New Zealand pursuant to section 3B (3) of the Airport Authorities Act 1966 and section 196 of the Companies Act 1993 and to authorise the Board of the Directors to fix the remuneration of the Auditor for the ensuing year.
8. To transact any other business that may properly be brought before the meeting in accordance with the Constitution.

PROXIES

Any member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on any poll instead of the member. A proxy need not be a member of the Company.

Proxy forms must be lodged at the office of the Company, 4th Floor, Carparking Building, Christchurch International Airport not less than 48 hours prior to the time for holding the meeting.

A proxy form is enclosed.

By Order of the Board.

Lucy Taylor
General Manager Airfield Operations and Corporate Affairs
12 September 2022

PO Box 14001
Christchurch 8544
New Zealand
Telephone (+64 3) 358 5029

christchurchairport.co.nz

PROXY FORM

(Please Complete in Block Letters)

FULL NAME	We .... ACTING MINISTER OF FINANCE.............................
	Of .... WELLINGTON ....
	....
FULL ADDRESS	.... PARLIAMENT BUILDINGS ....
	.... WELLINGTON ....
	being a shareholder (or shareholders) of CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED, hereby appoint
FULL NAME OF PROXY	**KUAN KE XIAN (KYLIE KUAN)**
FULL ADDRESS OF PROXY	**1 THE TERRACE, WELLINGTON**
FULL NAME OF PROXY	or failing that person **CATHERINE DRAYTON, CHAIR**
	of **CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED**

As our proxy to vote for me on my behalf at the Annual meeting of the shareholders of Christchurch International Airport Limited to be held in the Aoraki Room, Level 4, Car Park Building, 30 Durey Road, Christchurch Airport, on Wednesday 26 October 2022 commencing at 5.00pm and at any adjournment of the meeting.

DATE	**SIGNED THIS**	**DAY OF**	**2022**

SIGN HERE ....

(usual signatures)

....

PO Box 14001
Christchurch 8544
New Zealand
Telephone (+64 3) 358 5029

christchurchairport.co.nz

PROXY FORM

Please Complete in Block Letters)

FULL NAME	We .... MINISTER FOR STATE OWNED ENTERPRISES...........
	Of .... WELLINGTON ....
	....
FULL ADDRESS	.... PARLIAMENT BUILDINGS ....
	.... WELLINGTON ....
	being a shareholder (or shareholders) of CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED, hereby appoint
FULL NAME OF PROXY	**KUAN KE XIAN (KYLIE KUAN)**
FULL ADDRESS OF PROXY	**1 THE TERRACE, WELLINGTON**
FULL NAME OF PROXY	or failing that person **CATHERINE DRAYTON, CHAIR**
	of **CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED**

As our proxy to vote for me on my behalf at the Annual meeting of the shareholders of Christchurch International Airport Limited to be held in the Aoraki Room, Level 4, Car Park Building, 30 Durey Road, Christchurch Airport, on Wednesday 26 October 2022 commencing at 5.00pm and at any adjournment of the meeting.

DATE	**SIGNED THIS**	**DAY OF**	**2022**

SIGN HERE ....

(usual signatures)

....

Hawke's Bay Airport Ltd

Notice of Annual General Meeting

Notice is hereby given that the 2022 Annual General Meeting of Hawke's Bay Airport Ltd will be held at 10:00 a.m. on Monday 31 October 2022,
in the **Terminal Boardroom,** Hawke's Bay Airport,
for the purposes detailed below.

1. To approve the Minutes of the 2021 Annual General Meeting held on Tuesday 2 November 2021

2. To receive and discuss the Annual Reports of the Directors and the Auditor and the Financial statements for the year ended 30 June 2022.

3. To discuss any Dividend to Shareholders for the FYE 30 June 2022.

4. To approve the Directors Fees

5. To appoint the Auditor General as its Auditor in accordance with the Public Audit Act 2001 to hold office until the conclusion of the next annual meeting, and to audit the financial statements of the Company.

6. General Business

Rob W Stratford

Rob Stratford
Chief Executive
Hawke's Bay Airport Ltd

PROXY FORM

(For use if you are unable to attend the Annual meeting and must be received by Hawke's Bay Airport Ltd no later than 48 hours prior to the meeting).

I/We ACTING MINISTER OF FINANCE

PARLIAMENT BUILDINGS, WELLINGTON

being a shareholder/shareholders of **Hawke's Bay Airport Limited** hereby appoint

Name KUAN KE XIAN (KYLIE KUAN)

of THE TREASURY, WELLINGTON

or, failing him/her SIMON WI RUTENE

of THE TREASURY, WELLINGTON

as my/our proxy to exercise my/our vote at the annual meeting of **Hawke's Bay Airport Limited** to be held on **Monday 31 October 2022** at **10:00am** and at any adjournment of that meeting.

* If you wish, you may appoint as your proxy 'The Chairman of the Annual meeting'. Unless otherwise instructed, the proxy will vote as he or she thinks fit.

Signed

PROXY FORM

(For use if you are unable to attend the Annual meeting and must be received by Hawke's Bay Airport Ltd no later than 48 hours prior to the meeting).

I/We MINISTER FOR STATE OWNED ENTERPRISES

PARLIAMENT BUILDINGS, WELLINGTON

being a shareholder/shareholders of **Hawke's Bay Airport Limited** hereby appoint

Name KUAN KE XIAN (KYLIE KUAN)

of THE TREASURY, WELLINGTON

or, failing him/her SIMON WI RUTENE

of THE TREASURY, WELLINGTON

as my/our proxy to exercise my/our vote at the annual meeting of **Hawke's Bay Airport Limited** to be held on **Monday 31 October 2022** at **10:00am** and at any adjournment of that meeting.

* If you wish, you may appoint as your proxy 'The Chairman of the Annual meeting'. Unless otherwise instructed, the proxy will vote as he or she thinks fit.

Signed

NOTICE OF MEETING

Notice is hereby given that the Thirty Second Annual General Meeting of shareholders of Dunedin International Airport Limited (formally Dunedin Airport Limited) will be held on **Tuesday 8 November 2022** in The Flagstaff Conference Room at The Dunedin Airport, Dunedin at **10.30am**. Online meeting link to be provided for Shareholders impacted by New Zealand's COVID-19 travel restrictions.

ORDINARY BUSINESS

1. To confirm the minutes of the Thirty Second Annual General Meeting held on 5 November 2021.

2. To receive, consider and adopt the Annual Report and Financial Accounts for the year ended 30 June 2022 and report of the auditors thereon.

3. To note the Directors recommendation of a fully imputed final dividend.

4. To record the re-appointment of the Auditor General as Auditor.

GENERAL BUSINESS

5. To transact any other business that may be properly brought before the meeting.

NOTE

- A member of the Company entitled to attend and vote may appoint a proxy to attend and vote instead of him/her.

- A proxy need not be a member of the Company.

- A proxy form is enclosed. Proxy forms must be deposited not less than 48 hours before the time of holding the meeting.

By Order of the Board

Chris Cope
GM Commercial

INSTRUMENT APPOINTING A PROXY

I/We, Acting Minister of Finance of Parliament Buildings, Wellington

being a shareholder of DUNEDIN INTERNATIONAL AIRPORT LIMITED hereby appoint

Name of Proxy Kuan Ke Xian (Kylie Kuan) of The Treasury, Wellington

or failing him/her Shane Ellison, Acting Chair of Dunedin International Airport Limited

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting to be held on **Tuesday 8 November 2022** commencing at **10.30am** or any adjournment thereof.

<u>RESOLUTIONS</u>

ORDINARY BUSINESS

	For	**Against**
1. To confirm the minutes of the Thirty Second Annual General Meeting held on 5 November 2021.	☐	☐
2. To receive, consider and adopt Annual Report and Financial Accounts for the year ended 30 June 2022 and report of auditors thereon.	☐	☐
3. To note the directors recommendation of a fully imputed dividend.	☐	☐
4. To record the re-appointment of the Auditor General as Auditor.	☐	☐
General Business 5. To transact any other business that may be properly brought before the meeting.	☐	☐

Date:

Signed:

Note: This instrument appointing a proxy must be deposited at the Registered Office of the Company not later than 48 hours prior to the Annual General Meeting.

INSTRUMENT APPOINTING A PROXY

I/We, Minister for State Owned Enterprises of Parliament Buildings, Wellington

being a shareholder of DUNEDIN INTERNATIONAL AIRPORT LIMITED hereby appoint

Name of Proxy Kuan Ke Xian (Kylie Kuan) of The Treasury, Wellington

or failing him/her Shane Ellison, Acting Chair of Dunedin International Airport Limited

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting to be held on **Tuesday 8 November 2022** commencing at **10.30am** or any adjournment thereof.

<u>RESOLUTIONS</u>
ORDINARY BUSINESS

	For	Against
1. To confirm the minutes of the Thirty Second Annual General Meeting held on 5 November 2021.	☐	☐
2. To receive, consider and adopt Annual Report and Financial Accounts for the year ended 30 June 2022 and report of auditors thereon.	☐	☐
3. To note the directors recommendation of a fully imputed dividend.	☐	☐
4. To record the re-appointment of the Auditor General as Auditor.	☐	☐
General Business 5. To transact any other business that may be properly brought before the meeting.	☐	☐

Date:

Signed:

Note: This instrument appointing a proxy must be deposited at the Registered Office of the Company not later than 48 hours prior to the Annual General Meeting.

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2176

Date: 6 October 2022

To: Acting Minister for State Owned Enterprises (Hon Dr Megan Woods)

Deadline: Review prior to event on 11 October 2022

Aide Memoire: Event Briefing for Opening of New Zealand Post Limited's Wellington Super Depot

You will be attending and speaking at the event to celebrate the opening of New Zealand Post Limited's (NZ Post's) Wellington Super Depot (WSD) on 11 October 2022. This briefing provides you with details of the event. It also provides background information on NZ Post and its capital investment programme, 'Te Iho', of which the WSD is a part.

Event Details

The event will take place from 3:00pm to 4:00pm on 11 October 2022, at the Wellington Super Depot on 8 Carmel Terrace, Grenada Village, Wellington.

Formal speeches are scheduled for 3:20pm, after the pōwhiri. There will be two speeches, the first coming from David Walsh, CEO of NZ Post. Your speech will be the second. A draft speech for your consideration is attached in Appendix Three.

The speeches will be followed by a kapa haka performance, kai and refreshments, and a site tour. A full agenda is provided in Appendix Two.

Background on NZ Post

NZ Post is a New Zealand based delivery and eCommerce logistics company, with global reach. Over the past several years NZ Post's focus has been on growing its Parcels business, which is a high growth and high competition segment. At the same time, it has been trying to minimise losses in its Mail business, which is facing structural decline.

Growth in this environment requires significant investment. NZ Post plans to use some of the proceeds from the sale of Kiwi Group Holdings Limited (KGH) to fund this growth. The NZ Post board is still to decide on the final retention amount, but company management has indicated to the Treasury that it plans to initially retain $400 million from the sale of KGH. The balance of funds received from the KGH share sale is expected to be paid to the Crown as a fully-imputed special dividend. The board plans to make a distribution decision at its November 2022 board meeting.

As noted in previous advice, s9(2)(g)(i) NZ Post has agreed to review its capital structure every six months, and to return any excess capital to the Crown.

Background on Te Iho Programme

To strengthen its position in the parcels industry, NZ Post has initiated a capital investment programme, Te Iho, which is building several state-of-the-art facilities and investing in information capabilities. The WSD is part of the Te Iho programme.

The Te Iho programme was initiated in 2019. It aims to invest in NZ Post's network infrastructure to bring efficiencies and ensure NZ Post can take advantage of the growing eCommerce sector in New Zealand. The latest forecast cost of the Te Iho programme is s9(2)(b)(ii)

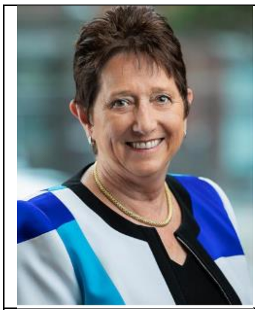
There are two Te Iho sites being commissioned in 2022, the WSD and the Christchurch Processing Centre which opened in August 2022. The Auckland Processing Centre will open in 2023.

The WSD is a central processing hub which is linked to satellite depots around the region with vans closer to customers, helping to improve last mile delivery. At capacity, the WSD can process a peak volume of more than 9,000 parcels per hour. The improved capacity provided by the WSD will improve NZ Post's ability to provide parcel fulfilment to Wellington region customers.

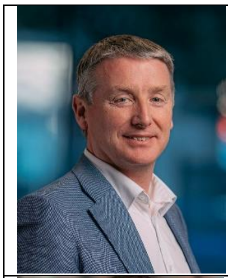
Eru Pomare, Analyst, Commercial and Institutional Performance, s9(2)(k)
Andrew McLoughlin, Principal Advisor, Commercial and Institutional Performance, s9(2)(g)(ii)

Appendix One: Key Attendees

NZ Post Board:

	**Carol Campbell, Acting Chair, NZ Post Group** Carol Campbell is the interim chair for NZ Post, since Rodger Finlay stepped down from the board in order to manage a perceived conflict of interest when he took up his position on the board of RBNZ. Carol has been a director of NZ Post since May 2012 and is expected to retire from the board this year.
	**Simon Clarke, Director, NZ Post Group** Simon Clarke has been a director since November 2021 and his current term goes through to 30 April 2024.

NZ Post Executive Leadership Team:

	**David Walsh, CEO, NZ Post Group** David Walsh has been with NZ Post since February 2015 and has been the CEO since May 2017. Prior to NZ Post, David held senior roles at KiwiRail, NZ Racing Board, and Fonterra.
	**Brendon Main, COO, NZ Post Group** Brendon joined NZ Post in December 2017 and has been the COO since October 2020. Previously he held positions with Auckland Transport and Air New Zealand.
	**Andrew Russell, Acting Chief Data and Technology Officer, NZ Post Group** Andrew joined NZ Post in 2012 and has held a variety of leadership roles during that time.

IN-CONFIDENCE

	**Rhonda Richardson, CFO, NZ Post Group** Rhonda joined NZ Post as the CFO in November 2020. She has experience working at Chorus NZ, Spark, and The Treasury.
	**Malcolm Shaw, Chief Governance and Sustainability Officer, NZ Post Group** Malcolm joined NZ Post in 2000 and has provided leadership across a range of corporate areas since then.

Local MPs:

Appendix Two: Agenda

Time	Summary	Who	Notes
Pōwhiri and whaikōrero– *group gathers outside and is called onto site. Please do not enter until you are formally called on.*			
2.45pm 3.00pm	*Ngāti Toa arrive on-site and gather inside ready to karanga manuhiri (all guests including NZ Post staff). Seats will be set out at the front facing manuhiri.* Manuhiri (guests) called on-site (karanga) by Ngāti Toa. Manuhiri to file in and be seated at seats closest to door facing Ngāti Toa. Mihi and whaikōrero from Taku Parai Waiata tautoko: He Honore Mihi and whaikōrero response (Ngāti Toa) Waiata tautoko: Te Aroha Karakia: Taku Parai Koha to Ngāti Toa	Ngāti Toa Dave Walsh	
3.25pm	**Formal speeches** Welcome from Dave Walsh, Chief Executive Waiata tautoko— Tukurau Aotearoa Minister Megan Woods address Waiata tautoko— Hutia te rito	Dave Walsh Lavinia Winter and Te Hononga Minister Woods Lavinia Winter and Te Hononga	
3.35pm	**Aotea College Kapa Haka** Special performance from Aotea College Kapa Haka group Koha	Aotea College Dave Walsh	
Refreshments and meet and greets			
3.45pm	Blessing of Kai Enjoy kai and refreshments	Full group	
Site tour—*attendees may choose to go on tour*			
3.50pm	Group tour of the site with local leads—look at MHS, key features	Full group led by Povey, Richard and/or Ops leads	

Appendix Three: Speech

Tēnā koutou e ngā maata waka

Greetings to all people from all backgrounds

Ko Megan Woods ahau, Minita o te Karauna.

Tēnā koutou i runga i te kaupapa o te Rā

No reira, tēnā koutou, tēnā koutou, tēnā tatou katoa

It's wonderful to be here at the opening of this New Zealand Post 'super depot'.

I would like to thank Carol Campbell, Acting Chair of NZ Post, and David Walsh, Chief Executive, for the invitation to speak here today.

This is quite a project.

It is one of two for completion this year including an upgrade to the Southern Operations Centre in Christchurch, plus a new processing centre at Wiri in Auckland next year as part of the State-Owned Enterprise's investment of over $200 million in new and upgraded infrastructure.

As you can see, this facility is impressive, and the construction has been a boon for the regional economy during a couple of years that we have all found challenging.

I note that the project-build employed around 350 people through 60 sub-contractors, which has got to be good for the region.

Then there is the ongoing employment of staff for NZ Post to keep things moving for New Zealanders.

A lot has happened in the past couple of years as a result of the COVID pandemic; in just the *first two weeks* of Alert Level 3, NZ Post received over 3.5 million parcels to deliver

Behaviour has changed.

And NZ Post has anticipated this, and prepared for it. This facility is a great example of how; it represents a significant investment into the latest technology and processing solutions to sort and scan parcels at a much faster rate.

Customers will have greater visibility of where their orders are in the chain, which is good for both individuals and businesses.

This is an investment that modernises service delivery, it provides opportunities to grow the economy by driving innovation, supports new job creation, and ultimately builds a more resilient and more sustainable future.

Congratulations New Zealand Post on this fantastic new facility.

Ngā mihi nui, thank you.

ENDS

In-Confidence

Reserve Bank Financial System Roundup

To	Hon Grant Robertson, Minister of Finance	Date	06/10/2022
Authorised by	Kerry Watt, Director of Financial Stability Assessment & Strategy	**Report no**	#5971
Prepared by	Patrick Carvalho, Jibran Siddiqi	**Security**	In confidence

Action Sought

Action sought	Deadline
Please note the attached briefing	

Reserve Bank Contact for Telephone Discussion (if required)

Name	Position	Telephone
Chris McDonald	Manager, Financial System Analysis	s9(2)(a)

In-Confidence

Actions for the Minister's Office Staff

Note any feedback on the quality of the report.

Recommendation

1. It is recommended that you:

    a) Note the attached briefing

Hon Grant Robertson

Minister of Finance

Kerry Watt

Director of Financial Stability Assessment & Strategy

Reserve Bank of New Zealand - Te Pūtea Matua

06/10/2022

Reserve Bank of New Zealand
Te Pūtea Matua

Financial System Roundup

06 October 2022

For further information, contact:

Chris McDonald, Manager of Financial System Analysis, RBNZ Chris.McDonald@rbnz.govt.nz

Update from FSR Bank Liaison Meetings

- The key trends and emerging risks that were identified in our latest round of bank liaison meetings were rising interest rates, low unemployment rates, high inflationary pressures, and the housing market downturn.
- Overall loan growth has continued to slow owing to a marked decrease in mortgage applications, and continued weakness in agricultural and personal consumer lending. This has helped to narrow the gap between deposit growth and lending growth, reducing the need to raise wholesale funding.
- On funding conditions, wholesale markets have become more volatile in the past six months, owing to uncertainty around the inflation outlook, the response of central banks, the war in Ukraine, and idiosyncratic factors specific to the institution.

Global Financial Market Developments

- High inflation, tightening monetary policy, and slowing consumer demand have weighed on the outlook for global growth, particularly in China and the Euro area.
- Financial markets remain attuned to inflation outturns with stronger-than-expected results weighing on risk sentiment, as they imply central banks may have to further tighten policy to lower inflation. Hence, risk sentiment continues to deteriorate.
- Markets expect RBNZ to raise OCR by 50bps in October and November meetings to end 2022 at 4%, and peak at 4.75% around the middle of next year.

Financial Stability Developments

In this month's report we provide an overview of our recent liaison programme with the five largest banks. These meetings covered emerging the trends impacting credit conditions as well as bank funding and other lending developments. Our discussions generally involved bank treasurers, heads of credit risk management, and heads of product divisions.

The findings from these meetings contribute to our assessment of the risks to the financial system, which will be outlined in our next Financial Stability Report due to be published on 2 November 2022.

Key trends and emerging risks

Rising interest rates

Tightening in monetary policy domestically and overseas, and expectations of further tightening, have driven lending rates materially higher from 6 months ago. In addition, bank funding costs have increased as a result of competition for deposits and reduced sentiment for risk in offshore wholesale markets. Higher lending rates and serviceability test rates have dampened credit growth, among other factors.

Low unemployment rate

The labour market is very tight. Firms generally face high wage pressures and many sectors are experiencing a shortage of staff, exacerbated by illnesses. However, the strong labour market is supporting households' debt serviceability, meaning arrears and defaults have remained low despite the increase in interest rates.

Cost pressures

The inflationary environment continues to raise business costs, in addition to higher debt servicing costs. Firms continue to face higher costs for fuel, materials and services. Most firms have been able to adapt to supply chain disruptions and pass on costs to maintain their margins. Uncertainty around the outlook for costs and demand have dampened investment intentions, although lending for working capital remains robust.

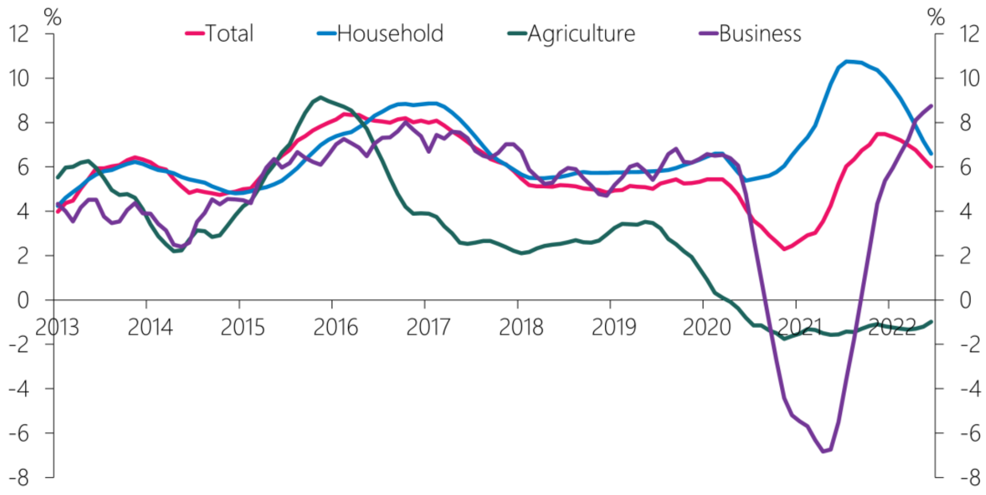
Housing market downturn

Residential mortgage demand has fallen, owing to the decline in housing demand, as well as tighter serviceability requirements around interest rates and expenses. The CCCFA guidelines remain a constraint on lending, despite some easing recently. Negative equity is modest at this stage, and rising interest rates have not yet led to borrower stress. Amid ongoing construction cost inflation and declining loan serviceability, buyer demand for off-the-plan house purchases (presales) has fallen considerably. There are major downside risks for residential construction once current pipelines are completed.

Sectoral lending developments

Overall loan growth has continued to slow owing to a marked decrease in mortgage applications, and continued weakness in agricultural and personal consumer lending.

Figure 1: New Zealand banks' lending growth by sector



Source: RBNZ *Bank Balance Sheet survey*.

The **demand for residential mortgages** has continued to decline since the March quarter, from their peaks in 2021 and even compared to 2019 levels. The slowdown is broad-based, across all types of buyers and most regions. Contributing factors to soft mortgage demand include higher interest rates, lingering CCCFA impacts, and low confidence.

Personal consumer lending remains on a trend decline across banks. Non-bank lenders and buy-now-pay-later schemes are becoming more active, and posing a competitive challenge to banks. Credit card usage appears to be in decline among both households and businesses.

On **residential development**, the pipeline of residential development projects is reducing. The downturn in the housing market and cost pressures in construction have led to buyers perceiving high risk in purchasing off the plans. Developers are not getting significant pre-sales, with anecdotes of presales falling around 80% on 2021 levels. As a result, residential developers are struggling to get finance from banks, due to inability to meet the pre-sale requirements.

Business lending growth has recovered to around pre-COVID levels. However, there is a divide in credit demand between small and large businesses. Demand for lending from small businesses has been low and steady. Demand from larger corporates with sizable exposures has been relatively high. Credit demand is driven by working capital needs, as businesses deal with cost escalation, staff turnover and lingering supply chain bottlenecks.

Commercial property developments have been mixed across sectors. Industrial sites have been performing well, driven by strong post-COVID demand from the logistics industry and flow on effects from supply disruptions. Vacancy rates for industrial properties are exceptionally low at less than one percent and yields are high. The performance of office properties has been mixed across different quality grades, while demand for retail properties has been subdued resulting in higher vacancy rates.

On agricultural lending, deleveraging and diversification by banks have reduced banks' exposures to the dairy sector in recent years. However, banks are looking to grow their dairy book again by on-boarding new customers, owing to the improvement in farmers' balance sheets and credit quality in general.

Bank funding conditions

Slower loan growth has helped to narrow the gap between deposit growth and lending growth, reducing the need for wholesale funding. This has limited the impact of more volatile conditions in wholesale funding markets on bank funding in the past six months. Volatility has been the result of uncertainty around the inflation outlook, the response of central banks and the war in Ukraine. In general, offshore funding markets have become more expensive. That said, interest in high-quality issuance remains high and market liquidity and pricing have been reasonable.

The Funding for Lending Programme (FLP) has been helpful as a backstop against volatility in the funding markets. Banks are generally not concerned with its removal at this stage. The end of FLP in December is expected to increase competition for term deposits.

Rising interest rates are incentivising savers to move back into term deposits from transaction and on-call savings accounts. This has increased banks' retail funding costs, because term deposits earn higher rates of interest than call accounts. However, higher spreads on call accounts and reduced liquid asset requirements help to offset costs.

Financial Market Developments

Global growth slowdown continues, inflation remains high

High inflation, tightening monetary policy, and slowing consumer demand have weighed on the outlook for global growth, particularly in China and the Euro area. Euro area growth forecasts have been downgraded for the next year, in large part as the area navigates an energy crisis due to a reduction in natural gas flows from Russia. The outlook for China remains highly uncertain: consensus growth forecasts for next year have been revised lower, reflecting slowing domestic consumption, property sector stress, and the impact of COVID-19 lockdowns.

The pace of headline inflation in the US, UK, and Canada has receded slightly, but continues to rise in the EU. Core inflation remains high.

Central banks maintain a proactive policy stance to lower inflation

High inflation has led central banks to increase the pace of tightening. Most recently, the US Federal Reserve (Fed) lifted its policy rate by 0.75% to 3.25%. The Fed's next policy decision is on 2nd November, and markets are expecting it to raise the policy rate by another 0.75% to 4.0%. The European Central Bank (ECB) also lifted its policy rate by 0.75% at its September meeting, while the Reserve Bank of Australia increased its policy rate by 0.5%. Both central banks reiterated their commitment to doing what is necessary to bring inflation back to their respective targets.

Risk sentiment remains weak, USD continues to strengthen

Financial markets remain attuned to inflation outturns with stronger-than-expected results weighing on risk sentiment, as they imply central banks may have to further tighten policy to lower inflation. Risk sentiment continues to deteriorate, with US stocks 4.5% lower over the month with a corresponding increase in volatility. Sovereign yields have increased, with the US 2-year sovereign yield up 0.68% to 4.18%, and the US 10-year sovereign yield up 0.58% to 3.77%.

US Dollar (USD) strength has been a theme throughout the year: The USD index has appreciated 2% over the month, and 16% over the year to reach its highest level since 2002. USD strength has placed significant downward pressure on other currencies, leading Japan to intervene in currency markets for the first time since 1998 to support the Japanese Yen (JPY).

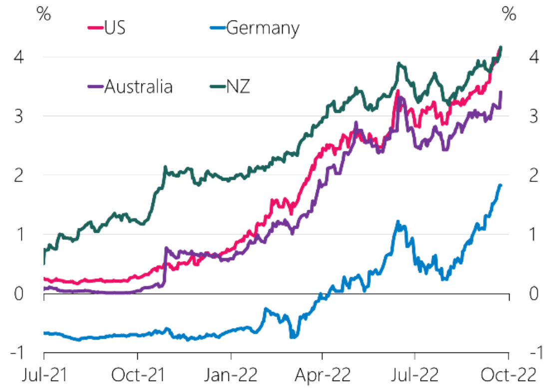
UK government's fiscal stimulus plan sparks market volatility

Financial markets became very volatile after the UK government announced a fiscal stimulus plan which included a 45 billion British Pound (GBP) tax cut financed by issuing debt, raising concerns about the UK government's cost of borrowing. The plan would likely increase inflationary pressure, requiring the Bank of England (BoE) to further tighten monetary policy. Market reaction to the plan was a sharp decline in the GBP, which reached an all-time low versus the USD. UK bond yields spiked, with the 5-year yield increasing by 1%. Markets remained turbulent until the BoE stepped in to address disorderly market conditions with purchases of long-dated UK sovereign debt.

Markets expect RBNZ to raise OCR by 0.5% in October and November meetings

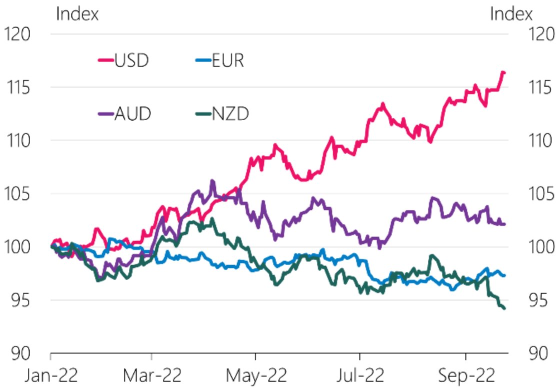
The RBNZ next OCR decision is on Wednesday 5th October. As of 30th September market expectations are for the RBNZ to increase the OCR by 0.5% in October to 3.5%, followed by another 0.5% in November to 4.0%. Markets are expecting the OCR to reach 4.75% around the middle of next year.

Figure 1: 2-year sovereign yields



Source: Bloomberg

Figure 2: Currency indices



Source: Bloomberg. Index: 1-Jan-22 = 100.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Education Payroll & Network for Learning: Director Fee Approval for 2022/2023

Date:	6 October 2022	**Report No:**	T2022/1844
		File Number:	CM-0-3-28

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Note** and **agree** recommendations	As soon as practicable
Hon Chris Hipkins **Minister of Education**	**Note** and **agree** recommendations and **sign** the letter approving board fees for 2022/2023	As soon as practicable

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Simon Wi Rutene	Senior Advisor, Governance and Appointments	s9(2)(k)	s9(2)(g)(ii)	✓
Stella Kotrotsos	Acting Manager Governance and Appointments			

Minister's Office actions (if required)

Return the signed report to Treasury.

Send the signed letter to the chairs, with a copy to the companies and to Treasury

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Treasury Report: Education Payroll & Network for Learning: Director Fee Approval for 2022/2023

Purpose of Report

1. This report addresses the formal approval required for the Education Payroll Ltd (EPL) board and Network for Learning (N4L) board for 2022/2023 fees (including professional development budget).

2. You are asked to approve special fees for EPL and professional development budget requested by the EPL and N4L boards.

Background

3. EPL and N4L are Crown companies named in Schedule 4A of the Public Finance Act 1989. Accordingly, EPL's and N4L's fees have been determined on the basis of the Crown Company Fees Methodology initially approved by Cabinet in December 2003 and updated in 2013.

4. The fees approval is essentially a mechanical issue, as the amounts are prescribed by the fee-setting methodology and are a function of the number of directors on a board. The Chair allowance is twice the unit rate, and the Deputy Chair allowance is 1.25 times the unit rate.

5. Once the total pool of fees is approved, it is the board's prerogative to determine the allocation of 'ordinary fees' to individual directors.

Special fees requests

6. Boards may seek approval to pay directors 'Special fees'. There are no set criteria for what constitutes 'Special fees', but the Treasury's Owners Expectations document sets out that approval must be sought in advance, and they are considered only where directors are required to contribute time over and above what would be considered an ordinary commitment, and where the company has provided appropriate justification.

7. The Treasury considers that payment of Special fees for additional work or other exceptional circumstances does not constitute a fee increase, so where these are justified, we consider they can be approved, notwithstanding the pay restraint across the State Sector.

Education Payroll Ltd

8. In 2021/2022 you agreed to a special fee of $55,728 to be used as a 50% uplift in directors ordinary fees based on a unit rate of $18,576 per annum (Annex I)

9. On 29 May 2022 you agreed to an increase in fees for the EPL board to $24,634 per director per annum with the chair at twice this rate ($49,268) from 1 July 2022 [*T2022-939 refers*].

10. The chair was not notified of this increase and in August 2022 requested a special fee equivalent to 2021/2022 of $55,728 to again be used as a 50% uplift in directors ordinary fees on the previous unit rate of $18,576 per annum (Annex II) and maintain directors fees in recognition of the continued workload on the oversight and delivery of EPDP 20B.

11. Directors submit quarterly invoices, with the July to September quarter invoices submitted on the basis of the existing 2021/22 fees and special fee.

12. Consequently, if payment of the first quarter fees invoiced and paid are on this basis the following issues arise:

    i. the 2022/23 approved ordinary board fees (without the provision of a special fee), of $24,634 (chair $49,268) applying from 1 July 2022 [*T2022/973 refers*], is lower than last years combined fees which will result in a total overpayment to EPL directors of $4,845 for the quarter as at 1 October 2022.

    ii. if no special fee is approved in 2022/23 to maintain total director remuneration at the previously agreed level for the additional commitment to the core payroll upgrade, EPDP 20B there is increased risk for EPL as it still faces a considerable increase in capability and capacity in order to deliver on the EPDP work programme.

13. To ensure that EPDP 20B (issue (ii)) continues in line with Ministers' expectations, the preferred option is to approve a special fee commensurate with time over and above what would be ordinarily required. The ongoing responsibilities and additional workload of directors to provide expert advice, guidance and oversight of the delivery of the EPDP work programme was a matter brought to your attention in the Office of Auditor General's 5 April 2022 letter. As a result of this, it is not recommended that the option of not approving a special fee for 2022/23 is considered.

14. To mitigate the overpayments (issue (i)) resulting from any continued payment, into the first quarter of the 2022/23 financial year, based on the 2021/22 fees approval, a practical option is to approve a new reduced special fee rate of $19,380 backdated to 1 July 2022. As the base fees approval is already in place this maintains the annual directors fees at the same rate as they were in 2021/22 in recognition of the additional EPDP work programme responsibilities and workload.

15. In light of issues (i) and (ii), and the options above to address the matters raised by them, Treasury recommends Ministers:

    - approve a special fee of $19,380 in recognition of the ongoing responsibilities and additional workload of directors to provide expert advice, guidance and oversight of the delivery of the outstanding EPDP 20B component backdated to 1 July 2022.

    - This preserves the total directors fees for the 2022/23 year at the same rate as that of the 2021/22 year while the additional work for EPDP 20B continues.

Total Directors Fees per year				
	2022 / 23		**2021 / 22**	
	Chair	**Director**	**Chair**	**Director**
Base Fee	49,268	24,634	37,152	18,576
Special Fee	6,460	3,230	18,576	9,288
Total Fees	**55,728**	**27,864**	**55,728**	**27,864**

Network for Learning Ltd

16. N4L is not seeking a Special Fee in the 2022/23 Financial Year.

Professional Development 2022/2023

17. Professional development is carried out in the context of a specific board role, but it also has an element of personal benefit, hence the need for Ministerial approval. This is an ‘up to’ budget – our records show the boards do not usually spend the full allowance.

18. The boards have requested approval for professional development budgets as noted below. The requested amounts for directors’ professional development are within the range expected, and we recommend your approval.

Education Payroll Ltd

19. EPL has requested approval of a budget up to $10,000 for professional development. The budget will be targeted at having the Institute of Directors undertake a board evaluation, along with general ongoing maintenance of the boards director’s knowledge for the next financial year.

Network for Learning Ltd

20. N4L has requested approval of a budget up to $21,000 for professional development. The budget is for 7 directors targeted at the ongoing maintenance of the boards director’s knowledge as well as supporting several new director’s induction over the next financial year.

Financial Implications

21. In relation to EPL the approval of up to $19,380 special fee combined with the 2022 increase in ordinary fees from $18,576 to $24,634 (from 1 July 2022) is in essence the same amount (gross) approved in 2021/22.
22. There are no direct financial implications for the Crown, as all Crown company directors’ fees are paid directly from company revenues.

Consultation

23. As fees for the boards of Crown owned companies are not governed by the Cabinet Fees Framework there is no requirement to consult with the Public Service Commission.

Risks

24. s9(2)(g)(i) [redacted]

25. [redacted]

26. s9(2)(g)(i) [redacted]

Next Steps

27. The Companies Act 1993 and the constitutions of Crown companies require board fees to be approved by shareholding Ministers.

28. You are asked to sign and send the attached letters approving the directors' fees for Education Payroll and Network for Learning for 2022/23 as soon as possible.

Attached Document

29. Attached to this report are the following documents:

- Annex I: 2021/2022 fee approval letter
- Annex II: Letter from EPL Chair re Special Fees
- Annex III: Approval letter to the Chair of Education Payroll
- Annex IV: Approval letter to the Chair of Network for Learning

Recommended Action

We recommend that you:

a. **agree** to pay Special fees in 2022/23 to Education Payroll ($19,380)

Agree/disagree	*Agree/disagree*
Minister of Finance	**Minister of Education**

b. **agree** to the Minister of Education signing the attached letters on behalf of both shareholding Ministers to the Chairs of the companies, approving their board fees and professional development budgets for 2022/23

Agree/disagree	*Agree/disagree*
Minister of Finance	**Minister of Education**

Stella Kotrotsos
Manager Governance and Appointments

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Chris Hipkins
Minister of Education

_____/_____/_______

Hon Chris Hipkins

MP for Remutaka

Minister for COVID-19 Response
Minister of Education
Minister for the Public Service

Leader of the House

Sandi Beatie
Chair
Education Payroll Ltd
PO Box 12-141
WELLINGTON 6144

By email: s9(2)(a)

Dear Ms Beatie

Education Payroll Ltd (EPL): Board Fees 2021/22

In this letter I am conveying the approval of shareholding Ministers to the Board fees for EPL for 2021/22.

This approval is based on the current director fee rates set under the Crown Company Director Fees Methodology. The amount approved is $167,185, based on there being five directors on the Board and includes $55,728 in special fees as detailed below. The fees are based on a unit rate of $18,576 per annum.

EPL Board Fees Approval – 2021/22

Ordinary fees	Amount
Chair	$37,152
Directors (x4)	$74,304
Special fees	
Directors being paid a 50% uplift in their ordinary fees	$55,728
Total	**$167,200 (rounded)**

Notwithstanding the method of calculation, it remains the Board's prerogative to determine the allocation of 'ordinary fees' to individual directors. For the avoidance of doubt it is expected that fees for vacant Board positions will be excluded from any allocation of the pool of director fees.

Approval is also given to a budget of up to $10,000 for board professional development.

Special fees

You have requested an extension of special fees of up to $55,728 to enable directors to be paid a 50% uplift in their ordinary fees, in recognition that EPL faces a considerable increase in capability and capacity in order to deliver on the EPDP work programme.

The fees are to be used for directors' governance oversight of the EPDP if it involves time over and above what would be ordinarily required.

This approval is given on the basis that the special fees will be used only for the purpose specified. I expect that you will have a system in place to record the additional duties performed, and that an appropriate record will be kept at Board level of the allocation of the special fees.

All fees, and any other payment or reimbursement to directors, should be paid in accordance with the Directors Fees and Reimbursement Guidelines annexed to the Owner's Expectations document issued in 2020 (available on the Treasury website).

Yours sincerely

Hon Chris Hipkins
Minister of Education
on behalf of shareholding Ministers

cc Arlene White, Chief Executive, Education Payroll Ltd, PO Box 12-141, Wellington 6144,
s9(2)(a)

s9(2)(j)

s9(2)(j)

Office of Hon Chris Hipkins

MP for Remutaka
Minister of Education
Minister of Police
Minister for the Public Service
Leader of the House

Sandi Beatie
Chair
Education Payroll Ltd
By email: s9(2)(a)

Dear Ms Beatie

Education Payroll Ltd (EPL): Board Fees 2022/23

In this letter I am conveying the approval of shareholding Ministers to the board fees for EPL for 2022/23.

This approval is based on the current director fee rates set under the Crown Company Director Fees Methodology. The amount approved is $167,200, based on there being five directors on the board and includes $19,380 in special fees as detailed below. The fees are based on a unit rate of $24,634 per annum.

EPL Board Fees Approval – 2022/23

Ordinary fees	**2022/23**	**2021/22**
Chair	$49,268	$37,152
Directors (x4)	$98,536	$74,304
Special fees		
For additional workload required to deliver the EPDP work programme	$19,380	$55,728
Total	**$167,200 (rounded)**	**$167,200 (rounded)**

Notwithstanding the method of calculation, it remains the board's prerogative to determine the allocation of 'ordinary fees' to individual directors. For the avoidance of doubt, it is expected that fees for vacant Board positions will be excluded from any allocation of the pool of director fees.

Approval is also given to a budget of up to $10,000 for board professional development.

Special fees

You have requested an extension of special fees to maintain directors remuneration at the existing level, in recognition that EPL faces a considerable increase in capability and capacity in order to deliver on the EPDP work programme.

Private Bag 18041, Parliament Buildings, Wellington 6160, New Zealand
+64 4 817 8706 | c.hipkins@ministers.govt.nz | beehive.govt.nz

With the increase in the base fees from $18,576 to $24,364 approved effective 1 July 2022, the level of special fees required to provide the same total annual directors remuneration reduces to $19,380.

Approval for a special fee of $19,380 is given in recognition of the ongoing responsibilities and additional workload of directors to provide expert advice, guidance and oversight of the delivery of the EPDP work programme.

The new fees and the special fee are to be used for directors' governance oversight of the EPDP if it involves time over and above what would be ordinarily required.

This approval is given on the basis that the special fees will be used only for the purpose specified. I expect that you will have a system in place to record the additional duties performed, and that an appropriate record will be kept at Board level of the allocation of the special fees.

All fees, and any other payment or reimbursement to directors, should be paid in accordance with the Directors Fees and Reimbursement Guidelines annexed to the Owner's Expectations document issued in 2020 (available on the Treasury website).

Yours sincerely

Hon Chris Hipkins
Minister of Education
on behalf of shareholding Ministers

cc Arlene White, Chief Executive, Education Payroll Ltd, PO Box 12-141, Wellington 6144,
s9(2)(a)

Office of Hon Chris Hipkins

MP for Remutaka
Minister of Education
Minister of Police
Minister for the Public Service
Leader of the House

Colin MacDonald
Chair
The Network for Learning Ltd
s9(2)(a)

Dear Mr MacDonald

The Network for Learning Ltd (N4L): Board Fees 2022/23

In this letter I am conveying the approval of shareholding Ministers to the Board fees for N4L for 2022/23.

This approval is based on the current director fee rates set under the Crown Company Director Fees Methodology. The amount approved is $189,750, based on there being seven directors on the Board for the full year. The fees are based on a unit rate of $23,000 per annum.

N4L Board Fees Approval – 2019/20

Ordinary fees	Amount
Chair	$46,000
Deputy Chair	$28,750
Directors (x5)	$115,000
Total	**$189,750**

Notwithstanding the method of calculation, it is the Board’s prerogative to determine the allocation of ‘ordinary fees’ to individual directors. For the avoidance of doubt it is expected that fees for vacant Board positions will be excluded from any allocation of the pool of director fees.

Approval is also given to a budget of $21,000 for Board professional development.

All fees, and any other payment or reimbursement to directors, should be paid in accordance with the Directors Fees and Reimbursement Guidelines annexed to the Owner's Expectations document issued in 2020 (available on the Treasury website).

Yours sincerely

Hon Chris Hipkins
Minister of Education
on behalf of shareholding Ministers

cc Larrie Moore, CEO, N4L, PO Box 37118, Auckland 1151, s9(2)(a)

TE TAI ŌHANGA
THE TREASURY

Treasury Report: SOE Portfolio (KOR, MET): APH Documentation to Confirm Appointments & Elevations for Late 2022 Appointment Round

Date:	6 October 2022	**Report No:**	T2022/2008
		File Number:	CM-0-2-3-2022

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Agree** to recommendations **sign** APH Committee documentation for submission to Cabinet Office	Thursday 13 October 2022 to allow for consultation to be completed prior to lodging on 20 October 2022 (Cabinet Office deadline)
Hon Dr David Clark **Minister for State Owned Enterprises**	**Agree** to recommendations **sign** APH Committee documentation for submission to Cabinet Office	Thursday 13 October 2022 to allow for consultation to be completed prior to lodging on 20 October 2022 (Cabinet Office deadline)

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Simon Wi Rutene	Senior Advisor - Governance and Appointments	s9(2)(k)	s9(2)(g)(ii)	
Stella Kotrotsos	Manager, Governance and Appointments			✓

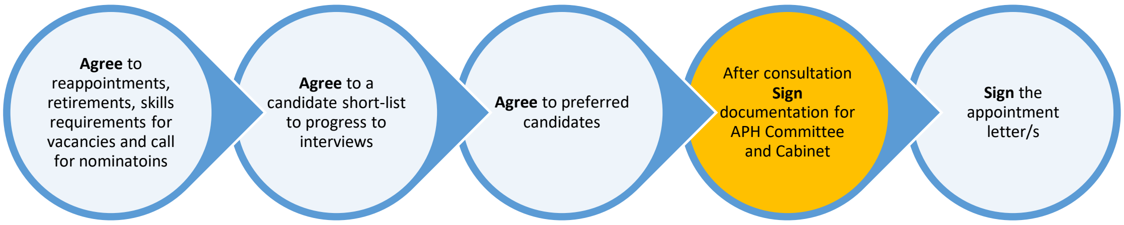
Minister's Office actions (if required)

Once signed **return** the signed report to Treasury, **commence** consultation and **lodge** APH documentation with Cabinet Office by 10.00am on Thursday 20 October 2022 for consideration at APH Committee on 26 October 2022.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Treasury Report: SOE Portfolio (KOR, MET): APH Documentation to Confirm Appointments and Elevation for Late 2022 Appointment Round



Purpose of Report

1. This report provides you with APH documentation to support the following previously agreed decisions to:

    a. elevate Ben Kepes to the position of Deputy Chair on the Kordia Board from 1 November 2022 *[T2022/1611 refers]*

    b. appoint Linda Robertson to the Kordia Board from 1 November 2022 *[Note this replaces the previous APH documentation attached to Report T2022/1845].*

    c. elevate Dr Alison Watters to the position of Deputy Chair on the MetService Board from 1 November 2022 *[T2022/1754 refers]*.

2. You are asked to sign the attached APH documentation, commence consultation, and lodge with Cabinet Office by 10.00am on Thursday 20 October 2022, for consideration at the APH Committee meeting on Wednesday 26 October 2022.

3. Prior to APH Committee we will provide your office with talking points and the relevant appointment and elevation letters for your signature.

Recommended Action

We recommend that you:	Minister of Finance	Minister for State Owned Enterprises
agree to undertake Ministerial consultation on the attached paper	*Agree / disagree.*	*Agree / disagree.*
agree to **sign** and **lodge** the attached APH Committee documentation confirming Ben Kepes' elevation (KOR), Linda Robertson's appointment (KOR), and Alison Watters' elevation (MET) at the APH Committee meeting on Wednesday 26 October 2022	*Agree / disagree.*	*Agree / disagree.*

Stella Kotrotsos
Manager, Governance and Appointments

Hon Grant Robertson
Minister of Finance
_____/______/ 2022

Hon Dr David Clark
Minister for State Owned Enterprises
_____/______/ 2022

APH Organisation Form

Organisation and Responsible Portfolio

Kordia Group Ltd (State Owned Enterprises)

Brief Outline of the Functions and Responsibilities of the Organisation

Kordia is a telco and media business which provides network and technology solutions. Kordia owns an extensive communications network in New Zealand and is the major provider of television and radio broadcast facilities. In Australia, Kordia provides design, build and maintenance services to the broadcast and telco sectors as well as engineering services throughout the region.
The company was created on 1 January 2004 from the separation of the transmission and telecommunications business from Television New Zealand Ltd.

Current Membership

Name	Gender Identity	Region	Ethnicities	Date of original appointment	Expiry date of present term
Ms Sophie Haslem (Chair)	Female	Wellington	s9(2)(a)	1/05/2017	31/10/2025
Mr Peter Michael Ennis	Male	Auckland		1/11/2015	31/10/2022
Mr Benjamin Paul (Ben) Kepes	Male	Canterbury		19/07/2021	30/04/2024
Mr Neil Livingston	Male	Auckland		1/03/2022	31/10/2024
Mr Anthony St John (Tony) O'Brien	Male	Auckland		1/11/2019	31/10/2022
Ms Nicola Elizabeth Riordan	Female	Auckland		21/09/2022	31/08/2025

Date: October 2022

APPOINTMENT-IN-CONFIDENCE

Candidate CV Form

Name (family name in upper case; include title if appropriate)	Benjamin Paul (Ben) KEPES

The Position

Organisation	**Kordia Group Ltd**
Position (chair/member etc)	**Elevation – Deputy Chair**
Term	**From 1 November 2022 up to 30 April 2024**
Payment (per day and/or per year)	**$45,000 per annum**

How the Candidate Meets the Needs of the Position

Skills and attributes the candidate will bring to the position (eg: business skills, community involvement, cultural awareness, regional perspective – as relevant to the needs of the position)	Ben Kepes, from Christchurch, is a globally recognised expert in cloud computing, enterprise technology, and digital transformation. He is an experienced director across both early-stage technology companies, not-for-profits, and substantive entities. He has previously won the Sir Peter Blake Leadership Award. He brings the combination of commercial experience and a deep understanding of the growth parts of the Kordia business. Mr Kepes is to be elevated to Deputy Chair from 1 November 2022 for the remainder of his term to 30 April 2024.
Possible conflicts of interest	Ben has previously done consulting work for Amazon Web Services and Microsoft in the USA. While there is no actual current conflict, this has been noted for any perception of conflict.
Proposals for conflict management (if applicable)	This information has been disclosed in the boards ‘register of interests’ since his initial appointment began.

APPOINTMENT-IN-CONFIDENCE

The Candidate

Name (family name in upper case; include title if appropriate)	Benjamin Paul (Ben) KEPES
Address	s9(2)(a)
Ethnicity(s)	s9(2)(a)
Gender	Male
Age range	s9(2)(a)
Current or most recent employment (specify position and employer, include years)	Professional director (current) Principal/Advisor, Diversity Ltd (2005-current)
Government board appointments held (current and previous, include years)	Nil
Private and/or voluntary sector board appointments held (current and previous, include years)	Director, Supie Ltd (2022-current) Member, Investment Committee, Impact Enterprise Fund (2020-current) Director, Paenga Kupenga Ltd (Ngāi Tahu) (2020-current) Director, Albion Clothing (2019-current) Director, Pegasus Health Charitable Ltd (2019-current) Chair, The Akina Foundation (2018-current) Director, Union and Medical Benefits Society Ltd (2018-current) Director, Cactus Outdoor (1995-current)
Qualifications and experience (include significant work history and community involvement)	<u>Qualifications and memberships</u> Diploma in Management, Diploma in Business, Trade Certificate, Diploma in Paramedicine, CPIT (2000) Chartered Fellow, Institute of Directors (2022) <u>Previous Experience</u> Contributing Writer, Computerworld (2015-2017) Contributor, Forbes (2013-2015) Adviser, Madeira Cloud (2013-2015) Curator, CloudU (2011-2012) Consultant, Commonwealth Bank (2012-2013) Curator, IBM (2009-2010) Editor, Cloudave.com (2008-2010) Co-founder, Bizchat (2008-2010)

Date: October 2022

Candidate CV Form

Name (family name in upper case; include title if appropriate)	Dr Alison Jane WATTERS

The Position

Organisation	**MetService Ltd**
Position (chair/member etc)	**Elevation – Deputy Chair**
Term	**From 1 November 2022 up to 30 April 2024**
Payment (per day and/or per year)	**$29,310 per annum**

How the Candidate Meets the Needs of the Position

Skills and attributes the candidate will bring to the position (eg: business skills, community involvement, cultural awareness, regional perspective – as relevant to the needs of the position)	Dr Alison Watters, from Feilding, is a potential future chair for MetService and appointing her deputy chair now will enable her to gain experience at the company before the chair role comes up for consideration in 2023. She is currently the chair of AsureQuality Ltd and has experience in applied science and joint venture partnerships. AsureQuality has a major capital project underway in Auckland so Dr Watters would bring that experience to MetService.
Possible conflicts of interest	None identified.
Proposals for conflict management (if applicable)	Not applicable.

The Candidate

Name (family name in upper case; include title if appropriate)	Dr Alison Jane WATTERS
Address	s9(2)(a) [redacted]
Ethnicity(s)	s9(2)(a) [redacted]
Age range*	s9(2)(a) [redacted]
Gender*	F
Current or most recent employment (specify position and employer, include years)	Consultant, Self-employed (2011-2012) Technical Manager, Fonterra Co-operative Group Ltd (2006-2011)
Government board appointments held (current and previous, include years)	Director, Meteorological Service of New Zealand Ltd (2021 – current) Chair, AsureQuality Ltd (2016-current) [*Director 2016-2018, Deputy Chair 2019; Chair from Aug 2019*]
Private and/or voluntary sector board appointments held (current and previous, include years)	Director, Totally Vets Group Ltd (2020-current) Board member, National Science Challenge – High Value Nutrition (2019-current) Director, Livestock Improvement Corporation (2014-current) Member, Horizon's Dairy Leaders Group (2017-current) Director, BVAQ Singapore Pty (2021-2022) Ex-Officio Board Member, Chair of the Audit, Finance and Risk Committee, Equestrian Sports NZ (2017-2018) Deputy Chair, Nga Tawa Diocesan School Proprietary Board (2014-2019) Member, Equestrian Sports - NZ (2015-2017) Director, Equestrian Sports - Eventing (2011-2017) Chair and Principal Change Management, NZ Dairy Industry Awards Trust (2005-2008) Chair, National Management Committee, NZ Sharemilker of the Year competition (2004-2006) Trustee, Palmerston North Medical Research Foundation (1996-1997)

Qualifications and experience (include significant work history and community involvement)	<u>Qualifications and memberships</u> PhD (Human Nutrition), Massey University (1995) B.Agr.Sc (1st Class Honours) (Farm Management and Animal Nutrition), Massey University (1987) IoD Course – Chairing the Board (Aug 2018) 12 month Governance Development Programme, Jointly with Fonterra and Massey (2015) <u>Previous employment</u> Technical Manager (Innovation), Fonterra Co-operative Group Ltd (2006-2011) Principal Research Scientist, Fonterra Co-operative Group Ltd (2005-2006) Director, Human Nutrition and Health Research, Massey University (2002-2005) Research Scientist, Massey University (1995-2002) Assistant Lecturer/Tutor, Massey University (1990-1994) Casual Research Assistant, Massey University (1990-1993) Technical Officer, NZ Dairy Board (1987-1989)

Date: October 2022

Cabinet and Cabinet Committee Submission Form (replaces CAB100) Agency to complete		
Step	**Information Required**	
1.	**Submission Type**	Appointment
2.	**Complete Submission information**	
	a. Title of paper	SOE Portfolio: (Kordia, MetService): Board Appointments 2022
	b. Portfolio	State Owned Enterprises
	c. Owning Minister	Hon Dr David Clark
	d. Owning Agency	Treasury
	e. Agency contact	Stella Kotrotsos, Governance and Appointments
	Repeat steps b-e *if a joint paper with another Minister's portfolio, or if two agencies (even if same portfolio) have jointly drafted the paper. (insert rows above as required).* *Otherwise move to step 1f.*	
	f. Minister's office contact	Amanda Wilson
	g. Security classification of paper	Appointment in Confidence
	h. Endorsement	N/A
3.	**Indicate Intended meeting**	
	Meeting type	APH - Cabinet Appointments and Honours Committee
	Intended meeting date	26/10/2022
4.	**Complete Agency consultation information**	
	i. Consulted agencies, including portfolio (refer to attached schedule)	
	j. Informed agencies	Nil
	k. Other consulted groups	Nil
	l. Nominations sought (appointments only)	Nil
5.	**Attach final draft paper** Electronic copy of paper (Word or PowerPoint 2003 onwards, not pdf).	
6.	**Attach attachment/s** If there are multiple documents, attach them in the order they should be presented in the final paper (Word or PowerPoint 2003 onwards, or saved PDF (not scanned) if the source file format is not Word or PowerPoint). Attach the most up-to-date version of draft legislation. For an Appointment paper: ***Organisation form*** and the ***Candidate CV form/*****s** must be attached.	
	m. Security classification of attachment	In Confidence
	n. Endorsement of attachment	N/A
	Repeat steps m-n *if there are multiple attachments and make sure it is clear which set of classification/endorsement applies to which attachment.* *Insert rows immediately below this row as required.*	
7.	**Send email to appropriate staff member in Minister's office.** Copy this form into the body of an email, or save as a separate document and attach.	

IN-CONFIDENCE

APH Organisation Form

Organisation and Responsible Portfolio

Meteorological Service of New Zealand Ltd (State Owned Enterprises)

Brief Outline of the Functions and Responsibilities of the Organisation

Meteorological Service of New Zealand Ltd (MetService) provides weather forecasts and related information services to national and international customers. MetService supplies customised weather forecasts on a commercial basis across a range of industries, including the media, aviation and energy sectors.

Current Membership

Name	Gender Identity	Region	Ethnicities	Date of original appointment	Expiry date of present term
Sophie Haslem (Chair)	F	Wellington	s9(2)(a)	1/11/2015	30/04/2023 (retiring 31/12/2022)
Paula Elizabeth Jackson	F	Wairarapa		8/07/2022	31/05/2025
Martin Thomas Harold Matthews	M	Wellington		8/07/2022	31/05/2025
David Ari (Dave) Moskovitz	M	Wellington		17/03/2020	30/05/2025
Victoria Ursula Spackman	F	Wellington		19/07/2021	30/04/2024
Dr Alison Jane Watters	F	Manawatu-Whanganui		19/07/2021	30/04/2024
Stephen Warwick Willis	M	Otago		19/07/2021	30/04/2024
Vacancy x1					

Date: October 2022

APOINTMENT-IN-CONFIDENCE

Office of the Minister of Finance

Office of the Minister for State Owned Enterprises

Chair, Appointment and Honours Committee

SOE Portfolio (Kordia, MetService): Board Appointments 2022

Proposal

1. The Cabinet Appointments and Honours Committee is invited to note shareholding Ministers' intentions to make two elevations, and one appointment to two boards across the SOE Portfolio as follows:

Company	Person	Designation	Appointment/ Reappointment	Term	Replacing
Kordia Group Ltd	Benjamin Paul (Ben) Kepes	Director	Elevation to Deputy Chair	1 November 2022 up to 30 April 2024	Sophie Haslem as Deputy Chair
	Linda May Robertson	Director	Appointment	1 November 2022 up to 31 October 2025	Vacancy
Meteorological Service of New Zealand Ltd	Dr Alison Jane Watters	Director	Elevation to Deputy Chair	1 November 2022 up to 30 April 2024	N/A

Kordia Group Ltd

2. Kordia is a telecommunication and media business which provides network and technology solutions. Kordia owns an extensive communications network in New Zealand and is the major provider of television and radio broadcasting facilities.

Reappointment – Elevation Deputy Chair

3. Shareholding Ministers' intend to elevate Ben Kepes as Deputy Chair from 1 November 2022 up to 30 April 2024.

Ben Kepes is a globally recognised expert in cloud computing, enterprise technology, and digital transformation. He is an experienced director across both early-stage technology companies, not-for-profits, and substantive entities. He has previously won the Sir Peter Blake Leadership Award. He brings the combination of commercial experience and a deep understanding of the growth parts of the Kordia business.

Appointment - Director

4. Shareholding Ministers' intend to appoint Linda Robertson as a Director from 1 November 2022 up to 31 October 2025.

APOINTMENT-IN-CONFIDENCE

Linda Robertson of Queenstown has had a long executive career in corporate finance, treasury management and banking, having worked for Westpac, ANZ, Contact Energy. She was Group Manager, Treasury and Procurement at Meridian Energy until 2015 when she moved into directorships full time. She has extensive governance experience including directorships on listed companies, chairing boards, chairing audit and risk committees, investment committees as well as SOE boards, having been elevated to Chair of Crown Irrigation Investments Limited (CIIL) in 2019. She has strong commercial and finance experience and has invested significantly into developing her professional capabilities including Climate Governance, Cyber, Organisational Psychology and Socially Responsible Business. She is a Distinguished Fellow of the NZ Institute of Finance Professionals, Certified Fellow of Institute of Directors, Member of Global Women, and a Fellow of Governance New Zealand.

MetService

5. Meteorological Service of New Zealand Ltd (MetService) provides weather forecasts and related information services to national and international customers. MetService supplies customised weather forecasts on a commercial basis across a range of industries, including the media, aviation, and energy sectors.

Reappointment – Elevation Deputy Chair

6. I intend to elevate Dr Alison Watters to Deputy Chair from 1 November 2022 up to 30 April 2024.

   Dr Alison Watters, from Feilding, is a potential future Chair for MetService and appointing her Deputy Chair now will enable her to gain experience at the company before the chair role comes up for consideration in 2023. She is currently the Chair of AsureQuality Ltd and has experience in applied science and joint venture partnerships. AsureQuality has a major capital project underway in Auckland so Dr Watters would bring that experience to MetService.

Certification

7. The Cabinet-approved process was followed for these reappointments. This included:

- identifying the skills and experience required on the boards
- assessing the contribution and skills of the incumbent members against the ongoing needs of the boards
- reference checks (for new appointees)
- background checks being completed.

Conflicts of Interest

8. The Treasury requires candidates to disclose the nature and extent of all known interests that may relate to a particular organisation for which they are proposed for appointment or reappointment.

9. Appropriate enquiries concerning conflicts of interest have been undertaken for the candidates and no conflicts have been identified in accordance with the Treasury appointment guidelines. The boards maintain ongoing conflict of interest disclosure regimes, in accordance with the Companies Act 1993.

Representativeness of appointments

10. If the proposed Kordia board elevation and appointment are confirmed, the proportion of women on the board as at 1 November 2022 will be 60%. Ethnicities represented will be NZ European and British/Irish. The board has a wide regional spread, with members from Auckland, Wellington, Canterbury, and Otago.

11. If the proposed MetService board elevation is confirmed, the proportion of women on the board will remain at 57%. Currently there is one member who identifies as Australian, five members that identify as NZ European and 1 as other ethnicity. The board has members from Manawatu, Otago, Wairarapa, and Wellington regions.

Fees

12. Members are currently paid an ordinary fee of:

Table 2: Current unit rate of ordinary fees for each company

Company	Unit rate (annual fee)
Kordia Group Ltd	**Director $36,000** **Deputy Chair $45,000**
Meteorological Service of New Zealand Ltd	**Deputy Chair $29,310**

APOINTMENT-IN-CONFIDENCE

Recommendations

13. It is recommended that the Cabinet Appointments and Honours Committee:

a. **note** shareholding Ministers' intentions to make two elevations, and one appointment to two boards across the SOE Portfolio as follows:

Company	Person	Designation	Appointment/ Reappointment	Term	Replacing
Kordia Group Ltd	Benjamin Paul (Ben) Kepes	Director	Elevation to Deputy Chair	1 November 2022 up to 30 April 2024	Sophie Haslem as Deputy Chair
	Linda May Robertson	Director	Appointment	1 November 2022 up to 31 October 2025	Vacancy
Meteorological Service of New Zealand Ltd	Dr Alison Watters	Director	Elevation to Deputy Chair	1 November 2022 up to 30 April 2024	N/A

b. **note** these appointments are subject to the satisfactory completion of background checks.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

Authorised for lodgement

Hon Dr David Clark

Minister for State Owned Enterprises

Candidate CV Form

Name* (family name in upper case; include title if appropriate)	Linda May ROBERTSON

The Position

Organisation	**Kordia Group Ltd**
Position (chair/member etc**)**	**Director**
Term	**From 1 November 2022 up to 31 October 2025**
Payment (per day and/or per year)	**$36,000 per annum**

How the Candidate Meets the Needs of the Position

Skills and attributes the candidate will bring to the position (eg: business skills, community involvement, cultural awareness, regional perspective-as relevant to the needs of the position)	Linda Robertson, of Queenstown, has had a long executive career in corporate finance, treasury management and banking, having worked for Westpac, ANZ, Contact Energy. She was Group Manager, Treasury and Procurement at Meridian Energy until 2015 when she moved into directorships full time. She has extensive governance experience including directorships on listed companies, chairing boards, chairing audit and risk committees, investment committees as well as SOE boards, having been elevated to Chair of Crown Irrigation Investments Limited (CIIL) in 2019. She has strong commercial and finance experience and has invested significantly into developing her professional capabilities including Climate Governance, Cyber, Organisational Psychology and Socially Responsible Business. She is a Distinguished Fellow of the NZ Institute of Finance Professionals, Certified Fellow of Institute of Directors, Member of Global Women and a Fellow of Governance New Zealand.
Possible conflicts of interest	None identified.
Proposals for conflict management (if applicable)	Not applicable.

The Candidate

Name (family name in upper case; include title if appropriate)	Linda May ROBERTSON
Address	s9(2)(a)
Age range	s9(2)(a)
Gender	Female
Ethnicity(s)	s9(2)(a)
Current or most recent employment (specify position and employer, include years)	Group Manager Treasury and Procurement, Meridian Energy Ltd (2007-2015)
Government board appointments held (current and previous, include years)	Chair, Crown Irrigation Investments Ltd (2015-current) [*Chair since 2019]*
Private and/or voluntary sector board appointments held (current and previous, include years)	Chair, Central Lakes Trust (2017-current) [*Chair from 2018]* Chair, Audit & Risk Committee, Central Otago District Council (2016-current) Director, NZ Local Government Funding Agency Ltd (2015-current) Director, Auckland Council Investments Ltd (2015-2018) Director, Dunedin City Holdings Ltd (and related companies) (2013-current) Director, Alpine Energy Ltd (2020-current) Director Kiwi Wealth Ltd (and related companies) (2021 - current) Chair, Pacific Radiology Group Ltd (and related sub) (2017-2019) Director, King Country Energy Ltd (2015- 2018) Director, NZPM Group Ltd (2015-2018) Chair, NZ Registry Services (2015-2018) Director & Interim Chair, Hunter Downs Development Company Ltd (2013-2016) Director, Catalyst Risk Management (2003-2011) Director & Interim Chair, Energy for Industry Ltd (2010-2012) Director, Speirs Group Ltd (2005-2009) Director, Kiwibank (2001-2002) Director. New Zealand Post (1999-2002)

Qualifications and experience (include significant work history and community involvement)	<u>Qualifications and memberships</u> Diploma in Banking, Massey University (1992) Bachelor of Commerce, University of Canterbury (1985) Company Directors' Diploma, Australian Institute of Company Directors Certified Fellow, Institute of Directors New Zealand Distinguished Fellow, New Zealand Institute of Finance Professionals (INFINZ) Certified Treasury Professional (INFINZ) Fellow, Governance New Zealand (previously Chartered Secretaries NZ) Chartered Secretary and Governance Professional - Governance New Zealand Climate Certificate - Competent Boards <u>Previous experience</u> Senior Risk & Assurance Advisor and Treasury Consultant, Transpower (2004-2007) Corporate Treasurer, Contact Energy Ltd (1998-2004) Director and Chief Executive, Nature Unplugged Ltd (2003-2010) Associate Director Primary Markets (Debt origination), ANZ Bank (1991-1998) Senior Dealer, Risk Management Products, Westpac Banking Corporation (1984-1991)
Date: October 2022	

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Minister of Finance October 2022 Travel Briefing Pack

Date:	7 October 2022	**Report No:**	T2022/2148
		File Number:	IM-6-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the travel briefing pack for your October 2022 trip to New York City and Washington D.C.	Monday 10 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Brent Bautista	Analyst, International	s9(2)(k)	s9(2)(g)(ii)	✓
Conor McBride	Manager, International			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Treasury Report: Minister of Finance October 2022 Travel Briefing Pack

Purpose of Report

1. This report provides your travel briefing pack for your engagements in the United States of America between 10-17 October, for your Finance portfolio.

Overview of trip

2. On Monday 10 October you are flying from Wellington to New York City via Auckland, arriving on the evening of Monday 10 October local time. Connecting the two legs of your trip, you will depart New York City via Amtrak on Wednesday 13 October arriving in Washington D.C. (DC) on the same day. For your return to New Zealand, you are departing DC 16 October local time, transiting via LAX, arriving in Wellington Monday 17 October.

Objectives

3. You will be travelling to New York and Washington D.C. (DC) over the period of 10-16 October. The key objectives of this trip are underpinned by two separate headline international engagements for you as Minister of Finance (MoF) and as Deputy Prime Minister (DPM), in New York City and DC.

   a **New York 10-13 October**. You will head an Air New Zealand-sponsored trade delegation in support of the airline's new flagship route between Auckland and New York City.

   b **Washington DC 13-16 October**: You will attend the International Monetary Fund (IMF) and World Bank Group (WBG) Annual Meetings in DC. These are the first Annual Meetings to be held in-person since October 2019. In this part of the trip, you will perform your role as New Zealand Governor of the IMF and WBG for the formal aspects of the meetings. The meetings will also provide opportunities to engage with your Finance portfolio international counterparts, many of whom will be in attendance.

4. This trip aligns with your international engagement priorities, specifically with reconnecting New Zealand with the world, building and consolidating our relationship with key partners, promoting New Zealand values and knowledge in support of multilateralism, and supporting wider NZ Inc. priorities of internationalisation and trade and investment.

5. This trip will also enable you to pursue wider government priorities, strengthen our bilateral relationships, and promote New Zealand values. Your key Finance portfolio objectives of this trip are to discuss economic and fiscal priorities and challenges, including climate finance, wellbeing budgeting, and trade, with key international audiences. This includes engagements in New York as leader of the trade delegation, with the IMF and WBG leadership in D.C., and with your international government counterparts attending the Annual Meetings.

Briefing pack

6. The attached briefing pack has been prepared with support from the Ministry of Foreign Affairs and Trade (MFAT) the Ministry for the Environment (MfE), and Te Waihanga – New Zealand Infrastructure Commission.

7. It contains the following sections and products, which your Office has previously approved:

Trip Overview
Background briefings

- New Zealand in the World Bank Group (WBG)
- New Zealand in the International Monetary Fund (IMF)
- Global and Asia-Pacific Region Economic Outlook, and IMF Fiscal Monitor
- Pacific Islands Economic Outlook and issues
- New Zealand Fiscal and Economic Outlook
- Reconnecting New Zealand Daily Visa Volumes Update
- United Nations Update
- Bilateral overview – New Zealand and the United States
- New Zealand Infrastructure Outlook and Key Projects

Subject Briefings

- Wellbeing Budgeting
- Climate Change and the Environment
- Task Force on Climate Related Financial Disclosures
- New Zealand Green Bonds
- New Zealand's foreign investment screening regime - status and emerging issues
- Indo-Pacific Economic Framework (IPEF)
- Economic Security
- Ukraine/Russia and the New Zealand Sanctions Regime

Bilateral Briefings[1]

- Jerome Powell, Chair of the Federal Reserve of the United States
- Arkhom Termpittayapaisith, Minister of Finance of Thailand [PLACEHOLDER]
- Indranee Rajah, Minister in the Prime Minister’s Office of Singapore, Second Minister for Finance, Second Minister for Development, Leader of the House

[1] Note that additional engagements are currently being pursued by officials and briefing materials for additional meetings secured will be provided in addition to those included in the attached Briefing pack.

- Krishna Srinivasan, IMF Asia Pacific Director
- Manuela Ferro, WBG Vice President for East Asia and Pacific
- Andy Baukol, Acting United States Treasury Under Secretary for International Affairs, and Counselor Jay Shambaugh (nominee for Under Secretary of International Affairs)
- Axel van Trotsenburg, WBG Managing Director of Operations
- (Pull aside bilateral) Christian Lindner, Federal Minister of Finance of Germany

Event Briefings:

- Event Brief: Networking Dinner at Nevill-Manning Apartment (hosted by KEA and NZTE)
- Event Brief: USNZ Council Dinner 13 October
- Event Brief: High Level Political Dialogue on Development Cooperation in Small Islands Developing States

Potential Bialteral Briefings:

- Kamala Harris, Vice President of the United States
- Jim Chalmers, Treasurer of Australia
- Kwasi Kwarteng, Chancellor of the Exchequer of the United Kingdom and Bilateral overview – New Zealand and the United Kingdom
- Chrystia Freeland, Deputy Prime Minister and Minister of Finance of Canada and Bilateral overview – New Zealand and Canada
- Nirmala Sitharaman, Minister of Finance of India

Next Steps

8. We will provide your Advisor with updated information and supporting material for engagements that are arranged as they become available. New Zealand Embassy staff in the US will provide printed copies as needed.

Recommended Action

We recommend that you:

a **Note** the travel briefing pack for your October 2022 trip to New York City and Washington D.C..

Noted

Conor McBride
Manager, International Team

Hon Grant Robertson
Minister of Finance

_____/_____/_______

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Overseas Visit

Minister of Finance
7-16 October 2022 Travel Briefing Pack

New York and Washington D.C.
Prepared for Hon Grant Robertson

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Contents

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MoF October 2022 Travel COVID-19 Plan

Key points

- The Centre of Disease Control (CDC) currently considers the community level of COVID-19 in Washington DC and in New York to be ‘low’.
- Proof of vaccination and masks are generally not required in DC and New York City, but visitors are encouraged to check with individual establishments - who are able to apply their own COVID requirements.
- For the IMF/World Bank Annual meetings, proof of vaccination status is required (international vaccine certificate), as are masks inside meeting venues, but testing is optional.
- The WSH Embassy requires guests to be fully vaccinated, but masking is optional and testing is not required.
- Travellers arriving in the United States from another country do not need to show a negative test before entering the US. However, non-US citizens must show proof of being fully vaccinated in order to board their flight to the US (international vaccine certificate).
- The United States Federal Government has removed all domestic COVID-19 restrictions. There are no restrictions on; the number of people that can attend a gathering, no social distancing requirements, and no legally mandated mask requirements. Nor is there any requirement to isolate after coming into contact with a positive COVID-19 case. If you test positive, the US Government’s guidance is to isolate for 5 days.

Summary of Requirements

Date	**Action**
Before departure	We recommend you pack at least three RAT tests. Register on SafeTravel (link here). There is no pre-departure COVID testing required to travel to the US. There is an Attestation of Entry Form required to be completed for entry to the US which was brought in during the pandemic and has to be completed by anyone travelling to the US; US citizens, US permanent residence, or other foreign nationals. The Attestation was initially a form that needed to be printed off from the US Center for Disease Control (CDC) website and filled out to be shown at check in. Some airlines travelling to the US still have this requirement. However, some airlines have replaced this with the ‘Verifly’ app. The Verifly app needs to be downloaded on to your phone and then you can enter your personal details and your journey details and receive approval for travel to the US confirmation which you show at check in. The Verifly app is in lieu of the original Attestation of Entry Form. It is advised to find out which of these the airline requires and complete it before arriving at the airport. Non US citizens must be fully vaccinated against COVID-19 in order to travel to the US. Proof of vaccination will need to be shown to the airline at check in to be permitted travel, and in some cases proof of vaccination is asked for on arrival in the US.
Travelling	Wearing of face masks on flights travelling to and domestically in the United States is no longer required. Face masks are not mandatory while in the US airports. To reduce risk of contracting COVID-19 it is recommended to wear a mask whilst in the airport and on your flights and carry hand sanitiser with you for sanitising surfaces around assigned seats on the aeroplane.
On arrival	Arrival in the United States: No testing or COVID-19 requirements.

In-country	It is advised to carry a mask on you at all times whilst in the US. Masks are no longer required in most locations but remain mandatory in some cities on public transport, and in taxis/ride shares. The delegation may wish to wear masks where practicable and masks should be carried to meetings should the interlocutor preference mask wearing. Monitor for COVID-19 symptoms. If COVID-19 symptoms develop, remain in your accommodation and take a RAT test. If you test positive for COVID-19, you will be required to self-isolate for 5 days. There is no requirement to register a positive COVID test in the US
At IMF/WBG Heqdquarters	Attendees must provide proof of vaccination (hard copy or photo) before an Annual Meetings badge will be issued. Registrants will receive a Confirmation Letter PDF via email, which must be shown at registration together with a photo ID and proof of COVID-19 vaccination. All individuals must display their Annual Meetings badges or Bank/Fund badges for access inside the security perimeter and into Bank/Fund buildings. From October 10 to October 16, all visitors, including Annual Meetings badge holders, will be subject to magnetometer and x-ray screening before entering Bank/Fund facilities.
On departure from the US	A pre-departure test is not required. A New Zealand Traveller Declaration must be completed before travel. The proof of vaccination does **not** need to be uploaded for New Zealand citizens. A Traveller Pass with QR code will be emailed and should be on hand at check-in.
Arrival in Auckland	There is no re-entry test requirement. You will be provided with RAT kits at the airport, and must self-test on Day 0/1 and Day 5/6.

Before departure

- Recommend you travel with a copy of your New Zealand international travel vaccine certificate - link to application here.
- Test in New Zealand before departing. This is not an official requirement, however testing at this point avoids problems created by becoming unwell shortly after departure, needing to isolate etc.
- Pack at least three rapid antigen tests (RAT), face masks, hand sanitizer and anti-bacterial wipes in hand luggage.
- Register on SafeTravel (SafeTravel).
- Complete your New Zealand Traveller Declaration before travelling home. The proof of vaccination does **not** need to be uploaded for New Zealand citizens. A Traveller Pass with QR code will be emailed and should be on hand at check-in.

MFAT COVID-19 advice for travellers

- Wear a well-fitting N95 mask when moving through airports and in other public spaces.
- Observe 1m social distancing including in queues.
- Consider wiping down high-touch areas (e.g. tray table, seat back, arm rests) with anti-bacterial wipes when you board.
- Make frequent use of hand sanitizer.
- Keep mask on in-flight, except when eating and drinking.

- Consider carrying a mask at all times to allow you to wear one if you feel more comfortable doing so – for example in large or close groups where distancing is not possible.

Entry requirements

- All non US citizens must be fully vaccinated against COVID-19 and show proof of this at check in for their flights and possibly may also be asked to show it on arrival in the US.
- A valid US visa obtained before arrival at the airport and valid passport with over 6 months validity remaining on it.
- Dependent on which method the airline uses/accepts; before check in the Verifly app must be completed and approval to travel issued on it, or before travel the Attestation of Entry Form must completed.

COVID-19 requirements in Washington DC

Key points

- Masks are not required to be worn in airports, or on flights, but are required on some public transport services in Washington DC, and taxis/ride shares.
- Beyond this, masks are not mandated, but individual businesses may still require masks.

If you are feeling unwell

- In a life-threatening situation call **911.** Your accommodation address is: **Washington Marriot at Metro Centre, 775 12th St NW, Washington, DC**
- If you begin to have symptoms of COVID-19 then self-test with a RAT test immediately and let the New Zealand Embassy know.

If you test positive

- You are required to self-isolate for 5 full days from when symptoms started. You would do this at your accommodation, with MFAT staff staying in close contact.
- There is no requirement to register a positive test.
- MFAT's policy for staff who return a positive RAT is as follows. These are not requirements of the US authorities:
    - Take a 2nd test to confirm the result. [Note: WSH Embassy staff can arrange a PCR for you.]
    - Remain or return to your accommodation
    - Inform the delegation
    - Inform insurance adviser s9(2)(g)(ii) [redacted].
- **If you test negative**, there is no action needed but if you still feel unwell you should take regular tests over the next 5 days.
- If you are a **close contact** of someone who tested positive you should take a COVID test immediately. If you test positive then the above information on **if you test positive** applies. If you test negative, you do not need to isolate but should continue to monitor for symptoms and take another test if you show any symptoms or feel unwell. Further guidance is available here.
- **PCR tests** are available for free from District of Columbia COVID-19 Testing Sites, all details can be found here https://coronavirus.dc.gov/testing **PCR tests** can also be obtained from many private medical and vaccination facilities which can be found through a quick internet search. The closest testing facility to the New Zealand Embassy is; SameDay Health, 3237 M Street NW, Washington, DC, 20007. Appointments at SameDay Health can be made here; https://app.samedayhealth.com/booking/washington-dc--georgetown--m-street?wmode=opaque
- **RAT tests** can be obtained from pharmacies

IMF and WBG Attendance Requirements

Official Rules

- Those attending in person must be fully vaccinated against COVID-19 and must provide proof of vaccination (hard copy or photo) before an Annual Meetings badge will be issued. The definition of "fully vaccinated" is one dose of a single-dose vaccine, or both doses of a two-dose vaccine.
- Registrants will receive a Confirmation Letter PDF via email which must be shown at registration together with a photo ID and proof of COVID-19 vaccination. Registration desks, located in the Bank's I building, will be open 8:00 AM to 5:30 PM (hours subject to change), from October 10-16, 2022. Members of the delegation may pick up badges on behalf of their delegation at the I Building only if they are able to provide proof of vaccination for all attendees, and only if a photo is on file for that delegate.
- Annual Meetings badges will allow participants to access buildings from Monday, October 10 through close of business on Sunday, October 16. For delegates only, Annual Meetings badges will allow access through Friday, October 21. All individuals must display their Annual Meetings badges or Bank/Fund badges for access inside the security perimeter and into Bank/Fund buildings. It is not advisable, however, to wear identification badges in public outside the perimeter, especially if there are demonstrators nearby.
- From October 10 to October 16, all visitors, including Annual Meetings badge holders, will be subject to magnetometer and x-ray screening before entering Bank/Fund facilities. While the security perimeter is up, Bank/Fund staff will also be required to go through screening. Screening lines move quickly, but individuals should allow extra time for this process to arrive on time for a scheduled meeting.

On the ground expectations

- Masks will be required or encouraged depending on venue, so please come prepared. There are almost no mask requirements left in the rest of DC, although many people still wear them on public transport and in crowded places / indoors. I also recommend packing some RAT tests, in case anyone develops any symptoms or feels unwell, so you can test quickly and easily.

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Itinerary

ACCOMPANYING PERSONNEL

From the Deputy Prime Minister's Office

Alex Tarrant	Senior Ministerial Advisor	Joining for the entire period

From New Zealand Trade and Enterprise

Peter Chrisp	Chief Executive	Joining for New York

From the New Zealand Permanent Mission to the United Nations in New York

Carolyn Schwalger	New Zealand Permanent Representative	Joining for United Nations engagement
Justin Fepuleai	Deputy Permanent Representative	Joining for United Nations engagement
Ben Schaare	Adviser	On standby in New York
Jonell Cabochan	Driver	On standby in New York

From the New Zealand Consulate in New York

Hannah Lee-Darboe	Consul General and Trade Commissioner - New York	Joining for New York

From the New Zealand Treasury

Struan Little	Deputy Chief Executive	Joining for Washington DC
Hugo Van Dyke	Senior Analyst	Joining for Washington DC
Lachy Stark	Analyst	Joining for Washington DC

From the Reserve Bank of New Zealand

Adrian Orr	Reserve Bank Governor	Joining for Washington DC
Karen Silk	Assistant Governor / General Manager of Economics, Financial Markets and Banking	Joining for Washington DC

From the Ministry of Foreign Affairs and Trade

Norman Laroque	Lead Adviser, Development Banks, Partnerships Humanitarian and Multilateral Division	Joining for Washington DC

From the New Zealand Embassy in Washington

Bede Corry	New Zealand Ambassador	Joining for Washington DC
Brody Sinclair	Trade & Economic Counsellor	Joining for Washington DC
Rebecca Mountfort	Policy Adviser	Joining for Washington DC

CONTACT LIST

A staff contact list for all programme locations will be prepared at the end of this document.

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ITINERARY

Air New Zealand Trade Delegation Flight to New York

MONDAY 10 October		AUCKLAND/NEW YORK
COVID protocols: • Travellers to the United States are required to have proof of vaccination i.e. international vaccine certificate. • Travellers to the United States are required to provide the below information: ○ Full name ○ Address while in the United States ○ Primary contact phone number ○ Secondary or emergency contact phone number ○ Email address **Dress code:** • Morning attire – Travel attire. • Evening attire – Business attire.		
Local	NZT	
14:45	14:45	**Wellington – Auckland** Attendees: Robertson, Tarrant Flight time: 1h 5m
15:50	15:50	**Arrive Auckland**
16:40	16:40	**Pre-flight reception and karakia** Attendees: Robertson, Tarrant Location: Air New Zealand Lounge
19:40	19:40	**Depart Auckland on Flight NZ2** Attendees: Robertson, Tarrant, Air New Zealand delegation Flight time approx. 16h 15m

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18:55	11:55 +1	**Arrive New York JFK** Facilitated through airport by Air New Zealand
19:25	12:25 +1	**Transfer from New York JFK to Westin Grand Central** Address: 212 East 42nd Street New York, NY 10017 Attendees: Robertson, Tarrant Transport: 14 seater mini vans Travel time approx. 60 Min
20:25	13:25 +1	**Check in at Westin Grand Central** Met by: Carolyn Schwalger, Ben Schaare The Minister and his political adviser will be travelling with carry-on luggage only.
20:30	13:30 +1	**Dinner at leisure** Venue: Westin Grand Central restaurant, room service, or nearby restaurant
21:00	14:00 +1	**OPTIONAL: Evening drink with delegation** Venue: Westin Grand Central, Amuse restaurant Attendees: Robertson, Tarrant, Air New Zealand delegation

TUESDAY 11 October		**NEW YORK**
COVID protocols: • Masks recommended during events. **Dress code:** • Morning attire – Business attire. • Evening attire – Business attire.		
Local	NZT	
08:30	01:30 +1	**Breakfast at leisure** Venue: Westin Grand Central restaurant, room service, or nearby restaurant
09:30	02:30 +1	**Meet at Western Grand Central lobby** Attendees: Robertson, Tarrant, Air New Zealand delegation
09:35	02:35 +1	**Transfer to Royalton Park Avenue Hotel, Red Room** Address: 420 Park Avenue South, New York, NY 10016 Attendees: Robertson, Tarrant, Air New Zealand delegation Walk time approx. 20 Min
09:55	02:55 +1	**Arrive at Royalton Park Avenue Hotel** Attendees: Robertson, Tarrant Delegation met by Tabitha Meharg
10:00	03:00 +1	**Minister to deliver opening remarks to delegation**

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		The Minister has 15 minutes to deliver remarks to the Air New Zealand delegation. Location: Red Room A microphone and screen will be available for the Minister.
10:15	03:15 +1	**Session 1: Can America meet the China Challenge** Host: Andrew Browne, Head of the Brunswick Group's China Hub In this discussion, Andrew Browne and the delegation will explore the relationship between the United States and China across the economic and political spheres.
11:45	04:45 +1	**End of Session 1** The Minister will have an opportunity to be introduced to session leads after each session.
12:00	05:00 +1	**Lunch at Royalton Park Avenue Hotel** Location: Red Room
13:00	06:00 +1	**Transfer to Edelman's New York offices** Address: 250 Hudson Street, New York, NY 10013 Attendees: Robertson, Tarrant, Air New Zealand delegation Transport: Bus transfer Travel time: 20m
13:20	06:20 +1	**Arrive at Edelman** Attendees: Robertson, Tarrant, Air New Zealand delegation Delegation met by Tabitha Meharg Air New Zealand will provide an opportunity to speak privately with Kirsty Graham ahead of the session.
13:30	06:30 +1	**Session 2: Macro trends: risks and opportunities for the next cycle** Host: Kirsty Graham, Global President of Edelman's Practices and Sectors Kirsty joins the delegation to share her unique insights into Capitol Hill during an era of deep division and the impact, and opportunities, for business. Kirsty will also speak to trends in wider corporate governance, such as the rise of stakeholder capitalism, the changing employee - employer contract and the role of a CEO in a world where rising expectations on companies are not showing signs of letting up.
15:00	08:00 +1	**Transfer to Royalton Park Hotel** Address: 420 Park Avenue South, New York, NY 10016 Attendees: Robertson, Tarrant, Air New Zealand delegation Transport: Bus transfer Travel time: 20m
15:25	08:25 +1	**Arrive at Royalton Park Hotel** Attendees: Robertson, Tarrant

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		Delegation met by Tabitha Meharg
15:30	08:30 +1	**Session 3: The timeless lessons of entrepreneurship** Host: Randy Komisar, Kleiner Perkins Randy joins the delegation to share his vast experience and knowledge, his insights into the opportunities for New Zealand on a global stage, and what lessons leaders might learn from Silicon Valley.
17:30	10:30 +1	**Transfer to Westin Grand Central** Address: 212 East 42nd Street New York, NY 10017 Attendees: Robertson, Tarrant, Air New Zealand delegation Transport: Bus transfer Travel time: 10m
17:40	10:40 +1	**Arrive at Westin Grand Central**
17:45	10:45 +1	**Executive Time** Time to refresh ahead of Dinner event
18:30	11:30 +1	**Meet in the Westin Grand lobby** Attendees: Robertson, Tarrant, Air New Zealand delegation
18:35	11:35 +1	**Transfer to Nevill-Mannings Apartment** Location: 150 Nassau Street, Manhattan Attendees: Robertson, Tarrant, Air New Zealand delegation Transport: Bus transfer Travel time: 25m
19:00	12:00 +1	**Arrive at Nevill-Mannings Apartment** Attendees: Robertson, Tarrant, Air New Zealand delegation
19:00	12:00 +1	**Dinner event and Nevill-Mannings Apartment** Venue: 150 Nassau Street, Manhattan
TBC	TBC	**Transfer to Westin Grand Central** Address: 212 East 42nd Street New York, NY 10017 Attendees: Robertson, Tarrant, Air New Zealand delegation. Van transport back to the hotel will be available at 9pm and 9.30pm. Air New Zealand will organise Ubers for members of the delegation returning later than that. Travel time: 15m
END OF DAY		

RESTRICTED

WEDNESDAY 12 October **NEW YORK**

COVID protocols:
- Masks recommended during events.

Dress code:
- Morning attire – Business attire.
- Evening attire – Business attire.

Local	NZT	
08:00	01:00 +1	**Executive Time** Breakfast at your leisure.
09:15	02:15 +1	**Meet in the Westin Grand Central lobby** Attendees: Robertson, Tarrant, Air New Zealand delegation
09:20	02:15 +1	**Transfer to Brooklyn Nets Training Centre** Address: Brooklyn Nets Training Centre, 168 39th St, Brooklyn, NY 11232 Attendees: Robertson, Tarrant, Schaare Transport: Bus transfer Driver: s9(2)(a) Vehicle: Lincoln Continental s9(2)(a) Travel time: 40m
09:55	02:45 +1	**Arrive at Brooklyn Nets Training Centre** Attendees: Robertson, Tarrant, Schaare Met by Tabitha Meharg
10:00	03:00 +1	**Session 4: Building teams to win right** Host: Sean Marks, Brooklyn Nets Details: Sean Marks gives a peek into a locker room focused firmly on culture and how basketball shaped his life on and off the court. Air New Zealand are arranging for a group photo as part of this engagement.
12:00	05:00 +1	**Transfer to Renaissance Hotel** Address: Two Times Square, 714 Seventh Avenue at W. 48th Street Attendees: Robertson, Tarrant Transport: Bus transfer Travel time: 45m
12:45	05:00 +1	**Walk through Times Square**
13:15	06:15 +1	**Lunch at Renaissance Hotel** Address: Two Times Square, 714 Seventh Avenue at W. 48th Street Location: R Lounge
14:30	07:30 +1	**Session 5: Macro trends: risks and opportunities for the next cycle** Host: Karen Harris, Head of Bain's insights division Location: R Lounge, Renaissance Hotel

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		Details: Karen will share some of the key trends that will play a significant role in shaping the future of work, worker and workplace – shedding light into what businesses can take away from the trends at play today and adjust their strategy to ensure they stay relevant in the future.
15:30	08:30 +1	**Session 6: Getting our swagger back** Host: Indra Nooyi, former CEO, PepsiCo Location: R Lounge, Renaissance Hotel Details: This session will be focused firmly on the future, sharing her experiences and perspectives on how New Zealand businesses can adapt to this new landscape. Indra will inspire us with ideas on how we can all support a greener, more inclusive and more resilient tomorrow.
17:00	10:00 +1	**Transfer to RiseNY** Address: 160 West 45th Street Attendees: Robertson, Tarrant, Air New Zealand delegation Walk time: 10m
17:10	10:10 +1	**RiseNY Experience** Details: RiseNY features a unique, state-of-the-art flying theatre that gives visitors a bird's-eye view of the city, and it is paired with what the organizers describe as a series of museum exhibit galleries celebrating legendary aspects of New York City.
18:00	11:00 +1	**Transfer to Tavern on the Green** Address: 67th Street & Central Park West Attendees: Robertson, Tarrant, Air New Zealand delegation Transport: Bus transfer Travel time: 10m
18:30	11:30 +1	**Dinner at Tavern on the Green** Venue: Tavern on the Green Format: Casual dinner Attendees: Robertson, Tarrant, Air New Zealand delegation
TBD	TBD	**Transfer to Westin Grand Central** Address: 212 East 42nd Street New York, NY 10017 Attendees: Robertson, Tarrant, Air New Zealand delegation Transport: Bus transfer Travel time: 15m
END OF DAY		

THURSDAY 13 October	**NEW YORK/WASHINGTON, D.C.**
COVID protocols: • Masks recommended on public transport. • Mask use is encouraged on the IMF/World Bank premises.	

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Dress code:
- Morning attire – Business attire.
- Evening attire – Business attire.

Local	NZT	
TBD	TBD	**Breakfast at leisure** Venue: Westin Grand Central restaurant, room service, or nearby restaurant
09:00	02:00 +1	**Session 7: Closing Debrief and reflection**
09:10	02:10 +1	**Transfer to Moynihan Train Hall at Pennsylvania Station** Attendees: Robertson, Tarrant, Schaare Transport: New Zealand Permanent Mission vehicle Driver: s9(2)(a) Vehicle: Lincoln Continental s9(2)(a) Travel time: 30m
09:40	02:40 +1	**Arrive at Pennsylvania Station** Departure from Moynihan Train Hall, 350 W 33rd St Attendees: Robertson, Tarrant, Schaare Facilitation TBC
10:00	03:00 +1	**Transfer to Washington, D.C on Amtrak Train 95** Attendees: Robertson, Tarrant Seats 11A, 11C Travel time: 3h27m Meal service: Food available for purchase
12:47	05:00 +1	**Arrive at Union Station, Washington DC** Facilitated from platform to vehicle by Amtrak Police – details to come Met by: Ambassador Bede Corry, s9(2)(g)(ii)
13:00	06:00 +1	**Transfer to Washington Marriott at Metro Centre** Address: 775 12th St NW Driver: s9(2)(a) Vehicle: Toyota Sienna, s9(2)(a) Attendees: Robertson, Tarrant, Corry Met by: Mountfort Travel time: 10m
13:10	06:10 +1	**Check into Marriott at Metro Centre**
13:15	06:15 +1	**Transfer to IMF** Address: 700 19th St NW, Washington, DC 20431 Driver: s9(2)(a) Vehicle: Toyota Sienna, s9(2)(a)

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		Attendees: Robertson, Tarrant, Mountfort Travel time: 15m
13:40	06:40 +1	**Arrive at IMF**
13:50	06:50 +1	**Bilateral with Canada DPM/MoF Chystia Freeland** Attendees: Robertson, Tarrant, Freeland, Little Shannon Zimmerman, Director of Operations, Alex Lawrence, Director of Communications Note taker: Stark/Van Dyke Location: IMF HQ 2, 05B-779
14:45	07:45 +1	**Bilateral with FED Chair Powell** Attendees: Robertson, Tarrant, Powell, Corry, Little, Silk, Parkyn and Orr Note taker: Stark/Van Dyke Location: IMF HQ1-13-390C
15:30	08:30 +1	**Bilateral with India MoF Nirmala Sitharaman** Attendees: Robertson, Tarrant Note taker: Stark/Van Dyke Meeting time: 25 minutes Travel time: HQ1 13-410
17:00	10:00 +1	**Bilateral with Finnish DPM/Finance Minister Annika Saarikko** Attendees: Robertson, Tarrant Note taker: Stark/Van Dyke Meeting time: 20 minutes Travel time: HQ1 13-410
17:45	10:45 +1	**Transfer to New Zealand Embassy Cocktail Function** Driver: s9(2)(a) Vehicle: Toyota Sienna, s9(2)(a) Attendees: Robertson, Tarrant, Mountfort Travel time: 15 minutes Met by: Corry
18:00	11:00 +1	**New Zealand Embassy Cocktail Function** Address: 37 Observatory Circle NW Washington D.C. Met by: Ambassador Corry Attendees: Approximately 50 invited guests
20:00	13:00 +1	**Transfer to Marriot Metro** Driver: s9(2)(a) Vehicle: BMW, s9(2)(a) Attendees: Robertson, Tarrant Travel time: 20 minutes
END OF DAY		

RESTRICTED

World Bank Group (WBG) and International Monetary Fund (IMF) 2022 Annual Meetings

	Friday 14 October	**WASHINGTON, D.C.**
	COVID protocols: • Masks recommended in meetings **Dress code:** • Morning attire – Business attire. • Evening attire – Business attire.	
Local	NZT	
07:00	00:00 +1	**Transfer to IMF and World Bank headquarters** Address: 1900 Pennsylvania Ave Driver: s9(2)(a) Vehicle: Toyota Sienna, s9(2)(a) Attendees: Robertson, Tarrant, Mountfort Travel time: 20m Met by: Oscar Parkyn
07:30	00:30 +1	**Delegation breakfast at IMF** Venue: IMF office for New Zealand Alternate Executive Director (HQ1-11-223) Attendees: All delegation Light refreshments will be available.
08:00	01:00	**Meeting with Thai Finance Minister Arkhom** Location: TBC Attendees: Robertson, Tarrant, Little, Stark, Van Dyke Note taker: Stark/Van Dyke
09:00	02:00 +1	**TBC meeting with Australian Treasurer Chalmers**

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		Location: TBC Attendees: Robertson, Tarrant, Little, Stark, Van Dyke, Short Note taker: Stark/Van Dyke
9:30	02:30 +1	**Annual Meetings Plenary** Attendees: Orr, Little, Silk *Minister's attendance not required* Concludes at 11:15am
10:15	03:15 +1	**Meeting with Singapore's Minister in the Prime Minister's Office, Indranee Rajah** Location: IMF HQ1-11-323 Attendees: Robertson, Tarrant, Little, Stark, Van Dyke, Short, Parkyn Note taker: Van Dyke/Stark
11:00	04:00 +1	**Meeting with IMF Asia Pacific Director Krishna Srinivasan bilateral engagement** Location: Location: IMF HQ1-06-310 Attendees: Robertson, Orr, Tarrant, Parkyn, Little, Laroque, Stark and Van Dyke Note taker: Van Dyke/Stark Meeting time: 30 minutes
11:30	04:30 +1	**[placeholder]**
12:00	05:00 +1	**International Monetary and Financial Committee Plenary** Attendees: Orr, Little, Silk *Minister's attendance not required* Concludes at 2pm
12:00	05:00 +1	**High-Level Political Dialogue on Development Co-operation in Small Island Developing States (SIDS)** Locations: TBC Attendees: Robertson, Tarrant, Struan, Laroque, Short, Stark and Van Dyke Note taker: Van Dyke/Stark Meeting time: 2 hours
15:00	08:00 +1	**Meeting with Indonesian Finance Minister Indrawati** Location: World Bank HQ, EDS16 Office Attendees: Robertson, Tarrant, Little, Stark, Van Dyke Note taker: Stark/Van Dyke
16:00	09:00 +1	**Meeting with US Treasury Acting Under Secretary Andy Baukol and Counsellor Jay Shambaugh** Location: Room at the IMF to be secured by US Treasury

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		Attendees: Robertson, Tarrant, Corry, Little (US Treasury to advise how many officials will fit in the room). Note taker: Van Dyke/Stark
17:00	10:00 +1	**Kiwi and Pacific IMF and WBG staff drinks** Location: TBC Attendees: TBC
TBD	TBD	**Transfer to Marriot Metro** Driver: s9(2)(a) Vehicle: BMW, s9(2)(a) Attendees: Robertson, Tarrant, Mountfort Travel time: 20 minutes
TBD	TBD	**Executive Time** Dinner at the Minister's leisure
	END OF DAY	

Saturday 15 October		**WASHINGTON, D.C.**
COVID protocols: • Masks recommended in meetings **Dress code:** • Morning attire – Business attire. • Evening attire – Business attire.		
Local	NZT	
07:30	00:30 +1	**Executive Time** Breakfast at your leisure
08:00	01:00 +1	**IMF Asia Pacific Department (APD) Regional Economic Outlook breakfast (*Optional*)** Details: A presentation and discussion of the Regional Economic Outlook. A short presentation will be followed by an interactive session where APD would like to hear country perspectives and answer any questions from delegations. Breakfast available from 7:30am. Location: IMF HQ1 Bistro (HQ1-2-713). Host: Krishna Srinivasan, Director of Asia Pacific Department Attendees: Robertson, Tarrant, Little, Silk, Parkyn
09:30	02:30 +1	**[Placeholder]**
11:00	04:00 +1	**Meeting with WBG Vice President for East Asia and Pacific Manuela Ferro** Details TBC
11:30	04:30 +1	**[Placeholder]**
TBD	TBD	**Transfer to Meeting with WBG Managing Director Axel Van Trotsenburg**

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		Address: TBC Driver: s9(2)(a) Vehicle: Toyota Sienna, s9(2)(a) Attendees: Robertson, Tarrant, Short, Norman, Van Dyke/Stark, Mountfort Travel time: TBC
14:00	07:00 +1	**Meeting with Vice President and Minister for Finance and Economic Development Hon. Dr. Teuea Toatu** Attendees: Robertson, Tarrant, Little, Van Dyke/Stark Location: World Bank, EDS09 Office 11-745 Meeting duration: 30 minutes Note taker: Van Dyke/Stark
16:30	09:30 +1	**Meeting with WBG Managing Director Axel Van Trotsenburg** Location: TBC Attendees: Robertson, Tarrant, Little, Short, Norman, Van Dyke/Stark, Mountfort Meeting duration: TBC Note taker: Van Dyke/Stark
TBD	TBD	**Transfer to Marriot Metro** Driver: s9(2)(a) Vehicle: BMW, s9(2)(a) Attendees: Robertson, Tarrant, Mountfort Travel time: 20 minutes
TBD	TBD	**Executive Time** Dinner at your leisure
	END OF DAY	

Sunday 16 October		**WASHINGTON, D.C.**
COVID protocols: • Complete New Zealand travellers declaration **Dress code:** • Morning attire – business attire. • Evening attire – travel attire.		
Local	NZT	
07:30	00:30 +1	**Breakfast at your leisure** Venue: Marriot Metro Attendees: Robertson, Tarrant
09:00	02:00 +1	**Checkout of hotel** Minister and Tarrant can story luggage in Embassy vehicle ahead of transfer to Dulles
10:00	03:00 +1	**[Placeholder]**
12:00	05:00 +1	**Transfer to Washington Dulles International Airport** Driver: s9(2)(a)

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		Vehicle: Toyota Sienna, s9(2)(a) Attendees: Robertson, Tarrant, Subritzky Travel time:
12:30	05:30 +1	**Departing airport facilitation** Details to come
14:28	07:28 +1	**Depart Washington DC on flight UA1416 United Airlines** Attendees: Robertson, Tarrant Flight time: 5h 28m
16:59	12:59 +1	**Arrive Los Angeles International Airport (LAX)** Facillitation TBC Other details to come
20:50	16:50 +1	**Depart LAX flight UA 6753**
END OF DAY		

Tuesday 17 October		**WASHINGTON, D.C.**
Dress code: • Morning attire – travel attire.		
Local	NZT	
05:45	05:45	**Arrive at Auckland International Airport**

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ACCOMMODATION

New York
Westin Grand Central
212 E 42nd St, New York, NY 10017
+1 212-490-8900
Washington DC
Washington Marriott at Metro Centre
775 12th St NW, Washington, DC 20005
+1 202-737-2200

DEPUTY PRIME MINISTER’S OFFICE CONTACT DETAILS

Name	Position	Contact Details
Angela Bray	Senior Private Secretary	s9(2)(g)(ii)
Beth Houston	Senior Minister Advisor	
Toby Moore	Ministerial Advisor	
Ivan Esler	Private Secretary	

MINISTERS IN ACTING PORTFOLIOS CONTACT DETAILS

Name	Position	Contact Details
Hon David Parker SPS: Deb Thornton	Acting Minister of Finance	s9(2)(g)(ii)
Hon Megan Woods SPS: Sandy Grove	Acting Minister for Infrastructure Acting Minister for Sport & Recreation	

NEW YORK CONTACT DETAILS

Name	Position	Contact Details
Ben Schaare	Policy Adviser, New Zealand Permanent Mission in New York	s9(2)(g)(ii)
Jonell Cabochan	Driver, New Zealand Permanent Mission to the United Nations in New York	
Carolyn Schwalger	Ambassador / Permanent Representative, New Zealand	

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	Permanent Mission to the United Nations in New York	s9(2)(g)(ii)
Hannah Lee-Darboe	Consul General and Trade Commissioner New York, New Zealand Trade and Enterprise	
Peter Chrisp	Chief Executive, New Zealand Trade and Enterprise	
Tabitha Fagan	Event support, Air New Zealand	
Jan McIntyre	Communications/Event support, Air New Zealand	
Julian Light	Communications support, Air New Zealand	
Eden McNamara	Delegation support, Air New Zealand	
Azelda Madgwick	Delegation support, Air New Zealand	

WASHINGTON D.C. CONTACT DETAILS

Name	Position	Contact Details
Rebecca Mountfort	Policy Adviser, New Zealand Embassy Washington DC	s9(2)(g)(ii)
Paul Miranda	Driver, New Zealand Embassy Washington DC	
Brody Sinclair	Trade & Economic Counsellor, New Zealand Embassy Washington DC	
Bede Corry	New Zealand Ambassador, New Zealand Embassy Washington DC	
Norman Laroque	Lead Adviser, Development Banks, Partnerships Humanitarian and Multilateral Division	
Struan Little	Deputy Chief Executive, New Zealand Treasury	
Hugo Van Dyke	Senior Analyst. New Zealand Treasury	
Lachy Stark	Analyst, New Zealand Treasury	
Sarah Short	New Zealand's Senior Advisor at the World Bank Group	
Oscar Parkyn	New Zealand's Alternate Executive Director at the International Monetary Fund	

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CURRENCY CONVERSION

New Zealand Dollar (NZD)	United States Dollars (USD)
1	0.57
5	2.86
10	5.72
20	11.43
50	28.59
100	57.17

TIME ZONES

New Zealand	United States (EST)
1:00am	8:00am
2:00am	9:00am
3:00am	10:00am
4:00am	11:00am
5:00am	12:00pm
6:00am	1:00pm
7:00am	2:00pm
8:00am	3:00pm
9:00am	4:00pm
10:00am	5:00pm
11:00am	6:00pm
12:00pm	7:00pm
1:00pm	8:00pm
2:00pm	9:00pm
3.00pm	10:00pm
4:00pm	11:00pm
5:00pm	12:00am
6:00pm	1:00am
7:00pm	2:00am
8:00pm	3:00am
9:00pm	4:00am
10:00pm	5:00am
11:00pm	6:00am
12:00am	7:00am

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RESTAURANTS

Restaurants Close to the Westin Hotel in Midtown East:

a) The Capital Grille: https://www.thecapitalgrille.com/
155 E 42nd St, New York, NY 10017
Outpost of the upscale steakhouse chain offers classic American fare & a clubby, refined setting.
4 min walk from the Westin

b) Smith & Wollensky: https://www.smithandwollenskynyc.com
797 3rd Ave, New York, NY 10022
Dry-aged beef, martinis & wine served by old-school waiters draw crowds to this Midtown institution.
9 min walk from the Westin

c) The Smith: https://thesmithrestaurant.com
956 2nd Avenue, New York, NY 10022
Trendy types gather for American eats & specialty drinks at this upbeat hangout & brunch favorite.
12 min walk from the Westin

d) Wagamama: https://www.wagamama.us/restaurants/new-york/murray-hill
605 3rd Avenue New York, NY 10158
Asian-inspired & Japanese chain restaurant where dishes are whisked to long communal tables.
2 min walk from the Westin

e) Docks Oyster Bar: https://www.docksoysterbar.com
633 3rd Ave, New York, NY 10017
Cavernous, deco-styled restaurant, best known for its lively happy hour, grilled seafood & oysters.
1 min walk from the Westin

f) Rosie Dunns: https://bayardsbars.com/rosiedunns
729 3rd Ave, New York, NY 10017
Irish pub with live music and pub food
5 min walk from the Westin

g) Le Peroca Bianca: https://www.lapecorabianca.com/location/midtown/
950 2nd Ave. New York, NY 10022
Stylish, bright eatery featuring market-driven Italian cuisine, regional wines & apéritifs.
11 min walk from the Westin

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NOTES

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Background Briefings

New Zealand in the World Bank Group (WBG)

Author: Treasury International team; MFAT Partnerships, Humanitarian and Multilateral Division, and; Sarah Short (World Bank) (*October 2022)*

Key points

- The World Bank Group (WBG), or simply the World Bank, is the only global multilateral development bank (MDB) and is the World's largest development bank. It is the third largest donor to Pacific Island countries behind Australia and the Asian Development Bank (ADB).
- New Zealand's interests at the WBG include advocating for continued and improved access to concessional and grant financing for Pacific Island countries; ensuring the WBG plays a leading role in climate finance; and encouraging the WBG to leverage its analytical expertise including in climate and business.
- The World Bank (encompassing the Group's concessional (IDA) and non-concessional (IBRD) financing arms) is widely considered to be a mature and high performing organisation. Expectations for the Bank are high, and to a great extent, the World Bank meets these expectations. Areas where performance could be improved include: engagement in situations of fragility, conflict and violence; knowledge management; clarity on the framework for engagement in partnerships; and the measurement and reporting of results, especially on cross-cutting issues.
- The WBG has scaled up the delivery of finance in response to cascading crises over the past three years. This front-loading is expected to offset by a decline in the delivery of financial resources in fiscal year 2024. At present IDA funding and IBRD and IFC capital is judged to be adequate as the focus shifts from crisis response to a longer term focus on climate change and the Sustainable Development Goals.

Background

Overview

- The WBG is the only global MDB and is the largest development bank. It has a critical role in helping developing countries achieve the United Nations' Sustainable Development Goals (SDGs) by 2030, addressing climate change in developing countries, and responding to global crises such as the COVID-19 pandemic and food security. The WBG's twin goals are:
    - ending extreme poverty, and
    - boosting shared prosperity.
- The WBG provides:
    - technical support, drawing on over 70 years of development finance and assistance experience, and
    - financial support, with over US$104 billion committed in FY22. Its financial offerings include grants, concessional and non-concessional loans, equity investment, advisory services, guarantees and derivatives, investment management, and trust administration.
- The WBG has strong convening power, bringing together public and private stakeholders at global, regional, and national levels to address development issues, crisis response, and issues related to global and regional public goods.

World Bank composition and New Zealand's constituency

- Each member country (of which there are 189) appoints a governor to represent it on the Board of Governors. You are New Zealand's Governor and Caralee McLiesh is the Alternate Governor. The Board of Governors votes on some high-level issues but in practice delegates most decisions to the resident Executive Board in Washington, D.C. There are 25 positions at the Board, which is chaired by the President, David Malpass. Some large economies have an individual seat, while the rest group together in constituencies to share a Board position.
- New Zealand is in a constituency of 15 countries that also represents Australia, Korea, most of the Pacific, Mongolia, and Cambodia.
- Australia and Korea take turns appointing the Executive Director for a two-year period. Il Young Park is Korea's nominee to take up the role from 1 November 2022, replacing the Australian Executive Director, Nigel Ray (who was formerly on the IMF Board).

World Bank Institutions

- The WBG comprises five separate institutions employing over 17,000 staff across more than 120 countries. While there are some differences in country membership across the five institutions, in practice they effectively 'share' the same Board of Directors and Board of Governors.
- The five WBG institutions are as follows:
    - *The International Bank for Reconstruction and Development (IBRD)* is the original WBG institution and has 189 member countries. It provides non-concessionary loans to middle-income countries and creditworthy low-income countries. New Zealand's current voting share is 0.42 percent.
    - *The International Development Association (IDA)*, which supports the world's lowest-income countries through interest-free and concessional loans and grants. New Zealand's current voting share is 0.28 percent.
        - IDA is managed by the IBRD, and together these two organisations are known as the 'World Bank'.
        - IDA's capital is generally replenished every three years by way of donor grants; however, its twentieth replenishment (IDA 20) was brought forward one year due to heightened development needs arising from COVID-19. Cabinet agreed in June 2022 to contribute NZ$55 million to IDA 20, representing 0.17 percent of the US$23.5 billion in donor contributions, supporting US$95 billion in operations.
    - *The International Finance Corporation (IFC)*, which supports creating markets in developing countries through private sector equity investments and loans, and technical assistance. New Zealand's current voting share is 0.23 percent.
    - *The Multilateral Investment Guarantee Agency (MIGA)*, which provides political risk insurance and credit enhancements for private sector foreign direct investment. New Zealand's current voting share is 0.34 percent.
    - *The International Centre for Settlement of Investment Disputes (ICSID)*, which provides dispute settlement services for private sector investors, funded by fee income and transfers from the IBRD.

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New Zealand's interactions with the World Bank Group

- The World Bank is the third largest donor to Pacific Island countries, behind Australia and the Asian Development Bank, with IDA making up the bulk of WBG financial assistance to the region. IDA funding to the Pacific has increased significantly in recent years, more than tripling from US$307 million under IDA16 to nearly US$1 billion under IDA19.
- New Zealand provides financial resources to the WBG primarily through the capital invested via our shareholding (financed through Vote Finance) and our contribution to the replenishment of IDA resources every three years (financed through Vote Foreign Affairs). The WBG offers considerable leverage value to New Zealand's development priorities in two ways:
  - Pacific Island countries receive much more financing from the WBG than what New Zealand contributes to it in shareholding and replenishment capital, and
  - the WBG can leverage its balance sheet by operating an investment portfolio and issuing bonds in capital markets to provide more resources beyond the capital contributed by donors. For instance, in the case of IDA, each dollar contributed by donors mobilises an estimated four dollars in commitments.
- In addition, New Zealand's portfolio approach to Official Development Assistance (ODA) leverages (or relies on) the activities of the WBG and others to help achieve our ODA objectives. This occurs especially through joint financing (co-financing) of budget support operations, the incidence of which increased in response to the COVID-19 pandemic and subsequent economic recovery.

Current issues relating to New Zealand

Pacific

- Given high levels of debt in the Pacific following COVID-19, it is vital that Pacific countries have access to concessional or grant finance to avoid increasing their debt burden. s6(a)
- The WBG has provided increased finance for the Pacific over the past few IDA replenishments. However, there are challenges with delivery given the asymmetries in resource and capacity between the WBG and Pacific governments, especially in the context of the WBG's business model (shared by other MDBs) which relies on country-driven implementation of operations, subject to WBG's financial and prudential rules (such as on safeguarding and procurement processes) and oversight.

Climate

- Under its Climate Change Action Plan 2021-25, the WBG commits to:
  - 35% of WBG financing having climate co-benefits over the next five years
  - 50% of IBRD and IDA climate financing supporting adaptation and resilience
  - aligning with the Paris Agreement from 1 July 2025
  - supporting the preparation and implementation of Nationally Determined Contributions, and
  - supporting transitions away from fossil fuel energy to cleaner energy.
- In addition to its lending operations, the WBG has also begun producing Country Climate and Development Reports (CCDRs). CCDRs are country-level diagnostic reports that assess a country's adaptation and mitigation challenges, identify policy trade-offs and provide recommendations to help guide policymakers prioritise policy responses. Policymakers have the opportunity to leverage the WBG's knowledge expertise to help guide climate efforts in developing countries. Done well, they could be useful analytical tools to determine climate finance spending. So far, the WBG has produced CCDRs for Vietnam, Turkey and a regional CCDR for five countries in the Sahel (northern Africa).

- CCDRs could provide New Zealand and likeminded partners, including the ADB, an opportunity to advocate for greater climate adaptation finance for the Pacific. Discussions on the best approach are ongoing. There is a possibility that a Pacific CCDR would group Pacific countries together, risking detracting from the benefits of a country-specific and tailored diagnostic report. The Sahel CCDR is currently being assessed for the way it handles such risk.
- Despite criticism by some countries, including their Board Executive Directors, and NGOs concerning the publication of rankings, the BEE team is to propose ways to reduce ranking 'hype' and manage risk through full data transparency and integrity. New Zealand's Executive Director supports this approach.
- The timing for the release of final 'concept note' and proposed product is not yet clear.

Doing Business Report

- In September 2021, the World Bank decided to discontinue its 'Doing Business' reports. The WBG is developing a new approach to assessing economies' business and investment climate (called the Business Enabling Environment (BEE) project), which will look at how conducive the business environment is for private sector development as a whole, rather than just for individual firms or sectors. New Zealand has engaged in the consultations, primarily through Ministry of Business, Innovation and Employment (MBIE). Key changes could include removing rankings, which were criticised by some countries and NGOs during the consultation process. The timing for the release of the final 'concept note' and proposed product is not yet clear.

IDA

- As IDA 20 is implemented, New Zealand's interest will be in monitoring progress, outcomes, and impacts, particularly in the Pacific. Our continued participation in IDA, alongside representatives from Pacific Island countries, also provides a useful and visible platform for New Zealand to advocate for the interests of our Pacific neighbours. Our ongoing participation helps to ensure that New Zealand continues to be seen as a credible partner and voice for the Pacific.

Operations

- In fiscal (June years) 2022 the WBG committed US$104.4 billion in financing, 41 percent more than in 2018. Of this, the greater part came from IDA, with commitments of US$37.7 billion, 57 percent greater than in 2018. IBRD lending commitments came to US$33.1 billion, while IFC operational commitments totalled US$22.2 billion. MIGA guarantee issuance came to US$4.9 billion in 2022. A further US$6.4 billion was committed from co-financing trust funds in 2022.
- In 2021 the WBG delivered US$26.6 billion to help developing countries address climate change, and in 2022 this has increased by 19 percent, to US$31.7 billion, equivalent to some 36 percent of total WBG financing. Over the first two years of the COVID-19 pandemic crisis (FY 2020 and 2021) the WBG delivered US$204.1 billion in pandemic-response support and is currently delivering support for vaccine roll-out, which by June 2022 had amounted to US$10.1 billion. The WBG is currently in the process of delivering a food security package worth US$75 billion.

Pacific operations

- As of end June 2022, the World Bank (WB, IBRD plus IDA) had 104 operations in place in the Pacific, worth US$3,064 million. During FY 2022 the WBG committed US$1, 094 in new financing, of which US$614.5 million was in the form of grants, US$379.9 million in interest-free credits, and USD100.9 million in non-concessional loans (see table below).

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World Bank Pacific Financing Operations (US$ million)

Fiscal (June) Year	Net New Commitments					Portfolio under Management	
	IDA		IBRD Loans	Trust Fund Financing	Total	Value	Active Operations (Number)
	Grant	Credits					
2015	113.0	123.8	50.0	0	286.8	902.7	55
2016	48.7	45.6	50.0	17.0	161.3	990.7	53
2017	79.9	172.9	6.0	33.7	292.5	1,224.2	63
2018	92.8	5.0	15.0	3.4	116.2	1,294.8	65
2019	323.9	214.8	0.0	0	538.7	1,651.8	69
2020	251.6	228.1	6.0	1.0	486.7	1,824.3	86
2021	112.5	302.5	55.0	12.5	482.5	2,062.5	86
2022	614.5	379.9	100.0	0	1,094.4	3,064.0	104

Source: World Bank.

- There are twelve Pacific Island member countries of the WBG, of which eight access IDA grant financing to some extent (see table below) and two access loan finance. Nauru and Palau are classified as ‘gap’ countries, with per capita incomes too high to access concessional finance but who are judged as too small to be able to bear IBRD non-concessional borrowing. Neither the Cook Islands nor Niue are WBG members.

Nature of IDA Financing in the Pacific

Country	Grant Finance	Credit Finance	Small Island Economy Exception
Kiribati	100%	0	Yes
RMI	100%	0	Yes
FSM	100%	0	Yes
Tuvalu	100%	0	Yes
Samoa	100%	0	Yes
Tonga	100%	0	Yes
Vanuatu	50%	50%	Yes
Solomon Islands	50%	50%	Yes
Fiji	0	100%	
PNG	0	100%	

World Bank performance

- In 2016, MOPAN (the Multilateral Organisation Performance Assessment Network, a donor group hosted by the OECD) assessed that the World Bank Group (World Bank, IBRD plus IDA) is a mature and high performing organisation. An updated assessment of the WBG is to be released by MOPAN shortly.
- The overall conclusion of the 2016 MOPAN assessment is that the WBG is a mature and high-performing organisation, meeting the requirements of an effective multilateral organisation that is both fit for purpose and can anticipate and adjust to a changing world. MOPAN observed that the WBG's comparative advantage lies in its capacity to provide a tailored package of financing and knowledge to its clients.
- The WBG's internal structures, processes and procedures were assessed to support the efficient and effective delivery of these services, while the WBG demonstrates a clear commitment to transparency and accountability in its operations, and has a robust internal control architecture. MOPAN added that the Bank's AAA credit agency rating is testimony to its financial strength.
- MOPAN concluded that expectations for a world-class organisation are high, and the WBG meets these expectations to a great extent. Areas where performance could be improved include: engagement in situations of fragility, conflict and violence; knowledge management; clarity on the framework for engagement in partnerships; and the measurement and reporting of results, especially on cross-cutting issues.

Future direction

- Over recent years the WBG has been responding to cascading global crises arising from the COVID-19 pandemic, assisting recovery from the pandemic, the Ukraine war and food insecurity, sharply rising inflation, increasing debt distress, and rising poverty. This cascade has been a distraction to the Bank's underlying work on assisting developing countries to address climate change and achieve the UN Sustainable Development Goals. In time, the WBG is expected to sharpen its focus on the latter. Such a transition is illustrated by the theme for IDA20, the most recent IDA replenishment, of GRID: green, resilient and inclusive development.
- Despite the recent capital increase, enhancing leverage on capital remains an issue to some stakeholders. Capital adequacy measures differ across the arms of the WBG. Overall, the WBG is increasing its lending and grant operations, with the consequence that capital adequacy is falling (except at the International Finance Corporation). This means that it is likely to be a reduction in financial resources available from the IBRD and IDA in fiscal year 2023/24.
- The G20 has recently received an independent report into MDBs' capital adequacy frameworks, recommending a suite of measures that MDBs with support from their shareholders could implement to stretch their balance sheets to meet increasing demand for global development finance. Recommendations range from technical enhancements to significant, and highly controversial, changes that could have fiscal implications for shareholders. This includes incorporating callable capital (the capital shareholders commit to providing if an MDB makes a "call" on that capital) in capital adequacy frameworks, which would increase the likelihood of a call on that capital in the future.
- New Zealand has an interest in MDBs' capital adequacy frameworks as a shareholder, donor, and development partner, but we also, like other countries, face fiscal pressures. We will want to ensure that all MDBs, including the WBG, fully explore all aspects of the G20 report and carefully manage capital adequacy risks, with New Zealand kept well informed given emerging risks and ongoing crises. Ultimately, our expectation is that MDBs can meet increasing development needs in a financially sustainable manner, and ensure risk appetite is appropriately aligned with the scale of development needs.
- In a presentation to the Board, World Bank management have undertaken to consult further with the Board and with shareholders. Management observed that the recent (2018) capital increase for IBRD and IFC covered some of the issues raised in the G20 report. They also noted that credit rating agencies do not take a common approach to assessing the MDBs, further complicating

adoption of the recommendations. A key concern is that at present the nature of callable capital is that it is for use in liquidation scenarios rather than in credit down grade scenarios. This and other recommendations could well require changes in MDB charters and articles of agreement.

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New Zealand in the International Monetary Fund (IMF)

Author: Treasury International team, MFAT Partnerships, Humanitarian and Multilateral Division, and Reserve Bank of New Zealand (*October 2022*)

Key points

s9(2)(f)(iv) and 9(2)(j)

[redacted]

s6(a)

[redacted]

IMF administered account for Ukraine

- In early 2022, IMF established a multi-donor administered account through which donor countries can provide loan and/or grant met Ukraine's financing needs. Both the IMF and Canada, which played a leading role in establishing the account, asked New Zealand to contribute. You were provided advice on this request on 11 May [T2022/944].
- As of September 2022, only Canada (C$1.45 billion loan) and Germany (€1 billion grant) had contributed, while the Netherlands and Belgium are currently working to finalize contributions of their own.

- s9(2)(f)(iv) [redacted] New Zealand still has limited fund allocated to supporting Ukraine and that is focused on military, humanitarian, and international legal accountability.

Background and Further Information

What does the IMF do?

- The IMF's primary purpose is to help maintain the international monetary system's stability by:
  - maintaining an overview of the world economy and international financial system, and providing a forum for countries to engage;
  - monitoring countries' economic and financial policies and outlook;
  - lending foreign exchange to countries that have difficulties, or potential difficulties, making international payments, while they undergo an economic adjustment programme; and
  - providing technical assistance and training to countries as well as standards and tools to improve their policies and institutions.
- Each of the IMF's 190 member countries appoints a governor to represent it on the Board of Governors – the highest decision-making body in the IMF. You are New Zealand's Governor and Adrian Orr is the Alternate Governor.
- The Board of Governors votes on some high-level issues but delegates most decisions to the resident Executive Board (the Board) in Washington DC. There are 24 positions at the Board, which is chaired by the Managing Director, Kristalina Georgieva. Some large economies have an individual seat, while the rest are grouped in constituencies.
- New Zealand is in a constituency with Australia, Korea, and 12 other Asia Pacific countries. Australia and Korea take turns appointing the Executive Director and New Zealand appoint an Alternate Executive Director (currently Oscar Parkyn). Constituency offices reflect the views of the countries they represent. In addition, the IMF employs well over 2,000 permanent staff. The Managing Director is the head of the staff and is assisted by four Deputy Managing Directors.

New Zealand's interactions with the IMF

- New Zealand provides resources to finance the IMF's lending to countries in difficulty. New Zealand's "quota" – its permanent capital contribution– is around US$1.61 billion. A portion of this quota (currently 28 percent) has been provided in foreign currency for use in lending, earns interest from the IMF and is considered part of New Zealand's official reserves. The remainder is in the form of a promissory note in the IMF's account at the RBNZ, which can be drawn on to finance additional lending as required.
- Across the whole membership, total quota is around US$613 billion. If this is insufficient to finance the IMF's lending, several countries, including New Zealand, have agreed to lend additional resources to the IMF. New Zealand has agreed to lend up to around US$1.3 billion under two different arrangements, the New Arrangements to Borrow (NAB) and the latest round of bilateral borrowing agreements (BBA).
- Each year the IMF visits New Zealand and prepares an "Article IV" report for the Executive Board. Article IV reports review a country's exchange rate, monetary, fiscal and financial sector policies. The last Article IV consultation with New Zealand was held in April 2022.
- The current mission chief for New Zealand is Harald Finger. The IMF's relationship with New Zealand is overseen by the Asia Pacific Department, whose director is Krishna Srinivasan. Deputy Managing Director Bo Li has overall management responsibility for New Zealand.
- New Zealand values the IMF's research, expertise and standard-setting, and uses its outlook for the global economy in its own forecasts. We have an interest in the IMF's surveillance of our key trading partners such as China. The IMF in turn looks to New Zealand as an example of good practice, particularly in public financial management, for which we are very highly regarded.

Current issues relating to New Zealand

- The IMF recently concluded a review of the overall size of its lending capacity. This exercise resulted in a doubling of the NAB, and a new round of BBAs, with the reforms coming into force on 1 January 2021. This means that the IMF has maintained its lending capacity for coming years ta round US$1 trillion. Quota shares were last adjusted to reflect the changing positions of member countries in the global economy in 2016.
- Our constituency at the IMF represents ten small island states and often advocates on behalf of small states, especially in the Pacific, to ensure the IMF is aware of, and responding to, their unique economic challenges. Those challenges include vulnerability to climate change and natural disasters, as well as financial linkages with the rest of the world. New Zealand supports a more efficient and modern IMF.
- The Cook Islands are seeking IMF membership and are likely to formally request New Zealand's support for their bid. New Zealand have previously taken a position of 'not standing in the way' of Cook Islands membership, but there may be opportunities to support them, in line with our strategy for engagement in the Pacific.
- Australia has nominated Robert Nicholl to be the next Executive Director of our constituency, beginning on 1 November 2022. Mr Nicholl is highly regarded – he is the Chief Executive Officer of the Australian Office of financial Management and has extensive public and financial policy experience, including senior executive appointments in the Tasmanian Treasury and Department of Infrastructure, Energy and Resources. Australia, New Zealand and Korea have an excellent relationship within the constituency and typically find a common constituency position on IMF policy issues presented to the Board.

IMF Global Financial Stability Report Summary

Key points for New Zealand policymakers

- The IMF Global Financial Stability Report (GFSR) is a bi-annual publication that provides an assessment of the risks to the global financial system. It focuses on current market conditions, highlighting systemic issues that could pose a risk to financial stability and market access for emerging market borrowers. The October 2022 GFSR is intended to be publicly released on Tuesday, October 11, 2022.
- The Report highlights a number of rising challenges to the global economy, namely the highest rate of global inflation in decades, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic impacting global supply-chains.
- In addition, the Report notes the increasing downside risks to the global economic growth outlook. While the challenges of the COVID-19 pandemic and global supply chain issues of recent years are lessening, strong and ongoing inflationary pressures are leading central banks to tighten monetary policy more aggressively than had previously been anticipated. Central banks face the difficult task of having to tame inflation without causing an undue slowdown in economic activity.
- Europe faces particularly difficult challenges, including Russia's invasion of Ukraine and related energy crisis, the euro area fragmentation risks amid a strong US dollar appreciation, and divergent national policy paths and sovereign bond yield spreads.
- On China, the world's second-largest economy, a worsening of the property sector crisis could spill over to the domestic banking sector and weigh heavily on the country growth, with negative cross-border effects. In addition, further pandemic-related supply-side disruptions are expected due to its zero-COVID policies. As a result, the IMF expects China has reduced its growth forecast for China in 2022 to 3.2 percent.
- Given all of the above, the global economy risks entering a stagflation scenario in the near term, reflecting significant slowdowns for the largest economies including the US, China and the European Union.

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  - Global growth is forecast to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.6 percent in 2023; while,
  - Global inflation is forecast to rise from 4.7 percent in 2021 to 8.7 percent in 2022 but to decline to 6.4 percent in 2023.

- On a more positive note, the Report emphasises that levels of capital and ample liquidity buffers have bolstered the resilience of the global banking sector. In terms of capital, the global Common Equity Tier 1 (CET1) ratio increased from 12.5 percent in 2019 to 14.1 percent in 2021. In addition, the asset mix shifted toward liquid assets and securities during the pandemic as deposits rose due to government support programs.
  - Despite this, global bank stress tests show that in a scenario with an abrupt and sharp tightening of financial conditions that would send the global economy into recession in 2023 amid high inflation, up to 29 percent of emerging market banks would breach capital requirements, while most advanced economy banks would remain resilient. To rebuild buffers and the capital shortfall would require over $200 billion.
- Facing these global downside risks, the Report states a series of policy recommendations, including:
  - Central banks must act resolutely to bring inflation back to target, while avoiding unwarranted market volatility;
  - Policymakers should contain further build-up of financial vulnerabilities, adjusting selected macroprudential tools as needed;
  - Implementation of policies to mitigate market liquidity risks is paramount to avoid possible amplification of shocks;
  - Scaling up private climate finance will require new finance instruments and the involvement of multilateral development banks to attract private investors, leveraging private investment and strengthening risk absorption capacity;
  - Policy action is warranted to mitigate vulnerabilities and risks associated with open-end investment funds.
- For New Zealand, the global economic environment presents a difficult task of balancing the withdrawal of sufficient stimulus to ease strong inflationary pressures, without causing an undue fall in activity and employment. New Zealand’s financial system is well positioned to handle an environment of rising interest rates. Registered banks’ profitability has been robust, with very low levels of non-performing loans and slight increases to their net interest margins over the past 6 months. Banks’ capital positions have increased over the past two years ahead of upcoming higher capital requirements. This strengthens the banking sector’s ability to absorb losses and maintain lending in the event of a downturn.

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Global and Asia-Pacific Region Economic Outlook, and IMF Fiscal Monitor

Author: Treasury Forecasting (*September 2022)*

Key points

- The IMF are forecasting a slowdown in global growth from 6.0% in 2021 to 3.2% in 2022 and 2.6% in 2023 (Table 1). Growth in China, the euro area, and the US will slow significantly. Growth in Australia and New Zealand is projected to slow by less.
- Risks to the economic outlook continue to be large and on the downside. If realised, these risks would depress growth and increase inflation. Key risks include more energy and food price shocks from Russia's invasion of Ukraine and increased global fragmentation, a more pronounced slowdown in economic activity as central banks ramp up efforts to quell inflation, a resurgence of pandemic risks and a worsening in China's troubled property sector.

Table 1: provisional IMF WEO forecasts, October 2022 (Note: these may differ from the final forecasts scheduled for release on 11 October)

	Ann. avg. % change, years ended December			
	GDP		CPI	
	2022	2023	2022	2023
World	3.2	2.6	8.7	6.4
US	1.6	0.9	8.2	3.4
Euro area	3.0	0.6	8.3	5.5
China	3.2	4.4	2.7	1.8
Australia	3.8	1.9	6.5	4.8
New Zealand (IMF)	2.3	2.0	6.3	3.9
NZ (RBNZ Aug MPS)	2.4	1.5	6.6	4.4

Global developments

- The global outlook has deteriorated in recent months. The second quarter of 2022 saw growth contract in the US and China and slow sharply in eastern European countries affected by the war in Ukraine and international sanctions aimed at the Russian economy.
- Forward looking indicators including manufacturing output and business sentiment suggest a slowdown in the major economies, although labour market strength is providing a conflicting signal.
- Central banks are acting to remove monetary policy support. The impact of higher interest rates is most evident in housing markets with house prices declining in several economies. Fiscal policy support is also being scaled back, but less so in Europe where governments are acting to reduce the impact of high energy prices on households and businesses.
- Global growth is also being negatively impacted by China's COVID-19 outbreaks and restrictions. China's lockdowns have imposed sizable constraints domestically and contributed to the persistence of supply chain disruptions. Meanwhile, Russia's invasion of Ukraine and increased uncertainty around commodity supply has generated volatility in commodity markets. In Europe, constrained gas supply has disrupted manufacturing and created uncertainty for consumers and businesses.

Global outlook

- The outlook for the second half of the year is supported by expectations of easing pandemic restrictions in China and more generally across the world by the ongoing rotation of activity away from goods and towards services as pandemic drags fade further. Improved supply conditions and recent falls in commodity prices, including oil, are reducing headline inflation. However, core inflation is proving to be more persistent. On the negative side, past monetary policy actions and expected future actions, will increasingly restrain growth.

- In sum, three factors critically shape the outlook: the stance of monetary policy, the impact of the war in Ukraine, and the ongoing impact of pandemic-related restrictions and supply chain disruption.
- The IMF forecasts global growth in 2022 to be 3.2%, well below the average pre-pandemic performance of 3.6%, and the 6.0% recorded in 2021. Slower growth is predicted in 2023. Headline inflation has likely peaked, driven by lower food and energy prices, however underlying inflation is expected to increase further. China is a notable exception to the global trend.
- The world's three largest economies – China, the euro area, and the US – are expected to slow significantly in 2022 and 2023, with downgrades from the IMF's earlier projections in April and July. The downgrades reflect the forces described above – rapid monetary tightening, pandemic disruptions and the effects of the war in Ukraine.
- **United States**: growth slows as high inflation erodes real incomes and higher interest rates reduce investment spending, especially residential investment.
- **Euro area**: spillover effects of the Ukraine war and tighter financial conditions contribute to slower growth. The projected slowdown in 2023 is particularly sharp in Germany, with the economy expected to record negative annual average growth.
- **China**: COVID-19 outbreaks and lockdowns in multiple provinces, as well as the worsening property market crisis, have held back economic activity in China, although growth is still expected to rise to 4.4 percent in 2023.
- **Australia**: there is no commentary from the IMF on Australia or New Zealand. The outlook for New Zealand is summarised in a separate brief. Table 1 show that the IMF forecasts higher growth and lower inflation in 2023 than the most recent Reserve Bank of New Zealand forecasts. The IMF's forecasts for Australia are broadly in line with other forecasters, including the Reserve Bank of Australia.
- Growth in Australia has remained resilient, with GDP expanding 0.9% in the June quarter and 3.9% in the year ended June 2022. The unemployment rate in August was near record lows at 3.5%. Wage growth has picked up but remains moderate at 2.6% according to the Wage Price Index.
- Growth is expected to slow from here and, in the housing market, prices are falling. However, beyond the housing market, there are few signs of weaker activity. Strong labour market conditions and income growth are providing a counterbalance for household budgets that face increased pressure from rising prices and higher interest rates.
- CPI inflation was 6.1% in the June 2022 quarter. Market forecasts are for inflation to peak at over 7.5% later this year and to decline to 4% in 2023 and 3% in 2024.
- The Reserve Bank of Australia raised its policy rate to 2.35% in September and markets expect rates to rise to 3.8% by mid-2023. Unemployment is expected to remain around current levels for the next few quarters before rising towards 4% by the end of 2024.

Risks

- Risks to the outlook remain unusually large and to the downside. Key risks include: monetary policy that either under- or overtightens, divergent policy paths that add to US dollar strength, more energy and food price shocks, emerging market debt distress, the impact of halting Russian gas supply, a worsening in China's property crisis and geopolitical fragmentation that slows global trade.

Policies

- Warding off these risks starts with monetary policy staying the course to restore price stability. Restoring price stability will require unemployment to rise and wages to decline.

- Fiscal policy needs to support monetary policy by reducing deficits. Reducing fiscal deficits can be a powerful signal that policymakers are aligned in their objective of low and stable inflation.
- Fiscal policy should focus on protecting the most vulnerable from the impact of higher prices and lower employment. In advanced economies, targeted cash transfers and existing automatic stabilisers (for example, job seeker benefits) are seen as the best options. In the medium-term, structural reforms, such as those that increase labour supply including childcare subsidies, earned income tax credits and reformed immigration systems, are advocated.

Analytical Chapters: the WEO includes two analytical chapters:

- Wage dynamics post-covid-19 and wage-price spiral risks: rising inflation expectations and tight labour markets raise the risk that wage increases catch-up or exceed inflation. A wage-price spiral arises when there are sustained increases in both wages and inflation.
- The IMF observes that the chances of persistent wage spirals emerging are limited by rapid monetary policy tightening, falling real wages, and because the source of inflation is outside the labour market. In the NZ context, the Treasury view is that stronger wage-price dynamics than currently observed would be met with increased monetary tightening, resulting in a weaker outlook for activity and employment.
  - **Near-term macroeconomic impact of decarbonization policies**: the costs of reducing carbon emissions by 25% by 2030 are manageable if the right measures are implemented immediately and phased in gradually.
  - Key points include: policy design has a major influence on output, inflation, and income distribution; climate polices do not present a significant challenge for monetary policy; and further delay would amplify energy transition costs.

Fiscal Monitor (IMF)

- The October Fiscal Monitor (FM) is set in the context of rising inflation and climbing interest rates, which have supplanted more than a decade of muted inflation and low interest rates in many countries. The FM notes recession concerns and geopolitical tensions due to Russia’s continuing invasion of Ukraine. The IMF also emphasises increasingly difficult fiscal policy trade-offs in the context of increasing cost-of-living, driven globally by food and energy prices, and monetary tightening.
- For advanced and emerging market economies, the IMF recommends gradual and steady fiscal tightening in the medium term, while pursuing social policies which prioritise resilience against loss of real income for low-income households. The IMF continues to recommend investment in the health system and pandemic preparedness.

IMF key messages

- **Globally, deficits have fallen relative to early-pandemic levels, but remain higher than pre-pandemic levels.** The contraction in deficits is notable across both advanced and emerging economies, reflecting the unwinding of pandemic support measures, and broad-based inflationary pressures increasing government revenues.
- **Government budget constraints are tightening as global financial conditions become more challenging.** The global economy has slowed amid continued challenging financing conditions. A sharp downturn would exacerbate trade-offs between demand management, debt stabilisation, the protection of vulnerable populations, and investment for the future.
- **Fiscal consolidation will help dampen inflationary pressures and allow for lower policy rate increases.** Fiscal consolidation helps to signal that policymakers are aligned in their fight against inflation, which, in turn, would reduce the size of required policy rate increases to keep inflation expectations anchored and would keep debt servicing costs lower than otherwise.
- **The COVID-19 pandemic led to innovative and extensive discretionary fiscal responses**, against a backdrop of constrained monetary policy with interest rates near zero or negative, in

advanced economies. The ensuing reassessment of the appropriate size and mix of policy tools in response to a large crisis can inform the response to current and future challenges.

- **Fiscal policy can increase resilience of society, firms, households and individuals to current and future shocks. The FM in particular support:**
  - households and workers who have lost, or are at risk, of losing their jobs or incomes;
  - measures to limit the adverse impacts of large spikes in food and energy prices in the real income of households (especially low-income families);
  - providing government support to firms to bolster their liquidity and solvency through direct lending, guarantees, and equity injections to prevent bankruptcies.

Policy conclusions and recommendations

- **Building fiscal buffers in normal times is a pre-requisite for policies to respond flexibly during crises** without jeopardising access to financing. In the early stages of the pandemic, advanced economies and some emerging markets were able to finance a major fiscal expansion, despite elevated public debts, because interest rates were at the effective lower bound and inflation was below target. Those conditions are no longer in place and may not be in place when the next crisis strikes.
- **Experience from the pandemic points to trade-offs between the risk of doing too much and the risk of doing too little,** or between large fiscal costs and generosity of support (in terms of coverage or amounts per individual). Preparation can ameliorate those trade-offs, by improving the ability to target those in need and limiting incentives for individuals and firms to shirk or take on excessive risks. It may be helpful to develop a strategy that sets out desirable policy responses under various scenarios.
- **Fiscal responses need to have a clear exit strategy to ensure that they are temporary.** To manage fiscal risks from measures without immediate fiscal impacts, governments should focus on good governance, transparency, and quantification of risks and contingent liabilities. In regard to exceptional circumstances that call for fiscal support to viable firms, governments need to identify beforehand the externalities that warrant public interventions and clearly assess the trade-offs.
- **Protecting vulnerable households from spikes in food and energy prices is best achieved by strengthening social safety nets** to deliver temporary targeted cash transfers. Targeted cash transfers are a better option than blanket prices subsidies on fuel because they allow the rise in fuel costs to pass on eventually to end users to facilitate energy conservation and switching out of fossil fuels. Greater domestic and international efforts to transition to a more diverse, renewable energy mix will reduce vulnerabilities to fossil fuel shocks.

Asia-Pacific Economic Outlook

(Asian Development Bank, September 2022)

- **Developing Asia's recovery continues but is being slowed by global headwinds.** Russia's invasion of Ukraine continues to affect economies in the region, with supply disruptions and elevated food and energy prices increasing inflationary pressures. Tighter monetary policy in advanced economies is denting global demand and rattling financial markets, and this is adding to the economic fallout from the war in Ukraine.
- **More flexible pandemic policies are allowing activity to expand, but the "zero-COVID" strategy of China is a notable exception.** Easing pandemic restrictions, increasing immunization, falling COVID-19 mortality rates, and the less severe health impact of the Omicron variant are underpinning improved mobility in much of the region. But the China remains the big exception because of intermittent but stringent lockdowns to stamp out sporadic outbreaks, in line with its "zero-COVID" strategy.
- **Consumer spending and employment are picking up due to reduced mobility restrictions.** Consumption and investment supported the recovery in the first half of 2022, and exports continued adding to growth despite an increasingly challenging external environment. Consumer

spending became more broad-based and increasingly rotated from goods to services. Labour market conditions are on the mend, supported by the economic recovery.

- **Headline and core inflation are trending up in developing Asia.** While still below the global average, regional inflation rose to 4.0% in the first half of 2022, higher than pre-pandemic inflation rates, driven by rising prices for food and energy. Core inflation has also been rising in several economies. Although global food prices have abated recently, the continuing war in Ukraine is keeping the costs of imported energy elevated in the region. In response, many governments in developing Asia have taken various policy measures, including subsidies, tax cuts or suspensions, trade restrictions, and price controls.
- **Developing Asia's exports remained strong in the first half of the year, but they are slowing rapidly.** Rising commodity prices supported exports, while global demand for electronics slowed. In China exports bounced back in June after the lockdown in Shanghai, but they declined in July and August. They also weakened in the Republic of Korea and fell sharply in Taiwan, both crucial suppliers of inputs to the wider electronics sector. Manufacturing export orders point to a gloomier outlook. They declined in August in seven of the nine regional economies for which data are available, including the PRC and the Republic of Korea, and they plunged in Taiwan.
- **Tourism is bouncing back in economies that reopened to travellers, and remittances remain healthy.** Tourist arrivals are back to pre-pandemic levels in Maldives. Arrivals continue rising in Armenia, Fiji, Georgia, Nepal, and Singapore, although they remain far below pre-pandemic levels. A rebound in tourism in Sri Lanka was interrupted by the crisis there, and arrivals are still close to zero in most Pacific island economies.
- Remittances remain healthy in Bangladesh, Pakistan, and the Philippines, which are among developing Asia's largest recipients in absolute terms. Remittances are still healthy in economies where these inflows are large relative to gross domestic product, as they are in the Kyrgyz Republic, Samoa, and Tajikistan.
- **Fiscal improvement continues at a slower pace, while the monetary policy tightening cycle is mounting across developing Asia.** In most economies, budget balances will improve less than initially expected this year and next, as slowing growth reduces tax revenue and governments increase spending to cushion the impact of higher energy and food prices. In contrast to the more gradual fiscal improvement underway across the region, monetary policy tightening is accelerating—there have been more and larger policy rates hikes in the region since April than there were in the first quarter. The tightening cycle should continue into early 2023, given rising inflationary pressures and weakening currencies.
- **Financial conditions deteriorated further on the dimming growth outlook and accelerated monetary tightening.** Currencies depreciated, equity markets retreated, risk premiums widened, and there have been foreign portfolio outflows in most developing Asian economies since April 2022. Financial conditions deteriorated substantially in some markets on economy-specific factors that included heavy debt burdens, worsening macroeconomic fundamentals, and exposure to the economic fallout from Russia's invasion of Ukraine.
- **This update revises down the forecasts for developing Asia made in April to 4.3% from 5.2% for 2022 and to 4.9% from 5.3% for 2023.** Excluding China, the rest of developing Asia is projected to grow by 5.3% in both 2022 and 2023. The revised outlook is shaped by a slowing global economy, the fallout from the war in Ukraine, more aggressive monetary tightening in advanced economies, and lockdowns resulting from the PRC's "zero- COVID" strategy. East Asia and South Asia account for most of the downgrade. East Asia's growth is revised down to 3.2% from 4.7% for 2022, as growth in the PRC will be much weaker than expected earlier.
- This will be the first time in more than 3 decades that the rest of developing Asia will grow faster than the PRC. Growth in South Asia this year is revised down to 6.5% from 7.0% in the earlier projection and to 6.5% from 7.4% for 2023. This reflects modest downward revisions to India's forecast on higher-than-anticipated inflation and monetary tightening, and Sri Lanka's sharp contraction caused by its sovereign debt and balance-of-payment crises. Growth forecasts are

raised for the Caucasus and Central Asia, and the Pacific. The forecast for Southeast Asia remains largely unchanged.

- **The regional inflation forecast is raised to 4.5% from 3.7% for 2022 and to 4.0% from 3.1% for 2023 due to higher energy and food prices.** Inflationary pressures in developing Asia are expected to remain less severe than elsewhere in the world. But headline inflation is expected to accelerate in all subregions, to varying degrees. With recoveries continuing and labor markets improving, monetary authorities in economies where inflation pressures are broadening should push forward with tightening.
- **Risks to the outlook are skewed to the downside.** A sharp deceleration in global growth would severely undermine demand for developing Asia’s exports. Stronger-than-expected monetary policy tightening in advanced economies could result in large exchange rate depreciations, financial instability, and balance of payment difficulties in economies with vulnerable fundamentals. An escalation of the war in Ukraine and the spillovers of this on global commodity markets remain a threat that could increase inflationary pressures further and trigger slower growth in the region. Other risks are a deeper-than-expected deceleration in the PRC, debt-related fragilities in some economies, food insecurity, geopolitical tensions, and climate change– related disruptions. Negative pandemic developments, such as the emergence of new COVID-19 variants, also remain a risk.

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Pacific Islands Economic Outlook and issues

Author: MFAT Development Economy and Prosperity Division (*September 2022)*

Key points

- Reduced economic growth prospects and higher risks of inflation dominate the economic outlook. While Pacific countries are recovering from the unprecedented slump caused by global and regional pandemic responses, their recovery is more sluggish than initially anticipated. This is primarily due to growing global macroeconomic challenges, as well as slower than anticipated border re-openings in the region and ongoing supply chain disruptions.
- Inflation and, for some Pacific countries, debt sustainability are looming concerns, and will contribute to budgetary pressures for partner governments. Pacific island economies are generally emerging out of the pandemic with reduced fiscal space for tackling any additional external shocks, including natural disasters.

Background

Global effects impacting the Pacific regional outlook

- The world is facing two major economic challenges. The first is high inflation, particularly in Western economies. Prices are expected to keep increasing at an elevated pace until well into 2023, despite authorities' actions to rein in inflation.
- The second risk is the growing likelihood of an economic slowdown, particularly outside Asia. The World Bank has downgraded its global growth outlook, down from a 2021 forecast of 5.7 percent, to 2.9 percent this year. Higher interest rates, the war in Ukraine, and rising energy prices are key factors for this downgrade.
- The combination of these two forces in the global economy – high inflation and low growth – is having negative effects on Pacific economies. Inflation and debt sustainability remain of significant concern in the Pacific, and will contribute to budgetary pressures for partner governments.
- MFAT does however expect to see modest returns to growth across the Pacific region. The Asian Development Bank is forecasting the Pacific region is expected to grow by 4.7 percent in 2022 and 5.4 percent in 2023 as most economies emerge from the worst of the pandemic-induced downturn. Labour mobility and skilled labour shortages pose challenges to a stronger recovery. Tourism, private sector, and aviation sectors remain fragile.

The impact of these challenges

- s6(a) [redacted] In the absence of robust economic growth, a combination of high inflation, reduced government spending, and poor job prospects might result in a decrease in living standards. In some cases, it could also increase emigration pressures, especially if Aotearoa New Zealand and Australia continue to experience labour shortages and offer relatively high wages.
- We are seeing tensions between bold spending aspirations on the one hand, and mounting economic pressures, diminishing resources, and rapidly increasing inflation on the other. In all but a small number of countries, expectations of substantial additional budget support from development partners may need to be moderated, including financing for deficit budgets.
- Ideally, Pacific governments will not at this time be focusing on launching ambitious but non-essential expenditures. Instead, the focus of national budgets should be on maintaining core public services, including healthcare and education, and (where relevant) social protection systems to support the most vulnerable households. In addition to reductions in non-essential expenditure, partner governments should be turning attention to raising domestic revenue, including through improving the efficiency of tax administrations.

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COVID-19 economic support

- Since the beginning of the pandemic, New Zealand has committed approximately NZ$325 million to Pacific countries through our COVID-19 direct budget support programmes. This funding – alongside that of other partners – has provided a 'floor' under the decline in countries' cash reserves and government revenues, preventing fiscal collapses from occurring in the region, and allowed Pacific governments to provide support to vulnerable businesses and households.
- Budget support aligns with the Pacific Resilience Approach approved by Cabinet in October 2021. It allows Pacific governments to respond flexibly and rapidly to the development challenges they are facing, in line with their own objectives and interests, and acknowledges that each country will have different priorities for building resilience. By using budget support to respond directly to their own development needs, it assists in promoting government ownership of the programmes to which the support is applied.
- Aotearoa New Zealand's 2022-23 Budget provided for an additional NZ$75 million that can be drawn-down to continue economic support for Pacific countries should the need arise (the amount is a tagged contingency and will be subject to joint-approval by the Minister of Finance and the Minister of Foreign Affairs). We anticipate we may need to draw on this facility for s6(a) [redacted]
- This support sits alongside our other economic support in the agriculture, digital economy, fisheries, and tourism sectors, as well as support for small- and medium-sized enterprises.

Debt Dynamics in the Pacific

- s6(a) [redacted]
- [redacted]
- In line with global trends, most Pacific countries have incurred high levels of public debt in the last decade, primarily to finance investments and imports in excess of what they could afford on the basis of their exports and aid flows.
- The policy debate around debt dynamics globally is often influenced by the debt situation of countries in Africa, and to a lesser extent Asia and the Caribbean; not the Pacific. In the Pacific: there is limited history of debt sustainability crises; the majority of debt is issued by the Asian Development Bank and the World Bank on concessional terms (rather than from bilateral creditors); most countries receive a blend of concessional loans and grants, or solely grants, from the International Financial Institutions; countries have generally been managing the challenges related to public debt well; debt transparency is generally sound; and only small amounts of debt is reported as being held by private creditors.
- However, the Pacific economies' small size and vulnerability to external shocks means that even moderate levels of debt can be inherently risky. s6(a) [redacted]

Policy position signals new approach to engaging with partners on debt

- Ultimately, Pacific countries have the responsibility for keeping their debt sustainable and ensuring it does not jeopardise their future growth and stability. However, given the strong interest we have in supporting economic viability and resilience in the Pacific, we will continue to offer advocacy at the international level (including through our membership of the International Financial Institutions), and providing technical advice and assistance for initiatives aimed at promoting sustainable debt management. MFAT’s Pacific Infrastructure Technical Assistance Fund is available to support early project stages and improve bankability of projects, including evaluating the merits and most appropriate means of financing different development investments.

- The fact that we do not directly hold any Pacific debt also provides us with an opportunity to bring a neutral perspective to discussions on debt dynamics in the Pacific, s6(a) [redacted]
- We are also in a position to encourage and support other ways of growing and mobilising revenue. For instance, via improving taxation systems, improving efficiency of spending, reducing corruption, improving the business environment, and strengthening the financial sector to play a greater role in financing productive investment.

Debt Relief

- In the context of challenges presented by debt burdens, we expect more calls for debt relief or cancellation. Our policy position addresses this issue. While we support global efforts to reduce unsustainable private and bilateral debt burdens, there are number of issues that need to be carefully considered in relation to debt relief or cancellation initiatives:
  - Much of the recent debt held by developing countries (especially outside of the Pacific) has been driven by bilateral creditors, as well as foreign commercial and quasi-commercial actors. Using aid finance to support the repayment of this type of debt is not a prudent use of Aotearoa New Zealand taxpayers’ money.
  - Debt provided by foreign commercial and bilateral lenders can fall in the most expensive and the most unsustainable category of borrowing. We believe that these creditors, rather than aid funding and resources from the International Financial Institutions, should bear the cost of relieving such debts.
  - A major write-off of multilateral debt would risk the availability of much-needed multilateral finance to vulnerable developing countries, including those in the Pacific, over the medium- and long-term.
  - s6(a) [redacted]
  - Debt relief and cancellations can, in theory, provide a perverse incentive for countries to take on unsustainable levels of debt in the expectation that it will be relieved or cancelled at some point in the future. Likewise, debt relief or cancellation efforts financed by our International Development Cooperation grant funding can reduce the overall perception of risk in taking out new loans.
  - s6(a) [redacted]

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New Zealand Fiscal and Economic Outlook

Author: Treasury Forecasting (*September 2022)*

Key points

- Resilience in the New Zealand economy continues as international tourism returns.
- The labour market remains tight and wage growth has picked up.
- Headline inflation is high and monetary policy accommodation has been removed.
- Expectations for growth in the year ended June 2023 have been revised down since the Treasury's Budget forecasts, reflecting a weaker global outlook, lower net migration inflows and higher domestic interest rates.
- The fiscal position remains sound, the operating balance is expected to return to surplus in 2024/25, and net debt is low by international standards.

New Zealand outlook

- The New Zealand economy has been resilient to disruption from COVID-19. Real GDP grew 1.7% in the June 2022 quarter following a contraction of 0.2% in the March quarter, which reflected the impact of Omicron. The easing of Omicron disruption, including the reopening of the borders, were the key drivers of June's increase. For the year ending June 2022, real GDP grew 1.0%.
- The labour market remains tight and wage growth has picked up. Employment has been flat in recent quarters, but the unemployment rate has remained around historically low levels as labour supply growth has slowed owing to the closed borders; population growth is the lowest since 1989. Wage growth, as measured by average ordinary time hourly earnings, increased 6.4% in the June 2022 quarter compared to the June 2021 quarter, the largest annual increase since 1990.
- New Zealand's international border restrictions have eased and a gradual recovery in international visitor spending is underway. Increased international tourism will support growth and help to narrow the current account deficit, which widened to 7.7% of GDP in the year ended June 2022.
- Commodity export prices rose sharply in late 2021/early 2022, supporting the terms of trade at near-record high levels. More recently, prices have eased, in line with other global commodities. Fonterra's current season forecast Farmgate Milk Price range is NZ$8.50-NZ$10.00 per kg of milk solids. The mid-point of $9.25 is slightly below the 21/22 season pay-out of $9.30.
- Overall, the outlook for activity in 2023 is fairly stagnant, with softening domestic activity offset by rising exports (in large part reflecting the ongoing recovery in tourism). The unemployment rate is expected to be around 4.5% by the end of 2023 according to the latest RBNZ forecasts. Neither the Treasury nor the RBNZ are forecasting a recession, but risks have increased both internationally and in New Zealand.

Inflation and interest rates

- House prices increased 44% between the end of 2019 and late 2021 reflecting macroeconomic policy measures in response to the pandemic threat. Subsequently, higher interest rates and tighter credit conditions have contributed to falling house prices. House prices in August were around 9% below their late 2021 peak. A peak to trough decline of about 15% is expected.
- Consumers Price Index (CPI) inflation reached 7.3% in the June 2022 quarter, which may be the peak in this cycle. The key drivers have been strong domestic demand pushing up against constrained supply, exacerbated by the shock to prices from the war in Ukraine.
- The RBNZ has lifted the OCR to 3.5% from 0.25% in October 2021, and the August Monetary Policy Statement projected the OCR to be over 4.0% by June 2023.

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Table 1: Budget Economic and Fiscal Update 2022 forecasts

June years	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Real production GDP (annual average % change)	5.3	1.7	4.2	0.7	1.6	2.5
Unemployment rate (June quarter)	4.0	3.1	3.3	4.4	4.8	4.7
CPI inflation (annual % change)	3.3	6.7	5.2	3.6	2.7	2.2
Current account (annual, % of GDP)	-3.3	-6.7	-6.4	-4.9	-4.0	-3.6
Fiscal measures ($billions)						
Core Crown tax revenue	98.0	103.8	116.1	122.7	129.9	138.5
Core Crown expenses	107.9	128.4	127.1	131.1	134.1	138.2
Total Crown OBEGAL[1]	-4.7	-19.0	-6.6	-2.6	2.6	7.0
Core Crown residual cash	-13.8	-31.8	-29.3	-9.3	7.9	17.7
Net debt	35.9	61.2	75.0	83.6	76.4	69.5
as a percentage of GDP	10.5	16.9	18.7	19.9	17.3	15.0
Total borrowings	162.6	200.5	230.6	245.1	243.0	248.2
Net worth attributable to the Crown	151.2	123.9	122.4	125.9	135.1	149.1

Financial Statements for the year ended 30 June 2022

- The operating balance before gains and losses (OBEGAL) recorded a deficit of $9.7 billion, roughly half of what was forecast at Budget 2022. This was due to stronger economic conditions and lower spending than forecast.
- Core Crown revenue was 4.1% ahead of forecast, reflecting strong business results and more people in work in the economy than ever before, contributing to higher tax revenue.
- Core Crown expenses were 2.2% below forecast, as our successful COVID-19 response meant allocated pandemic-related spending was not required in full. Some of these expenses, such as ongoing investment in protections like therapeutics and vaccines, will shift into the 2022/23 fiscal year. However, the end of the 2021/22 financial year marks the closing of the COVID-19 Response and Recovery Fund and the end of emergency spending.
- Net debt ended the year at 17.2% percent of GDP, in line with Budget 2022 forecasts. This is one of the lowest levels in the OECD and well below the Government's debt ceiling of 30 percent, ensuring we are well positioned to weather further economic shocks.

Table 2 – Fiscal strategy and other supporting indicators

Source: The Treasury

Year ended 30 June $ millions	Actual 2022 $ millions	Actual 2021 $ millions	Variance $ millions	%	Forecast Budget 2022 $ millions	Forecast Variance $ millions	%
OBEGAL	(9,691)	(4,560)	(5,131)	-112.5%	(18,978)	9,287	48.9%
Core Crown residual cash	(27,043)	(13,767)	(13,276)	-96.4%	(31,780)	4,737	14.9%
Net debt	61,850	35,921	(25,929)	-72.2%	61,163	(687)	-1.1%
Gross debt	118,950	100,835	(18,115)	-18.0%	115,139	(3,811)	-3.3%
% of GDP							
OBEGAL	(2.7)	(1.3)		(1.4)	(5.2)		2.5
Core Crown residual cash	(7.5)	(4.0)		(3.5)	(8.8)		1.3
Net debt	17.2	10.5		(6.7)	16.9		(0.3)
Gross debt	33.1	29.5		(3.6)	31.8		(1.3)

1 Favourable variances have a positive sign and unfavourable variances have a negative sign.

2 Excluding minority interests.

3 GDP is updated to reflect the most recently published numbers (Source: Stats NZ).

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International tax developments

- There has been growing concern internationally about the under-taxation of the digital economy. There has been significant work internationally at the OECD over recent years towards amending the international tax framework to help solve this issue.
- There have however been delays at the OECD level on this work. Despite this, officials are continuing to actively participate at the OECD level to try and ensure this work continues to develop in a way that benefits New Zealand.
- As an interim measure, other countries have implemented unilateral measures in the form of Digital Services Taxes (DSTs). s6(a) and 9(2)(f)(iv) [redacted]
- s9(2)(f)(iv) [redacted]
- A more substantive briefing on the topic of international tax developments has been provided separately [AM T2022/2214 refers]. This briefing includes some suggested speaking notes for discussions with your counterparts.

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Reconnecting New Zealand Daily Visa Volumes Update

Author: MBIE, Immigration New Zealand (*September 2022)*

Visitor Visas	As at 10pm 05 October 22

Visitor Visa waiver countries (NZeTA) – (opened 2 May 22)

- **331,454 (+4,399)** received
- **329,662(+4,010)** approved

Visitor Visa non visa waiver countries – (opened on 31 July 2022)

- **70,616 (+1,022)** visitor visa applications received
- **32,978 (+876)** visitor visa applications approved
- **710 (+28)** visitor visa applications were declined

Student Visas	As at 10pm 05 October 22

- **12,680 (+178) student** visa applications received
  - 8,444 **(+95)** international students
  - 4,236 **(+83)** other student visas
- **7,065 (+211)** student visa applications approved
  - 4,703 **(+135)** international student visas
  - 2,362 **(+76)** other student visas
- **491(+2)** student visa applications declined
  - 419 **(+2)** international student visas
  - 72 **(no change)** other student visas

Working Holiday Schemes (WHS)	As at 10pm 05 October 22

- **33,759 (+148)** WHS applications received
- **30,956 (+222)** WHS applications approved
- **799 (+7)** WHS applications declined

Accredited Employer Work Visa (AEWV)	As at 10pm 05 October 22

Employer Accreditation Applications – (opened on 23 May 2022)

- **12,380 (+78)** employer accreditation applications have been received
- **11,949 (+88)** employer accreditation applications have been approved
- **1 (no Change)** employer accreditation application has been declined

The average* processing time for completed employer accreditation applications as at 04 October 22: **5 (no change)** days**.

Average processing time will be updated weekly on Tuesday

Job Check Applications - (opened on 20 June 2022)

- **10,822(+159) job** check applications received

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- **66,249 (+512) positions** • **9,877(+155) job** check applications approved - **61,256 (+670) positions** • **8 (+2)** job check applications declined - **35(+4) positions** The average* processing time for completed job check applications as at 04 October 22: **6 (-1)** days**.
Work Visa Applications – (opened on 4 July 2022) • **12,172(+298)** work visa applications received • **5,557 (+158)** work visa applications approved • **19 (no change)** work visa applications declined The average* processing time for AEWV work visa applications as at 04 October 22: **10 (+1)** days**.

**Median not mean for completed applications*

***week days (Weekends not included)*

Industry Specific AEWV Numbers	As at 10pm 05 October 22	
Health Sector *(ANZCO)	# Applications	# Positions Covered
Number of Health Sector job checks and positions that INZ has **approved.**	**809(+8)**	**12,354** **(+47)**
Number of Health Sector job checks and positions pending decision.	**54(+9)**	**392(+44)**
Number of Health Sector migrant visas **approved.**	**659 (+17)**	**n/a**
Number of Health Sector migrant visa applications pending decision.	**427(+14)**	**n/a** xbfrvf
Health NZ * (ANZCO)	# Applications	# Positions Covered
Number of Health NZ job checks and positions that INZ has **approved.**	**301 (no change)**	**8,670** **(no change)**
Number of Health NZ job checks and positions pending decision.	**8 (+3)**	**131** **(+26)**
Number of Health NZ migrant visas **approved.**	**411(+9)**	**n/a**
Number of Health NZ migrant visa applications pending decision.	**176(+5)**	**n/a**

Education Sector** (ANZCO)	# Job Checks	# Positions Covered
Number of education sector job checks and positions that INZ has **approved.**	**291(+4)**	**730(+9)**
Number of education sector job checks and positions pending decision.	**26(no change)**	**39(-5)**
Number of education sector migrant visas **approved.**	**168(+6)**	**n/a**
Number of education sector migrant visa applications pending decision.	**87(-3)**	**n/a**

*Note 1

Please note changes have been made to the current health sector and health NZ report. Previously INZ reported on ANZIC code Q, Health Care and Social Assistance. This method of reporting captured occupations not critical to the Health Care industry and excluded some health occupations that were categorised under different ANZIC sectors. INZ have now taken a more targeted approach by reporting on Health Care based ANZCO occupations. This ensures an accurate reflection of health-based roles under the AEWV category.

**Note 2

Please note changes have been made to the current report. Previously INZ reported on ANZIC code P, Education and Training. This method of reporting captured occupations not critical to the education industry and excluded some education occupations that were categorised under different ANZIC sectors. INZ have now taken a more targeted approach by reporting on education based ANZCO occupations. This ensures an accurate reflection of education-based roles under the AEWV category.

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United Nations Update

Author: MFAT New York post (*October 2022)*

Sustainable Development Goals (SDGs)

- All UN member states have committed to the 2030 Agenda for Sustainable Development, which includes 17 Sustainable Development Goals (SDGs). The SDGs are universal and non-binding, and apply to domestic policy, foreign policy and development cooperation.
- The Government's well-being approach is broadly aligned with the SDGs. s9(2)(g)(i) [redacted] There is no one agency responsible for New Zealand's domestic implementation of the SDGs – a situation the Office of the Auditor General criticised in a report to Parliament in 2021.
- International progress on sustainable development, s6(a) [redacted] has been further upended by the intersecting effects of the COVID-19 pandemic, the war in Ukraine and the impacts of climate change. New Zealand contributes to the SDGs across the full span of our international engagement, and uses the SDGs to frame and monitor our development cooperation.
- While achieving the SDGs was always an ambitious ask, trends in key global development indicators are deeply concerning. For example, COVID-19 has erased more than four years of global progress in reducing poverty.
- Achieving the 2030 Agenda and its SDGs will require domestic leadership, and coordinated global action. Through the Pacific Resilience Approach we have committed to support our Pacific partner countries' sustainable development efforts, using the SDGs as a shared horizon. We align assistance to partner countries' development plans; seek to strengthen Pacific statistical capacity; consider how New Zealand's domestic policies impact the Pacific; and advocate internationally for the particular development needs of Small Island Developing States.

Multidimensional Vulnerability Index (MVI)

- Multidimensional Vulnerability Indices (MVIs) are a composite development indicator that seek to quantify a country's economic, environmental and social vulnerability. MVIs are promoted as mechanisms for incorporating vulnerability into decisions about access to development assistance, beyond usual assessments which are principally based on income per person.
- In 2020 the Chair of the Alliance of Small Island States (AOSIS) requested that the UN Secretary-General commission work on an MVI for Small Island Developing States (SIDS). In late 2021 the Secretary-General published a comprehensive report proposing the development of and uses for a new MVI for SIDS.
- A High-Level Panel is engaging with member states and other stakeholders to move these recommendations forward into an implementable MVI. The Panel is due to finalise the MVI by December 2022, in time for adoption by the UN General Assembly.
- There is some international scepticism about the MVI, s6(a) [redacted]

Our Common Agenda (OCA) and Summit of the Future

- In September 2021, the UN Secretary-General presented his vision for the future of the UN and global cooperation to respond to the world's most pressing crises in his report 'Our Common Agenda'. The OCA report contains a number of key actions and recommendations that seek to: 1) re-embrace global solidarity including for future generations; 2) renew the social contract between Governments and their people anchored in human rights; and 3) better manage critical global public goods and address major risks that deliver equitably and sustainably for all.

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- While the report seeks to galvanise existing commitments and obligations, a number of new summits, UN processes, and roles in the UN system have also been proposed on various thematic issues. A key follow up action is to convene a high level Summit for the Future in 2024 for world leaders to discuss these issues.
- In June, the President of the General Assembly appointed New Zealand's Permanent Representative to the United Nations in New York, Carolyn Schwalger, to co-facilitate (along with the Permanent Representative of the Sultanate of Oman) the modalities resolution for the Summit for the Future, which sets out the objectives, timing, format and participation of the Summit. On 8 September, the resolution was adopted by consensus.

Pacific Issues at the UN

- New Zealand aims to amplify the Pacific's voice on issues of fundamental importance to our region, and engages proactively and constructively on our shared priorities and interests. Our objective in these discussions is to share our perspectives, understand Pacific priorities, and s6(a) [redacted]
- [redacted]

Development System

- Recent UN Development System Reform has sought to increase coordination and efficiency between UN agencies, and should reduce the burden on small Pacific public services.
- The UN Pacific Partnership pilot is a tangible expression of New Zealand's support for UN reform, through the provision of pooled funding for a regional strategy. s6(a) [redacted]

Geopolitical Issues at the UN

- The UN, like all multilateral institutions, is not perfect - its successes and failures reflect the willingness of member states to work together to find global solutions. This is never easy, but it is the best tool we have for addressing global issues that no state or group of states can solve alone. The UN delivers many essential services - including the promotion and protection of human rights; delivery of critical humanitarian and development assistance; global health security; and international cooperation to enable shared governance of the seas, sky, and space.
- The world is facing multiple and interlinked global crises. Saving succeeding generations from the scourge of war is proving elusive. The climate crisis is at 'code red', with the oceans and biodiversity in a perilous state. Conflicts and natural disasters are stretching UN and donor humanitarian and development resources to the limit.
- The response to, and recovery from, COVID-19 is being overshadowed by other crises, in particular Russia's war in Ukraine. Food shortages, and soaring food and fuel prices, are placing pressure on the most vulnerable.
- s6(a) [redacted]
- [redacted]

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s6(a) [redacted]

- Despite the criticisms, a powerful, effective and relevant UN has never been more needed. The scale and inter-connectedness of today's global challenges require global solutions - no country or organisation can do it alone. This is particularly true of small states. s6(a) [redacted]
- s6(a) [redacted]
- Aotearoa New Zealand acts deliberately in support, and defence, of the international rules-based system, seeking to maintain commitment to previously agreed norms and rules together with partner countries. CANZ (Canada, Australia and New Zealand) and the Pacific remain New Zealand's steadfast partners in the UN, s6(a) [redacted]
- The world remains fractured and beset by multiple, persistent and compounding crises: climate change, armed conflict, human rights violations, the ongoing impacts of the COVID-19 pandemic, fragility in the global economy, and a rise in violent extremism (exacerbated by social media). In response to these challenges, some states have become more transactional, inward looking, and volatile. s6(a) [redacted] It is especially important at this time to turn up and support UN and rule based solutions to global problems.

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Bilateral overview – New Zealand and the United States

Author: MFAT Americas Division (*October 2022*)

Key points

- The US is one of New Zealand's closest and most important relationships. We are, as then-Secretary of State Colin Powell said in 2002, "very, very, very good friends".
- As two of the world's oldest democracies, committed to upholding human rights and the rule of law, we have close people-to-people, economic, and security ties.
- s6(a) [redacted] the US remains an indispensable partner for New Zealand. This bilateral relationship was put on firm footing by the 2010 Wellington Declaration, which established a framework for New Zealand-US strategic partnership, and which was supplemented in 2012 by the Defence cooperation-focused Washington Declaration.

The Prime Minister's United States May 2022 trip

- The Prime Minister's visit to the United States in May 2022 reaffirmed the central importance of the partnership between New Zealand and the United States at a time of global uncertainty and geostrategic change. s6(a) [redacted]
- Prime Minister Ardern and President Biden released a Joint Statement outlining shared perspectives on international issues. Central themes of the Prime Minister's discussions were:
  - New Zealand's long history of relations with the US and shared values;
  - The need for the US to integrate into the economic architecture of the Indo-Pacific – initially through the Indo-Pacific Economic Framework and longer term ideally through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP);
  - s6(a) [redacted]
  - Russia's invasion of Ukraine and the global and regional implications;
  - s6(a) [redacted]
  - The impact of disinformation and the rise of violent extremism;
  - Two high-profile mass shootings also spurred significant interest in New Zealand's experience with gun reform.

The New Zealand – US relationship

- New Zealand is respected for our inclusive and principled approach to difficult issues and s6(a) [redacted]
- The US values our understanding of and connection to Pacific Island countries, s6(b)(i) [redacted]
- s6(a) [redacted]
- [redacted]

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- s6(a) [redacted]

Trade and Economic Relationship

- Our economic linkages with the US have significant value for the New Zealand economy. It is not just that the US is our third largest trade partner (worth NZ$20.7 billion in two way trade for the year ended June 2022) or our third largest source of foreign investment – it is the high quality and value of US tourism, trade and investment. Growing our connections with the US will contribute to New Zealand’s ambition for a more productive, resilient, sustainable and inclusive economy.
- Stocks of US foreign direct investment in New Zealand totalled NZ$8.6 billion in March 2021. Large US investments into New Zealand have been focused on the tech, pet food, health, creative media and alternative protein sectors. With each of Microsoft, Amazon and Google developing data centres in New Zealand, US investment is set to grow strongly over the next decade. New Zealand firms are also increasingly actively investing in the US market. According to US statistics New Zealand was the US’ fastest growing source of foreign direct investment in 2020 and majority New Zealand owned firms employed 28,000 US workers.
- The US is a particularly important market for New Zealand services. Pre-COVID almost half (46 percent) of our US$14.5 billion trade with the US was in services and post-COVID it has become our biggest services market. While tourism has traditionally been an important part of the services relationship, New Zealand’s exports of computer services have doubled over the past four years, reaching $633 million in the year ended March 2022.
- The US is also important for New Zealand’s value-add goods exporters given the sophisticated consumer base and high incomes. With significant tariff and other barriers impeding the levels of trade in some of our traditional agriculture exports, the US is a destination for our higher value products. For example, in 2020 the value of New Zealand’s exports of packaging, grading, sorting and shrink-wrapping equipment - which often end up in US fruit pack-houses - was about the same as our apple exports - US$43 million vs US$39 million. New Zealand’s exports to the US of electromagnets and electrical static convertors were more than double our apple exports (US$82 million). Exports of sleep apnoea machines were double that again (US$173 million).

US Trade and Economic Policy

- This economic and investment activity has developed in the absence of a free trade agreement. While the US has free trade agreements with Australia, Singapore, Japan and Canada, it does not have one with New Zealand. The US, New Zealand and other regional partners have recently launched negotiations for an Indo-Pacific Framework (IPEF), the first step toward further US economic integration in the region since it left TPP in 2017. However, given it excludes market access, IPEF is far from an equivalent prospect to a comprehensive trade agreement like CPTPP.
- s6(a) [redacted] Our Trade for All approach has been of interest to US trade agencies, which want to ensure trade policy delivers equitable outcomes for workers – particularly those in unionised manufacturing jobs and traditionally marginalised groups. The increased US focus on sustainable practices and addressing climate change is another area of potential deepening collaboration between the US and New Zealand, including through IPEF.
- At the same time, the US is increasingly focused on developing policies that favour trading with allies and trusted sources as well as reshoring manufacturing to the United States. These policies were in part prompted by the breakdown of critical supply chains during the COVID-19 pandemic, s6(a) [redacted]
- s9(2)(d) [redacted]

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[redacted]

- s6(a) [redacted] New Zealand's inclusion on the Committee for Foreign Investment in the United States (CFIUS) expected state list earlier this year – which eases the regulatory requirements for New Zealand firms investing in the US is a good example of this. CFIUS will review our addition to this list in February next year, so it will be important to advocate for our continued inclusion.

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New Zealand Infrastructure Outlook and Key Projects

Author: Te Waihanga – New Zealand Infrastructure Commission, and National Infrastructure Unit (*September 2022)*

Key points

- Te Waihanga, the New Zealand Infrastructure Commission estimates that New Zealand spends around 5.5% of GDP on public infrastructure and that future costs of infrastructure will equate to around 9.6% of GDP over a 30-year period (equivalent to $31 billion per year). This is almost double what we currently spend. This includes meeting the costs of the current infrastructure deficit, population growth, renewals, climate change and resilience, and the impact of cost pressures in the sector, as outlined in the Government Response to Rautaki Hanganga o Aotearoa, the first New Zealand Infrastructure Strategy 2022-2052 (the Strategy).
- New Zealand shares similar challenges in delivering infrastructure as seen in the global market. The New Zealand Pipeline currently sits at around $72 billion, with the global infrastructure investment trend estimated at $79 trillion out to 2040. These are larger programmes of work than have ever been delivered.
- As the global infrastructure market is highly interconnected, there is significant cross-over in the between the challenges, opportunities, and recommendations for change in global infrastructure plans and strategies. Infrastructure markets have been impacted by COVID-19 are continuing to experience disruptions relating to labour shortages and supply chain disruption. Infrastructure construction costs have also risen 60% faster than prices elsewhere in the New Zealand. There is a similar trend in cost escalation across other economics.
- In addition, all countries are experiencing imbalances between supply and demand. Supply disruptions in both production and distribution due to Russia's invasion of Ukraine and the ongoing effects of Covid-19 on Chinese manufacturing and shipping centres are impacting prices for commodities like crude oil– from June 2021 to June 2022 crude oil prices have risen 64%.
- Climate change is a big challenge for infrastructure and the Government's wellbeing objectives for Budget 2022 included supporting the transition to a climate-resilient, sustainable and low-emissions economy. The Government has delivered its first Emissions Reduction and National Adaptation Plans; these lay the foundations for the future and include a focus on infrastructure systems settings.

Rautaki Hanganga o Aotearoa - the New Zealand Infrastructure Strategy and the Government Response

- The Strategy sets a pathway to transform New Zealand's infrastructure over the next 30 years. It sets the direction for a clean circular economy, inclusive and attractive cities, connected regions and infrastructure that is resilient to the inevitable disruptions that we will experience.
- The Strategy brings together a wide range of voices, including private sector organisations, iwi, central government agencies, local government and industry experts and was informed by submissions from over 23,000 New Zealanders. The Government to the Strategy response supports, in full, part or principle, 58 of the 68 Strategy recommendations.
- The response also supports getting underway with the following actions:
  - undertaking a 'State of Play' of current Māori engagement activity for infrastructure;
  - exploration of an Infrastructure Priority List for New Zealand;
  - exploration of options for maximising the development of leaders across the public sector, including the option of an Academy;
  - Undertaking a review of critical infrastructure settings in New Zealand.
- The next phase of the government response is to report back to Cabinet by December 2022 with a proposed action plan and reporting programme, primarily focussed on the priority areas listed above.

Productivity in New Zealand's Construction Sector

- Te Waihanga recently completed research into the economic performance of New Zealand's construction sector. Many of the themes of coming out of the research are also experienced in other countries. The key findings of the research were:
    - **Faster construction productivity growth can reduce infrastructure delivery costs**. In addition, greater productivity can increase the quality and quantity of infrastructure we deliver, and alleviate workforce pressures.
    - **New Zealand's overall construction productivity is improving.** However, compared to other OECD countries, New Zealand's construction productivity growth is middling.
    - **Heavy and civil engineering construction productivity growth lags.** Improvements to construction productivity are concentrated in 'vertical' construction, while 'horizontal' construction productivity is growing very slowly in comparison.
    - **International evidence highlights factors that can accelerate construction productivity.** An analysis of the impact of market characteristics, market dynamics, and productivity measurement methods on construction productivity growth rates highlights that factors like construction permit efficiency matter, and factors like economies of scale at the country level do not.
    - **Construction firms have been resilient during early stages of the Covid-19 pandemic, but pressures are mounting.** Of 150 large firms in the vertical construction and civil construction space, which represent around 40% of revenue in the non-residential construction and vertical construction space, including supplying public infrastructure. While their profitability, solvency risk, and liquidity risk improved slightly through 2020 and 2021, these firms face ongoing solvency risks, such as high debt-to-equity ratios.

Infrastructure Challenges

- The Treasury expects both consumer demand and housing markets to cool off as central banks around the world tighten monetary policy to rein in high inflation. This should see excess demand for consumer goods and construction materials reduce, which have been key drivers of supply chain pressure.
- Record investment in infrastructure creates opportunities for business and employment, however, also risks constraints in the capacity of the market to meet this growth in investment. In New Zealand a shortfall of 118,000 infrastructure workers is expected in 2024. There is also global competition for highly skilled workers, particularly those with expertise in delivering mega-projects, renewable energy and transmission, and other areas in high demand. This research further underscores the need for the National Infrastructure Pipeline to help manage capacity constraints.

IMF and World Bank Infrastructure Initiatives

- IMF analysis shows that, on average, countries waste about 1/3 of their infrastructure spending due to inefficiencies. The loss can surpass 50 percent in low-income countries and is 15 percent on average in advanced economies. The IMF believe that unlocking this potential should play an important role as countries recover from the pandemic. IMF estimates show that over half of these losses could be made up through better infrastructure governance.
- The IMF regularly assesses countries infrastructure governance readiness and areas for improvement through its Public Investment Management Assessment tool (PIMA). The IMF has also developed a Climate-PIMA. The "Climate-PIMA" (C-PIMA) adds a climate-responsive dimension into the PIMA framework and assesses countries' capacity to manage climate-related infrastructure. The C-PIMA helps governments identify potential improvements in public investment institutions and processes to build low-carbon and climate-resilient infrastructure. Most recently, the UK has undertaken the PIMA and C-PIMA assessment process.
- The World Bank's investments to support infrastructure in developing countries focus on three key areas connecting people to opportunity: transport, energy and digital connectivity. This helps developing countries build smart infrastructure that supports inclusive and sustainable growth, expands markets, creates job opportunities, promotes competition, and contributes to a cleaner

future. The World Bank also assists countries in addressing the demand for infrastructure through various levels of intervention by:

- providing advisory services on policies, regulations, and financial market reforms supportive of infrastructure financing.
- partnering with national development banks and infrastructure agencies to strengthen institutional capacity and develop investment vehicles and credit enhancement instruments to crowd in commercial investors.

- Infrastructure investments in low-income countries are supported through programmes financed by the International Development Association (IDA). The IDA provides zero to low-interest loans and grants for programs that boost economic growth, reduce inequalities, and improve people's living conditions. Portfolios in infrastructure are often among the largest in IDA-borrowing countries.

New Zealand National Infrastructure Pipeline

- The June 2022 update of the New Zealand Infrastructure Pipeline includes $72.6 billion of planned projects. Te Waihanga is continuing to work on strengthening the Pipeline to improve information quality and to capture more planned projects from smaller organisations.
- Forecast of spend over the next 5 years shows that 40% will be on transport, 35% will be on social (which includes health, housing, education, community facilities), 18% will be on water assets and 4% will be on energy investments.
- Our infrastructure pipeline crosses several sectors from housing and transport to health and education. There are significant projects in the works in all these sectors, however, some of these may be relevant to the dialogues you will take part in during your time in Washington D.C.

Housing

- The 2021 calendar year saw a total net increase of 2,909 public and transitional housing places. The total houses built as part of the Government Build Programme is 3,614 (including KiwiBuild and market houses).
- Kāinga Ora, the Government's urban development authority, is leading a number of large-scale urban regeneration projects. For example, work commenced in neighbourhoods in the Mt Roskill, Māngere and Tāmaki regeneration projects over the next 5 years will, once complete, enable the construction of more than 16,000 homes.
- Budget 2021 approved funding for Kāinga Ora's Land Programme and announced Kāinga Ora would be able to borrow up to $2 billion to "strategically purchase land and increase the pace, scale and mix of housing developments, including more affordable housing".
- Budget 2022 approved $1 billion of further funding to support the current delivery of Public and Transitional Housing, as well as $221 million towards the establishment of the Affordable Housing Fund, which will support the development of affordable homes for low-to-moderate income households in locations facing the biggest housing supply and affordability challenges.
- Thirty-five projects have advanced to the final "negotiation stage" of the $1 billion Infrastructure Acceleration Fund. The purpose of the fund is to unlock housing development across the country through investment in local public infrastructure. Kāinga Ora has commenced initial engagement sessions with negotiation stage applicants and aims to sign funding agreements in the second half of 2022.
- The latest round of the $400m Progressive Home Ownership fund awarded contracts to five providers to build 183 homes across the country, and to help low-income families and whānau into home ownership. The PHO fund supports households who are unable service a mortgage, or who need additional funding to service a mortgage, into home ownership through a range of progressive ownership models such as shared equity, rent-to-buy, and leasehold arrangements.
- The Government has exempted build-to-rent developments from current interest limitation rules, allowing developers to deduct interest on loans relating to build-to-rent property developments.

The New Zealand Infrastructure Strategy and the Government Response

- Te Waihanga, the New Zealand Infrastructure Commission has developed a 30-year infrastructure strategy, Ruataki Hanganga o Aotearoa, the New Zealand Infrastructure Strategy. This strategy identifies the challenges and opportunities that lie ahead for Aotearoa in terms of how we plan and fund the infrastructure needed for future generations.
- The Government Response to this Strategy reflects the Government's support of the overall direction of the Strategy. It illustrates where the Government is already acting and signals the Government's commitments to explore new recommendations. The primary focus in the Government Response is to ensure existing commitments, including projects, programmes, and reforms, are delivered well.
- It also proposes two other focus areas that will support the Government to deliver on existing commitments and goals for this term and support the long-term wellbeing of New Zealanders. These are, strengthening partnerships with and opportunities for Māori; and growing the capacity and capability of the Government and of the infrastructure workforce to deliver and maintain infrastructure.
- The Government Response is in two parts. The response document outlines our direct response to the recommendations in the Strategy and discusses how they will be addressed. The second part of the Government's response will be an action plan and reporting programme for the recommendations in the Strategy.
- The Strategy is a requirement under the New Zealand Infrastructure Commission/Te Waihanga Act 2019 (the Act). The Minister for Infrastructure is also required by the Act to present a statement of the Government's response to the Strategy.
- This is the first time the Government has had to respond to an independent infrastructure strategy as a legislative requirement, and it will now be required once every five years following the release of each new independent infrastructure strategy.

Economic development

- Industry Transformation Plans received additional funding of $15 million to enable delivery across all programmes through Budget 2022.
- To improve network capacity and coverage of broadband services in the worst served regions (Gisborne, Manawatu-Whanganui, Hawke's Bay, West Coast and Southland) $60 million has been invested in Budget 2022.
- $100 million has been committed for Crown investment as a minority shareholder in a Business Growth Fund to improve access to finance for SMEs through Budget 2022.
- Kanoa RDU manage $4.4 billion of government invest in regions, COVID-19 response funding and tourism recovery:
  - 2,137 projects are managed by Kanoa with $2.5 billion paid out of $4.4 billion approved funding.
  - An estimated 10,075 FTEs are working on projects managed by Kanoa
- The $200 million Regional Strategic Partnership Fund has been fully funded through Budget 2022:
  - To date, 4 projects have been approved for the RSPF with $10.4 million approved.

Infrastructure, green investment, and climate change

- Climate change is a big challenge for infrastructure and the Government's wellbeing objectives for Budget 2022 included supporting the transition to a climate-resilient, sustainable and low-emissions economy.
- The Government has delivered its first Emissions Reduction and National Adaptation Plan; these lay the foundations for the future and include a focus on infrastructure systems settings. The Emissions Reduction Plan was publicly released in May, while the National Adaptation Plan was released in early August.

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- Infrastructure investment is also essential for enabling a greener future. The Government's role is not only to fund and finance projects directly, but to ensure the wider investment landscape supports green investment. New Zealand first Green Bond programme was launched on 14 September 2022, providing an opportunity to invest in public sector projects that advance climate change and environmental priorities like the transition to clean transport and support for biodiversity.

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Subject briefings

Subject: Wellbeing Budgeting

Author: Treasury Budget Management (*September 2022)*

Key points

- The New Zealand Government's wellbeing approach to policymaking involves prioritising the wellbeing of people and the environment alongside economic growth. It aims to take a whole-of-government approach to issues and considers intergenerational outcomes.
- Since 2019, New Zealand has been applying this approach to budgeting. Wellbeing analysis informs Budget strategy and priorities, and agencies are required to draw on evidence to show how the Budget initiatives they submit contribute to wellbeing outcomes. This analysis feeds into Budget initiative assessment, Budget package development, and communication of Budget decisions.
- This work is supported by ongoing reform of the Public Finance System. These reforms have embedded wellbeing considerations in legislation and enable longer-term thinking, greater flexibility, and inter-agency collaboration.
- The changes to the Public Finance Act support reporting on wellbeing for the Government through the Budget process and require the Treasury to produce an independent wellbeing report every four years. This Wellbeing Report is required to describe the current state of wellbeing in New Zealand and the sustainability of wellbeing, which will provide an evidence base to inform the Government's Wellbeing Objectives going forward. Treasury will produce the first Wellbeing Report in November 2022.

Background

Frameworks to Support Wellbeing Budgeting

- The Government has drawn on the Treasury's Living Standards Framework (LSF) and He Ara Waiora to support wellbeing budgeting.
- The LSF was (and continues to be) developed iteratively by the Treasury. It builds on 30 years of New Zealand and international research on wellbeing, in particular OECD work.
- The LSF prompts consideration of multiple perspectives and dimensions of wellbeing. It focusses not just on individual wellbeing, but factors which inform our collective wellbeing such as social cohesion and our institutions and governance. The LSF continues to evolve alongside wellbeing theory. For example, in 2021 the Treasury updated the LSF to better reflect child wellbeing and wellbeing as understood in te ao Māori and by Pacific Peoples. Dr McLiesh can talk further about the framework.
- Another example of the evolving wellbeing approach is the introduction and embedding of He Ara Waiora over the past two Budgets, to reflect the unique national and cultural context of Aotearoa New Zealand. He Ara Waiora translates to 'a path to Waiora' (near to a Māori concept of wellbeing). It is a framework derived from mātauranga Māori, which considers wellbeing in a holistic, intergenerational sense.

Wellbeing Budgeting in Practice

- Budget 2019 was the first time a wellbeing approach was explicitly and systematically applied to the Budget process in New Zealand. It marked a step change in both the focus of Budget decisions, and how such decisions are made, including the setting of Budget priorities.
- The Wellbeing Budget approach enables wellbeing outcomes from past Budgets to feed into the wellbeing objectives which will inform future Budgets priorities and decision-making (see diagram on Page 3). By looking at a range of wellbeing measures and trends at all stages of the process, the Government can make better-informed spending decisions.

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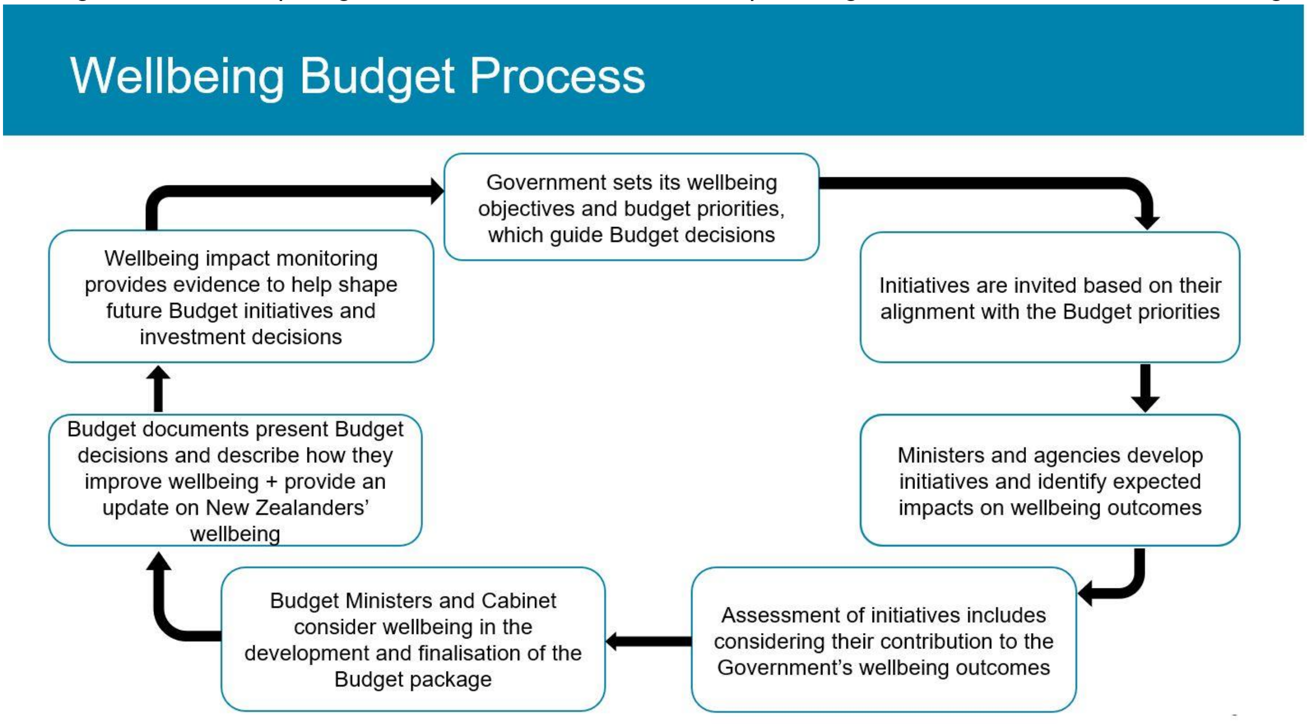
- The Government's enduring Wellbeing Objectives1 inform Budget priorities and strategy. Once priorities have been set, agencies are required to explain in their Budget initiative submissions how the initiatives align with these priorities, supported by evidence-based wellbeing analysis.
- Treasury's Value for Money framework formed the basis for the assessment of Budget initiatives in 2022. This framework comprises three elements:
  - Value: identification of how initiatives contribute to wellbeing using the LSF and He Ara Waiora, spported by intervention logic and distributional analysis.
  - Alignment: identification of how initiatives contribute to the Government's overarching Wellbeing Objectives and relevant cross-government strategies.
  - Delivery: provision of core information such as well-defined outputs, costings, assurance of effective delivery, and monitoring and evaluation.
- The Government publishes a range of documents alongside each Budget which explain how investment decisions will contribute to wellbeing outcomes.
- A 'Wellbeing Outlook' is also published. This Outlook provides a snapshot of the state of wellbeing in New Zealand, based on indicators which measure the concepts in the LSF. It enables us to readily identify gaps where we need to focus future efforts, informing future Budget priorities.

Public Finance Reform and Reporting Requirements

- Some of the key challenges New Zealand faces are significant, cross-cutting, and often inter-generational, requiring sustained investment over multiple Budgets. This means an annual funding



[1] The current Wellbeing Objectives are:

1. **Just Transition** - supporting the transition to a climate-resilient, sustainable and low-emissions economy
2. **Physical and Mental Wellbeing** - supporting improved health outcomes for all New Zealanders and minimising COVID-19 and protecting our communities
3. **Future of Work** - enabling all New Zealanders and New Zealand businesses to benefit from new technologies and lift productivity and wages through innovation
4. **Māori and Pacific Peoples** - lifting Māori and Pacific Peoples incomes, skills and opportunities, including through access to affordable, safe, and stable housing
5. **Child Wellbeing** - reducing child poverty and improving child wellbeing, including through access to affordable, safe and stable housing

cycle, to the extent that it focusses on short-term investments, has limitations around improving long-term wellbeing.

- Another issue with the current budgeting approach is that it concentrates on marginal spending through the Budget process, rather than how we can get more value out of existing baseline expenditure (the primary component of total spend).
- Legislative changes have been supplemented by other reforms aimed at facilitating long-term investment and agency cross-collaboration. As well as adopting a multi-year funding cycle for health services, Budget 2022 introduced the multi-year Climate Emergency Response Fund and piloted the establishment of two clusters of agencies in the Justice and Natural Resources sectors (which are allocated funding on a three-year basis).

Lessons and Insights

Scope

- There are challenges in even defining what wellbeing is. The Treasury has deliberately taken an iterative approach to developing the LSF over time. There have now been three versions of the LSF, which have been developed in response to emerging New Zealand and international literature, Treasury research, and dialogue with people across Aotearoa New Zealand. However, as recent work has highlighted, there is a diversity of views in how wellbeing should be conceptualised. This emphasises the importance of taking a pluralistic approach to defining wellbeing, which is reflected in the Government using He Ara Waiora alongside the LSF in policymaking.

Capability Constraints

- The evolution of our wellbeing approach brings with it unique challenges, particularly when it comes to building capability across the public service. Broadening the scope of wellbeing analysis is meaningless if the quality of analysis is not improving as well.
- Undertaking quality wellbeing analysis within the Budget process and more broadly, requires agencies to think more holistically about the impact of their policies than they may have done in the past, and work more collaboratively.
- To improve the quality of Budget initiative submissions and encourage more in-depth analysis, Budget 2022 included a pilot in which the Treasury supported the Ministry of Housing and Urban Development and Te Puni Kōkiri (The Ministry of Māori Development) to apply further principles from He Ara Waiora and the LSF to select initiatives.
- The trial of our two agency clusters has proven more challenging than anticipated for both Ministers and agencies. A multi-year, multi-agency approach is the right one, but perhaps more leadership and central assistance is needed to help build capability.

Data Constraints

- Although several countries are working on applying a wellbeing approach to spending decisions, much of this work is new and we are all still learning how to do it well.
- While economic measures such as GDP have long histories of measurement and use, the data and systems necessary to implement a wellbeing approach are still under development. There are limits around available data (including timelines) and not all relevant concepts can be adequately measured with existing data, or the data available does not always meet the relevant data quality parameters.

Next Steps

- The Treasury's first Wellbeing Report will be published in November. Early insights from background papers - published in advance of the final report - are already being used to inform Government priorities for Budget 2023. Improved wellbeing data and monitoring will enable more informed decisions, and allow us to determine whether policy decisions are having tangible positive effects on the living standards of New Zealanders.

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- Wellbeing Report research and analysis, already published and in the public domain, shows that Aotearoa New Zealand has many strengths—including high reported life satisfaction, strong employment measures, very high air quality, and measures of social connection. Nevertheless, there are some aspects of wellbeing which are worsening.
- Educational achievement and attendance, and psychological distress, particularly among young New Zealanders, are areas of concern.
- These insights will be used to inform future Budget priorities.
- Future Budgets will incorporate wellbeing analysis further into decision-making through drawing on more aspects of the Treasury's wellbeing frameworks in Budget initiative submission and assessment. Improving how we look at decisions through an environmental lens is also a priority.
- Building capability across the public service will continue to be a key focus going forward, to support lifting the quality of analysis.

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Subject: Climate Change and the Environment

Author: MFAT Climate Change Division and Treasury Climate Change (*September 2022*)

Key points

- New Zealand has set an ambitious Nationally Determined Contribution (NDC) to reduce net emissions to 50 percent below gross 2005 levels by 2030, and a domestic target through the Zero Carbon Act to reach net-zero long-lived greenhouse gas emissions by 2050.
- In order to meet our climate commitments, we will need to work closely with other countries and secure access to new technologies and overseas investment. We will also be looking to cooperate on international carbon markets and other avenues for offshore mitigation that have strong environmental integrity.
- This year saw the release of New Zealand's first Emissions Reduction and National Adaptation plans, which will guide New Zealand's climate response and the transition to a high-wage, low-emissions economy that provides economic security in good times and bad. In addition to discussing decarbonisation efforts with other countries, we are particularly interested in their plans to build resilience to the climate change-induced increase of risks from natural hazards.

Core pillars of New Zealand's climate response

Ambitious decarbonisation targets

- In May 2019, the New Zealand Government passed **the Zero Carbon Act, which legislates a domestic target of long-lived gas emissions reaching net zero by 2050** alongside a target to reduce biogenic methane by 24-47 percent (and 10 percent by 2030).
- In October 2021, we updated **our NDC to reduce net emissions to 50 percent below gross 2005 levels by 2030.** To help meet this NDC, we are looking to cooperate on international carbon markets and on securing other avenues for offshore mitigation with strong environmental integrity.
- This year the Government also set the levels of our first three **domestic emissions budgets** out to 2035. The budgets, which set the total quantity of emissions that is allowed to be released during an emissions budget period, will guide the medium-term decarbonisation of the New Zealand economy and serve as stepping-stones to the 2050 target.

Pricing Greenhouse Gas emissions

- Emissions pricing is a core pillar of New Zealand's strategic approach to reducing emissions. **The New Zealand Emissions Trading Scheme,** established in 2008, is the primary tool through which we price our economy's emissions and covers all sectors except agriculture.
- By placing a price on emissions, the New Zealand ETS helps ensure that the cost of emissions is taken into account across the economy when businesses make investment decisions. The Government has also committed to setting out this year how it plans **to price agricultural emissions**, and will implement a scheme by 2025, ensuring that all sectors of our economy will face an emissions price.

Emissions Reduction and National Adaptation Plans implementation

- New Zealand's first **Emissions Reduction Plan** was published on 16 May 2022. It details the actions across all sectors of our economy that we will need to take to achieve the first emissions budget and be on track to ultimately meet our 2050 goal. The Plan outlines how we will play our part in the global effort to limit global warming to 1.5 degrees, empower Māori, ensure an equitable transition, work with nature, and make progress towards a high-wage, low-emissions economy.
- New Zealand's first **National Adaptation Plan** was published on 3 August 2022. It responds to the risks identified in the first National Climate Change Risk Assessment which was published in 2020. The Plan focuses on enabling better risk-informed decisions, driving climate-resilient development

in the right places, laying the foundations for a range of adaptation options including managed retreat, and embedding climate resilience across government policy.

Funding and financing instruments and other programmes.

- Establishing an enduring, multi-year **Climate Emergency Response Fund (CERF)** with an initial NZD$4.5 billion down payment from the cash proceeds of the New Zealand Emissions Trading Scheme. We allocated NZD$2.9 billion through the CERF at Budget 2022 to foundational, high-value climate initiatives. The CERF eligibility criteria will also be extended to include adaptation initiatives in future Budgets.
- Issuing **sovereign Green Bonds** from 2022 to raise finance for low-emissions and environmental projects to support our transition to a high-wage, low-emissions economy. The issuance of these bonds reflects our recognition of the growing importance of investing in climate- and sustainability-aligned projects, and the growing interest in outcomes that are broader than financial returns. They are issued globally to support climate-friendly initiatives, including by the World Bank since 2008.
- Implementing the **Carbon Neutral Government Programme** which will require government entities to report on their emissions and publish reduction plans, with an aim to reaching carbon neutrality for a number of organisations from 2025.
- Setting up **New Zealand Green Investment Finance Limited (NZGIF)** as a green investment bank to accelerate investment that can help to reduce greenhouse gas emissions in New Zealand. NZGIF invests on a commercial basis in companies, projects and technologies that accelerate emissions reductions. At Budget 2021, the Government brought NZGIF's total investment capital to NZD$400 million.
- Requiring **Crown Financial Institutions to reflect the Government's goal of a carbon neutral New Zealand by 2050**. The Crown Responsible Investment Framework has been issued to the NZ Superannuation Fund, the Accident Compensation Corporation, the Government Superannuation Fund and the National Provident Fund, which collectively manage over $100 billion of investments on behalf of New Zealanders.
- Establishing a **climate-related financial disclosures regime** (see MfE briefing).
- Increasing our **climate finance commitment** to NZD$1.3 billion in the period 2022-2025 (see MFAT briefing).

International Dimension of Climate Change and New Zealand

Key points

- New Zealand has set three overarching objectives for our international climate change engagement: effective 1.5 degree-aligned global action; building Pacific resilience; and supporting our own decarbonisation and climate adaptation. These objectives are our focus this year, and we will look to contribute to a constructive climate conference (COP27) in November 2022.
- It is vital for New Zealand and for Pacific Island countries that all countries take 1.5 degree-consistent action. We are strongly encouraging all countries to align Nationally Determined Contributions (NDC) with that temperature goal by COP27, as agreed in the Glasgow Climate Pact.
- We quadrupled our climate finance to NZ$1.3 billion for 2022-2025, with a continuing key focus on the Pacific. Our International Climate Finance Strategy, launched in August, guides delivery of our commitment. We are interested in partnering in the Pacific, in a way that is thoughtful, collaborative and responsive to the region's priorities.
- We must all take steps to "green" global finance to support staying within 1.5C and to ensure capital is flowing to climate-friendly investments. New Zealand has shown support for a number of policy opportunities that can be used to action this financial transition, such as mandatory climate-

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risk disclosures, carbon pricing, the removal of environmentally harmful subsidies, and the introduction of green bonds.

- Implementing our plan for domestic decarbonisation will require access to innovation, technology, and investment from offshore. We are keen to work together on our transitions (for example, on zero emissions vehicles, green technologies, just transition and climate equity).
- We are also interested in ways that we can cooperate to reduce global agricultural greenhouse gas emissions and support sustainable food systems. This could include increased cooperation with the USA and others through the Global Research Alliance, Agriculture Innovation Mission for Climate, and Sustainable Productivity Growth Coalition.
- New Zealand has a keen interest in the Clean Economy pillar of the US-led Indo-Pacific Economic Framework (IPEF). Fourteen economies across the Indo-Pacific region are participating in this recently-launched initiative, opening the door for: s6(b)(i) and 9(2)(i) [redacted]
- As a further example of the shared commitment between the US and New Zealand to address climate change, a major green technology conference, titled Blue & Green and featuring a range of experts from both countries, will be held in Auckland in December. Those speakers include the US Ambassador to New Zealand, Tom Udall, and New Zealand's Minister of Climate Change, James Shaw.
- 2023 will be important for the implementation of the Post-2020 Global Biodiversity Framework and the BBNJ treaty. Successful implementation will need to be supported by adequate funding, particularly to assist developing countries meet any commitments, and to contribute to global goals and targets.

Environmental issues

- New Zealand is focused on concluding negotiations for an ambitious **Post-2020 Global Biodiversity Framework under the Convention on Biological Diversity** (CBD). The new global biodiversity goals and targets are due to be finalised and adopted at the 15th Conference of the Parties (CBD COP) in Montreal in December 2022.
- Negotiations on the financial resources needed to implement the Framework are far from resolved, including on the total amount needed to close the global funding gap, the sources of funds, and the mechanism to mobilise resources. Whereas a report commissioned for the negotiations signalled that US$10 billion per annum would be appropriate for developed countries to contribute through official development assistance, developing countries are demanding larger figures (from US$100 billion to US$200 billion per annum and above).
- Developing countries are also proposing an entirely new financial mechanism, a position New Zealand disagrees with. The Global Environment Facility is the financial mechanism for the Convention on Biological Diversity. While New Zealand is a minor contributor, we almost doubled our previous contribution in the recently completed replenishment round to NZ$23.5 million for 2022-2026, through a top-up from official development assistance funding.
- s6(a) [redacted]
- Negotiations in August on a **new agreement under the UN Convention on the Law of the Sea (UNCLOS) to protect high seas ocean biodiversity (the 'BBNJ' treaty)** made impressive progress. Negotiations were suspended due to shortage of time, but officials assess negotiations will conclude with one final push at a resumed session, presumed to be in early 2023. [redacted]
s9(2)(i) [redacted]

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The draft agreement is shaping up to be consistent with New Zealand's objectives, including a substantial environmental upgrade of the rules-based architecture that governs ocean activities beyond countries' jurisdictions.

- New Zealand welcomed the launch of negotiations towards a **new international legally binding instrument to end plastic pollution.** Negotiations will begin at the end of November and we will be advocating for an ambitious outcome that favours action at the beginning of the plastic lifecycle and supports our objective to transition to a circular economy. If a new instrument is agreed, New Zealand would be expected to make an annual financial contribution to assist with the administration and business function of the new Secretariat

New Zealand Climate Change Action

- New Zealand is taking climate action at home and abroad through:
  - Our **NDC** to reduce net emissions to 50 percent below gross 2005 levels by 2030.
  - A **2050 emissions reduction target** to reduce biogenic methane by 24-47 percent (and -10 percent by 2030), and to net zero for all other greenhouse gases.
  - **Domestic emissions budgets to 2035**, which guide the decarbonisation of the New Zealand economy; and the first Emissions Reduction Plan detailing the actions, across all sectors, we will take to achieve these budgets.
  - **'Gripping up' on challenging emissions sources –** for example, in relation to agriculture New Zealand invests in low-emissions R&D in this sector, and will price agricultural emissions from 2025.
  - **Championing ambitious action** – to reduce emissions from international aviation and shipping; reinforce trade and climate agendas, including through removing environmentally harmful subsidies (e.g. fossil fuel subsidies); and facilitate carbon pricing.
  - **Adapting to the impacts of climate change** – New Zealand's draft National Adaptation Plan recently underwent public consultation.
  - **Quadrupling our climate finance commitment last year,** to NZD$1.3bn over 2022-2025. At least half is to be spent within the Pacific and at least half on adaptation action. The climate finance strategy was launched in August 2022, guiding decisions on how this finance will be delivered.
- We are also making finance flows consistent with tackling climate change through:
  - Mandatory climate-related disclosures for around 200 of our largest financial institutions.
  - Establishing the New Zealand Green Investment Finance Limited, with capital of $400 million, to accelerate domestic low emissions investment.
  - Creating a framework to issue sovereign Green Bonds to help raise finance for New Zealand's transition.
  - Developing the Sustainable Agriculture Finance Initiative, which is a voluntary tool for use by banks and wider investors to support sustainable agriculture.
  - Requiring KiwiSaver Default funds to divest from fossil fuels.
  - Launching a new Investment Framework so all investments by Crown Financial Institutions (managing over NZ$100 billion for New Zealanders) are carbon neutral by 2050.
  - Establishing the Climate Emergency Response Fund, with an initial NZ$4.5 billion down payment using proceeds from the New Zealand Emissions Trading Scheme, to fund policies to reduce emissions and manage the impacts.
- Aotearoa New Zealand will provide NZD 1.3 billion in grant-based climate finance to developing countries between 2022 and 2025. At least 50 percent of the total climate finance commitment will support Pacific Island countries and at least 50 percent will target adaption.
- The new climate finance commitment is a considerable step-change in scale for New Zealand. This is more than four times the size of our 2018 commitment of $300m and underlines the importance New Zealand attaches to global and regional efforts to work together to combat climate change.
- Delivery of our climate finance commitment will be guided by our International Climate Finance Strategy – Tuia te Waka a Kiwa. New Zealand's climate finance will support developing countries

reduce carbon emissions, support implementation measures to adapt to climate change, and build climate change capacity and capabilities.

- We wish to be guided by partner government priorities especially those described in NDCs and National Adaptation Plans.

Climate Finance

- Our International Climate Finance Strategy establishes four goals for investment. These cover mitigation, adaptation, capability building, and leveraging wider sources of climate investment.
- Biodiversity, nature and oceans, science and data for decision-making, and loss and damage, are elements we wish to have a particular focus on over the commitment period.
- Examples of activities include:
  - expanded funding to the Global Environment Fund – as announced April 2022.
  - action to address water shortages from changed climate patterns – including a partnership linking information technology, weather forecasts and water tank sensors to provide a Drought Early Warning System (pilot running in Cook Islands), and a project with SPC to increase water security in five atoll countries
  - a partnership with the Global Green Growth Institute to support Pacific governments with their national approaches to long-term low-emissions climate-resilient development.
  - strengthening the regional institutions that support Pacific countries such as the Pacific Climate Change Centre run by SPREP and the NDC Hub which works with Pacific governments to develop their NDCs.
  - support for research institutes to work with Pacific governments to build detailed understanding of climate change impacts, such as coastal inundation modelling and analysis of the potential impacts of extreme climate events.

Overseas Efforts: EU Carbon Border Adjustment Mechanism (CBAM)

- The EU is proposing to introduce a Carbon Border Adjustment Mechanism (CBAM) – an emissions-based carbon adjustment on goods in certain sectors to ensure that imports of emissions-intensive products into the EU are on equal footing with EU products that are subject to the EU Emissions Trading System (EU ETS).
- The CBAM is intended to cover those sectors that are among the largest emitters in the EU ETS and that are judged to be at significant risk from emissions leakage, based on the level of additional production costs from EU emissions pricing and the intensity of trade with non-EU countries.
- The EU has proposed that the CBAM will initially apply to direct emissions from five sectors: cement, aluminium, fertilisers, electric energy production, and iron and steel. The European Parliament is pushing to extend this to also include organic chemicals, plastics, hydrogen and ammonia, as well as indirect emissions.
- s9(2)(f)(iv) [redacted]
- The European Council, Parliament and Commission are negotiating their positions on the CBAM, and are aiming to reach agreement by the end of 2022 – with a view to the “transitional phase” of the CBAM beginning in 2023.
- The European Parliament has additionally proposed the establishment of an international ‘Carbon club’ as an open non-exclusive international forum to support international cooperation on carbon measures for emissions reduction – this is a separate but similar proposal to the proposed G7 ‘Climate club’.

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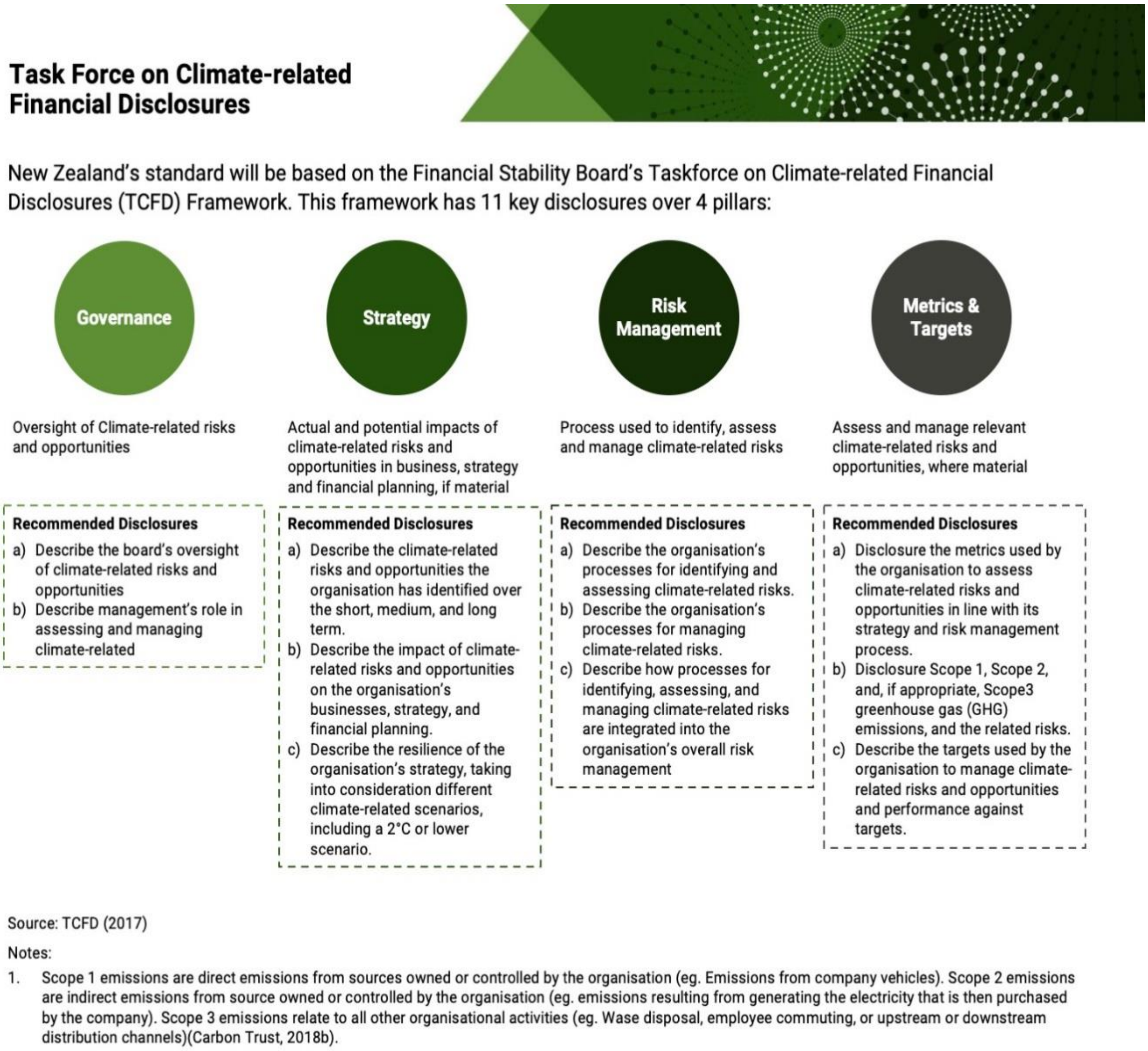
Subject: Task Force on Climate Related Financial Disclosures

Author: Ministry for the Environment, Sustainable Finance team (*September 2022)*

Key points

- The Task Force on Climate Related Financial Disclosures (TCFD) was created in 2015 by the Financial Stability Board to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.
- The TCFD produced recommendations in 2017 that outline a framework for reporting climate-related information. To date, this has been the leading guidance on climate reporting and has received widespread support globally. TCFD-based disclosures have or are being introduced by governments or securities in multiple countries, including Australia, Canada, the European Union, and the United Kingdom.
- The TCFD recommendations incorporate four key themes: governance, strategy, risk management, and metrics and targets. In total, 11 disclosures are recommended.



Task Force on Climate-related Financial Disclosures

New Zealand's standard will be based on the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) Framework. This framework has 11 key disclosures over 4 pillars:

Governance

Oversight of Climate-related risks and opportunities

Recommended Disclosures
a) Describe the board's oversight of climate-related risks and opportunities
b) Describe management's role in assessing and managing climate-related

Strategy

Actual and potential impacts of climate-related risks and opportunities in business, strategy and financial planning, if material

Recommended Disclosures
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Risk Management

Process used to identify, assess and manage climate-related risks

Recommended Disclosures
a) Describe the organisation's processes for identifying and assessing climate-related risks.
b) Describe the organisation's processes for managing climate-related risks.
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

Metrics & Targets

Assess and manage relevant climate-related risks and opportunities, where material

Recommended Disclosures
a) Disclosure the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Disclosure Scope 1, Scope 2, and, if appropriate, Scope3 greenhouse gas (GHG) emissions, and the related risks.
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Source: TCFD (2017)

Notes:

1. Scope 1 emissions are direct emissions from sources owned or controlled by the organisation (eg. Emissions from company vehicles). Scope 2 emissions are indirect emissions from source owned or controlled by the organisation (eg. emissions resulting from generating the electricity that is then purchased by the company). Scope 3 emissions relate to all other organisational activities (eg. Wase disposal, employee commuting, or upstream or downstream distribution channels)(Carbon Trust, 2018b).

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Climate-related Disclosures and Other Matters Amendment Act (CRD Act).

- In 2021, New Zealand enacted the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act (CRD Act). The CRD Act imposes obligations on approximately 200 large financial market participants to disclose information about their climate-related risks and opportunities. These disclosures must be made in climate statements prepared in accordance with standards issued by the External Reporting Board XRB, based on the TCFD recommendations.
- We are expecting the final climate standards to be issued by the end of 2022. Under this timeframe, the first set of climate statements will be produced in 2024.

Why New Zealand made TCFD reporting mandatory

- New Zealand made TCFD reporting mandatory for four primary reasons:
  - Investors, creditors and insurers did not have access to the information they need. The great majority of financial market participants were not providing sufficient and credible information that would assist investors to make effective and efficient decisions.
  - Businesses were worried about being competitively disadvantaged if they were to reveal their climate-related risks and opportunities before their competitors.
  - It was challenging to compare climate disclosures made under different reporting approaches. Climate reporting which was taking place was often inconsistent and incomplete.
  - The status quo was not driving change with sufficient urgency given the pressing need for investment and business decisions to incorporate the destabilising physical and transitional impacts of climate change.

Reception to the TCFD

- During initial public consultation of our proposal to introduce mandatory TCFD based reporting, 77% of respondents either supported or largely supported our proposals.
- Business and industry who were to be regulated by these proposals additionally supported these proposals with more than 75% of respondents either supportive or largely supportive.
- While the legislation was being drafted, further consultation was undertaken on the final proposals. We received 100% support to legislate mandatory TCFD based reporting from these submissions.
- Since introduction, the market has rapidly increased their processes, evaluation of climate-related risks and opportunities, and TCFD based reporting prior to legislative requirements coming into force.
- Government support has been requested for increased climate data availability and support for development of climate scenarios necessary to analyse entity’s strategy and disclose under the proposed TCFD based climate standards.

What’s next for New Zealand

- New Zealand currently only require assurance over entities greenhouse gas emissions. We are now exploring introducing assurance requirements over the whole of entities climate reporting and establishing an occupational assurance practitioner licensing regime.
- Our climate-related disclosures regime currently covers around 200 of the countries largest financial market participants, including roughly 90% of New Zealand’s total assets under management. This includes large banks, insurers, publicly listed companies, non-bank deposit takers, asset managers, and asset owners.
- We are now exploring expanding requirements to the public sector and large non-listed entities.

Lessons from passing mandatory TCFD legislation

- Engaging early and often with industry is key to increasing support and providing time for organisations to consider their strategy and begin data collection.
- International standards setting is rapidly evolving and engaging with international developments to ensure alignment will be crucial. The International Sustainability Standards Board recently was

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recently established with the objective of developing a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. Further, are these international standards appropriate for domestic business?

- Governments must understand the role they can play to support entities to disclose in line with the TCFD framework. Significant education and data provision support may be required depending on the maturity of the market.

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Subject: New Zealand Green Bonds

Author: Treasury New Zealand Sovereign Green Bonds Project (*September 2022)*

Key points

- The Treasury is the New Zealand Government's lead economic and financial advisor. Under the Public Finance Act 1989, the Treasury is responsible for raising core Crown debt. The Treasury is also responsible for the overall New Zealand Sovereign Green Bond Programme. New Zealand Debt Management (NZDM), a function within the Treasury, is responsible for the issuance of Green Bonds on behalf of the New Zealand Crown.
- The New Zealand Sovereign Green Bond Programme was launched on 14 September 2022 – signifying a step on a continuing journey for the Government to increase transparency and reporting around climate, sustainability and wellbeing outcomes for New Zealand. Subject to market conditions, the inaugural issuance of New Zealand Sovereign Green Bonds is expected in late 2022, via syndication.
- New Zealand Sovereign Green Bonds are nominal fixed income bonds which provide finance for specific Government projects with climate change mitigation and environmental outcomes. Alongside Nominal Bonds and Inflation-Indexed Bonds, Green Bonds are expected to be an important and enduring part of the New Zealand Government Bond portfolio.
- Green Bonds are a way to recognise green public sector projects already underway and planned that meet internationally recognised standards for eligibility, selection and reporting – giving investors the opportunity to refinance or finance projects that they can be assured contribute to climate and environmental objectives.
- Design of the Green Bond Programme has been informed by international best practice and incorporates New Zealand specific elements. NZDM has engaged with market participants and worked in consultation with external structuring advisors Bank of New Zealand and Deutsche Bank AG, Sydney Branch on details of the Programme.

Alignment with climate and environmental priorities

- The New Zealand Government recognises climate change is an urgent issue and is committed to leading action domestically, in the Pacific and around the world. New Zealand also recognises the importance of adapting to the effects of climate change along with opportunities to build a more productive, sustainable, and inclusive economy.
- New Zealand's commitment is reflected in its Nationally Determined Contribution (NDC), which was updated on 31 October 2021 to be a reduction of net emissions by 50 percent below 2005 gross emissions levels by 2030. The NDC covers the period 2021-2030.
- To meet our climate targets and cut emissions in line with what the science requires, capital needs to be directed towards activity that will accelerate this transition. In 2021, the Government announced that it would utilise New Zealand Emissions Trading Scheme (ETS) proceeds to establish an enduring, multi-year Climate Emergency Response Fund with $4.5 billion to invest in climate initiatives. This figure is based on forecast ETS proceeds between 1 July 2022 and 30 June 2026.
- The Government has legislated domestic climate targets through the Climate Change Response (Zero-Carbon) Amendment Act 2019, with the aim of reaching net zero long-life greenhouse gas emissions by 2050 and a 24-47 per cent reduction in gross biogenic methane emissions by 2050, compared to 2017 levels.
- New Zealand has a unique emissions profile compared with other countries – in 2020, half of New Zealand's gross emissions were methane and nitrous oxide from livestock farming, and energy was the second largest source of emissions, largely from transport and manufacturing, contributing 40 per cent of gross emissions.

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- In May 2022, the Government published the first Emissions Reduction Plan (ERP) for New Zealand to meet its first emissions budget (2022 to 2025), along with the direction for climate action to 2035. The ERP sets out policies and actions to reduce emissions in all sectors of the economy – transport, energy and industry, agriculture, building and construction, forestry, waste, and fluorinated gases.
- In August 2022, the Government released New Zealand's first National Adaptation Plan (NAP), which sets the Government's objectives and actions to enable New Zealanders to prepare for and adapt to climate change.
- New Zealand is internationally recognised for its beautiful and unique natural environment and indigenous biodiversity, which underpin the economy and New Zealanders' wellbeing. However, New Zealand's environment is facing a range of pressures across resource allocation, land use, indigenous biodiversity, the marine environment, freshwater, and infrastructure. The Government is reforming New Zealand's resource management and planning system to promote positive outcomes for both the natural and built environments.
- The Government is committed to protecting and restoring New Zealand's biodiversity. Te Mana o te Taiao – Aotearoa New Zealand's Biodiversity Strategy 2020 sets the Government's 30-year strategic direction for the protection, restoration and sustainable use of biodiversity. In April 2022, the Government released an implementation plan, aimed at driving collective action nationally, regionally, and locally, which will be updated every five years from 2025.
- The Government recognises that green funding and finance play a key role in fulfilling its climate and environmental priorities and commitments. The Government has committed $1.3 billion to countries that are the most vulnerable to the effects of climate change for 2022 to 2025. At least 50 percent of this funding will support Pacific Island countries and at least 50 percent will target adaptation, a key priority for the Pacific.

Support for sustainable finance

- Around the world we have seen that there is substantial and growing investor demand for sovereign green bonds. When countries have done this before, it has attracted significant demand and driven an increase in the private green bonds market. For example, the UK Debt Management Office attracted GBP100 billion of orders for their inaugural Green Gilt issuance of GBP10 billion.
- Through the New Zealand Sovereign Green Bond Programme, the Government aims to promote the development of domestic green finance markets, as well as provide investors with opportunities to deploy funds to green assets.
- NZDM will focus on ensuring Green Bond issuance is consistent with its core objective of minimising costs over the long term while accounting for risk and that liquidity in all its products is supported. In addition, the issuance of Green Bonds is expected to provide further diversification of its investor base and support development in the broader New Zealand sustainable finance market.

New Zealand Sovereign Green Bond Framework

- Underpinning the Programme is the New Zealand Sovereign Green Bond Framework. It outlines the Government's climate and environmental priorities and sets the basis for identifying, evaluating, selecting and reporting on expenditures included in the Programme. The Framework also outlines the governance and operational requirements of the Programme.
- The Framework was developed in accordance with the International Capital Markets Association (ICMA) Green Bond Principles (2021) (Green Bond Principles) and is aligned with the four core components and the key recommendations of the Green Bond Principles: Use of Proceeds, Project Evaluation and Selection, Management of Proceeds, and Reporting.

Use of Proceeds

- The Treasury intends to allocate an amount equal to the total net proceeds of any Green Bonds issued to finance and/or refinance, in whole or in part, expenditures that meet the green eligibility criteria set out in the Framework (Eligible Expenditures).
- Eligible Expenditures can include, but are not limited to, any government operating and capital expenditures. This includes direct or indirect investment expenditures (including in physical assets and/or intangible assets, such as research and development), and transfers to public or private entities (grants, loans, subsidies, and contributions), including international transfers.
- Eligible Expenditures are limited to government expenditures that occurred in the financial year prior to issuance, the current financial year, and the two financial years following issuance (the Eligibility Window). The Treasury will allocate at least 50 percent of total proceeds to current and future expenditures.
- The Framework sets out eight Green Categories, which are categories of eligible expenditures: Clean Transport, Energy Efficiency and Renewable Energy, Green Buildings, Living and Natural Resources and Land Use, Terrestrial and Aquatic Biodiversity, Climate Change Adaptation, Sustainable Water and Wastewater Management, and Pollution Prevention and Control. The Green Categories are mapped to the UN Sustainable Development Goals.

Exclusions

- To avoid double counting, any expenditures wholly financed by green instruments issued by Crown entities, Crown companies or local government are excluded. Where expenditures are co-financed, only the Crown's portion of the expenditures will be included.
- In recognition of the Government's priorities and established environmental, social and governance (ESG) investment practices, and market expectations, the following expenditures are excluded: exploration and production of fossil fuels; nuclear energy; arms manufacturing and chemical weapons; manufacture and production of alcohol, tobacco, and recreational cannabis; gambling; and processing of whale meat. The Treasury will regularly review whether additional types of expenditures should be excluded.

Project Evaluation and Selection

- Robust project evaluation and selection is a core component of the Framework to ensure New Zealand Sovereign Green Bonds only finance high quality initiatives that support the Government's climate and environmental priorities. The Treasury will be responsible for periodically updating the pool of Eligible Expenditures (Expenditures Pool).
- A range of government agencies manage and deliver projects and programmes that are included in the Expenditures Pool. Agencies are responsible for monitoring their expenditures, including identifying, managing and reporting any political, legal, climate, environmental or social risks relating to their expenditures. Agencies will provide financial and non-financial information to the Treasury for inclusion in reporting.
- The Treasury will prepare advice for the cross-agency Green Bond Committee, a governance group that will consider the list of potential Eligible Expenditures and endorse expenditures for inclusion in the Expenditures Pool.
- The Treasury will periodically review the Expenditures Pool to determine if any changes are required. This will be limited to expenditures within the Eligibility Window. Expenditures that have been terminated, postponed or are no longer eligible will be removed from the Expenditures Pool.

Management of Proceeds

- The Treasury will ensure an amount at least equal to the total net proceeds of the bonds will be allocated to Eligible Expenditures and intends to fully allocate proceeds of all green bonds within two financial years following the financial year of issuance. An amount equivalent to unallocated bond proceeds will be deposited as cash in the Crown's Settlement Account with the Reserve Bank of New Zealand.

Reporting

- The Treasury intends to publish an annual allocation report commencing in the financial year following a Green Bond issuance, to include: total net Green Bond proceeds; an overview of the allocation of the issued Green Bond(s) to the Green Categories and, where appropriate and possible, to green objectives and specific expenditures; the amount of unallocated proceeds with confirmation that any temporarily unallocated funds were deposited as cash in the Crown's Settlement Account with the Reserve Bank of New Zealand; and any material political, legal, climate, environmental and social risks related to Eligible Expenditures, and actions taken in response.
- The Treasury intends to publish the first impact report, including outputs and outcomes, within two years of the first Green Bond issuance and annually thereafter, detailing impacts of expenditures, subject to available information. The Treasury intends for the impact report to include: climate and environmental impact indicators related to the Eligible Expenditures to which Green Bond proceeds have been allocated; case studies detailing the impacts of expenditures; and social co-benefits from Eligible Expenditures.

Second Party Opinion

- The Treasury engaged Sustainalytics, an independent ESG ratings company, to provide a Second Party Opinion (SPO) on the Framework prior to the first issuance of New Zealand Sovereign Green Bonds. The SPO provides investors with an independent assessment of the expected environmental benefits of the Green Categories and confirms the alignment of the Framework with the ICMA Green Bond Principles.

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Subject: New Zealand's foreign investment screening regime – status and emerging issues

Author: Treasury, International Team; LINZ, Policy and Overseas Investment Teams (*October 2022*)

Talking points

- New Zealand welcomes sustainable, productive and inclusive overseas investment. Overseas investment supports job creation, the creation and adoption of new technologies, increases human capital, and grants New Zealand more diverse international connections, including access to global distribution networks and markets. At the same time, the Government recognises that foreign investment can pose risks. Foreign investment can take ownership and control of economic activity out of New Zealand and high levels of foreign ownership of sensitive New Zealand assets can conflict with a view that New Zealanders should own or control those assets. It can also, in extreme cases, present opportunities to undermine our national security.
- The Overseas Investment Act 2005 (the Act) is New Zealand's principal tool for regulating foreign investment. It seeks to balance the need to support high-quality investment, while ensuring that the government has tools to manage risks associated with foreign investment. The Overseas Investment Act 2005 provides the regime under which New Zealand screens inward foreign investment. The Act does so by providing an enduring framework for screening foreign investments in:
  - sensitive assets to help ensure that they benefit New Zealand and are not contrary to our national interest, and
  - certain strategically important businesses and business assets to help ensure that they do not pose significant risks to New Zealand's national security or public order.

Recent reforms

- From 1 July 2021, a broad set of reforms to the Act known as the 'Phase Two Reforms' came into force. These reforms were intended to streamline and reduce the burden of compliance for most lower risk investments, while also improving New Zealand's ability to manage areas of heightened risk associated with foreign investment.
- Key changes to streamline the regime and reduce the burden of compliance include:
  - Allowing small increases in existing interests, increasing the levels of overseas control or ownership required for an NZX listed entity to be considered an overseas person (and require screening under the Act) and introducing an applied for exemption for non-listed entities. These changes will benefit investors both by allowing them to invest more without being subject to screening and, indirectly, be allowing more entities they have an interest in to acquire sensitive New Zealand assets without consent.
  - Removing screening requirements for some investments in sensitive adjoining land (i.e. land that is considered sensitive because of what is next to), which will significantly reduce the number of sensitive land transactions that are subject to screening.
  - Simplifying the 'Benefit to New Zealand' test by reducing the number of factors being considered to seven broader factors (this is not intended to narrow the test, rather the broader factors will encourage a more holistic approach to determining whether the test is satisfied) and expressly introducing a proportionality approach, so the level of benefits required will depend on the sensitivity of land.
  - Narrowing the factors that can be considered under the good character component of the investor test, which applies to all transactions except some involving residential land, to serious offences and contraventions only. The previous test allowed decision-makers to consider any matter that reflected adversely on an investors character.

- Introducing statutory timeframes for decisions. The timeframes are ambitious and will require assessments to be completed more quickly than was previously the case. They will also give investors more certainty about when their applications might be processed.

- Key changes to improve the Government's ability to manage risk include:
  - The national interest test is a backstop tool to manage significant risks associated with transactions that ordinarily require screening under the Act and enables New Zealand to protect its core national interests in a broad sense.
  - The national security and public order call-in power allows review of investments in strategically important businesses and business assets, where consent would not normally be required (for example, because the business is worth less than $100m). Where investments that present risks, the responsible Minister is empowered to take steps to manage those risks, such as blocking or imposing conditions on the transaction.
- The Phase Two Reforms also repealed the temporary COVID-19 Emergency Notification Regime, introduced in early 2020 in response to economic impacts of the pandemic, which required investors to notify the Government of all foreign direct investments that would result in more than 25% foreign ownership of a firm or its assets to undergo a national interest assessment.

2022 Special Forestry Test Reform

- On 16 August 2022, amendments to the Act that reformed the 'special forestry test' came into force, which removed forestry conversions from the Act's 'special forestry test', which provided a more-streamlined test for foreign investment in forestry, to instead apply the broader 'benefit to New Zealand test' for these investments to ensure forestry conversions by overseas investors continue to bring broad benefits to New Zealand.

Current status

- Following the passage of legislative reform, focus has shifted towards operationalising the new rules and regulations and bedding-in processes. LINZ and the Treasury are monitoring the performance of the regime, particularly its effectiveness in screening for investments that pose a national security risk.

National interest test

- Over the 2021/22 financial year, LINZ reviewed 376 investment applications. Just under half of these applications related to the acquisition of residential property. In total, 94% of applications gained approval to proceed. s6(a) [redacted]

National security public order call in power

- Since the introduction of the national security public order call in power, LINZ reviewed 51 investments into strategically important businesses. This only applies to detected and notified transactions and does not capture national interest assessments. Additionally, not every transaction was found to be notifiable, for example because the target business did not meet the definition of a strategically important business.
- s6(a) and 9(2)(b)(ii) [redacted]
- Due to the voluntary nature of the majority of national security public order call in power applications, LINZ has established an operationalised a scanning regime to identify and assess non-notified transactions. This has led to the identification and assessment of 21 transactions under the regime. LINZ continues to collaborate across government and the private sector to identify and assess non-notified transactions to ensure the regime remains robust and effective.

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Aggregation risk

- Aggregation risk refers to risks that may arise from the aggregation of foreign ownership in parts of an economy, particularly 'horizontal' and 'vertical' integration within sectors or supply chains. Aggregation of ownership can drive positive economic outcomes and is not, in and of itself, an issue. However, concentration of market power can increase the risk of reducing or limiting competition within a market, including cartel behaviour or manipulation of supply and/or demand.
- Aggregation of foreign ownership can pose national security risks, where state-linked investors may seek control of a domestic market or over critical parts of a supply chain to realise strategic objectives that are not in New Zealand's national interest. This kind of risk might be achieved covertly through a series of transactions by ostensibly unconnected foreign investors and/or domestic investors with ties to a foreign state.

Managing aggregation risk

- A range of existing regulatory systems have a part to play in identifying and addressing some types of aggregation risk. These include the Commerce Act 1986, and more sector-specific regulatory systems, such as the Outer Space and High-altitude Activities Act 2017 and the Telecommunications (Interception Capability and Security) Act 2013.

s6(a)

[redacted]

s6(a) and 9(2)(f)(iv)

[redacted]

s6(a) and 6(b)(i)

[redacted]

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s6(a) [redacted]

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[redacted]

- United States: President Biden issued an Executive Order on 15 September 2022 providing direction on risks that their regime should consider in reviewing foreign investment transactions. It highlights and elaborates on five national security risk factors they are to

s6(a)
[redacted]

- s6(b)(i)
[redacted]
- [redacted]

s6(a)
[redacted]

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Subject: Indo-Pacific Economic Framework (IPEF)

Author: Ministry of Foreign Affairs and Trade (*October 2022*)

Key points

- IPEF is a novel, cooperative economic initiative that has been driven by the United States as the Biden Administration's key economic plank of Indo-Pacific engagement.
- Trade ministers from the fourteen participating economies agreed the 'scope' of IPEF negotiations on 9 September 2022, in Los Angeles. The Framework has now moved into the negotiation phase. There is already significant momentum, and an ambitious negotiation programme ahead for the coming months.
- IPEF provides opportunities for positive region-wide collaboration across the four pillars of the Framework: i) to deepen regional trade linkages; ii) to shore up the resilience of our supply chains; iii) to accelerate action towards a clean economy; and iv) to uphold key principles of a fair economy.
- Principles of sustainability and inclusivity are embedded throughout the scope of the Framework. These correspond well with New Zealand's Trade for All Agenda.
- While thirteen of the fourteen IPEF economies joined the negotiations of all four pillars of the Framework, India joined three of the four pillar negotiations but opted out of the trade pillar negotiations. s6(a) [redacted]
- [redacted]

Background dynamics and initial priorities for New Zealand

- New Zealand made TCFD reporting mandatory for four primary reasons
- Prime Minister Ardern (virtually) joined President Biden, Prime Minister Modi, and other leaders at the political launch of IPEF in May 2022. s6(a) and 9(2)(g)(i) [redacted]
- IPEF will develop rules and deepen cooperation across a wide range of 'future-focused' trade, economic, and climate issues. Structurally, the framework is organised into four thematic pillars: i) trade; ii) supply chains; iii) clean economy; and iv) fair economy.
- New Zealand as well as a number of IPEF economies who are also CPTPP signatories have openly encouraged the US to consider re-joining CPTPP. s6(a) and 9(2)(g)(i) [redacted]
- Twelve of the fourteen IPEF members are also APEC members, with Fiji and India being the only two IPEF members who aren't in APEC. The following nine APEC members are not part of IPEF: Canada, Chile, China, Chinese Taipei, Hong Kong (China), Mexico, Papua New Guinea, Peru, Russia. Aside from membership differences, it's possible that IPEF may result in more legally binding elements (particularly under the trade pillar) than APEC. The US may look to use its APEC host economy status in 2023 to drive IPEF outcomes over the next year.

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[4] The US, seven ASEAN members (Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam), three non-ASEAN Asian economies (India, Japan, South Korea), and three economies in Oceania (Australia, Fiji, New Zealand).

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- s6(e)(vi) and 9(2)(j) [redacted]
- There is a strong 'green investment' theme running through the scope of IPEF, which has the potential to bring significant benefits to all members. Some US think-tanks have talked up the scope to leverage the roughly $100 trillion US institutional investment pool (e.g. insurance and investment funds) to drive the transition to green investment, s6(a), 6(e)(vi) and 9(2)(j) [redacted]
- More broadly, New Zealand will likely need to play an active role in driving high-ambition climate-related outcomes from IPEF. s6(e)(vi) and 9(2)(j) [redacted]
- s6(a), 6(e)(vi) and 9(2)(j) [redacted]

Subject: Economic Security

[RESTRICTED]
Author: Treasury Economic Policy Team and International (*September 2022*)

Summary

s6(a) and 9(2)(j)

s6(a) and 9(2)(j)

s6(a) and 9(2)(j)

[redacted]

Improving the resilience of trade-supporting logistics and infrastructure

- The Ministry of Transport is developing New Zealand’s first National Freight and Supply Chain Strategy. The strategy will chart a path to ensure that our supply chains are prepared for future threats and events (including extreme weather and other natural disasters, rising sea levels and national security events).
- The Government has several work programmes underway to increase the resilience of New Zealand’s critical infrastructure, including more clearly defining critical infrastructures, and clarifying and strengthening the requirements to identify minimum service levels in the event of an emergency. This work includes:
    - Reforms to the Civil Defence Emergency Management Act to transition from the concept of “lifeline utilities” to one of critical infrastructures.
    - Work to determine whether more fundamental changes are required to guarantee critical infrastructure resilience. This will consider whether existing standards for infrastructures are appropriate or should be strengthened, and whether information sharing between infrastructures and government on hazards and threats needs to be enhanced.

Improving the resilience of supply chains themselves

- s6(a) [redacted]
- [redacted]
- The recently launched Indo Pacific Economic Framework for Prosperity (IPEF) negotiations also have a supply chain pillar. The Ministerial Statement agreed by the 14 IPEF Trade Ministers sets out that countries will work together to:
    - identify sectors and products critical to national security, economic resilience, and the health and safety of citizens and then act collectively to increase the resilience of these sectors;
    - identify choke points in critical supply chains and work collaboratively to address them; and
    - use data to improve supply chain logistics.
- Subject to Cabinet’s agreement to the Terms of Reference, the Productivity Commission will also shortly commence an inquiry into the medium/long-term resilience of New Zealand’s economy to supply chain disruptions, considering a broad range of potential stresses and shocks.

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Subject: Ukraine/Russia and the New Zealand Sanctions Regime

Author: MFAT Ukraine Response Unit (*September 2022*)

Key points

- Russia's illegal invasion of Ukraine and ongoing military aggression are an affront to all of us.
- As PM Ardern said at the NATO Summit, all countries should be concerned by such a flagrant attack on a sovereign nation in clear contravention of the UN Charter's prohibition on the use of force to solve disputes.
- Russia's aggression also undermines our multilateral institutions. Russia's use of its UN Security Council position to block consideration of the invasion demonstrates why we must continue to seek reform of the UN.
- Aotearoa New Zealand has responded by:
  - Implementing unilateral sanctions for the first time ever.
  - Providing humanitarian assistance and a special visa for family members of our Ukrainian community.
  - Providing military and non-military assistance. We have deployed NZDF people and assets throughout Europe to facilitate the flow of supplies to Ukraine, and together with the United Kingdom, we are training Ukrainian troops and supporting intelligence efforts.
  - Providing significant contributions to the international legal effort to hold Russia accountable and have intervened in support of Ukraine's case against Russia at the International Court of Justice.
- Aotearoa New Zealand, like other countries, have felt the effects of Russia's invasion, through higher energy and commodity prices. s9(2)(g)(i) [redacted] We welcome the UN and Turkiye's efforts to facilitate a negotiated solution for the export of Ukrainian grain, but Russia's missile attacks on Odessa illustrate the significant implementation challenges that remain.
- The principles at stake in Ukraine, namely respect for international law and the UN Charter's defence of sovereignty and territorial integrity, are deeply significant to New Zealand as a small state acting in the world. We are eager to work with our closest partners to uphold a rules-based international order that serves all of our interests. With that objective, it would be helpful for you to:
  - Seek views on the likely trajectory of the conflict and the international response.
  - Seek views on the economic, political and social impacts of the conflict, including implications of any energy shortages.

<u>Background</u>

Current situation on the ground

- The war in Ukraine has continued for over six months. s6(a) [redacted] Ukraine has demonstrated remarkable defensive resolve in the face of the much larger Russian war machine, and has exploited Russian defensive vulnerabilities around Kharkiv to retake a large swathe of ground as of mid-September. s6(a) [redacted]
- Ukraine is beginning to think about its reconstruction needs, s9(2)(g)(i) [redacted] At the Ukraine Recovery Conference held in Lugano in early July, s6(a) and 6(b)(i) [redacted] Ukraine is also preparing a proposal for a registry of evidence of

damages, with a view to establishing a compensation mechanism at some stage in the future. Aotearoa New Zealand's focus in the short-to-medium-term will be on supporting Ukraine through provision of humanitarian assistance, and support for international accountability efforts through the ICJ and ICC.

New Zealand's response to Russia's Invasion of Ukraine

- In response to Russia's war of aggression, New Zealand has sanctioned almost 1,000 Russian individuals and entities and has provided over NZ$65 million in assistance to Ukraine. This includes:
  - $33.77 million in military assistance (including the deployment of NZDF personnel to support Ukraine (see below), as well as lethal and non-lethal military assistance);
  - $8.75 million in humanitarian and economic assistance; and
  - $3.22 million for human rights monitoring and international legal accountability initiatives.
  - $750,000 in cyber resilience to be delivered in partnership with USAID.
- In total since March, New Zealand has deployed up to 224 personnel to Europe to provide intelligence, liaison, logistics and training contributions to partner efforts to support the self-defence of Ukraine. The NZDF also deployed a RNZAF C-130 Hercules to assist with the movement of military equipment throughout Europe (this returned to New Zealand in June). Most recently, Prime Minister Ardern announced the deployment of up to 120 NZDF personnel to the UK to support s6(a) [redacted] undertaking the training of up to 800 members of the Armed Forces of Ukraine.
- The NZDF has also activated its New Zealand-based open-source intelligence capability and contributed surplus equipment to the Armed Forces of Ukraine. Aotearoa New Zealand has donated over NZD$20 million for the provision of critical military equipment to Ukraine through the NATO Trust Fund and UK Ministry of Defence, as well as purchasing commercial satellite access for Ukraine.

Global economic implications

- Russia's war on Ukraine, and the resulting economic sanctions, is severely disrupting already tight food, energy, and financial markets, exacerbating supply chain disruptions globally and causing stresses in the global economic system.
- Russia is one of the world's biggest energy suppliers, particularly for crude oil and natural gas. The crisis has caused disruption to oil flows globally, resulting in significant volatility in crude oil prices since the invasion. Although oil prices have eased in recent weeks, s9(2)(g)(i) [redacted]
- [redacted]
- The impact on global food security is the most alarming concern in terms of international trade. Russia and Ukraine together account for 29% of the world's wheat exports and 20% of its corn exports. Many countries around the world (especially developing nations) are heavily dependent on these products.
- The war comes at a difficult moment for the world economy. The recovery from the pandemic-induced recession has been slowing as new coronavirus variants have emerged, Chinese lockdowns have reduced their own economic activity and governments have reduced fiscal support. Rising inflation has also prompted central banks to raise interest rates, elevating risks of recession in many large developed economies. As result, the IMF is forecasting global GDP growth to slow from 6.1% last year to just 3.2% in 2022, down a further 0.4% from its April forecast.
- s9(2)(g)(i) [redacted]

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[redacted]

G7 Oil Price Cap Initiative

- On 2 September 2022, G7 Finance Ministers committed to prohibit companies within G7 countries (and other coalition members) from providing maritime insurance and other services to ships that are transporting Russian oil, unless it is purchased below a certain price.
- s9(2)(g)(i) [redacted] United States officials have described the price cap as a "release valve", as it provides a mechanism for Russian oil to flow to market and thereby mitigate the risk of higher fuel costs for consumers, while still limiting Russia's oil revenues and its ability to fund its invasion of Ukraine.
- The G7 is seeking to establish a coalition of countries to maximise the cap's effectiveness, ensuring the cap is implemented comprehensively and avenues for Russian oil to flow to market above the price cap are sealed off. s6(a) [redacted]
- **The price cap will have little direct application for New Zealand**, as to our knowledge no New Zealand companies are engaged in providing services for ships transporting Russian oil. New Zealand only imports refined oil products and we do not import any from Russia. s6(a) [redacted]
- Officials are awaiting further information on the technical details of the G7's oil price cap proposal (including the price) before considering the appropriate manner of conveying our support (including whether this should be done at senior official or Ministerial level). Because New Zealand companies do not provide services relating to the transhipment of Russian oil, officials do not foresee the need for any amendments to our Russia Sanctions Regulations to give effect to the oil price cap.
- If asked, we suggest you indicate New Zealand is positively considering the initiative.

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s9(2)(g)(i) [redacted] Advice on Aotearoa New Zealand pre-emptively banning the import of oil direct from Russia is with Ministers for consideration.

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Confirmed Bilateral Meeting Briefings:

Jerome Powell, Chair of the Federal Reserve of the United States

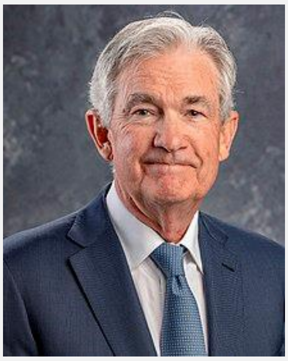
Lead: Minister Robertson

Other attendees: Alex Tarrant, Struan Little, Adrian Orr, Karen Silk, Hugo Van Dyke, Lachy Stark (notetaker)

Date: 13 October

Time: 2:45 – 3:25pm

Venue: IMF HQ1-13-390C



Jerome Powell

Chair of the Federal Reserve (2018 – present)

Previous roles:
Federal Reserve Board of Governors (2012-2018), Bipartisan Policy Centre visiting scholar (2010-2012)

Stated priorities:
Bringing inflation down to 2 per cent.

Previous engagements:
However, Adrian Orr recently engaged with Mr Powell at Jackson Hole in August 2022.

Aim:

- To continue building a positive New Zealand-US relationship.
- To discuss global inflation and the ways in which monetary and fiscal policy can be complementary in reducing inflation.

Talking Points:

- We expect that most of this discussion will revolve around inflation, in particular the intersection between supply chain issues, inflation and government policy.
- Confirm the importance to Aotearoa New Zealand of our strong relationship with the US, and the considerable overlap in our interests, values and challenges, including tackling inflation and focussing on the Pacific.
- Discuss New Zealand's approach to fiscal management in a more constrained monetary and fiscal environment, and the United States legislative efforts to combat inflation and supply chain issues such as the CHIPS Act and the Inflation Reduction Act.
- Ask his views on international and domestic impacts of US monetary policy, considering the current monetary and fiscal international environment. How is he thinking about the impact of a strengthening US dollar on emerging markets that still haven't recovered from covid?
- Discuss how he see US employment tracking over the next few months as the Federal Reserve continues to tighten monetary policy (and what might cause Powell to ease the tightening).
- Potentially raise remittances in the Pacific, given the challenges US regulations pose for Pacific Island countries with regard to remittances.

Background to issues:

US Economic Situation	• The US annual inflation rate is currently **8.3 per cent**. The US economy is showing signs of slowing from historically high growth rates through 2021, which were driven by the reopening of the economy following the pandemic recession.
The Federal Reserve's approach to tackling inflation	• The Federal Reserve have taken a strong position on inflation, gradually raising the federal funds rate to 3 – 3.25 per cent to September, from a rate of 0.25 per cent at the beginning of 2022. • Mr Powell has stated that the Federal Reserve will continue to take forceful and rapid steps to moderate demand, to ensure better alignment with supply and anchor inflation expectations.
Legislative responses to supply chain issues and inflation	• The Inflation Reduction Act of 2022 (IRA) aims to curb inflation by reducing the US budget deficit (through new taxes and enforcement), lowering the price of prescription drugs and investing into domestic, clean energy production. • The CHIPS Act incentivises domestic production of semiconductors in the US, amid a global shortage.

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Chrystia Freeland, Deputy Prime Minister and Minister of Finance of Canada

Lead: Minister Robertson
Other attendees: TBC
Date: TBC October
Time: TBC
Venue: TBC

Chrystia Freeland

Canada's Deputy Prime Minister (since 2019) and Minister of Finance (since 2020)

Previous roles: Minister of Intergovernmental Affairs (2019-2020), Minister of Foreign Affairs (2017-2019), Minister of International Trade (2015-2017)

Stated priorities: Addressing inflation, shortages, immigration, fiscal restraint and climate action.

Previous engagements: Regular Five Finance Ministers (5FM) calls.

Aim:

- To outline importance of the relationship and the similar challenges we are facing and share insights on global economic challenges.

Talking Points:

- Confirm the importance of our strong relationship with Canada, and the considerable overlap in our interests, values and challenges.
- s6(a)
- Discuss climate change challenges and initiatives, highlighting New Zealand's Emissions Reduction and National Adaptation Plans, and Green Bonds Framework. Discuss opportunities for New Zealand and Canada to cooperate on international carbon markets.
- Emphasise Aotearoa New Zealand's support for Ukraine as it deals with the Russian invasion, including NZ $8 million in humanitarian assistance, military assistance, diplomatic action against Russia, and sanctions on individuals and entities tied to the Russian government.

Background to issues:

s6(a)

Climate change	• New Zealand has set a Nationally Determined Contribution to reduce net emissions to 50 percent below gross 2005 levels by 2030, and a domestic target through the Zero Carbon Act to reach net-zero long-lived greenhouse gas emissions by 2050. • New Zealand launched its first Emissions Reduction and National Adaptation plans this year. Similarly, Canada launched a Task Force on Flood Insurance and Relocation in 2020, which will be releasing its report back in 2022.
Ukraine	• Canada has the second largest Ukrainian diaspora (after Russia) and is leading the establishment of an IMF support mechanism for Ukraine (with CA$1.4 billion committed through this mechanism and CA$620 million committed bilaterally). • Canada has also provided large amounts of direct military support, humanitarian and development assistance to Ukraine. We calculate total support sits at NZ$104 per capita compared to New Zealand's NZ$8.93 per capita.
Canda economic situation	• Like most economies, Canada is experiencing high inflation. Its August inflation rate was 7 percent, down from 7.6 percent in June. OECD forecasts that real GDP growth at by 3.8 percent in 2022 and 2.6 percent in 2023. The Canadian Government has responded to cost of living pressures with an 'Affordability Plan', which includes a benefits boost, sales tax credit, and a one-off increase in housing benefits for low-income renters.

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Bilateral overview – New Zealand and Canada

Author: MFAT Americas Division (*October 2022*)

Bilateral relationship fundamentals

- Canada is one of New Zealand's closest partners, and one of our bedrock bilateral relationships. Our Commonwealth heritage, shared respect for democracy and the rule of law, strong people to people links, and close trade policy ties form the foundation of the relationship. Our worldviews are underpinned by our shared parliamentary, legal, social, and defence traditions. The result is a rich, natural partnership, reflected in our instinctive like-mindedness on most issues.
- Canadian and New Zealand Government values and core interests are closely aligned internationally, including in our efforts to pursue sustainable and inclusive trade agendas. Our cooperation over the COVID-19 pandemic on open trade and supply chain resilience has been a feature of the past few years. Our countries share enduring democratic values and a fundamental interest in a rules-based order that builds a more liberal, sustainable and inclusive world.
- Both countries also have a number of similar domestic priorities, and are increasingly disposed to share perspectives on complex policy issues; which were heightened in the COVID context. Canadian and New Zealand policy makers share similar perspectives on a variety of issues including indigenous reconciliation, climate change, health, housing, social development and justice reform.
- Canada remains one of New Zealand's key defence, security and intelligence partners. The Five Eyes intelligence partnership and our shared security interests are important to both countries, and the defence relationship is in very good shape with long-standing engagement at officials' level. A Canadian frigate, HMCS Calgary, visited New Zealand in August 2021 – the first foreign military ship visit since the start of the COVID-19 pandemic. Canada has also hosted the upgrades of our Anzac Frigates HMNZS Te Kaha and Te Mana in British Columbia.
- Canada and New Zealand signed a bilateral Indigenous Cooperation Arrangement in August 2022. This agreement aims to formulate a structure around our indigenous cooperation, which began at the official level through the Indigenous Peoples Economic and Trade Cooperation Agreement (IPETCA) in May 2022. Indigenous affairs remain top of mind across Canadian government, and by sharing best practices the aim is to deepen indigenous-indigenous links.

Canada political developments

- Canada held an early federal election on 20 September 2021, which returned an essentially unchanged Parliament. The Liberals continue to provide a stable minority government by working in the context of a confidence and supply agreement with the left-leaning New Democratic Party. This should prevent another election until 2025. The Liberals ran a COVID-19 and domestically-focused campaign, with no major changes to previous policy directions.

Ukraine - Russia

- Canada has long taken a strong position in opposing Russia's authoritarian and aggressive practices. This stems from Canada's commitment to international peace and security, and to international rules; Canada's membership of NATO; and also owes something to the large Ukrainian diaspora in Canada – the largest outside Ukraine and Russia. A number of MPs, including Deputy PM Freeland, have Ukrainian heritage.
- s6(a) [redacted] Prime Minister Justin Trudeau visited Kyiv in May 2022. Canada was one of the first countries to ban the import of oil from Russia, and has provided significant financial and military support to the Ukrainian government – including over CAD$626 million of military equipment delivered and committed and CAD$906 million in loans and direct financial contributions. Canada has deployed a further 460 troops to NATO since the conflict began, mainly in an artillery division

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deployed to Latvia. Canada has also deployed 225 personnel to the Ukrainian training mission in the United Kingdom.

The economic relationship

- Canada's wealthy consumers and investors deliver large benefits to New Zealand. Canada is New Zealand's 20th largest trading partner for goods and services (year ended March 2022), with two-way trade valued at NZ$1.85 billion. Services exports had driven strong trade growth, making up 39% of our exports to Canada in the year ending March 2020, but have been severely affected by COVID-19 due to the collapse in travel (tourism from Canada was worth NZ$317.8 million in the year ending 2020).
- Canada is also one of the largest sources of foreign direct investment into New Zealand, driven by the investments of large Canadian pension funds in a range of industries including agri-food, forestry, healthcare, digital technology and services. One of the largest and most recent instances of Canadian pension funds investing in New Zealand is the Ontario Teachers Pension Plan which bought 70% of the mobile phone tower business of Spark New Zealand for NZ$900 million.
- Canada put in an accession request to join the Digital Economy Partnership Agreement (DEPA) and has commenced formal accession negotiations through a working group.
- CPTPP provides an important link between our two countries. Under the Agreement, 99% of existing New Zealand exports are tariff free, with estimated savings of NZ$5.2m per year. Highlights include removing tariffs of up to NZ$3.50 per bottle for wine and a 26% out-of-quota tariff on beef (over 6 years). Merchandise exports to Canada increased by 10% from 2018 to 2020, with significant increases in frozen beef (30%), kiwifruit (47%), butter (18%), and milk fats (35%). Tariff savings are at least $12 million for frozen beef, $4 million for butter and $2.5 million for wine.
- However, Canada applies significant restrictions that prevent New Zealand dairy exporters from using the limited access to the Canadian market negotiated under CPTPP. As a result of continuing Canadian inaction on this issue, New Zealand has initiated consultations with Canada under the CPTPP over its administration of its dairy tariff rate quotas. If approved by Cabinet, this will be our first trade dispute under a free trade agreement rather than through the WTO process. This s6(a) [redacted], and has been raised numerous times with Canada, by Ministers and officials, including by Prime Minister Ardern.

Key economic data

GDP	USD $2.2 trillion (2022 est.)
GDP GROWTH	+4.6% (2021)
GDP PER CAPITA	USD $57,406 (2022 est.)
EXPORTS	CAD $637 billion (2021)
MAIN EXPORTS	Crude Petroleum, Cars, Refined Petroleum, Vehicle Parts and Petroleum Gas.
IMPORTS	CAD $631 billion (2021)
MAIN IMPORTS	Cars, Delivery Trucks, Refined Petroleum, Crude Petroleum and Computers.
UNEMPLOYMENT	5.1% (May 2022)

Exports/Imports – Key points
• Canada is a G7 member. Its trade with the USA is the largest bilateral trading relationship in the world at USD$763 billion in 2021.
• Agriculture, energy, mining and forestry account for more than 50% of Canada's total exports. Machinery, equipment and other manufactures account for the majority of remaining exports.
• Capital goods imports include machinery, crude oil, chemicals, and durable consumer goods.

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Arkhom Termpittayapaisith, Minister of Finance of Thailand [Briefing to come]

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Indranee Rajah, Minister in the Prime Minister's Office of Singapore, Second Minister for Finance, Second Minister for Development, Leader of the House [Briefing to come]

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Krishna Srinivasan, IMF Asia Pacific Director

Lead: Minister Robertson

Other attendees: Alex Tarrant, Struan Little, Adrian Orr, Karen Silk, Oscar Parkyn, Lachy Stark and Hugo Van Dyke (notetaker)

Date: 14 October

Time: 11-11:30am

Venue: IMF HQ (Room TBC)

Krishna Srinivasan

IMF Director of Asia and Pacific Department (APD) (June 2022 - present)

Previous roles:

IMF Deputy Director of APD (2021-2022). Mr Srinivasan has been with the IMF since 1994 and held leadership roles in the following departments: African; European; Monetary and Capital Markets; Research Department, Strategy, Policy, and Review; and Western Hemisphere.

Stated priorities: We expect Mr Srinivasan will share his priorities at the Annual Meetings, given his short tenure to date.

Previous engagements: March 2021 virtual meeting as part of New Zealand's Article IV consultation.

Aim:

- To build a positive relationship with Mr Srinivasan and the IMF's Asia and Pacific Department (APD).
- To hear the IMF's view of the economic outlook and risks in the Asia-Pacific.
- To communicate New Zealand's focus on ensuring that sufficient IMF financial and technical resources are available to Pacific Island countries.

Talking Points:

Relationship building

- Congratulate Mr Srinivasan for his appointment to Director of the Asia and Pacific Department (APD).
- Note that New Zealand has a very positive relationship with APD and we look forward to that continuing under Mr Srinivasan's leadership.
- Ask Mr Srinivasan about his priorities for APD.

Economic outlook and risks

- Ask Mr Srinivasan about the IMF's regional economic outlook, particularly with regard to debt sustainability among members.
- Ask Mr Srinivasan about the key risks to the outlook, including uncertainties related to global financial tightening and China's economy.
- Note that the New Zealand economy is resilient and macro policies are focussed on maintaining fiscal sustainability and controlling inflation.

New Zealand's priorities and IMF engagement

- Reaffirm that New Zealand highly values the IMF ensuring that policy advice, capacity development and financial resources are accessible to Pacific Island countries and are well-tailored to country needs.
- New Zealand welcomes the establishment of the RST, which could help vulnerable countries to build climate resilience.

s9(2)(f)(iv) and 9(2)(j)

[redacted]

Background to issues:

Debt sustainability and Pacific access to financing	• Growth across Asia and the Pacific is slowing amid the tail-end impacts of the pandemic, rising global inflation and the impacts of Russia's war in Ukraine. • The IMF and World Bank are a part of the Heavily Indebted Poor Countries (HIPC) initiative, established in 1996. • The HIPC provides debt relief to countries meeting strict criteria. There are currently no eligible Pacific countries.

s9(2)(f)(iv and 9(2)(j)

[redacted]

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Manuela Ferro, WBG Vice President for East Asia and Pacific

Lead: Minister Robertson
Other attendees: TBC
Date: TBC October
Time: TBC
Venue: TBC

Manuela Ferro
WBG Vice President for East Asia and Pacific (since 2021)
Previous roles:
WBG Vice President of Operations Policy and Country Services (2017-2021),
WBG Director, Strategy and Operations for the Latin America and Caribbean Region (2013 – Present),
WBG Director, Economic Management and Poverty Reduction, Middle East and North Africa (2011-2013)
Stated priorities:
Supporting countries struggling with fragility, conflict and violence, IDA (particularly leveraging)

Previous engagements:
None.

Aim:

- Highlight New Zealand priorities and opportunities, seeking Bank support these.

Talking Points:

- We look to the Bank to work with us in supporting Pacific recovery and building resilience, including to climate change, natural disaster, health risks and economic crisis, improving governance and debt management.
- What is the Bank doing to assist Pacific island countries restructure official debt?
- We appreciate Fiji being given access to concessional finance. We would like to explore with the Bank how measures of vulnerability can be better used to inform country classification and allocation of finance.
- We would like to discuss ways in which the Bank could work with New Zealand to implement our Climate Finance Strategy. We are keen to discuss the preparation of Climate Change and Development Reports for the Pacific.
- What are the key challenges the Bank faces in East Asia and the Pacific.
- We would welcome a visit by you to Wellington when you are next in the region.

Background to issues:

Aotearoa New Zealand's priorities at the Bank	• The Bank is the **Pacific**'s third largest donor, mostly by way of grants or interest-free credits. • New Zealand's **Pacific priorities** are to foster economic recovery while building resilience to climate change, natural disaster, health threats and economic crisis. • New Zealand's $1.3 billion **climate finance** package and Strategy envisages half being delivered in the Pacific. • Bank commitments to **climate change** include a minimum spend of US$35 billion annually, alignment of country strategies with Nationally Determined Commitment by 2025 and the use of Country Climate and Development Reports (CCDRs) to guide policy and climate finance spending.
Debt sustainability	• The IMF and World Bank are implementing the G20 'Common Framework', under which official and private sector creditors are encouraged to restructure the debt of developing countries in debt distress.
Vulnerability Index	• The UN is developing a Multi-Dimensional Vulnerability Index (VI) to include climate impacts. ADB applies the UN ECOSOC VI to allocate grants for SIDS. The WB view is that its policies are more generous than what a VI would propose.
East Asia and the Pacific outlook	• The pandemic, war in Ukraine, a structural slowdown in China and monetary tightening in the U.S. are impacting developing East Asia and Pacific (EAP) for which growth is now projected at 5% in 2022, down from 5.4% projected in October. • The WB's EAP Outlook identifies long term issues as growth deceleration, debt burdens and policy distortions arising from initiatives to address immediate issues. Rapid urbanization and business demands are increasing the need for infrastructure investment in the region, in which most energy is typically not from renewable sources.

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Andy Baukol, Acting Under Secretary for International Affairs, and Counselor Jay Shambaugh (nominee for Under Secretary of International Affairs)

Lead: Minister Robertson
Other attendees: TBC
Date: TBC October
Time: TBC
Venue: TBC

Andy Baukol
Acting US Undersecretary of the Treasury for International Affairs

Jay Shambaugh
Counselor to the Secretary (Nominee for Undersecretary for International Affairs)

Previous engagements:
None.

Aim:

- Continue developing a positive relationship with the United States: convey importance of the relationship to NZ, understand US perspectives on key issues, identifying opportunities for collaboration.
- Seek US Treasury's perspective on the US fiscal and economic policy coming out of the pandemic, including the implications for small and emerging markets.

s9(2)(f)(iv and 9(2)(j) [redacted]

Talking Points:

- **Inflation**: what is the US Treasury's view on the underlying causes of inflation and the impacts of tightening US monetary policy on the global economy?
- **Economic security**: offer any assistance for the US in determining whether NZ should be granted exempted foreign investor status; s9(2)(f)(iv and 9(2)(j) [redacted]
- **The Pacific**: note NZ's increasing focus on supporting Pacific countries and their economies; concern about regulatory barriers constraining the region's financial sector; discuss IPEF and climate-related concerns and initiatives.

Background to issues:

Inflation	• US annual inflation in the year ending August 2022 hit 8.3%. The Federal Reserve lifted rates to 3.0-3.25% on 22 Sep and expects to increase to 4.4% by the end of 2022 and to 4.6% in 2023.
Economic security	• On 15 September President Biden issued an Executive Order specifying five national security risk factors that the US foreign investment regime considers: supply chain resilience/security, tech leadership, aggregation risk, cyber, and sensitive data security. • s6(a) [redacted]
The Pacific	• NZ's 'resilience' approach to Pacific Island countries, supporting them in responding to and recovering from impacts of COVID-19. • Concern about critical services exiting, including the financial sector (banking and insurance especially). • The US recently announced an additional $810m in support to Pacific island countries and recognise Niue and Cook Islands as sovereign states, as part of the country's push to step up engagement with the region, including $130m to combat the effects of the climate crisis.
Climate	• New Zealand has been finalising its strategy for its $1.3b international climate finance commitment. • New Zealand has established the multi-year Climate Emergency Response Fund (CERF) with an initial NZD$4.5 billion down payment from the cash proceeds of the New Zealand Emissions Trading Scheme. • The United States' Inflation Reduction Act includes a commitment to spend around US$375 billion over the next ten years on climate, including an $11 billion commitment to international climate finance.

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Axel van Trotsenburg, WBG Managing Director of Operations

Lead: Minister Robertson

Other attendees: Alex Tarrant, Struan Little, Sarah Short, Norman Laroque, Hugo Van Dyke and Lachy Stark (notetaker)

Date: TBC October

Time: TBC

Venue: TBC

Axel van Trotsenburg

World Bank Managing Director of Operations (since 2019)

Previous roles:
World Bank (WB) Vice President (VP) of Development Finance (2016-2019),
WB VP for the East Asia and Pacific Region (2013-2016),
WB VP for Concessional Finance and Global Partnerships (2009-2013)

Stated priorities:
Supporting countries struggling with fragility, conflict and violence, IDA (particularly leveraging)

Previous engagements:
Historic – when he was VP for EAP (2013 – 2016)

Aim:

- Underscore New Zealand's interests in the role the World Bank and how it can support New Zealand priorities.

Talking Points:

- As we face mounting crises, the World Bank is frontloading financial assistance. What are the key impediments to this response?
    - What impact is this having on World Bank?
    - How do you see the International Bank for Reconstruction and Development evolving, given borrower focus on a country-led business model and investments such as in energy, while key developed country shareholders press for more focus on global public goods?
- New Zealand prioritises strengthening Pacific resilience, including to climate change. Our NZ$1.3 billion climate package provides the opportunity to work with the Bank to address adaptation, especially in the Pacific, and mitigation globally.
- The United Nations is developing a multi-dimensional vulnerability index. We are keen to see this applied to determining country financial allocations. What are your views on such an approach?

Background to issues:

Crisis Response	• The World Bank is delivering a US$75 billion food security package, a US$10 billion COVID-19 vaccine package, providing special support to Ukraine and, through the United Nations, to Afghanistan and Myanmar, and considering special support for Sri Lanka. • The **IDA20 replenishment** (of US$95 billion) started in July 2022, a year early. The Bank is frontloading IDA and also IBRD financial commitments in response to cascading crises. • This will reduce financial resources available in 2023/24.
Aotearoa New Zealand's priorities at the Bank	• The Bank is the **Pacific**'s third largest donor, mostly by way of grants or interest-free credits. • New Zealand's **Pacific priorities** are to foster economic recovery while building resilience to climate change, natural disaster, health threats and economic crisis. • New Zealand's NZ$1.3 billion **climate finance** package and Strategy envisages half being delivered in the Pacific. • Bank commitments to **climate change** include a minimum spend of US$35 billion annually, alignment of country strategies with Nationally Determined Commitment by 2025 and the use of Country Climate and Development Reports (CCDRs) to guide policy and climate finance spending.
Vulnerability Index	• The United Nations is developing a Multi-Dimensional Vulnerability Index (VI) to include climate impacts. ADB applies the UN ECOSOC VI to allocate grants for SIDS. The WB view is that its policies are more generous than what the VI would propose.

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(Pull aside bilateral) Christian Lindner, Federal Minister of Finance of Germany

Lead: Minister Robertson

Other attendees: TBC

Date: TBC October

Time: TBC

Note: This will be a pull aside meeting

Christian Lindner

German Federal Minister of Finance

Previous roles:
Leader of the Free Democratic Party (Since 2013)

Member of North Rhine-Westphalia State Parliament (2000-2009)

Stated priorities:
Tackling inflation, economic recovery, market stabilisation (energy in particular), climate change.

Previous engagements:
None.

Aim:

- To build a positive relationship with your counterpart.
- To outline importance of the relationship, the similar challenges we are facing, and reiterate the importance international cooperation on macroeconomic issues such as inflation, recovery from the pandemic, and financing climate action.

Talking Points:

- Confirm the importance to Aotearoa New Zealand of our strong relationship with Germany, and the considerable overlap in our interests, values, and challenges, including regarding cost of living, post-covid rebuild, achieving net-zero, and global issues such as the Russian invasion of Ukraine.
- Highlight the importance of Germany as our largest EU trading partner and thank them for their support of the NZ-EU FTA.
- Note our various links across science, technology, and innovation as well as significant academic and research cooperation.
- Discuss both countries focus on increasing digitalisation including digital identities and the importance of digital technology for productivity.
- Discuss approaches to climate financing and reaching net-zero.

Background to issues:

NZ-EU FTA	• Concluding the NZ-EU FTA, signed in June 22, is an important milestone. The EU is our 4th-largest two-way trading partner, with two-way trade worth $17.5 billion in 2021. • Aotearoa New Zealand's market access will expand with 1% of current New Zealand trade will enter the EU duty-free on entry into force of the FTA, through tariff elimination or duty-free quotas. • The FTA needs to progress through Aotearoa New Zealand's ratification process before it enters into force. • It will be important to have Cabinet Members promote the utility and importance of the FTA to ensure it is ratified in the European Parliament.
German Economic Situation	• Germany is in the midst of an energy crisis caused by the Russian invasion of Ukraine and the subsequent reduction in natural gas exports from Russia. • The German economy is suffering from weak growth (0.8% forecast in 2023, IMF), high inflation (expected average of 7.7% for 2022, IMF), and weak consumer confidence. • The current energy crisis may provide an opportunity for Germany to accelerate their net-zero goal progress by increasing renewable energy generation and decarbonising their power sector.
Climate finance	• Germany has substantially increased its climate financing over the previous two decades, with the majority invested in renewable energy. It is the second largest donor country in absolute terms, with US$8.2 billion of its Official Development Assistance spent on climate action, primarily focused on mitigation, in 2020.

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Event Briefings

Event Brief: Networking Dinner s9(2)(a) (Hosted by NZTE and KEA)

7.00 – 9.00pm, Tuesday 11 October 2022.

s9(2)(a)

Key objectives

- An informal dinner hosted by KEA's Kirsten and Craig Nevill-Manning. Designed to be a networking event with prominent New Zealanders in New York and to showcase New Zealand food and beverage.
- Provide an opportunity for the Minister and delegation to connect with the offshore Kiwi business community and understand the challenges and opportunities of being based in dynamic cities such as New York.

Format

- This event is an informal stand up networking event with cocktails and substantial food served. There will be New Zealand speakers who will share their journey.
- Recommended dress code is business wear.

Schedule – Kaupapataka

1830	NY community guests begin to arrive
1845-1900	Air New Zealand business delegation arrives
1930	Welcome and run of evening from Hannah Lee-Darboe, followed by brief remarks by Minister Robertson
1935	Kea panel introductions by s9(2)(a) and Guy Horrocks
1940 – 2010	Three Kea World Class New Zealanders share their story and insights on life and business in New York City. Kirsten Neville-Manning, Ronnie Peters & Guy Horrocks.
2010 - 2015	Closing remarks and thanks by Greg Foran
2100	Close

Background

- KEA is a not-for-profit organisation established by Sir Stephen Tindall and Dr. David Teece in 2001. Since its establishment KEA has developed a global Network which has over 500,000 members. KEA believes that connecting New Zealanders offshore and making their contacts available will help advance New Zealand capability through enabling businesses across their network to share and leverage global experience, knowledge, and opportunities.

Media

- No additional media has been invited besides those in the Air NZ delegation.

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Delegation Attendees

- Kirsten and Craig Nevil-Manning (Husband and wife hosts)
- Prominent New Zealand Business Leaders have been invited. Confirmed key attendees can be provided closer to the date.

Biographies of hosts

Kirsten Nevil-Manning: Kirsten is a globally recognised HR professional. Between 2008 and 2013, Kirsten was the Director of International Human Resources and Head of Global Recruiting for Facebook – helping to drive their expansion through the opening of offices across the globe, including the US. Prior to joining Facebook, she spent seven years as part of Google's People Operations team, including a role as Google's first Manager of International Staffing, helping to expand the company globally. Kirsten was based initially in California and moved to New York City in 2003.

Craig Nevil-Manning: Craig founded Google's first remote engineering centre in Manhattan. Craig has a BSc in Computer Science and his expertise includes machine learning, data compression and computational biology. His aim, when he started at Google, was to make the search engine better at answering questions and searching for products. Since then, he has overseen development of Google Maps, Google Finance and Froogle. His team is now more focused on philanthropic endeavours building applications that can track disease trends or respond to different global crises including the Christchurch earthquakes.

Ronnie Peters: Ronnie is one of the internet's original designers who was working in UX before the job even existed. He is also the Founder and CEO of 360 Design and one of the creators of the Flat White Meetups. Ronnie has used his UX design and strategy expertise across a number of world leading and cutting edge projects including creating a 3D virtual movie theatre, complete with smell-a-vision for brands such as Disney, AppleTV, Amazon and Hulu during the pandemic and working as Creative Director on the Hyperloop for HyperloopTT a high-speed transportation system in which commuters could travel 650kms (the distance from Auckland to Wellington) in around 1 hour or less.

Guy Horrocks: Guy is Co-founder at Solve.io helping companies upgrade and operationalise their internal data. He is also a host of the Flat White Entrepreneur Meetup in New York and New Zealand. Previously Guy has acted as an advisor to the Student Volunteer Army, and is an investor in Maude, Otherland, Dropel Fabrics, Raaka Chocolate, and Butler Bakeshops. Guy is the Independent Director of the NZME Board and is an alumna of the University of Canterbury.

Notable attendees who have RSVPed – Haurongo

- s9(2)(a) [redacted] - Chairman emeritus, [redacted]
- [redacted] - Director on the Board of Directors [redacted]
- [redacted]
- [redacted] – GM [redacted]

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Full RSVP list (as at 6 Oct)

- s9(2)(a) [redacted] Senior Vice President Strategic Growth, [redacted]
- [redacted] Principal, [redacted]
- [redacted] Senior Vice President, [redacted]
- [redacted] eVP, [redacted]
- [redacted] Founder,[redacted]
- [redacted] Senior Vice President, [redacted]
- [redacted]
- [redacted]
- [redacted] Director on the Board of Directors [redacted]
- [redacted] Former VC [redacted]
- [redacted] Co-Founder, [redacted]
- [redacted] Creative Lead, [redacted]
- [redacted]
- [redacted], CEO, [redacted] and [redacted] Chairman, [redacted]
- [redacted] Chief Transformation Officer, [redacted]
- [redacted], Physiotherapist , [redacted]
- [redacted], Founder,[redacted]
- [redacted], Chief Executive Officer, [redacted]
- [redacted], Chairman emeritus, [redacted]
- [redacted] Director of Product Marketing, [redacted]
- [redacted], General Manager, [redacted]
- [redacted] Managing Director - Strategic Advisory, [redacted]
- [redacted], Chief Creative Officer & Founder, [redacted]
- [redacted], Founder,[redacted]
- [redacted], Founder & CEO, [redacted]
- [redacted], Co-founder/CTO, [redacted]
- [redacted], Director Global Channel Partnerships,[redacted]
- [redacted], Partner, [redacted]
- [redacted], Managing Director, [redacted]
- [redacted], CEO, [redacted]
- [redacted], Director, [redacted]
- [redacted], President, [redacted]
- [redacted], Partner and Chief Investment Officer, [redacted]
- [redacted] Partner, [redacted]

Event Brief: USNZ Council Dinner 13 October

6:00pm to 8:00pm
Venue: New Zealand Residence, 27 Observatory Circle NW.

Key objectives

- To meet and connect with a wide variety of influential economic policy-makers, thinkers and businesses in the US.
- To provide a connection point for NZUS Council members to meet with their counterparts in the US.

Format

- Ambassador Corry will introduce you and welcome you to the Residence. We suggest you respond with the following:
  - Kia ora koutou.
  - (Mihi introduction if you are comfortable).
  - Convey that it is great to be in Washington DC. New Zealand's friendship with the US is long-standing. The United States is our third largest trading partner, a major source of foreign direct investment, and a key innovation partner.
  - Note that as friends we have supported each other through the pandemic from which we are thankfully emerging. Just one example is a New Zealand dairy company keeping a factory open a month longer than usual to supply an American customer with the ingredients needed to manufacturer high protein supplements used to provide nutrition to intubated patients at the height of the COVID hospitalisations in New York City.
  - Acknowledge the NZUS Council delegation for joining you here and on the direct Air New Zealand flight to New York, which will serve to increase our connectivity.
  - Highlight that you are looking forward to meeting distinguished US colleagues and hearing insights about how the US economy is operating and how we can better work together in the face of global challenges.
  - Closing remarks and thanks to the audience for coming to the event.

Media

- The meeting is closed to the public. Note: both Fran O'Sullivan and Pattrick Smellie from the NZUS Council delegation have roles in the New Zealand media.

Delegation Attendees

- Twelve representatives from the NZUS Council delegation will be joining this event, including Deputy Leader of the National Party, Nicola Willis. New Zealand Treasury Deputy Secretary Struan Little, Reserve Bank Governor Adrian Orr and Assistant Governor Karen Silk will also attend.

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Key Participants

- This event includes influential senior leaders from a range of US government agencies, think tanks, businesses and union groups. Bios of key VIPs expected to attend are included below.

Myron Brilliant - US Chamber of Commerce, Executive Vice President

Myron Brilliant

Executive Vice President, US Chamber of Commerce

- Myron leads the international affairs team of the US Chamber, which is the largest lobbying group in the US, representing over three million businesses and organisations. He met Prime Minister Arden in May this year and interviewed her for his InSTEP leadership series in April 2021.
- Myron was in Christchurch for a US-NZ Business Forum during the 2011 earthquake, following which US Chamber businesses rallied around to make significant donations to support the recovery and rebuild effort.

Kurt Campbell

Indo-Pacific Coordinator, National Security Council

- Kurt Campbell is New Zealand's most influential friend and advocate in the Biden administration. He has been instrumental in involving New Zealand from the early stages in the development of the Indo-Pacific Economic Framework and the Partners in the Blue Pacific.
- He served as Assistant Secretary of State for East Asian and Pacific Affairs in the Obama administration and in that role he was in Christchurch for the NZ-US Partnership Forum when the 2011 earthquake struck. He was instrumental in the crafting of the Washington Declaration of 2012.
- Kurt Campbell met Prime Minister Ardern before her meeting with President Biden on 31 May.

Marisa Lago

Under Secretary for International Trade, Commerce Department

- Marisa Lago leads Commerce's efforts to assist American businesses entering or expanding into international markets, enforce fair trade policies and engage in commercial diplomacy across the globe.
- Prior to this role, she led the New York City Department of City Planning and the City Planning Commission. In the Obama Administration, she served in the Department of the Treasury as Assistant Secretary for International Markets and Development.

Dan Krittenbrink

Assistant Secretary of State for East Asian and Pacific Affairs

- Dan Kritenbrink was confirmed by the Senate in a strong bipartisan vote of 72-14. A career member of the Senior Foreign Service, Kritenbrink has been an American diplomat since 1994. He previously served as Ambassador to Viet Nam, Senior Director for Asian Affairs at the NSC, and Deputy Chief of Mission in Beijing. His other Washington assignments have included Director of the Office of Chinese and Mongolian Affairs at the State Department.
- Kritenbrink is well known to New Zealand. He met regularly with HOM Banks; hosted Secretary Seed for the NZ-US Strategic Dialogue in March 2022; and sat in on Secretary Blinken's bilateral with Minister Mahuta in November 2021.

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Event Brief: High Level Political Dialogue on Development Cooperation in Small Islands Developing States

(OECD DAC Development Co-operation in Small Island Developing States)
2.30pm to 4:30pm, Friday 14 October 2022, venue TBA

- The dialogue aims to i) consolidate understanding and find solutions to the key challenges Small Island Developing States (SIDS) face; and ii) identify opportunities for future work and engagement between SIDS and the Development Assistance Committee (DAC) in the lead up to the 2024 SIDS conference.
- You will be expected to make a formal statement. Draft statement remarks are provided below.

Key objectives

- To represent New Zealand as an OECD DAC member that actively supports SIDS as they endeavour to get their particular needs better reflected in the international development system.
- To ensure ongoing engagement between SIDS and the DAC is imbedded and regularised.

Format

- The meeting will be co-chaired by the Chair of the Alliance of Small Island States (AOSIS) and the Chair of the OECD DAC.
- The co-chairs will start by summarising priorities identified during a July 2022 preparatory meeting in New York. The AOSIS Chair will then make a presentation on SIDS-DAC cooperation, with a focus on looking towards the 2024 SIDS Conference.[6]
- The meeting will then be open to statements and interventions from participants.
- The co-Chairs will sum up, drawing conclusions and offering next steps.

Statement Remarks

- Nō reira, tēnā koutou katoa.
- Thank you co-chairs for introducing this important discussion. My thanks also to those who participated in the preparatory meeting, which identified a rich set of issues.
- Aotearoa New Zealand very much welcomes this dialogue between Small Island Developing States and OECD Development Assistance Committee members.
- We need to discuss how to address the key challenges and opportunities for SIDS sustainable development. And we hope this dialogue is another step in deepening our ongoing engagement.
- Aotearoa New Zealand is a Pacific country. We are committed to working in partnership with Small Island Developing States – in the Pacific and beyond – on the key sustainable development challenges that they face.
- The underlying goal of Aotearoa New Zealand in our development cooperation is to support our partner's aspirations for resilience and long-term well-being. We share a common horizon in the Sustainable Development Goals and respect our partners' sovereign determination to chart their own development pathways.

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[6] The order of events continues to evolve. My understanding is that the UK and Australia (as the chief organisers of this meeting) are still fine tuning the run sheet. The latest we have received from them is in the email attached as of 3/10/22.

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- We acknowledge the role of the 2014 SAMOA (Small Island Developing States Accelerated Modalities of Action) Pathway and its predecessors in capturing Small Island Developing States' specific development priorities.
- One-size-fits-all approaches do not work in development cooperation. Yet many aspects of the global development architecture are not tailored to the unique development challenges faced by Small Island Developing States.
- We cannot acknowledge that Small Island Developing States face unique development challenges and then employ the same ways of working. As one example, it's critically important that Overseas Development Assistance (ODA) to Small Island Developing States is designed to be fit-for-purpose for their small bureaucracies.
- Small Island Developing States are only too aware that one major natural disaster can undermine years of development progress. The enormous shock that the COVID-19 pandemic caused for small, remote island nations has thrown this problem into sharp relief.
- Turning to one specific issue, Aotearoa New Zealand disagrees with the currently common use of income per capita as a singular measure of development progress. The global shift from the Millennium Development Goals to the Sustainable Development Goals changed our approach to sustainable development. We now recognise the importance of measuring progress for people and the planet, as well as for prosperity.
- At home, Aotearoa New Zealand's Living Standards Framework measures wellbeing, risk and resilience across a broad range of economic, social and environmental domains. Our Wellbeing Budgets, first introduced in 2019, take an evidence-based approach to invest in areas that will show the greatest improvement in living standards.
- The work under way in the United Nations adoption and use of a Multidimensional Vulnerability Index would bring us all closer to the Sustainable Development Goal agenda internationally, by assessing countries' eligibility for access to concessional finance in a way that ensures that funding flows to those most in need of support to build economic, environmental and social resilience. Great care must be taken in designing the Multidimensional Vulnerability Index given that different combinations and weightings of its indicators can lead to quite different results in terms of assessed vulnerability.
- We see great value in ongoing engagement between the Development Assistance Committee and Small Island Developing States. The Development Assistance Committee has the ability to create robust evidence on Small Island Developing States issues, as well as to analyse and recommend best practice approaches for responses by Development Assistance Committee members and other participants in the development system.

- Aotearoa New Zealand looks forward to this ongoing engagement being discussed at the OECD DAC High Level meeting in March 2023.
- Next time we convene I hope we can look back on areas were our cooperation has advanced the sustainable development of Small Island Developing States.
- Thank you for the opportunity to make these remarks.
- Tēnā koutou, tēnā koutou, tēnā tātou katoa.

Background

- Increasing international recognition of the special development challenges faced by SIDS is a key Aotearoa New Zealand priority. This meeting is part of a new dialogue process launched between the OECD DAC and SIDS this year. It is a priority that we, along with Australia, Canada, Portugal, and the UK, have advocated at the OECD to encourage other members of the DAC to hear SIDS' perspectives directly. The DAC is an inherently Eurocentric institution – with Europeans comprising 22 out of its 30 members – and has a tendency to focus on Africa, where the bulk of European development assistance is concentrated.
- A preparatory dialogue between DAC members and SIDS was held in New York in July 2022. During an at times terse and direct (from SIDS) discussion, a range of issues and proposals surfaced, including:
- Actions needed to better prepare SIDS for the loss of ODA, including better preparation for ODA graduation
- Options to improve SIDS access to adequate, affordable, and focused finance
- Tailored approaches to assessing SIDS unique vulnerabilities, including the need to consider the potential of the UN High level Panel's development of a Multidimensional Vulnerability Index (MVI)
- Recognising the impact of climate change and the opportunities presented by the blue economy
- The need for statistical capacity building
- The need to further build on the Development Assistance Committee's work to support Small Island Developing States economic resilience.
- Some SIDS were forthright, saying the time for talking is over, DAC members should look to deliver. Some DAC members did themselves no favours by not attending the dialogue, which we hope will not be repeated at this October meeting
- In addresses at the UN Leaders' week, Pacific SIDS emphasised the need to address climate change, access to climate finance, and the adoption of an MVI (into decisions on development financing).
- The MVI is currently the subject of intensive work at the United Nations. There is some international scepticism about this work, both from major developed countries, including the United States and France, and from large middle-income countries. One concern is that greater emphasis on vulnerability will divert scarce resources from other developing countries, particularly low-income countries. Some are also concerned that applying an MVI will introduce undue difficulty and complexity to issues of access to finance and eligibility for ODA.
- Aotearoa New Zealand has been a consistent supporter of SIDS' aspirations to reflect vulnerability in decisions about access to development assistance. Income per capita is insufficient as a singular measure of development progress and we disagree with its prominent and principal usage. The global shift from the Millennium Development Goals to the Sustainable Development Goals changed our approach to sustainable development. We now recognise the importance of measuring progress for people (social) and the planet (environment), as well as for prosperity (economic). The MVI and its application matter to SIDS and Pacific SIDs, who are experiencing increased vulnerability and reduced resilience due to climate change and COVID.

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- We note that great care must be taken in designing the Multidimensional Vulnerability Index given that different combinations and weightings of its indicators can lead to quite different results in terms of assessed vulnerability. This could have implications for Pacific Small Island Developing States.

Media

- TBC

Key participants

- Ministers and senior representatives from Small Island Developing States and Development Assistance Committee member countries.

Delegation attendees

- Minister Robertson, Alex Tarrant, Treasury and MFAT officials.

Language

- English

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Potential Bilateral Meetings

Kamala Harris, Vice President of the United States

Lead: Minister Robertson
Other attendees: TBC
Date: TBC October
Time: TBC
Venue: TBC

Kamala Harris
US Vice President (since 2021)
Previous roles: United States Senator from California (2017-2021), 32nd Attorney General of California (2011-2017), 27th District Attorney of San Francisco (2004-2011)
Stated priorities: Covid-19, climate, racial equity, economy, health care, immigration, restoring America's global standing.

Previous engagements: PM Ardern met with VP Harris in May 2022, during the PM's visit to Washington

Aim:

- To build a positive relationship with your US counterpart as Deputy Prime Minister.
- To outline the importance of the New Zealand-United States relationship and the similar challenges we are facing, areas of cooperation, including IPEF.

Talking Points:

- The US is one of New Zealand's closest and most important relationships.
- New Zealand is a reliable partner in the Indo-Pacific; we are ready to support the US as it builds new relationships with our Pacific neighbours; and we are closely aligned with the Biden administration on efforts to address global challenges such as climate change and the erosion of democracy.
- Note that New Zealand welcomes the opportunity to cooperate on the Indo-Pacific Economic Forum (IPEF), and we consider there is positive momentum across the IPEF group to progress meaningful work. New Zealand is in a good position to engage constructively in the Framework.
- Register the value that New Zealand places on space cooperation with the United States. We welcomed the recent signing of the NASA Space Framework Agreement, which was announced by VP Harris and PM Ardern when they met at the White House in May.

Background to issues:

Indo-Pacific Economic Framework (IPEF)	• Negotiations for IPEF were formally launched in Los Angeles on 9 September. • 13 of the group have signed on to all four pillars in the negotiation, with only India choosing not to take part in the trade pillar process. • An ambitious work programme has been set out by the fourteen IPEF Ministers. • We are currently thinking about the Cabinet negotiating mandate paper, as well as outreach to Māori partner groups and external stakeholders.
Pacific engagement	• VP Harris spoke at the Pacific Island Forum (PIF) in July. During the speech, she announced the opening two new embassies in the region: one in Tonga, one in Kiribati and the first-ever United States Envoy to the PIF. • In June, the US, NZ, Australia, Japan and the UK launched the Partners in the Blue Pacific initiative. This new initiative aims for more effective and efficient cooperation in support of Pacific Island priorities.

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Jim Chalmers, Treasurer of Australia

Lead: Minister Robertson

Other attendees: Alex Tarrant, Struan Little, Lachy Stark (notetaker) and Hugo Van Dyke

Date: TBC

Time: TBC

Venue: TBC

Jim Chalmers

Australian Treasurer (2022 – present)

Previous roles: Shadow Treasurer 2019-2022; Shadow Minister of Finance 2016-2019; Member of Australian Parliament for Rankin since 2013; Executive Director of the Chifley Research Centre; Chief of Staff to the Deputy Prime Minister and Treasurer.

Stated priorities: Cost of living, climate change and decarbonisation, job growth and the future of work.

Previous engagements: Bilateral meetings on 10 June 2022 and 8 July 2022 in Sydney, Australia.

Aim:

- Build on your positive rapport with the Australian Treasurer, following your first face-to-face meetings in June and July 2022.
- s6(a)

Talking Points:

- Share reflections on Aotearoa New Zealand's wellbeing budgeting.
- Discuss key opportunities to progress as part of the 40th anniversary of the Closer Economic Relations Agreement.
- Share insights on economic security, particularly building resilience to economic coercion in an increasingly complex security environment.
- s6(a)

Background to issues:

Wellbeing Budgeting	• The wellbeing approach prioritises the wellbeing of people and the environment alongside economic growth. Since 2019, Aotearoa New Zealand has been applying this approach to budgeting.
40th anniversary of the NZ-Australia Closer Economic Relations (CER) Agreement	• 2023 will be the 40th anniversary of the CER. This provides an opportunity to highlight existing opportunities and create new ones, such as climate change and indigenous collaboration. The 40th anniversary also provides momentum to further strengthen economic integration through specific initiatives to improve the ease of trans-Tasman trade.
Economic security	• s6(a) and 9(2)(f)(iv) • s6(a)
Pacific	• The Pacific resilience approach aims for a peaceful, stable, prosperous, and resilient Pacific where Aotearoa New Zealand operates as a true partner. • Aotearoa New Zealand works hard to promote strong, independent Pacific governance, human rights and rule of law. We expect other partners in the Pacific to respect these principles, and be transparent with their actions and intentions. • Growing debt servicing obligations in Pacific Island countries are redirecting investment away from building Pacific resilience. Development partners must maximise the availability of grant finance and highly-concessional loans for Pacific countries.

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Kwasi Kwarteng, Chancellor of the Exchequer of the United Kingdom

Lead: Minister Robertson
Other attendees: TBC
Date: TBC October
Time: TBC
Venue: TBC

Kwasi Kwarteng

Chancellor of the Exchequer (since 2022)

Previous roles: Secretary of State for Business, Energy and Industrial Strategy (2021-2022), Minister of State for Business, Energy and Clean Growth (2019-2021),

Parliamentary Under-Secretary of State for Exiting the European Union (2018-2019)

Stated priorities: support for families and businesses, economic growth, fiscal sustainability, and supporting the independent Bank of England's to control inflation.

Previous engagements: Minister Woods met with Kwarteng during her June visit to the UK.

Aim:

- To build a positive relationship with your new counterpart.
- To outline importance of the relationship, the similar challenges we are facing, and discuss the implementation of the NZ-UK Free Trade Agreement.
- To hear the Chancellor's priorities in the role, and explain New Zealand's own finance-related priorities

Talking Points:

- Confirm the importance to Aotearoa New Zealand of our strong relationship with the UK, and the considerable overlap in our interests, values and challenges, including regarding cost of living, post-covid rebuild, achieving net-zero, and global issues such as Russian sanctions and the role of China in our economies.
- Discuss fiscal and economic outlooks in NZ and the UK in the context of the relatively gloomy global economic outlook. Areas to cover include pressures of rising inflation on both economies, although this appears to be a more pressing issue in the UK amid the worsening economic condition following the announcement of planned tax cuts.
- It would be worth discussing the implementation of the NZ-UK FTA. The signing of the NZ-UKFTA is a culmination of almost 20 months of formal negotiations (most of which took place virtually), and years of NZ advocacy post-Brexit.
- Note New Zealand warmly welcomes the UK's ambition to join CPTPP – which is very much in our interests – and we support an efficient accession process upholding the agreement's high standards. The NZ-UK FTA acts as an important steppingstone for the UK's accession.

Background to issues:

UK Economic Situation	• PM Truss announced during her leadership campaign that she will reduce taxes, increase defence spending, and address rising prices. The record drop of the value of the British Pound suggest that economic players question the feasibility of these policy goals together. • The UK is facing a cost-of-living crisis and recent forecasts have suggested that inflation is set to be higher compared to other EU countries), with weaker economic growth. • This will provide an opportunity to understand the UK's experience and future strategies, including to exchange information on New Zealand's measures and situation.
Truss Cabinet	• Chancellor Kwarteng is the the former Secretary of State at the Department of Business, Energy and Industrial Strategy and only received his first Cabinet job in January 2021 • His Chancellorship marks the first time since the Cameron-Osborne years where the UK PM and Chancellor will be fully aligned on policy issues. He is a free marketeer and has been a close ally of PM Truss since they entered the Commons together in 2010. Kwarteng co-authored the 2012 book Britannia Unchained with Truss, which made the case for a low-tax, low-regulation economy achieved in part by slashing the size of government.

Bilateral overview – New Zealand and the United Kingdom

Author: MFAT Europe Division and LONDON post (*October 2022*)

Bilateral relationship fundamentals

- The UK is one of New Zealand's "old friends and close partners[7]", with a relationship underpinned by shared values, culture, and history; and deep people-to-people links. This leads to a high degree of integration, familiarity, and trust in the relationship, leading us to cooperate across a broad range of policy issues.
- As we work together in the world, the UK matters to us – and to our region - as a country of significant size, wealth, and capability. It is the world's fifth largest economy; ranks second on global soft power; is the third most innovative; with the fourth largest defence budget; ranks 13th on development spending; is a member of both the G7 and the P5; and is a nuclear power that enjoys a strong military alliance with the United States. Our interests are enhanced by the investment the UK makes in its own prosperity and security, including on: support for the rules-based international order; its liberal economic agenda; leadership on climate change; and its growing presence in the Indo-Pacific.
- Notwithstanding the asymmetry in size, New Zealand is a trusted partner for the UK with which it can work to advance its interests, including as a post-Brexit global actor. We continue to work closely on: the international response to Russia's invasion of Ukraine; climate change; engaging the UK in its strategic "tilt" towards the Indo-Pacific; increasing work together in the Pacific; and supporting its accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).
- Our recently signed FTA with the UK is a new cornerstone of the bilateral relationship, deepening our trade and economic links and providing a 'gold standard' benchmark for both country's future FTAs. During the Prime Minister's recent visit to London, we also enhanced people-to-people links via the extension to our Working Holiday Scheme[8]. We also agreed to new Customs[9], and Science and Innovation[10] arrangements, and established an annual Foreign Minister Dialogue.
- The UK has provided the second largest total contribution of assistance to Ukraine, worth NZ$10.21 billion (0.238% of GDP) focused on air defence systems, UAVs, electronic warfare equipment, anti-tank missiles and long-range rocket systems. It has played a significant leadership role coordinating third-party contributions from New Zealand and Australia. The Prime Minister recently announced that Aotearoa New Zealand will be deploying two new infantry training teams (up to 120 personnel) to the UK to train Ukrainian volunteers as part of the UK's Operation INTERFLEX. This brings New Zealand's current 'on the ground' contribution of NZDF personnel to approx. 140.

UK political developments

- The momentous events of the Queen's passing, and His Majesty King Charles III's accession come during a transitional period in British politics, with new Prime Minister Liz Truss having only assumed the role from Boris Johnson on 5 September. The death of the Queen and accession of the new monarch are the immediate preoccupations of the new Truss Government, and the funeral arrangements will have a significant domestic and international profile.
- While the Queen's passing has delayed the Truss Government from fully bedding-in, s6(a) [redacted]

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[7] Joint Statement – Prime Ministers Jacinda Ardern and Boris Johnson | Beehive.govt.nz 1 July 2022 (included at Annex A)

[8] The Working Holiday Scheme extends the age of eligibility for the visa from 30 to 35 years, and the length of stay allowed for the visa to 3 years. The number of visas are capped at 15,000. We expect implementation to be in early 2023.

[9] The Customs Mutual Recognition Arrangement (MRA) with the UK allows both countries to recognise their respective Secure Export Schemes

[10] The Science and Innovation agreement provides a framework to define and regularise the bilateral RSI relationship following the UK's departure from the European Union.

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[redacted] Public focus on the Queen's funeral arrangements may allow the new Cabinet space and time to settle into the role of governance.

- That said, while there may be a lull in the political debate, it will be a short one that Truss will need to use to prepare her new ministers for major political challenges ahead. Immediate preoccupations are likely to include record power prices and a cost of living crisis; rebuilding cohesion within the Conservative Party caucus (where the majority of MPs voted for her leadership rival Rishi Sunak); and regaining electorate ground lost during in the aftermath of the Party Gate' scandal (the Conservative Party was, as at 14 September, 10 points behind in the polls).
- Ms Truss has pledged to spend 2.5% GDP on defence by 2026 and 3% by 2030. s6(a) [redacted] On climate, Ms Truss has recommitted the UK to reaching net zero by 2050. She has also indicated an interest in expanding the UK's use of nuclear power.
- Our two Prime Ministers met in London on 17 October 2022, where PM Truss underlined that the UK's foreign and trade policy will not shift significantly on issues that matter to New Zealand. The two PMs shared perspectives on key global issues, s6(a) [redacted]

The economic relationship

- With GDP of USD$2.8 trillion, the UK is the world's fifth largest economy. Although GDP surpassed its pre-pandemic levels in the first quarter of 2022, (with OECD projecting GDP to increase by 3.6% in 2022), there are risks to a material deterioration in the outlook due to inflationary pressures largely stoked by Russia's invasion of Ukraine, which are putting extra strain on household and business finances.
- Following Russia's invasion of Ukraine, steep rises in energy and other commodity prices have exacerbated inflationary pressures arising from the pandemic, and caused further disruption to supply chains. Household incomes and the profit margins of some businesses in the UK have fallen. As a result, the UK's unemployment rate is expected to rise over the coming year and company profits will come under pressure particularly in energy-intensive sectors and those sectors most exposed to the fall in household incomes.
- In the year to March 2022, the United Kingdom purchased 2.5 percent of New Zealand's exports of goods and services, making it New Zealand's 6th largest trading partner by export value and 10th largest partner for total imports.
- Total goods exports to the UK for the year to March 2022 were NZ$1.43 billion, with the top categories:
    - Wine exports ($443 million),
    - Sheep meat ($391 million), and
    - Apples and honey ($104 m million
- While total goods imports from the UK were NZ$1.6 billion, with the top categories:
    - Motor vehicles ($300 million)
    - Trailers, trucks, and vans ($131 million), and
    - Turbojets ($107 million).
- Two-way services trade was NZ$1.42 billion for year end March 2022. Of this, New Zealand exported NZ$0.62 billion and imported NZ$0.8 billion. Top services exports were business and personal travel ($197 million) and IT services, such as computer services and computer software ($184 million).

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UK-NZ Trade to year ending March 2022 (Statistics NZ)	
TOTAL TWO-WAY TRADE	NZ$4.45 billion
NZ EXPORTS	NZ$2.06 billion NZ$1.43 billion in goods, NZ$0.62 billion in services
MAIN GOODS EXPORTS **MAIN SERVICES EXPORTS**	Wine, lamb, apples, and honey Telecommunications, computer and information services, business services and travel
NZ IMPORTS	NZ$2.4 billion NZ$1.46 billion in goods, NZ$0.8 billion in services
MAIN GOODS IMPORTS **MAIN SERVICES IMPORTS**	Vehicles, machinery, and spirits (whisky) Telecommunications, computer and information services, business services and Insurance and Pension services

- There are a wide range of sustainable and innovative New Zealand businesses that have successfully secured a niche position in the UK market outside of the primary and agricultural sectors.
- For example, Autex is a manufacturing company based in Auckland that uses recycled bottles in the creation of their interior acoustic insulation products, using a 99% circular process. Autex supplies major blue-chip companies in the UK, and has a factory in Huddersfield with 24 employees. Similarly, Wellington-based tech company CoGo has expanded its partnership with major UK bank NatWest and will integrate carbon footprint services directly into the bank’s mobile application.
- Digital technology businesses have found success, such as Tait Communications, whose radio systems are employed on London’s iconic red buses; Xero, which supplies accounting services to over 700,000 businesses across the UK; and Fisher & Paykel Healthcare, which supplies medical devices to the UK National Health Service for use in respiratory care and surgery.
- Exporters in New Zealand’s agricultural technology sector are also finding success in the UK, such as Gallagher, which exports electric fencing and livestock weighing systems; Levno, which provides dairy farm monitoring software; and Figured, which provides budgeting and forecasting systems that are compatible with Xero. (Note: Gallagher Animal Management is additional and different to Gallagher Security).
- Gallagher Security is a UK-Government approved security solution and, as such, their clients include British Land, Embassies, Tesla, National Gallery London. Gallagher Security officially opened their new HQ up in Warwick in May.

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: New Zealand Sovereign Green Bonds Programme – Proactive release of advice

Date:	12 October 2022	**Report No:**	T2022/2017
		File Number:	MS-10-0-M88926

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Approve** the attached documents proposed for proactive release on the Treasury website.	26 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
James Shannon	Acting Head of NZ Sovereign Green Bond Project	s9(2)(k)	s9(2)(g)(ii)	✓
Lindsay Huthnance	Senior Communications and Engagement Specialist, Sovereign Green Bond Project			
Joe Mansell	Ministerial and Proactive Release Advisor, Ministerial Advisory Service			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

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Treasury Report: New Zealand Sovereign Green Bonds Programme – Proactive release of advice

Purpose of Report

1. This report seeks your approval to publicly release Treasury's advice to you regarding the establishment of the New Zealand Sovereign Green Bonds Programme between August 2021 and August 2022.

Information Proposed to be Released

2. We propose to proactively release the following documents:

Item	Date	Document Title
1	19 August 2021	Aide Memoire T2021/2145: New Zealand Sustainable Bond Programme
2	23 August 2021	New Zealand Sustainable Bond Programme slideshow
3	16 September 2021	Aide Memoire T2021/2352: New Zealand Labelled Bond Update
4	8 October 2021	Treasury Report T2021/2425: Labelled Bonds – Programme Approval and Announcement
5	28 October 2021	CBC-21-SUB-0119: New Zealand Green Bond Programme
6	1 November 2021	CBC-21-MIN-0119: New Zealand Green Bond Programme
7	24 February 2022	Treasury Report T2022/132: Green Bonds: Determining Scope of Framework
8	12 May 2022	Treasury Report T2022/575: Green Bonds update: Proposed Green Categories and Associated Eligible Expenditures
9	9 June 2022	Treasury Report T2022/1244: Green Bonds: near-final Framework for submission to independent assurance
10	4 August 2022	Treasury Report T2022/1641: New Zealand Sovereign Green Bond Framework
11	25 August 2022	DEV-22-SUB-0204: Approving the New Zealand Sovereign Green Bond Framework
12	25 August 2022	Annex 1: New Zealand Sovereign Green Bonds Framework
13	25 August 2022	Annex 2: Second Party Opinion New Zealand Green Bond Framework
14	25 August 2022	Annex 3 - Indicative long list of expenditures that are recommended for inclusion in the Programme
15	31 August 2022	DEV-22-MIN-0204: Approving the New Zealand Sovereign Green Bond Framework

3. We propose to release the documents above, subject to information being withheld under the following sections of the Official Information Act 1982 as applicable:

   a section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,

   b section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment,

   c section 9(2)(i) – to enable the Crown to carry out commercial activities without prejudice or disadvantage, and

   d section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

We have redacted the direct dial phone numbers of officials under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams.

Context on redactions

4. We expect this proactive release to be made in advance of the inaugural Green Bond issuance and as such have redacted any explicit reference to potential issuance months on the grounds of commercial information.

5. s9(2)(g)(i) [redacted]

6. The tables (on pages 59 and 133 of the binder) which set out projects and related expenditures have been labelled as ‘point-in-time as at the date of the document.

Consultation

7. We consulted with the following agencies on this release, and they are happy with the approach:

Crown Infrastructure Partners	Department of Conservation
Department of Internal Affairs	Energy Efficiency & Conservation Authority
Ministry for the Environment	Ministry of Foreign Affairs and Trade
Ministry of Primary Industries	Ministry of Housing and Urban Development
Ministry of Transport	Ministry of Business, Innovation and Employment
New Zealand Green Investment Finance	Waka Kotahi

Next Steps

8. Following your approval, we will publish this attached material on the Treasury website within five working days.

Recommended Action

We recommend that you:

a **approve** the attached documents proposed for proactive release on the Treasury website.

Approve/disapprove.

James Shannon
Acting Head of NZ Sovereign Green Bond Project

Hon Grant Robertson
Minister of Finance

The documents listed above have been published and can be found at:
https://www.treasury.govt.nz/publications/information-release/new-zealand-sovereign-green-bonds-programme

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Vote Finance: October Baseline Update 2022

Date:	12 October 2022	**Report No:**	T2022/1712
		File Number:	FN-7-0

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Agree** changes to be submitted for inclusion in the October Baseline Update process **Sign** the attached submission to the Minister acting as Minister of Finance where the Minister of Finance is conflicted (Hon Dr Megan Woods)	1pm, Monday 19 October 2022
Hon Dr David Clark **Minister Responsible for the Earthquake Commission** **Minister for State Owned Enterprises**	***Jointly with the Minister of Finance*** **Agree** changes to be submitted for inclusion in the October Baseline Update process **Sign** the attached submission to the Minister of Finance (Hon Grant Robertson) by **17 October 2022**	1pm, Monday 17 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Diana Miller	Finance Business Partner	s9(2)(k)	s9(2)(g)(ii)	✓
Glenn McStay	Chief Financial Officer, Finance			

Minister's Office actions (if required)

Minister Robertson's office
Return the signed report to Treasury.
Send the submission to the Associate Minister of Finance, Hon Dr Megan Woods
Minister Clarke's office
Return the signed report to Treasury.
Send the submission to the Minister of Finance, Hon Grant Robertson

Enclosure: Yes (Table 2)

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Treasury Report: Vote Finance: October Baseline Update 2022

Executive Summary

1. This report seeks agreement for in-principle expense and capital transfers (IPECTs), approved by Joint Ministers at the March Baseline Update (MBU) [T2022/167 refers], and updated in June [T2022/1104 refers] relating to transfers for Departmental and Non-Departmental expenses in Vote Finance from 2021/22 to 2022/23.

2. The above approvals for IPECTs is under Cabinet Office Guidelines for changes to Baselines [CO (18) 2 refers] where Joint Ministers can approve IPECTs under delegated authority of Cabinet.

3. This report is being sent to you in your capacity as Vote Minister for Vote Finance appropriations, rather than your position as Minister of Finance.

4. The Minister of Finance has agreed to delegate the responsibilities of the Minister of Finance in relation to proposals for Vote Finance to the Associate Minister of Finance (Hon Dr Megan Woods) where the Minister of Finance is the responsible Minister. The attached letter is therefore addressed to Hon Dr Megan Woods to seek her approval of the IPECTs.

5. The Minister for State Owned Enterprises (M65) is responsible for the Crown Company Monitoring Advice to the Minister for State Owned Enterprises and Other Responsible Ministers appropriation within Vote Finance. Proposed IPECTs under this appropriation have been identified. Changes to this appropriation can be approved by the Minister of Finance.

6. The Minister Responsible for the Earthquake Commission (M86) is responsible for the Southern Response Earthquake Services Independent Oversight Committee appropriation within Vote Finance. Proposed IPECTs under this appropriation have been identified. Changes to this appropriation can be approved by the Minister of Finance.

In-Principle Expense and Capital Transfers – Departmental Annual Appropriations

7. The Minister responsible for the Earthquake Commission sought approvals for late IPECTs in June [T2022/1104 refers]. The submission was approved by you. The exact amounts of the transfers were uncertain at the time and Joint Ministers agreed to confirm the final amounts once audited financial results for the year ended 30 June 2022 were known. The amount as described below is now confirmed and an expense transfer will be requested from Minister Clarke.

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Vote Finance	Authorised by Joint Ministers				
	Approved in MBU T2022/167	Approved in June T2022/1104	Total Approved	Final Under / (Over) spend	Now requested for Transfer to 2022/23
Departmental Output Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Southern Response Earthquake Services Independent Oversight Committee (M86)	-	0.040	0.040	0.025	0.025
Total	**-**	**0.040**	**0.040**	**0.025**	**0.025**

Key: M86 – Minister Responsible for the Earthquake Commission, Minister Clark

Southern Response Earthquake Services Independent Oversight Committee (M86)

- This appropriation is for an Independent Oversight Committee to oversee the implementation of the Crown's proactive package for eligible Southern Response claimants who cash settled with the company prior to 1 October 2014. The package is intended to put Southern Response policyholders who cash settled before 1 October 2014 in an equitable position to those who cash settled after that date. Although the package was announced by the Government in December 2020, implementation was delayed by legal proceedings for nearly a year. Due to this delay, a late IPECT of $0.040 million was approved in T2022/1104 to allow the Committee to complete their obligations. We are now seeking a total of $0.025 million to be approved in the October Baseline Update.

In-Principle Expense and Capital Transfers – Non-Departmental Appropriations

8. A number of IPECTs for non-departmental appropriations were approved prior to 30 June 2022. These were approved by Joint Ministers at the March Baseline Update [T2022/167 refers] and in June [T2022/1104 refers]. All agreed adjustments to the Non-Departmental appropriations (excluding the Greater Christchurch Anchor Projects have been grouped into the table below for ease of review. The exact amounts of the transfers were uncertain at the time and Joint Ministers agreed to confirm the final amounts once audited financial results for the year ended 30 June 2022 were known.

Vote Finance	Authorised by Joint Ministers				
	Approved in MBU T2022/167	Approved in June T2022/1104	Total Approved	Final Underspend	Now requested for Transfer to 2022/23
	$ million	**$ million**	**$ million**	**$ million**	**$ million**
Total	**174.462**	**55.796**	**230.258**	**230.118**	**230.118**
Non-Departmental Output Expenses:					
Non-Departmental Output Expenses					

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Vote Finance	Authorised by Joint Ministers				
	Approved in MBU T2022/167	Approved in June T2022/1104	Total Approved	Final Underspend	Now requested for Transfer to 2022/23
	$ million	$ million	$ million	$ million	$ million
Management of Anchor Projects by Ōtākaro Limited (M31)	19.723	1.819	21.542	21.402	21.402
Total	**19.723**	**1.819**	**21.542**	**21.402**	**21.402**
Non-Departmental Other Expenses					
Christchurch Regeneration Acceleration Facility (M31)	129.739	8.817	138.556	138.556	138.556
Total	**129.739**	**8.817**	**138.556**	**138.556**	**138.556**
Non-Departmental Capital Expenditure					
COVID-19: Capital Injections to Airways New Zealand (M31)	25.000	3.000	28.000	28.000	28.000
Transfer of Anchor Project Assets to Ōtākaro Limited (M31)	-	42.160	42.160	42.160	42.160
Total	**25.000**	**45.160**	**70.160**	**70.160**	**70.160**

Key: M31 - Minister of Finance, Minister Robertson

s9(2)(ba)(i)

[redacted]

Non-Departmental Other Expenses

Christchurch Regeneration Acceleration Facility - (M31)

- The Crown has committed an appropriation of $214.000 million to the process of designing and building the Canterbury Multi-Use Arena. A funding agreement was signed which includes a schedule of expected quarterly drawdowns covering the period of construction over a 3-year period although the design and build contracts are still to be finalised. An in-principle expense and capital transfer of up to a maximum of $129.739 million was approved during MBU. An additional $8.817 million was approved in TR2022/1104 to spread the funding over the likely construction period.

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We are now seeking a total of $138.556 million to be approved in the October Baseline Update.

Non-Departmental Capital Expenditure

COVID-19: Capital Injections to Airways New Zealand – (M31)

- The intent of the second tranche of a capital injection to Airways New Zealand (Airways) was to support the company through the post COVID-19 recovery phase. A COVID-19 resurgence has led to extended restrictions on travel to and from Auckland – Airways' most significant geographic revenue source. The resulting logistical constraints had flow-on consequences for contractors' plans and work flows which caused delays in and extensions to the company's capital investment and maintenance projects. This has had significant implications for Airways as a company. An in-principle expense and capital transfer of up to a maximum of $25.000 million was approved during MBU. An additional in-principle expense and capital transfer of $3.000 million was approved in TR2022/1104 to extend the support through this recovery. We are now seeking a total of $28.000 million to be approved in the October Baseline Update.

Transfer of Anchor Project Assets to Ōtākaro Limited (M31)

- This appropriation is limited to the transfer of Christchurch Regeneration Anchor Project assets to Ōtākaro Limited. COVID-19 related restrictions led to delays in the completion of the pre-requisite physical works and surveys that are necessary for the settlement and subsequent transfer of the land to Ōtākaro. The transfers from Land Information New Zealand are expected to be completed from 2022/23 onwards. An in-principle expense and capital transfer was approved in TR2022/1104 up to $42.160 million as the majority of outstanding land acquisitions are now scheduled to occur in 2022/23. We are now seeking a total of $42.160 million to be approved in the October Baseline Update.

Non-Departmental Output Expenses

Tāmaki Regeneration Company Limited - Equity Injection (M31) (A40)

9. This appropriation seeks to provide financing for the purchase of public housing, asset management and strategic land purchases to progress the redevelopment of the Tāmaki area. As part of the Budget 2022 technical package, Cabinet authorised the Appropriation Minister and the Minister of Finance jointly to transfer an amount up to $46.000 million from 2021/22 to 2022/23 due to delays to a land purchase, subject to confirmation of the underspend [Technical Initiative 14354 refers]. We are now seeking a total of $46.000 million to be approved in the October Baseline Update.

Vote Finance	Approved in Budget 2022	Approved in MBU T2022/167 and in June T2022/1104	Total Approved	Final Underspend	Now requested for Transfer to 2022/23
Non-Departmental Output Expense:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Tāmaki Regeneration Company Limited - Equity Injection (M31) (A40)	46.000	-	46.000	46.000	46.000

Key: M31 - Minister of Finance, Minister Robertson

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In-Principle Expense and Capital Transfers – Multi-Category Expenses

10. The Minister for State Owned Enterprises sought approvals for late IPECTs in June [T2022/1104 refers]. The submission was approved by you. The exact amounts of the transfers were uncertain at the time and Joint Ministers agreed to confirm the final amounts once audited financial results for the year ended 30 June 2022 were known. The amount as described below for the Crown Company Monitoring appropriation is now confirmed and an expense transfer will be requested from Minister Clarke.

11. You sought approvals for late IPECTs in June [T2022/1104 refers]. The submission was approved by the Associate Minister of Finance (Hon Dr Megan Woods). The exact amounts of the transfers were uncertain at the time and Joint Ministers agreed to confirm the final amounts once audited financial results for the year ended 30 June 2022 were known. The amounts as described below are now confirmed and expense transfers are now requested.

Vote Finance	Authorised by Joint Ministers				
	Approved in MBU T2022/167	Approved in June T2022/1104	Total Approved	Final Under / (Over) spend	Now requested for Transfer to 2022/23
	$ million	$ million	$ million	$ million	$ million
Departmental Multi-Category Expenses					
Crown Company Monitoring for State Owned Enterprises and other Responsible Ministers MCA (M65)	**-**	**0.300**	**0.300**	**0.288**	**0.288**
Total	**-**	**0.300**	**0.300**	**0.288**	**0.288**

Key: M65 – Minister for State Owned Enterprises Minister Clark

Crown Company Monitoring Advice MCA (M65)

12. A late IPECT was approved in T2022/1104 of $0.300 in connection with delays in creating the new Strengthening Public Media entity. The delays are due to getting legislation approved in the House. We are now seeking a total of $0.288 million to be approved in the October Baseline Update.

Vote Finance	Authorised by Joint Ministers				
	Approved in MBU T2022/167	Approved in June T2022/1104	Total Approved	Final Under / (Over) spend	Now requested for Transfer to 2022/23
	$ million	$ million	$ million	$ million	$ million
Non-Departmental Multi Category Expenses					
Management of Landcorp Protected Land Agreement MCA (M31)	-	0.239	0.239	2.050	0.239
Management of NZ House, London MCA (M31)	-	19.080	19.080	17.447	17.447

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Vote Finance	Authorised by Joint Ministers				
	Approved in MBU T2022/167	Approved in June T2022/1104	Total Approved	Final Under / (Over) spend	Now requested for Transfer to 2022/23
	$ million	$ million	$ million	$ million	$ million
Greater Christchurch Regeneration (MCA) (M31) (A40)	7.310	1.663	8.973	8.973	8.973
Greater Christchurch Anchor Projects MCA (M31) (A40)	213.130	29.440	242.570	251.277	242.570
Total	**220.44**	**50.422**	**270.862**	**279.747**	**269.229**

Key: M31 - Minister of Finance, Minister Robertson

Management of Landcorp Protected Land Agreement MCA – (M31)

13. This appropriation is intended to support the maintenance and management of land under the Landcorp Protected Land Agreement. Supply chain restrictions, contractor availability and other COVID-19 impacts have delayed the capital work program in 2021/22. An in-principle expense and capital transfer of $0.239 million was approved in TR2022/1104 to ensure that there is enough funding to complete the capital works in 2022/23. We are now seeking a total of $0.239 million to be approved in the October Baseline Update.

Management of New Zealand House, London MCA – (M31)

14. There have been significant delays in the project to redevelop New Zealand House because of COVID-19, United Kingdom planning requirements and a need to renegotiate arrangements following significant cost increases. As the project to redevelop New Zealand House progresses, there are savings in Vote Finance from reduced property running and maintenance costs and increased costs in Vote Foreign Affairs and Trade for temporary accommodation and fit-out costs. When approving the proposed new lease arrangements Cabinet noted that it is expected that the costs associated with the change in management arrangements for New Zealand House can be funded by related savings in existing appropriations over time [ERD-17-MIN-0026]. An in-principle expense and capital transfer of $19.080 million was approved in TR2022/1104 to transfer surplus 2021/22 funding in Vote Finance to 2022/23. We are now seeking a total to $17.447 million to be approved in the October Baseline Update.

Greater Christchurch Regeneration MCA - (M31)

15. The Crown has committed an appropriation to meet the remaining risks and cost pressures relating to support for the regeneration of Greater Christchurch. Delays in the commencement of projects in addition to COVID-19 delays have extended completion dates. An in-principle expense and capital transfer of up to a maximum of $6.973 million was approved during MBU to meet residual operating expenditure associated with support for Greater Christchurch Regeneration. An in-principle capital transfer of up to a maximum of $0.337 million was also approved during MBU. Reflecting the above-mentioned delays, an additional $1.663 million was approved in TR2022/1104 to meet residual capital expenditure associated with support for Greater Christchurch Regeneration. We are now seeking a total of $8.973 million to be approved in the October Baseline Update.

IN-CONFIDENCE

Greater Christchurch Anchor Projects

16. A number of IPECTs for Greater Christchurch Anchor Projects were approved prior to 30 June 2022. These were approved by Joint Ministers at the March Baseline Update [T2022/167 refers] and in June [T2022/1104 refers]. The exact amounts of the transfers were uncertain at the time and Joint Ministers agreed to confirm the final amounts once audited financial results for the year ended 30 June 2022 were known. The impact of COVID-19 has increased project costs and timeframes, such that all available funding will be required to ensure the completion of Anchor projects.

    The adjustments to the Greater Christchurch Anchor Projects MCA sought above are intending to achieve the following objectives:

    - transfer funding to 2022/23 to meet forecast project costs;
    - reflect the monetary impact of the lockdown resulting from COVID-19 and the ensuing change in the timing and changed construction processes following the lockdowns;
    - construction of the Metro Sports Facility / Parakiore;
    - completion of Te Pae and the conclusion of the pre-opening phase; and
    - outstanding land acquisitions that are now scheduled to occur in 2022/23.

    We are now seeking a total of $242.570 million to be approved in the October Baseline Update.

Fiscally Neutral Adjustments

	$million– increase/(decrease)				
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27 & Outyears**
Departmental Output Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Vote Finance **Minister of Finance** Shared Support Services (M31) (funded by revenue Department)	3.000	-	-	-	-
Multi-Category Expenses and Capital Expenditure:					
Vote Finance **Minister of Finance** Policy Advice and Financial Services (MYMCA) (M31) (funded by revenue Department)	1.000	-	-	-	-
Vote Finance **Minister of Finance** Policy Advice and Financial Services (MYMCA) (M31) (funded by revenue Department)	1.000	-	-	-	-
Vote Finance **Minister of Finance** Policy Advice and Financial Services (MYMCA) (M31) (funded by revenue Department)	0.300	-	-	-	-
Vote Finance **Minister of Finance** Policy Advice and Financial Services (MYMCA) (M31) (funded by revenue other)	0.250	-	-	-	-
	5.550	-	-	-	-

Key: M31 – Minister of Finance, Minister Robertson

Shared Support Services (M31)

17. A Fiscally Neutral Adjustment is required in the Shared Support Services Appropriation of $3 million due to recent growth at the Department of Prime Minister and Cabinet that requires additional services to be provided. Funding of this appropriation is to the limit of the revenue received. This fiscally neutral adjustment is to avoid unappropriated expenditure in delivering this service.

Policy Advice and Financial Services (MYMCA) (M31)

18. A Fiscally Neutral Adjustment is required for other revenue received from the Ministry for Primary Industries who lease part of Level 1, 1 The Terrace. For the 2022/23 year this is $1 million.

19. A Fiscally Neutral Adjustment is required for other revenue received from a number of Departments where they have agreed to provide Treasury with $0.300 million annually for two years so it can employ staff and develop resources and training programmes for finance staff across the system.

20. A Fiscally Neutral Adjustment is required from Departmental agencies for Gateway Services. Gateway Services have increased above the number that makes up the original appropriation. Treasury is seeking an additional $1 million funded by revenue – Department.

21. A Fiscally Neutral Adjustment of $0.250 million is required for other revenue received from New Zealand Green Investment Fund where they have agreed to pay for a review as outlined in the legislation.

Forecasting Adjustments

	$million– increase/(decrease)				
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27 & Outyears**
Departmental Output Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Administration of Crown Borrowing, Securities, Derivative Transactions and Investment Given by the Crown PLA (M31)	2.600	3.938	3.938	3.938	3.938
Total	**2.600**	**3.938**	**3.938**	**3.938**	**3.938**

Key: M31 – Minister of Finance, Minister Robertson

Administration of Crown Borrowing, Securities, Derivative Transactions and Investment Given by the Crown PLA (M31)

22. On the 5 October 2022, you received an aid memoire [T2022/2126 refers] noting an increase to the baseline under the Administration of Crown Borrowing, Derivatives Transactions and Investment Permanent Legislative Authority by $2.600 million in 2022/23 and $3.938 million in the outyears.

23. Further investment is required to provide for operational resilience risk given the growth in volume, additional functions (Green Bonds), and complexity of the work for current staff in the delivery of their core functions.

IN-CONFIDENCE

	$million– increase/(decrease)				
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27 & Outyears**
Non-Departmental Other Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Payments and Expenses in Respect of Guarantees and Indemnities PLA (M31) (A40)	1,094.840	-	-	-	-
Total	**1,094.840**	**-**	**-**	**-**	**-**

Key: M31 – Minister of Finance, Minister Robertson

Payments and Expenses in Respect of Guarantees and Indemnities PLA (M31) (A40)

24. Further forecasting of the Crown indemnity obligation provided to the Reserve Bank for fiscal impacts from the Large-Scale Asset Purchase programme necessitates an increase in the Payments and Expenses in Respect of Guarantees and Indemnities PLA of $1,094.840 million due to changes in interest rates.

Other Technical Changes

	$million– increase/(decrease)				
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27 & Outyears**
Departmental Output Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Administration of Crown Borrowing, Securities, Derivative Transactions and Investment Given by the Crown PLA (M31)	(0.019)	(0.011)	(0.002)	-	-
Shared Support Services (M31)	(0.152)	(0.084)	(0.015)	-	-
Policy Advice – Finance (M31)	-	-	(0.018)	-	-
Multi-Category Expenses and Capital Expenditure:					
Policy Advice and Financial Services (MYMCA) (M31)	(0.174)	(0.096)	-	-	-
Total	(0.345)	(0.191)	(0.035)	-	-

Key: M31 - Minister of Finance, Minister Robertson

Software as a Service baseline adjustments

25. As part of the technical package in Budget 2022, Treasury recognised an asset write-off in relation to software as a service reflecting a change in accounting treatment wherein all software as a service items are now recognised as an operating expense.

26. Cabinet agreed that all reduction in depreciation expenses from the change in accounting treatment be confirmed through OBU [CAB-22-MIN-0129 refers].

27. This reduced baseline funding related to depreciation of the written off assets over the three years being returned to the centre. This affects the following appropriations.

Administration of Crown Borrowing, Securities, Derivative Transactions and Investment Given by the Crown PLA (M31)

28. This appropriation is decreased by $0.019 million in 2022/23, $0.011 million in 2023/24 and $0.002 million in 2024/25. The three years represents the depreciation of the assets written off.

IN-CONFIDENCE

Shared Support Services (M31)

29. This appropriation is decreased by $0.152 million in 2022/23, $0.084 million in 2023/24 and $0.015 million in 2024/25. The three years represents the depreciation of the assets written off.

Policy Advice and Financial Services (MYMCA) (M31)

30. This appropriation is decreased by $0.174 million in 2022/23, $0.096 million in 2023/24 and $0.018 million in 2024/25. The three years represents the depreciation of the assets written off.

	$million– increase/(decrease)				
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27 & Outyears**
Non- Departmental Other Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Vote Finance ***Minister of Finance*** ***Greater Christchurch Anchor Projects (MCA) (M31)*** *Public space – Operating*	(2.789)	-	-	-	-
Non-Departmental Capital Expenditure:					
Vote Finance ***Minister of Finance*** ***Greater Christchurch Anchor Projects (MCA) (M31)*** *Christchurch Convention Centre - Capital*	(4.662)	-	-	-	-
Metro Sports – Capital	7.451	-	-	-	-

Key: M31 – Minister of Finance, Minister Robertson

Greater Christchurch Anchor Projects MCA - (M31)

31. A technical adjustment is required within the Greater Christchurch Anchor Projects multi-category appropriation to reflect a shift in the indicative spending profile between the three categories as set out in the above table.

Multi-year appropriation adjustments

32. Table 2 reflects the transfer of the indicative spending profile between financial years for MYA's, with no change to the overall appropriations.

Transfer of European Bank for Reconstruction and Development shares from MFAT

33. The Crown, through the Ministry of Foreign Affairs and Trade, holds 1,050 shares of the authorised share capital of the European Bank for Reconstruction and Development (EBRD). The total par value of paid-in shares is EUR 3.500 million. A contingent liability exists for EUR 7 million for uncalled share capital of the bank.

    The Treasury took over the relationship with the EBRD in previous years from the Ministry, however responsibility for the shares and accounting for them did not transfer. Treasury currently manages the share investment as part of the Crown's larger portfolio of shares in International Financial Institutions.

IN-CONFIDENCE

Treasury officials are now requesting a technical adjustment of $5.781 million in 2022/23 to give effect to the transfer of shares from the Ministry's schedule of Non-Departmental assets to the Treasury's Schedule of Non-Departmental assets. Ministry officials have agreed and have a similar request in their October Baseline Update letter.

As no appropriation exists in Vote Finance for this technical change, it is proposed that a new non-departmental capital expenditure appropriation be established to facilitate the transfer (Appendix A).

Forecast Financial Statements

34. The baseline update also includes forecast financial statements, although approval for these is not sought from the Associate Minister of Finance. The baseline changes sought in this letter have been incorporated in the forecast financial statements of the Treasury, together with the adjustments necessary to accurately reflect estimated operating expenditure, capital expenditure and cash flows.

Other matters

35. Cabinet has made decisions relating to this Vote made since the last baseline or Budget update up to 12 October 2022 which have been included in this update. These are listed in Table 2 attached to this letter.

Acquisition of Kiwi Group Holdings Limited (KGH)

36. On 4 July 2022 Cabinet approved $2,400.000 million in 2022/23 for the purchase of the share capital of Kiwi Group Holdings Limited (KGH) and the establishment of a Crown owned company to be listed in Schedule 4A of the Public Finance Act 1989 to hold any KGH shares purchased by the Crown [CAB-22-MIN-0250 refers]. Cabinet also approved $2.000 million to The Treasury as the monitoring department in relation to the company.

s9(2)(b)(ii)

[redacted]

New Zealand Green Investment Fund Limited - Equity Injection (M31) (A40) tagged contingency drawdown

38. In June 2022, Joint Ministers approved the drawdown of $100.000 million from the tagged contingency against this appropriation [T2022/1236 refers]. The additional funding will further enable the entity to achieve its mission to accelerate capital investments that enable New Zealand's low carbon transition.

Rollout of the 2024/25 Baseline

39. The 2025/26 appropriations have been rolled over to 2026/27.

Recommended Action

We recommend that you:

Minister of Finance

a **endorse** the increasing baseline under the Administration of Crown Borrowing, Derivatives Transactions and Investment Permanent Legislative Authority by $2.600 million in 2022/23 and $3.938 million in the outyears as set out in paragraph 31.

Agree/disagree.
Minister of Finance

b **agree** to seek the approval of the Associate Minister of Finance (Hon Dr Megan Woods) to the Vote Finance changes detailed in this Treasury Report and the attached Vote Finance: October 2022 Baseline Update Submission for the appropriations for which you are the responsible Minister.

Agree/disagree.
Minister of Finance

c **agree** that the Crown's shares in the European Bank of Reconstruction and Development (EBRD), which are currently recorded on the portion of the Crown's balance sheet that is managed by the Ministry of Foreign Affairs and Trade, be transferred to the portion of the Crown's balance sheet that is managed by the Treasury, with effect from 31 October 2022.

Agree/disagree.
Minister of Finance

d **note** that this submission includes a request to establish a new non-departmental capital appropriation in Vote Finance to facilitate the transfer of shares described in recommendation c. above.

Minister responsible for the Earthquake Commission

e **agree** to seek the approval of the Minister of Finance (Hon Grant Robertson) to the Vote Finance changes detailed in this Treasury Report and the attached Vote Finance: October 2022 Baseline Update Submission for the appropriations for which you are the responsible Minister.

Agree/disagree.
Minister responsible for the Earthquake Commission

IN-CONFIDENCE

Minister for State Owned Enterprises

f **agree** to seek the approval of the Minister of Finance (Hon Grant Robertson) to the Vote Finance changes detailed in this Treasury Report and the attached Vote Finance: October 2022 Baseline Update Submission for the appropriations for which you are the responsible Minister.

Agree/disagree.
Minister for State Owned Enterprises

Glenn McStay
Chief Financial Officer

Hon Grant Robertson
Minister of Finance

Hon Dr David Clarke
Minister responsible for the Earthquake Commission, and
Minister for State Owned Enterprises

Hon Grant Robertson
MP for Wellington Central
Deputy Prime Minister
Minister of Finance
Minister for Infrastructure
Minister for Sport and Recreation
Minister for Racing

Hon Dr Megan Woods
Minister for Energy and Resources
Minister for Research, Science and Innovation
Parliament Buildings
WELLINGTON

Dear Megan

2022 OCTOBER BASELINE UPDATE SUBMISSION FOR VOTE FINANCE

Introduction

I am seeking your approval, as Associate Minister of Finance with delegation to act as Minister of Finance where matters relate to the appropriations in Vote Finance for which I am responsible.

During the March Baseline Update (MBU) [T2022/167 refers] and updated in June [T2022/1104 refers], Joint Ministers requested a number of in-principle expense and capital transfers (IPECTs) for Vote Finance. I am requesting confirmation of the IPECTs for the following Departmental and Non-Departmental appropriations in Vote Finance for which I am the responsible minister in the October Baseline Update (OBU). You have delegated authority to consider and approve these changes.

I am also seeking a number of Fiscally Neutral Adjustments. The proposed changes to baselines are detailed in this letter and in Table 2 which is attached.

Cabinet Decisions

I have been advised that all Cabinet decisions relating to this Vote made since the last baseline or Budget update up to 12 October 2022 have been included in this update. These are listed in Table 2 attached to this letter.

Acquisition of Kiwi Group Holdings Limited (KGH)

On 4 July 2022 Cabinet approved $2,400.000 million in 2022/23 for the purchase of the share capital of Kiwi Group Holdings Limited (KGH) and the establishment of a Crown owned company to be listed in Schedule 4A of the Public Finance Act 1989 to hold any KGH shares purchased by the Crown [CAB-22-MIN-0250 refers]. Cabinet also approved $2.000 million to The Treasury as the monitoring department in relation to the company.

s9(2)(b)(ii)

[redacted]

Joint Minister Decisions

In-Principle Expense and Capital Transfers – Non-Departmental Appropriations

A number of IPECTs for non-departmental appropriations were approved by yourself as Associate Minister of Finance. The confirmations were for anticipated delays mainly due to the impacts of COVID-19 on Greater Christchurch Anchor Projects and the Multi-Use Arena project pursuant to the Christchurch Regeneration Acceleration Facility. The exact amounts of the transfers due were uncertain at the time and Joint Ministers agreed to confirm the final amounts once audited financial results for the year ended 30 June 2022 were known. The amounts as described below are now confirmed and expense transfers are now requested.

Transfer of Anchor Project Assets to Ōtākaro Limited (M31)

Vote Finance	**Authorised by Joint Ministers**				
	Approved in MBU T2022/167	**Approved in June T2022/1104**	**Total Approved**	**Final Underspend**	**Now requested for Transfer to 2022/23**
Non-Departmental Capital Expenditure:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Transfer of Anchor Project Assets to Ōtākaro Limited (M31)	-	42.160	42.160	42.160	42.160

Key: M31 - Minister of Finance, Minister Robertson

Confirmation of an expense transfer totalling $42.160 million is now requested to continue the transfer of assets Ōtākaro Limited in 2022/23.

Christchurch Regeneration Acceleration Facility (M31)

Vote Finance	Authorised by Joint Ministers				
	Approved in MBU T2022/167	Approved in June T2022/1104	Total Approved	Final Underspend	Now requested for Transfer to 2022/23
Non-Departmental Other Expenditure:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Christchurch Regeneration Acceleration Facility (M31)	129.739	8.817	138.556	138.556	138.556

Key: M31 - Minister of Finance, Minister Robertson

Confirmation of an expense transfer totalling $138.556 million is now requested to continue providing grants to the Christchurch City Council to fund projects pursuant to the Christchurch Regeneration Acceleration Facility, the main project being the Multi-Use Arena.

Management of Anchor Projects by Ōtākaro Limited (M31)

Vote Finance	Authorised by Joint Ministers				
	Approved in MBU T2022/167	Approved in June T2022/1104	Total Approved	Final Underspend	Now requested for Transfer to 2022/23
Non-Departmental Output Expense:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Management of Anchor Projects by Ōtākaro Limited (M31)	19.723	1.819	21.542	21.402	21.402

Key: M31 - Minister of Finance, Minister Robertson

Confirmation of an expense transfer totalling $21.402 million is now requested. Delays in commencing and completing Anchor Projects has extended completion dates. COVID-19 has further compounded these delays and placed restrictions on the contractors completing the projects.

COVID-19: Capital Injections to Airways New Zealand (M31)

Vote Finance	Authorised by Joint Ministers				
	Approved in MBU T2022/167	Approved in June T2022/1104	Total Approved	Final Underspend	Now requested for Transfer to 2022/23
Non-Departmental Capital Expenditure	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
COVID-19: Capital Injections to Airways New Zealand (M31)	25.000	3.000	28.000	28.000	28.000

Key: M31 – Minister of Finance, Minister Robertson

Confirmation of an expense transfer totalling $28.000 million is now requested. The intent of the second tranche of a capital injection to Airways New Zealand was to support the company through the post COVID-19 recovery phase. A COVID-19 resurgence has led to extended restrictions on travel to and from Auckland – Airways' most significant geographic revenue source. The resulting logistical constraints had flow-on consequences for contractors' plans and work flows which caused delays in and extensions to the company's capital investment and maintenance projects.

Tāmaki Regeneration Company Limited - Equity Injection (M31) (A40)

This appropriation seeks to provide financing for the purchase of public housing, asset management and strategic land purchases to progress the redevelopment of the Tāmaki area. As part of the Budget 2022 technical package, Cabinet authorised the Appropriation Minister and the Minister of Finance jointly to transfer an amount up to $46.000 million from 2021/22 to 2022/23 due to delays to a land purchase, subject to confirmation of the underspend [Technical Initiative 14354 refers]. We are now seeking a total of $46.000 million to be approved in the October Baseline Update.

Vote Finance	Approved in BUDGET 2022	Approved in MBU T2022/167 and in June T2022/1104	Total Approved	Final Underspend	Now requested for Transfer to 2022/23
Non-Departmental Capital Expenditure:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Tāmaki Regeneration Company Limited - Equity Injection (M31) (A40)	46.000	-	46.000	46.000	46.000

Key: M31 - Minister of Finance, Minister Robertson

In-Principle Expense and Capital Transfers – Multi-Category Appropriations

Vote Finance	Authorised by Joint Ministers				
	Approved in MBU T2022/167	Approved in June T2022/1104	Total Approved	Final Underspend	Now requested for Transfer to 2022/23
Non-Departmental Multi Category Expenses	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Management of Landcorp Protected Land Agreement MCA (M31)	-	0.239	0.239	2.050	0.239
Management of NZ House, London MCA (M31)	-	19.080	19.080	17.447	17.447
Greater Christchurch Regeneration (MCA) (M31) (A40)	7.310	1.663	8.973	8.973	8.973
Greater Christchurch Anchor Projects MCA (M31) (A40)	213.130	29.440	242.570	251.277	242.570
Total	**220.44**	**50.422**	**270.862**	**279.747**	**269.229**

Key: M31 - Minister of Finance, Minister Robertson

Management of Landcorp Protected Land Agreement MCA (M31)

Confirmation of an expense transfer totalling $0.239 million is now requested. Supply chain restrictions, contractor availability and other COVID-19 impacts have delayed the capital work program in 2021/22.

Management of New Zealand House MCA (M31)

There have been significant delays in the project to redevelop New Zealand House because of COVID-19, United Kingdom planning requirements and a need to renegotiate arrangements following significant cost increases. As the project to redevelop New Zealand House progresses, there are savings in Vote Finance from reduced property running and maintenance costs and increased costs in Vote Foreign Affairs and Trade for temporary accommodation and fit-out costs. When approving the proposed new lease arrangements Cabinet noted that it is expected that the costs associated with the change in management arrangements for New Zealand House can be funded by related savings in existing appropriations over time [ERD-17-MIN-0026]. Confirmation of an expense transfer totalling $17.447 million is now requested.

Greater Christchurch Regeneration MCA - (M31)

The Crown has committed an appropriation to meet the remaining risks and cost pressures relating to support for the regeneration of Greater Christchurch. Delays in the commencement of projects in addition to COVID-19 delays have extended completion dates. Confirmation of an expense transfer totalling $8.973 million is now requested.

Greater Christchurch Anchor Projects MCA (M31)

Confirmation of an expense transfer totalling $242.570 million for the MCA is now requested. The impact of COVID-19 has increased project costs and timeframes, such that all available funding will be required to ensure the completion of Anchor projects.

The adjustments to the Greater Christchurch Anchor Projects MCA sought above are intending to achieve the following objectives:

- transfer funding to 2022/23 to meet forecast project costs;
- reflect the monetary impact of the lockdown resulting from COVID-19 and the ensuing change in the timing and changed construction processes following the lockdowns;
- construction of the Metro Sports Facility / Parakiore;
- completion of Te Pae and the conclusion of the pre-opening phase; and
- outstanding land acquisitions that are now scheduled to occur in 2022/23.

Fiscally Neutral Adjustments

	$million– increase/(decrease)				
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27 & Outyears**
Departmental Output Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Vote Finance **Minister of Finance** Shared Support Services (M31)	3.000	-	-	-	-

	$million– increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Departmental Output Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
(funded by revenue Department)					
Multi-Category Expenses and Capital Expenditure:					
Vote Finance **Minister of Finance** Policy Advice and Financial Services (MYMCA) (M31) (funded by revenue Department)	1.000	-	-	-	-
Vote Finance **Minister of Finance** Policy Advice and Financial Services (MYMCA) (M31) (funded by revenue Department)	1.000	-	-	-	-
Vote Finance **Minister of Finance** Policy Advice and Financial Services (MYMCA) (M31) (funded by revenue Department)	0.300	-	-	-	-
Vote Finance **Minister of Finance** Policy Advice and Financial Services (MYMCA) (M31) (funded by revenue other)	0.250	-	-	-	-
	5.550				

Key: M31 – Minister of Finance, Minister Robertson

Shared Support Services (M31)

A Fiscally Neutral Adjustment is required in the Shared Support Services Appropriation of $3 million due to recent growth at the Department of Prime Minister and Cabinet that requires additional services to be provided. Funding of this appropriation is to the limit of the revenue received. This fiscally neutral adjustment is to avoid unappropriated expenditure in delivering this service.

Policy Advice and Financial Services (MYMCA) (M31)

A Fiscally Neutral Adjustment is required for other revenue received from the Ministry for Primary Industries who lease part of Level 1, 1 The Terrace. For the 2022/23 year this is $1 million.

A Fiscally Neutral Adjustment is required for other revenue received from a number of Departments where they have agreed to provide Treasury with $0.300 million annually for two years so it can employ staff and develop resources and training programmes for finance staff across the system.

A Fiscally Neutral Adjustment is required from Departmental agencies for Gateway Services. Gateway Services have increased above the number that makes up the original appropriation. Treasury is seeking an additional $1 million funded by revenue – department.

A Fiscally Neutral Adjustment of $0.250 million is required for other revenue received from New Zealand Green Investment Fund where they have agreed to pay for a review as outlined in the legislation.

Forecasting Adjustments

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Total	**2.600**	**3.938**	**3.938**	**3.938**	**3.938**

Key: M31 – Minister of Finance, Minister Robertson

Administration of Crown Borrowing, Securities, Derivative Transactions and Investment Given by the Crown PLA (M31)

On the 5 October 2022, you received an aid memoire [T2022/2126 refers] noting an increase to the baseline under the Administration of Crown Borrowing, Derivatives Transactions and Investment Permanent Legislative Authority by $2.600 million in 2022/23 and $3.938 million in the outyears.

Further investment is required to provide for operational resilience risk given the growth in volume, additional functions (Green Bonds), and complexity of the work for current staff in the delivery of their core functions.

	$million– increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Non-Departmental Other Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Payments and Expenses in Respect of Guarantees and Indemnities PLA (M31) (A40)	1,094.840	-	-	-	-
Total	**1,094.840**	**-**	**-**	**-**	**-**

Key: M31 – Minister of Finance, Minister Robertson

Payments and Expenses in Respect of Guarantees and Indemnities PLA (M31) (A40)

Further forecasting of the Crown indemnity obligation provided to the Reserve Bank for fiscal impacts from the Large-Scale Asset Purchase programme necessitates an increase in the Payments and Expenses in Respect of Guarantees and Indemnities PLA of $1,094.840 million due to changes in interest rates.

Other Technical Changes

	$million– increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Departmental Output Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Administration of Crown Borrowing, Securities, Derivative Transactions and Investment Given by the Crown PLA (M31)	(0.019)	(0.011)	(0.002)	-	-
Shared Support Services (M31)	(0.152)	(0.084)	(0.015)	-	-
Policy Advice – Finance (M31)	-	-	(0.018)	-	-
Multi-Category Expenses and Capital Expenditure:					

	$million– increase/(decrease)				
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27 & Outyears**
Departmental Output Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Policy Advice and Financial Services (MYMCA) (M31)	(0.174)	(0.096)	-	-	-
Total	(0.345)	(0.191)	(0.035)	-	-

Key: M31 - Minister of Finance, Minister Robertson

Software as a Service baseline adjustments

As part of the technical package in Budget 2022, Treasury recognised an asset write-off in relation to software as a service reflecting a change in accounting treatment wherein all software as a service items are now recognised as an operating expense.

Cabinet agreed that all reduction in depreciation expenses from the change in accounting treatment be confirmed through OBU [CAB-22-MIN-0129 refers].

This reduced baseline funding related to depreciation of the written off assets over the three years being returned to the centre. This affects the following appropriations.

Administration of Crown Borrowing, Securities, Derivative Transactions and Investment Given by the Crown PLA (M31)

This appropriation is decreased by $0.019 million in 2022/23, $0.011 million in 2023/24 and $0.002 million in 2024/25. The three years represents the depreciation of the assets written off.

Shared Support Services (M31)

This appropriation is decreased by $0.152 million in 2022/23, $0.084 million in 2023/24 and $0.015 million in 2024/25. The three years represents the depreciation of the assets written off.

Policy Advice and Financial Services (MYMCA) (M31)

This appropriation is decreased by $0.174 million in 2022/23, $0.096 million in 2023/24 and $0.018 million in 2024/25. The three years represents the depreciation of the assets written off.

	$million– increase/(decrease)				
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27 & Outyears**
Non- Departmental Other Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Vote Finance ***Minister of Finance*** ***Greater Christchurch Anchor Projects (MCA) (M31)*** *Public space – Operating*	(2.789)	-	-	-	-
Non-Departmental Capital Expenditure:					
Vote Finance ***Minister of Finance*** ***Greater Christchurch Anchor Projects (MCA) (M31)***		-	-	-	-
Christchurch Convention Centre - Capital	(4.662)	-	-	-	-

	$million– increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Non- Departmental Other Expenses:	$ million	$ million	$ million	$ million	$ million
Metro Sports – Capital	7.451				

Key: M31 – Minister of Finance, Minister Robertson

Greater Christchurch Anchor Projects MCA - (M31)

A technical adjustment is required within the Greater Christchurch Anchor Projects multi-category appropriation to reflect a shift in the indicative spending profile between the three categories as set out in the above table.

Multi-year appropriation adjustments

Table 2 reflects the transfer of the indicative spending profile between financial years for MYA's, with no change to the overall appropriations.

Other matters

Transfer of European Bank for Reconstruction and Development shares from MFAT

The Crown, through the Ministry of Foreign Affairs and Trade, holds 1,050 shares of the authorised share capital of the European Bank for Reconstruction and Development (EBRD). The total par value of paid-in shares is EUR 3.500 million. A contingent liability exists for EUR 7 million for uncalled share capital of the bank.

The Treasury took over the relationship with the EBRD in previous years from the Ministry, however responsibility for the shares and accounting for them did not transfer. Treasury currently manages the share investment as part of the Crown's larger portfolio of shares in International Financial Institutions.

Treasury officials are now requesting for a technical adjustment of $5.781 million in 2022/23 to give effect to transfer of the shares from the Ministry's schedule of Non-Departmental assets to the Treasury's Schedule of Non-Departmental assets. Ministry officials have agreed and have a similar request in their October Baseline Update letter.

As no appropriation exists in Vote Finance for this technical change, it is proposed that a new non-departmental capital expenditure appropriation be established to facilitate the transfer (Appendix A).

New Zealand Green Investment Fund Limited - Equity Injection (M31) (A40) tagged contingency drawdown

In June 2022, Joint Ministers approved the drawdown of $100.000 million from the tagged contingency against this appropriation [T2022/1236 refers]. The additional funding will further enable the entity to achieve its mission to accelerate capital investments that enable New Zealand's low carbon transition.

Forecast Financial Statements

The baseline update also includes forecast financial statements, although approval for these is not sought from the Associate Minister of Finance. The baseline changes sought in this letter have been incorporated in the forecast financial statements of the Treasury, together with the adjustments necessary to accurately reflect estimated operating expenditure, capital expenditure and cash flows.

Recommendations

I recommend that you:

1. **agree** the changes to relevant baselines as set out in this letter; and

Agree/disagree.

2. **agree** to establish a new non-departmental appropriation *Transfer of European Bank of Reconstruction and Development (EBRD) Shares* as set out in Appendix A to facilitate the transfer of EBRD shares as described above.

Agree/disagree.

3. **agree** to exempt the new non-departmental appropriation *Transfer of European Bank of Reconstruction and Development (EBRD) Shares* from for end-of-year performance information requirements, as provided under s15D(2)(b)(ii) of the Public Finance Act 1989 (not likely to be informative in the light of the technical nature of the transaction).

Agree/disagree.

4. **agree** that the proposed changes to appropriations and departmental capital injections for 2022/23, covered by all the recommendations above, be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Agree/disagree.

Hon Grant Robertson
Minister of Finance
Minister for Infrastructure
Minister for Sport and Recreation and Minister for Racing

Appendix A- Transfer of European Bank of reconstruction and Development Shares

Establishment of a New Appropriation

This appropriation is intended to facilitate the transfer of shares subscribed to by New Zealand as a member of the European Bank of Reconstruction and Development (EBRD) from the Ministry of Foreign Affairs.

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Vote Finance	Minister of Finance	The Treasury	Transfer of European Bank of Reconstruction and Development (EBRD) Shares	Non-Departmental Capital Expenditure	This appropriation is limited to the transfer of shares subscribed to by New Zealand as a member of the European Bank of Reconstruction and Development (EBRD).

Hon Dr David Clark
MP for Dunedin
Minister of Commerce and Consumer Affairs
Minister for the Digital Economy and Communications
Minister for State Owned Enterprises
Minister of Statistics
Minister Responsible for the Earthquake Commission

Hon Grant Robertson
Minister of Finance
Minister for Infrastructure
Minister for Sport and Recreation and Minister for Racing
Parliament Buildings
WELLINGTON

Dear Grant

2022 OCTOBER BASELINE UPDATE SUBMISSION FOR VOTE FINANCE

Introduction

In June, a request for late in-principle expense and capital transfers (IPECTs) [T2022/1104 refers], was approved by Joint Ministers for Vote Finance. I am requesting confirmation of the IPECTs for the following Departmental appropriations in Vote Finance for which I am the responsible minister in the October Baseline Update (OBU). You have delegated authority to consider and approve these changes.

Cabinet Decisions

I have been advised that all Cabinet decisions relating to this Vote made since the last baseline or Budget update up to 12 October 2022 have been included in this update. These are listed in Table 2 attached to this letter.

Joint Minister Decisions

In-Principle Expense and Capital Transfers – Departmental Appropriations

Vote Finance	Authorised by Joint Ministers				
	Approved in MBU T2022/167	Approved in June T2022/1104	Total Approved	Final Underspend	Now requested for Transfer to 2022/23
Departmental Output Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Southern Response Earthquake Services Independent Oversight Committee (M86)	-	0.040	0.040	0.025	0.025
Total	**-**	**0.040**	**0.040**	**0.025**	**0.025**

Key: M86 – Minister Responsible for the Earthquake Commission, Minister Clark

Southern Response Earthquake Services Independent Oversight Committee (M86)

This appropriation is for an Independent Oversight Committee to oversee the implementation of the Crown's proactive package for eligible Southern Response claimants who cash settled with the company prior to 1 October 2014. The package is intended to put Southern Response policyholders who cash settled before 1 October 2014 in an equitable position to those who cash settled after that date. Although the package was announced by the Government in December 2020, implementation was delayed by legal proceedings for nearly a year. Due to this delay, a late IPECT of $0.040 million was approved in T2022/1104 to allow the Committee to complete their obligations. We are now seeking a total of $0.025 million to be approved in the October Baseline Update.

In-Principle Expense and Capital Transfers – Multi-Category Appropriations

Vote Finance	Authorised by Joint Ministers				
	Approved in MBU T2022/167	Approved in June T2022/1104	Total Approved	Final Underspend	Now requested for Transfer to 2022/23
Multi-Category Expenses:	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Crown Company Monitoring Advice MCA (M65)	-	**0.300**	**0.300**	**0.288***	**0.288**
Total	**-**	**0.300**	**0.300**	**0.288**	**0.288**

Key: M65 – Minister of State-Owned Enterprises, Minister Clark

* This is the revenue Crown funded portion of the appropriation underspend

Crown Company Monitoring Advice MCA (M65)

A late IPECT was approved in T2022/1104 of $0.300 in connection with delays in creating the new Strengthening Public Media entity. The delays are due to getting legislation approved in the House. We are now seeking a total of $0.288 million to be approved in the October Baseline Update.

Recommendations

I recommend that you:

1. **agree** the changes to relevant baselines as set out in this letter; and

Agree/disagree.

2. **agree** that the proposed changes to appropriations and departmental capital injections for 2022/23, covered by all the recommendations above, be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Agree/disagree.

Hon Dr David Clarke
Minister Responsible for the Earthquake Commission and
Minister for State Owned Enterprises

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T2022/2212 Commercial Performance State of Play as at 12 October 2022

To: Minister of Finance (Hon Grant Robertson)

Associate Minister of Finance, Acting Minister for State Owned Enterprises (Hon Dr Megan Woods)

Associate Minister of Finance (Hon David Parker)

Minister for State Owned Enterprises, Minister Responsible for the Earthquake Commission (Hon Dr David Clark)

From: Andrew McLoughlin, Principal Advisor, Commercial and Institutional Performance

Ann Webster, Manager, Commercial and Institutional Performance

This report provides an update on current issues in relation to commercial entities and public benefit entities within the Crown portfolio. Please tick a box if you would like more information on a topic.

1. New and notable issues

Crown portfolio – Commercial entities

More info?	Entity / Issue	Update
☐	**State Owned Enterprise (SOE) and Crown entity annual report process** *(Katie Kirvan)*	In accordance with the State-Owned Enterprises Act, all SOEs have provided their annual reports to shareholding Ministers by 30 September 2022. The responsible Minister must present the annual report within 12 sitting days of receiving it when Parliament is sitting, or if Parliament is in recess, within 12 sitting days of Parliament resuming. Shareholding and responsible Ministers will receive Crown entities' annual reports at a later date, as for FY22, Parliament extended the date by which audit reports are due, to 31 December 2022.
☐	**NZ Post – special dividend discussions** *(Eru Pomare)*	The special dividend to be paid from the sale proceeds of Kiwi Group Holdings Limited (KGH) was discussed at NZ Post's Board meeting in September 2022. NZ Post's management has drafted a formal paper for Board approval of the fully-imputed special dividend, once the transaction timing is confirmed. The Reserve Bank of New Zealand still needs to approve the transaction and is aiming to provide a decision by 22 November 2022. If it meets this timeline, completion will take place on 30 November 2022. The Treasury is meeting with NZ Post on 13 October 2022 to discuss next steps. NZ Post has previously indicated to the Treasury that it plans to initially retain $400 million from the sale of KGH, with the balance of the transaction proceeds being paid out in the special dividend (with the addition of imputation credits as far as possible). As noted in previous advice, s9(2)(g)(i) and 9(2)(g)(ii) [redacted] NZ Post has agreed to review its capital structure every six months, and to return any excess capital to the Crown.
☐	**KiwiRail – proposed Core Lease extension** *(Mike Moore)*	KiwiRail has provided an update on the process to extend the Core Lease by which KiwiRail leases railway land from the Crown through the New Zealand Railways Corporation (NZRC). The Treasury provided an update to shareholding Ministers in December 2021, which sought comfort for KiwiRail to proceed to the iwi engagement phase of the proposal (2021/1733 refers). It was anticipated that iwi engagement would be undertaken and concluded in the first half of 2022, but it has taken much longer

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More info?	Entity / Issue	Update
		than anticipated. Consequently, shareholding Ministers will not be required to decide on the extension until early/mid 2023. In summary: • KiwiRail is engaging with approximately 150 iwi on its proposal that the Core Lease on railway land be extended from its current term ending in 2070 by a further 100 years to 2170. • The process was expected to be concluded by now, however KiwiRail is affording further time to ensure all iwi have sufficient time to engage in the matter. • KiwiRail has reported a common theme of positive responses from iwi who have requested discussions on the proposal to extend the Core Lease, while most have elected not to meet. • KiwiRail now aims to conclude engagements by the end of November 2022 and will work with the Treasury to report back to shareholding Ministers in early 2023 on its proposed request to vary the Core Lease tenure term.
◻	**Landcorp (trading as Pāmu) – spillover benefits** *(Kylie Kuan)*	Following debate in the preparation of the 2020/2021 Independent Review about the extent to which Pāmu contributed to industry good, shareholding Ministers (Ministers) in their letter of 3 June 2021 suggested that Pāmu provide information demonstrating its view that it met higher environmental or safety standards. In August 2022, in response to this letter, Pāmu has provided the Treasury with eight case studies regarding its spillover benefits to the agriculture industry about which Ministers are largely aware. The eight case studies are: • engineering better sheep genetics through Focus Genetics • providing land for Scion to run forestry research • demonstrating that sheep milk can be a viable industry in New Zealand through Spring Sheep Dairy Limited • managing the Molesworth Recreation Reserve • collaborating with AgResearch in trialling e-collars to enable virtual fencing • building compost barns and contributing to developing lameness scoring technology • leading the demonstration of integrated farm planning and greenhouse gas emissions reporting through FarmIQ, and • improving its dairy beef systems to address increased societal concerns regarding the welfare of bobby calves. The case studies provide little cost-benefit analysis and so do not quantifiably demonstrate spillover, or other relevant benefits to Pāmu, such as achieving higher environmental or safety standards. The Chair of Pāmu may be interested in discussing the case studies further with Ministers. However, given that Ministers are aware of the initiatives, a meeting may not be a priority at this time. Ministers could acknowledge Pāmu's case studies in upcoming correspondence, such as the FY23/24 letter of expectations.

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Crown portfolio – Public benefit entities

More info?	Entity / Issue	Update
◻	**Crown Research Institutes (CRIs) – financial sustainability and resilience** *(Amy Alder)*	The Ministry for Business, Innovation and Employment (MBIE) is continuing its work on the financial resilience and sustainability of the CRIs. s9(2)(f)(iv) and 9(2)(g)(i) [redacted] MBIE is meeting with the CRI Chief Financial Officers (except AgResearch) on 18 October 2022 to discuss these matters further.
◻	**Stockton Acid Mine Drainage (AMD) project - draft cultural assessment received** *(Dave Hendle)*	In September 2022 (T2022/1978 refers), the Treasury advised that it had received a near-final version of Ngāti Waewae’s cultural assessment for the AMD project. Analysis is now proceeding towards providing Ministers with a shortlist of AMD options. The Treasury will provide the Minister of Finance with a briefing on progress and an updated timeframe by the end of October 2022.

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2. Upcoming reports/Cabinet papers

Company	Report No.	Subject	Date
s9(2)(b)(ii)			
Ōtākaro	T2022/2119	Appropriation Delegation - Greater Christchurch Regeneration MCA	27 October 2022
Stockton	T2022/2227	Project Update	27 October 2022

3. Upcoming Governance and Appointments reports

Company	Report No.	Subject	Date	Minister
RBNZ	T2022-2170	Recommendation for deputy chair elevation	13 October 2022	Minister of Finance
Network for Learning	T2022-2194	Aide Memoire for APH 19 October 2022	12 October 2022	Minister of Finance Minister of Education
Public Trust	T2022-2129	Aide Memoire for APH 26 October 2022	Week 17 October 2022	Associate Minister of Justice (Hon Aupito William Sio) Minister of Finance
s9(2)(f)(iv)				
Lotteries Commission	TBC	Due diligence report following interviews	Week 17 October 2022	Minister of Internal Affairs Minister of Finance
NZ Post	T2022-2221	Aide Memoire for APH 26 October 2022	Week 17 October 2022	Minister of Finance Delegated Minister for State Owned Enterprises (Hon Dr Megan Woods)
Kordia, MetService, IOC for Southern Response	T2022-2063	Aide Memoire for APH 26 October 2022	Week 17 October 2022	Minister for State Owned Enterprises Minister Responsible for the Earthquake Commission
s9(2)(f)(iv)				

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4. Official Information Act (OIA) requests under action

Ministerial OIAs (MOIAs) under action

Company	Requestor	Report No, Subject	Draft reply due to office	Final reply due to requester	Minister
Kiwi Group Holdings	s9(2)(a)	20220348;5733 T2022/2051: Kiwi Group Holdings	11 October 2022	18 October 2022	Minister of Finance
Kiwi Bank		20220355;5739 T2022/2097: Communications regarding the NZ Superfund's interest in Kiwibank's parent company Kiwi Group Holdings	12 October 2022	19 October 2022	Minister of Finance
Landcorp		20220420 DC-85-2022; Government borrowing and Landcorp	18 October 2022	26 October 2022	Minister of Finance

Treasury OIAs (TOIAs) under action

Company	Requestor	Report No, Subject	TOIA Inform due to office	Treasury reply due to requester	Minister receiving Inform
Kiwi Group Holdings	s9(2)(a)	20220416; Valuation of Kiwi Group Holdings	14 October 2022	25 October 2022	Minister of Finance

Andrew McLoughlin
Principal Advisor, Commercial and Institutional Performance

Ann Webster
Manager, Commercial and Institutional Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance
Acting Minister for State Owned Enterprises

Hon David Parker
Associate Minister of Finance

Hon Dr David Clark
Minister for State Owned Enterprises
Minister Responsible for the Earthquake Commission

Annex One: Entities covered by this State of Play*

Crown portfolio, excluding public benefit entities

Entities	Shareholding or Responsible Ministers
State owned enterprises	
KiwiRail New Zealand Railways Corporation	- Minister for State Owned Enterprises - Minister of Finance
Airways AsureQuality Kordia MetService Quotable Value	- Minister for State Owned Enterprises - Minister of Finance *delegated to Associate MoF (Hon Dr Megan Woods)*
Electricity Corporation of New Zealand Landcorp Transpower	- Minister for State Owned Enterprises - Minister of Finance *delegated to the Associate MoF (Hon David Parker)*
New Zealand Post	- Acting Minister for State Owned Enterprises (*Hon Dr Megan Woods*) - Minister of Finance *delegated to the Associate MoF (Hon David Parker)*
Orillion (Animal Control Products)	- Minister of Finance *delegated to Associate MoF (Hon Dr Megan Woods)* - Minister for Biosecurity
Mixed ownership model companies	
Air New Zealand	- Minister of Finance
Genesis Energy Mercury NZ Meridian Energy	- Minister for State Owned Enterprises - Minister of Finance
Airports	
Christchurch International Airport Dunedin International Airport Hawke's Bay Airport	- Minister for State Owned Enterprises - Minister of Finance
Crown entity companies	
Television New Zealand	- Minister of Finance - Minister for Broadcasting and Media
Statutory entities	
Public Trust	- Minister of Justice *delegated to Associate Minister of Justice (Hon Aupito William Sio)*
Other Crown-owned companies	
Kiwi Group Holdings	- NZ Post majority shareholder

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Crown portfolio – Public benefit entities

Entities	Shareholding or Responsible Ministers
Crown entity companies	
Radio New Zealand	- Minister of Finance - Minister for Broadcasting and Media
Crown Irrigation Investments	- Minister of Finance - Minister of Agriculture
Schedule 4A entities	
Crown Infrastructure Partners	- Minister for State Owned Enterprises - Minister of Finance
Education Payroll	- Minister of Finance *delegated to Associate MoF (Hon Dr Megan Woods)* - Minister of Education
Network for Learning	- Minister of Finance *delegated to Associate MoF (Hon David Parker)* - Minister of Education
Ōtākaro	- Minister of Finance *delegated to Associate MoF (Hon Dr Megan Woods)* - Minister for Land Information
Southern Response Earthquake Services	- Minister Responsible for the Earthquake Commission - Minister of Finance
Statutory entities	
Te Waihanga	- Minister for Infrastructure
The New Zealand Lotteries Commission	- Minister of Internal Affairs

**The Treasury is the secondary monitor of Schedule 4A entities Research and Education Advanced Network New Zealand and City Rail Link Limited, and Crown Research Institutes (Institute of Environmental Science and Research, Landcare Research New Zealand, The New Zealand Institute for Plant and Food Research, National Institute of Water and Atmospheric Research, GNS Science International, AgResearch and Scion Group). The advice and commercial performance overview of these entities is provided to you by the Ministry of Business, Innovation and Employment or Ministry of Transport and is not included in the scope of this State of Play.*

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet 17 October 2022

Date:	14 October 2022	**Report No:**	T2022/2267
		File Number:	CO-6-2-3-5

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11:00 am, Monday 17 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ash Ratnayake	Team Coordinator and support, Governance and Accountability	s9(2)(k)	N/A (mob)	
Rose Austen	Team Leader, Governance and Accountability		N/A (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet 17 October 2022

The Treasury is aware of four substantive items and four oral items on the Cabinet agenda for 17 October 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury has **no comments** on the following papers on the agenda:

- Oral Item: Allocation of 3.5 GHz Spectrum for 5G Mobile - Final Decisions: Update
- Oral Item: South China Sea: Notification of Defence Activity
- Oral Item: Seabed Mining in New Zealand
- Proposed COVID-19 Public Health Response Legislation

Establishing an inquiry into the COVID-19 pandemic response to inform New Zealand's preparedness for a future pandemic

Hon Jan Tinetti, Minister of Internal Affairs
Treasury contact: Kerryn Fowlie s9(2)(g)(ii)
Sign out contact: James Beard s9(2)(g)(ii)

Description: This paper seeks agreement to establish an inquiry into the lessons learnt from New Zealand's COVID-19 pandemic response.

Comments: We have not seen a final version of this Cabinet paper. We have engaged with DPMC and other relevant agencies on the draft content of the paper, with a particular focus on the proposed purpose and scope of the inquiry

We consider that a key value add of the proposed inquiry will be the lessons that can be learnt from assessing the government's overall response to COVID-19, in particular how public health, economic and social considerations interacted and evolved over time as our circumstances changed (eg vaccination rates, access to anti virals, border opening etc). We strongly endorse the future focus of the proposed inquiry and recommendations for the inquiry to build from, and not duplicate, the findings of existing reviews and reports. We agree the scope of the inquiry needs to be manageable given the proposed timeframe (approximately 18 months) and the likely capacity of government agencies involved in the response to effectively engage with the process. However, we would caution against narrowing the scope too far to focus on the effectiveness of the public health response in limiting the spread of the virus and its impacts on vulnerable groups, given the wider health, social and economic implications of the measures taken. To mitigate this risk, it will be important that a range of agencies, including Treasury, participate in the finalisation of the terms of reference.

Cabinet is being asked to agree the form of the inquiry. Given recent experience, public expectations around the coverage of a Royal Commission are likely to be high. We consider a public inquiry would be more in line with a focus on lessons learnt and could help mitigate the risk of timeframes extending and costs increasing.

The Minister of Internal Affairs will seek agreement to the inquiry's final terms of reference, membership and budget by early December 2022. The paper includes an indicative cost range for the inquiry of $9 million - $12 million, based on DIA's experience in supporting recent inquiries of a similar scale. DIA will continue to refine the cost estimates as the purpose and scope of the proposed Inquiry are further clarified. We do not have enough information from DIA at this stage to test the robustness of the costings, but our initial sense is that the $9 million - $12 million range appears reasonable. We will continue to work with DIA to influence how they approach the costings and explore whether there is an option to reprioritise funding from within DIA's baselines.

Treasury Recommendation: Agree to the establishment of the inquiry (recommendation 3) and this taking the form of a public inquiry rather than a Royal Commission (recommendation 4).

Fiscal Implications: Indicative range of $9-$12m to fund the inquiry to be confirmed along with funding sources in December Cabinet paper.

October review of remaining COVID-19 measures under the new approach

Hon Dr Ayesha Verrall, Minister for COVID-19 Response

Treasury contact: Amy Spittal s9(2)(k)

Sign out contact: John Beaglehole s9(2)(g)(ii)

Description: This paper seeks Cabinet's decisions on the remaining COVID-19 measures. The Director-General of Health has recommended:

- retaining seven-day mandatory self-isolation,
- retaining mandatory masking in healthcare facilities,
- removing the requirement for international travellers to provide contact tracing information via the New Zealand Traveller Declaration (NZTD) from 5 November, and
- updating guidance for post-arrival testing so that only symptomatic arrivals are recommended to test.

Comments: These comments are based on a draft of the paper circulated for Ministerial consultation as the final version of the paper has not been lodged.

Judgements on retaining public health restrictions have become very finely balanced as the pandemic evolves and the public health justification for retaining measures reduces. We are concerned that there is a risk to social licence if rights-limiting measures are perceived as being kept in place longer than necessary. Erosion of social licence could compromise the use of these measures if they are needed in future (for example, to respond to a variant of concern). As one of the most rights-limiting measures used to manage COVID-19, self-isolation requirements are intended to be used as a reserve measure under the new approach.

If isolation requirements are not lifted now, the future trajectory for transitioning to guidance is unclear. Case numbers and hospitalisations are currently low and population immunity is high due to recent infections and/or vaccination. Waiting could mean that requirements are lifted once immunity has waned, which may result in a higher case peak.

Regardless of whether isolation requirements are maintained or transitioned to guidance, COVID-19 Modelling Aotearoa modelling suggests that a five-day minimum, seven-day maximum period with test-to-release would be preferable. Test-to-release would reduce the isolation period by about a day per case and only increase the proportion of cases released while infectious by 2.2-3.1%. The Public Health Risk Assessment cites potential public confusion as the main reason for not pursuing this policy. We think this argument is weak, given household contacts are currently recommended to test and considering the economic and social benefits of reducing unnecessary isolation days. A test-to-release policy would limit the extent to which self-isolation is rights-limiting, by reducing the average required isolation period.

s9(2)(f)(iv) and 9(2)(h)

s9(2)(f)(iv) and 9(2)(h)

[redacted]

Treasury Recommendation: If you agree to retain self-isolation, support a five-day minimum, seven-day maximum isolation period with test-to-release.

Seek clarity on the pathway for transitioning remaining restrictions to guidance.

Fiscal Implications: Retaining self-isolation has fiscal implications through the Leave Support Scheme (LSS). Retaining measures for the next 6 weeks is expected to cost $20-30m. Cabinet has agreed in-principle to transfer the underspends from the 2021/22 financial year. If this transfer is confirmed at the October Baseline Update, there will likely be sufficient funding (~$225m) for the LSS to remain operational for close to a year (based on earlier modelling that assumed no new variants).

A complementary paper seeking decisions to close the LSS when self-isolation requirements are removed was due to be considered at the same Cabinet meeting. We understand this paper has now been delayed. Once the requirement to self-isolate is removed, cases will no longer be eligible for the LSS.

Retaining self-isolation also has implications for the Care in the Community welfare scheme. The expected cost depends on eligibility settings for the scheme; the paper seeks agreement to delegate authority for further decisions and associated support to the Ministers of Finance and Social Development.

Resource management system reform – update on how the reform objectives will be achieved

Hon David Parker, Minister for the Environment

Treasury contact: Caitlin Daugherty-Kelly s9(2)(k) [redacted]

Sign out contact: James Haughton s9(2)(k) [redacted]

Description: This paper seeks agreement to the final policy and process decisions required to introduce the Spatial Planning Bill and Natural and Built Environments Bill to Parliament later this year. This paper has been revised since its lodgement for CBC on 3 October, with the most significant change the recommendation to include a Fast-Track Consenting Pathway (FTC) in the new Resource Management (RM) system.

Comments: The Treasury supports this paper. As per our previous briefing [T2022/2154], we recognise the need for, and are supportive of the direction of, the programme. We note that further work – and in particular, the development of the National Planning Framework – will be critical for realising the objectives and benefits of the reforms.

Since our earlier briefing, the paper has been amended to include agreement to retain an FTC pathway in the new system. While we support retention of this pathway, we consider that "regionally and/or nationally significant infrastructure" projects should be eligible for it, as was originally proposed. This infrastructure type encompasses residential and urban development projects, and we consider their eligibility for the pathway could support the Government's urban

development and housing delivery objectives, particularly during the transition period (of up to 14 years) between the old to new RM systems. We understand the Minister of Housing has been briefed on this and may recommend at Cabinet that the eligibility criteria is revised to include significant residential and urban developments. We would support this amendment, recognising that the Minister for the Environment would still decide at a project-level what could be progressed through the pathway, with an independent panel making final consenting decisions. This paper does not reference the Avoidance of Doubt Clause that Ministers Parker and Twyford drafted for inclusion in the National and Built Environment Act (NBA), in line with advice from the Treasury. We are seeking further information on how and where the clause will be captured, noting we recommended inclusion in the NBA to support the reform's enabling development objective, and ensure more broadly legislative balance. **Treasury Recommendation: Support**
Fiscal Implications: Fiscal Implications: There are no direct fiscal implications associated with this paper. Budgets 2021 and 2022 provided $311 million for the design, transition, and implementation of the new system. The Ministry for the Environment (MfE) is also part of the Natural Resources Cluster and cannot seek new funding until Budget 2025. Crown-Māori engagement at place on freshwater and geothermal resource allocation (following the proposed working group's recommendations, which) may result in more funding being sought at Budget 2025.

Oral item: Health System Planned Care Update Hon Andrew Little, Minister of Health Treasury contact: Lydia Verschaffelt (027 370 1789) Sign out contact: Jess Hewat (021 590 558)	We understand this oral item will include an update on the Planned Care Taskforce's progress and timeframes for the *Planned Care Reset and Restore Plan*. This report back provides a detailed summary of the work underway, including the Chief Executive's planned care directive to the sector and the implementation of the *Reset and Restore Plan*. While the Taskforce is primarily in the establishment stage, some key innovations have already been made including: • South Canterbury taking over 100 orthopaedic patients from Southern which includes long-waiting patients. • colonoscopy patients from Canterbury being incorporated into lists on the West Coast. Te Whatu Ora has a budget of $2.12 billion for planned care provision in 2022/23. Improvements in planned care delays will be a key indicator to the sector and the public of the health system reform's progress and value.

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00 am on Monday 17 October 2022.

Rose Austen
Team Leader, Governance and Accountability

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

____/_____/_______

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Social Wellbeing Committee Wednesday 19 October 2022

Date:	14 October 2022	**Report No:**	T2022/2260
		File Number:	MS-5-3-SWC

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	Precab 11:00am Monday 17 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Thulacksha Thayarooban	Graduate Analyst, Communities Learning and Work	s9(2)(k)	s9(2)(g)(ii)	✓
Laura King	Team Leader, Communities Learning and Work			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Social Wellbeing Committee Wednesday 19 October 2022

The Treasury is aware of ten items on the Social Wellbeing Committee agenda for Wednesday 19 October 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury **supports** the following papers, with briefings below:

- Te Pae Tata | The interim New Zealand Health Plan
- s9(2)(f)(iv) [redacted]
- Approval to draw down funding to settle a pay equity claim for social work in the Funded Sector
- Export Education Levy Reintroduction

The Treasury **does not** support the following paper, with briefing below:

- s9(2)(f)(iv) [redacted]

The Treasury has **no comments** on the following papers on the agenda:

- Oral Item: Progressing Pay Transparency
- Oral Item: Social Wellbeing Board Update
- s9(2)(f)(iv) [redacted]
- Oral Item: Minor Amendments to the Accident Compensation Amendment Bill 2002
- Approach to Deliver the Equitable Transitions Strategy

Te Pae Tata | The interim New Zealand Health Plan

Hon Andrew Little, Minister of Health

Treasury contact: Amy Russell s9(2)(g)(ii)

Sign out contact: Jess Hewat s9(2)(k)

Description: This paper notes the Minister of Health's intention to approve Te Pae Tata, the interim New Zealand Health Plan 2022-2024, and attaches the document for Cabinet's information.

s9(2)(f)(iv) and 9(2)(g)(i)

We suggest you note to the Minister of Health the importance of Te Whatu Ora informing Ministers early about any deviation from expected budget or delivery tracks.

Fiscal Implications: None.

IN-CONFIDENCE

s9(2)(b)(ii) and 9(2)(f)(iv)

[redacted]

IN-CONFIDENCE

Approval to Draw Down Funding to Settle a Pay Equity Claim for Social Work in the Funded Sector

Hon Kelvin Davis, Minister of Children

Treasury contact: Alex Harrington s9(2)(k) [redacted]

Sign out contact: Keiran Kennedy s9(2)(g)(ii) [redacted]

Description: This paper seeks Cabinet agreement to draw down funding to settle a pay equity claim for social work and similar work in the funded sector. Oranga Tamariki has led the claim on behalf of five organisations that employ social workers and people who undertake social work-type work. The paper seeks agreement to:

- draw down s9(2)(j) [redacted] from the Funded Sector Social Work tagged operating contingency for remuneration and indirect costs;
- draw down a further s9(2)(j) [redacted] from the same tagged contingency for a one-off $1,500 payment to 492 employees in acknowledgement of the time taken to settle the claim; and
- provide s9(2)(j) [redacted] from the Between-Budget Contingency for implementation costs.

This is the first funded-sector claim to apply the new amended Funded Sector Framework endorsed by Cabinet in September 2021 [GOV-21-MIN-0032 refers].

Comments: One of the challenges with applying the Framework is that it is not supported by prescriptive legislation or guidance as is the case with other pay equity settlements. For this reason, there are precedent risks with applying the Framework, particularly as a further Cabinet paper is being developed that proposes to extend the approach in this claim to the wider social work funded sector. In our view, the components of the claim in this paper should not be automatically extended to the wider sector.

We support the drawdown of the contingency for settlement of this claim, but note there are precedent risks that the Minister may wish to raise as part of the SWC discussion, and ahead of the extension paper, as outlined below.

- **Co-funding:** Non-governmental organisations (NGOs) are often co-funded by government and other sources such as philanthropy or commercial revenue. s9(2)(g)(i) [redacted]
- **Implementation costs:** This paper seeks s9(2)(j) [redacted] from the Between-Budget Contingency for implementation costs. These costs include a contribution towards NGOs' cash reserves to meet liquidity requirements caused by the pay correction. s9(2)(g)(i) [redacted]
- **Acknowledgement payment:** The paper proposes a $1,500 'acknowledgement' payment to reflect the length of time this claim has taken to settle. The Crown's general approach to pay equity settlements is not to backdate effective dates or to provide lump sum payments. s9(2)(g)(i) [redacted]

The paper includes ‘either/or’ recommendations to allow Ministers to decide if they wish to fund this payment. The paper notes that should Ministers agree to fund the payment, it will not include the extension of the approach to the broader funded sector. The legal position on back payments or effective dates is still uncertain. s9(2)(f)(iv) [redacted]

- **Wage progression:** This settlement includes funding for wage progression. s9(2)(f)(iv) [redacted]

- **Professional costs:** The settlement amount includes funding for professional costs, such as registration fees and professional development. These could be considered the employers’ responsibility, although this may not always be applied in practice across the social work sector. Funding professional costs could see the government paying proportionally more for a service than before a settlement. Although we have no concerns with funding professional costs in this claim, s9(2)(g)(i) and 9(2)(j) [redacted]

Treasury Recommendation:

We recommend that you:

- **support** the recommendations in this paper, and
- raise the precedent risks outlined above as part of the SWC discussion.

Fiscal Implications:

Funding source: Funded Sector Social Work tagged operating contingency s9(2)(j) [redacted] Between-Budget Contingency s9(2)(j) [redacted]									
Operating ($m)					Capital ($m)				
22/23	23/24	24/25	25/26	26/27 & outyears	22/23	23/24	24/25	25/26	26/27 & outyears
s9(2)(j) [redacted]					-	-	-	-	-

Education Levy Reintroduction

Hon Chris Hipkins. Minister of Education

Treasury contact: Gabriel Simpson s9(2)(k)

Sign out contact: Laura King s9(2)(k)

Description: This paper seeks agreement to reintroduce the Export Education Levy (EEL) at the 2019 rate after being suspended in 2020 due to the impacts of COVID-19. The EEL funds services that support and benefit the international education sector, such as, pastoral care for students, and supporting international education promotion and marketing campaigns.

Comments: We have no concerns with the levy being reintroduced, which was the intention when Cabinet agreed to suspend it in 2020. This will allow the Ministry of Education (MoE) to continue providing support services during the recovery of the international education sector.

Without revenue from the levy, MoE would either need to meet the costs ($10.7m – $12.7m over the next three years) from baselines, reprioritising away from other activities, or reducing support services to the sector.

Treasury Recommendation: Support

Fiscal Implications: The paper has no direct fiscal implications. However, the levy is estimated to return approximately $6 million over the next three years. The revenue estimates are subject to significant uncertainty, depending on the pace of the international education sector's recovery.

IN-CONFIDENCE

s9(2)(f)(iv)

[redacted]

IN-CONFIDENCE

s9(2)(f)(iv)

[redacted]

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00am on Monday 17th October.

Laura King
Team Leader, Communities Learning and Work

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

RESTRICTED

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet Economic Development Committee 19 October 2022

Date:	14th October 2022	**Report No:**	T2022/2259
		File Number:	

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiritapu Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	11:00 – 11:45am Monday 17 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
James Bibby	Analyst, Economic Strategy	s9(2)(k)	s9(2)(g)(ii)	✓
Chris Nees	Acting Manager, Economic Strategy			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet Economic Development Committee 19 October 2022

The Treasury is aware of 8 items on the Cabinet Economic Development Committee agenda for 19 October 2022. This report provides Treasury's comments for one item on the agenda:

- Fuel Resilience Policy Package

The Treasury has no comments on the following papers on the agenda:

- Productivity Commission Inquiry into the Resilience of the New Zealand Economy to Supply Chain Disruptions
- Sustainable Biofuels Obligation Bill: Approval for Introduction
- Sustainable Biofuels Obligation: Final Policy for Regulations
- Kāinga Ora: Approval of Non-Departmental Appropriations to Facilitate New Crown Lending to Continue the Government Build Programme
- Oral Item: Kānoa - Regional Economic Development and Investment Unit: Quarterly Update
- Business Payment Practices: Release of Discussion Document
- Setting Consistent Rules for Approved Financial Dispute Resolution Schemes: Policy Approvals

Fuel resilience policy package

Hon Dr Megan Woods, Minister of Energy and Resources

Treasury contact: Taylor Farr, s9(2)(k) [redacted]

Sign out contact: John Marney, s9(2)(k) [redacted]

Description:

The paper seeks agreement to a fuel resilience policy package following public consultation in 2021 on onshore fuel stockholding requirements.

Comments:

The Treasury supports the proposal to expand the scope of the Petroleum and Engine Fuel Monitoring Levy so it can be used both for Government procurement of reserve diesel and for fuel resilience projects and activities. The paper does not identify how the levy funding would be allocated to fuel resilience projects or activities so Cabinet would need to consider this in the future.

The paper seeks out-of-cycle funding ($1.639 million operating and $0.034 million capital) to negotiate the reserve diesel stock arrangement and to update the National Fuel Plan. We recommend that these costs be managed from MBIE's existing baselines instead.

The paper seeks a tagged contingency s9(2)(j) [redacted] to cover the cost of the reserve diesel stock arrangement in case the levy scope is not changed in time. We do not support this proposal. s9(2)(f)(iv) [redacted]

We are not aware of whether the Minister of the Finance has agreed that the paper should proceed to Cabinet, as per direction in the Budget 2023 strategy for papers with fiscal implications.

Treasury Recommendation:

Support the proposed package of fuel resilience policy measures.

Do not support the requested out-of-cycle funding or tagged contingency.

Fiscal Implications:

Operating: $1.639 million appropriated in 2022/23 and s9(2)(j) [redacted] in a tagged contingency, to be charged against the Between-Budget contingency.

Capital: $0.034 million appropriated in 2022/23 and s9(2)(j) [redacted] in a tagged contingency, to be pre-committed against the Budget 2023 capital allowance.

Funding source: Between-Budget contingency, Budget 2023 capital allowance									
Operating ($m)					Capital ($m)				
21/22	22/23	23/24	24/25	25/26 & outyears	21/22	22/23	23/24	24/25	25/26 & outyears
s9(2)(j) [redacted]									

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 11:00am on Monday 17 October 2022.

Chris Nees
Acting Manager, Economic Strategy

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiritapu Allan
Associate Minister of Finance

_____/_____/_______

SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Proactive Release of our Advice on the Reserve Bank's Proposed Scope of their Monetary Policy Committee Remit Advice

Date:	13 October 2022	**Report No:**	T2022/2211
		File Number:	MC-1-2-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** that the attached Treasury Report is intended to be published on the Treasury website by the end of October.	Tuesday, 18 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Carlos So	Analyst, Macroeconomic and Fiscal Policy	s9(2)(k)	s9(2)(g)(ii)	✓
Renee Philip	Manager, Macroeconomic and Fiscal Policy			

Minister's Office actions (if required)

Note that the attached Treasury Report is intended to be published on the Treasury website by the end of October.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

SENSITIVE

Treasury Report: Proactive Release of our Advice on the Reserve Bank's Proposed Scope of their Monetary Policy Committee Remit Advice

Purpose of Report

1. This Treasury Report informs you of the Treasury's intention to proactively release its report on the Reserve Bank of New Zealand's (RBNZ's) proposed scope of its Monetary Policy Committee remit advice.

Information Proposed to be Released

2. We propose to proactively release the following document:

Document	Date	Document Title
T2022/1724	**1 September 2022**	**The Reserve Bank's Monetary Policy Committee Remit Review**

3. We propose to release the document above, subject to information being withheld under the following sections of the Official Information Act 1982 as applicable:

   a policy being developed, section 9(2)(d) – avoid prejudice to the substantial economic interests of New Zealand,

   b advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,

   c direct dial phone numbers of officials, under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

We have redacted the direct dial phone numbers of officials under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams.

Additional Considerations

4. The proactive release of this report will complement the RBNZ's release of their own documents to the public relating to the first phase of the Remit Review. The RBNZ released its advice, along with your response letter, on Wednesday, 12 October.

5. Most of the information that will be released in this report is covered in the documents the RBNZ have released. However, there are some instances in the report where your views are mentioned.

6. The RBNZ will be commencing the second public consultation as part of the Remit Review in November. We will provide further advice to you when the RBNZ reports their findings and sends you their advice in early 2023.

Consultation

7. We have consulted the RBNZ, and they are satisfied with the redactions that have been suggested in the attached Treasury Report.

Recommended Action

We recommend that you:

a **note** that we intend to release the attached Treasury Report on the Treasury website by the end of October.

Renee Philip
Manager

Hon Grant Robertson
Minister of Finance

_____/_____/_______

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2190

Date: 14 October 2022 BM-3-9-1

To: Minister of Finance
(Hon Grant Robertson)

Deadline: None
(if any)

Aide Memoire: Half-Year Economic and Fiscal Update 2022 Business Talks Summary

Between 31 August and 16 September 2022, officials from the Treasury met with a range of businesses and organisations to discuss the outlook for the economy ahead of the *Half-Year Economic and Fiscal Update* forecasts. Table 1 provides a list of companies Treasury representatives met with.

We plan to include a summary of these discussions as a special topic in the *Weekly Economic Update* on 18 October 2022 – you will receive a draft on 14 October.

Key Themes

In general businesses were cautiously optimistic about the medium-term outlook for the economy, with no clear signs of the economy at a turning point. However, uncertainty associated with the state of the global economy and various domestic constraints dampened the sense of optimism. The main pressure points included ongoing labour shortages, frustration with immigration settings and a squeeze on profitability owing to rising costs.

- Demand for goods and services is holding up relatively well throughout the economy. However, many businesses feel that demand growth over the medium term will flatten out.
- Some businesses are noticing that consumers are starting to show signs of price sensitivity, while other businesses are delaying decisions around business investment.
- Construction activity showed signs of slowing in the June 2022 quarter (especially in the Auckland region) as interest rates rose quickly, but firms in this sector feel that the recent stabilisation in mortgage rates will likely see some activity return to the market.

- The impact of a sharp increase in fuel prices, coupled with high commodity prices as well as increasing labour costs is resulting in significant cost pressures for business. Firms anticipate that elevated fuel prices together with wage pressure will prolong the current high inflationary environment (even with interest rates increasing).

- Businesses signalled that they are still facing on-going cost increases that they intend to pass on. However, this could change, as businesses are foreseeing a more competitive pricing environment to unfold in the coming months.

- The labour market remains tight with firms reporting that they are finding it hard to fill most roles. This is more acute among skilled jobs and resulting in significant wage increases as competition for employees escalates. Changing workplace practice is resulting in increases in sick leave being used, resulting in additional pressure on already constrained workforces. Firms feel that this is not sustainable in the long haul and therefore some businesses are purposefully reducing their offering of goods and services.

- From a business income point of view both the 2021 and 2022 years saw record profits due to strong sales. however, some participants suggested that 2023 profits will be down in 2023.

Key Messages for Government

The key messages for Government across the businesses we spoke to were:

- Labour shortages are seen as the largest constraint for a post COVID economic recovery. Many businesses indicated a lack of confidence in immigration settings and operation. Others feel that New Zealand is becoming a less attractive destination for highly skilled migrant labour as places like Australia and Canada make it easier to attract and retain these workers.

- Longer-haul tourism is beginning to resume, although and there is uncertainty around how quickly this increase will be in the 2022/23 season given longer lead times needed to re-establish these routes. Airline capacity is likely to remain limited until the return of Asian carriers, which isn’t expected until mid-23. The Chinese market remains closed while the Chinese Government continues with its zero-COVID policy.

- Businesses feel that recovery in the tourism sector will be a function of getting the right number of workers on time, the extent of the rebound in the airline and associated industries and an improvement in the global economic climate.

- Many firms indicated that Government’s COVID-19 stimulus package helped the domestic economy through most of the pandemic. However, subsequent higher interest rates, increasing labour and input costs, continuing supply side constraints and increased New Zealand resident spending abroad will make for tougher trading conditions in the medium term.

- In the horticultural sector, prices into markets have been good to date, although there was some concern that labour shortages and unseasonal weather was limiting orchard maintenance that could impact on price and brand next season. While shipping and logistical constraints and cost increases add further pressure on the industry.

- The pandemic has driven considerable change to business processes and firms are investing in information technology systems to be more efficient. Working from home is thought to be an enduring feature of the employment landscape bringing both advantages and disadvantages, especially regarding demand for office space and activity in central business districts in larger cities and towns. The impacts of this will become more evident as the world returns to some level of normality.

Table 1: Company list

Business	Sector
PGG Wrightson	Agriculture
Zespri	Agriculture
Turners & growers	Agriculture
BioGro	Agriculture
The Property Group	Construction
Fletcher Building	Construction
Downer Group	Construction
Fulton Hogan	Construction
Colliers International	Construction
Trade Staff	Labour market
Seek	Labour market
Hudson	Labour market
Hertz	Logistics
Auckland Airport	Logistics
Christchurch Airport	Logistics
Warehouse NZ	Retail
Foodstuffs	Retail
Countdown	Retail
Mitre10	Retail
Tourism Holdings Limited	Tourism
Tourism Industry Aotearoa	Tourism
Air New Zealand	Tourism
Grant Thornton	Services
EY	Services
KPMG	Services

Riaan Labuschagne, Analyst, Forecasting Team, s9(2)(k)
Peter Gardiner, Manager, Forecasting Team, s9(2)(k)

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: The Treasury's Annual Report 2021/22 for presenting to the House

Date:	12 October 2022	**Report No:**	T2022/2250
		File Number:	MG-3-1-5-2022-1-1-M89824

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Present** the Treasury's 2021/22 Annual Report to the House. **Note** that five copies of the Treasury's 2021/22 Annual Report will be sent to the House Office.	20 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Janki Patel	Senior Advisor, Governance and Accountability	s9(2)(k)	s9(2)(g)(ii)	✓
Reubhan Swann	Manager, Governance and Accountability			

Minister's Office actions (if required)

Liaise with the House Office regarding presentation of the Annual Report to the House.

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (attached): 2021/22 Annual Report

Treasury Report: The Treasury's Annual Report 2020/21 for presenting to the House

Executive Summary

The Annual Report is part of the Treasury’s external accountability reporting requirements, as specified in section 45 of the Public Finance Act (PFA) 1989. As per the PFA:

- A Department must provide the Annual Report to its responsible Minister no later than **15 working days** after the ‘specified date’ – the date a department receives the audit report.
- The report must also be presented to the House of Representatives no later than 15 days after the ‘specified date’ **or as soon as possible after the commencement of the next session of parliament.**

The final audit report for the Treasury was issued on 30 September 2022, which means that 20 October 2022 is the latest it can be presented to the House (this is the last sitting day before the expiry of the time limit in the PFA). We will publish the Annual Report on the Treasury’s website to meet legislative requirements and recommend you present the report to the House Office at your earliest convenience.

Attached to this report is a PDF version of the Treasury’s 2021/22 Annual Report, and two hard copies of the printed report. We will provide five further copies of the report to the House Office for the purpose of presenting to the House. As agreed with the Minister’s office we will advise them of the shoulder number and title of the report, and that your office will be in touch once the Minister has approved.

Recommended Action

We recommend that you:

a **Present** the Treasury’s 2020/21 Annual Report to the House **at your earliest convenience, but no later than 20 October 2022;** and

Agree / disagree.

b **Note** that 5 copies of this report will be sent to the House Office.

Noted

Reubhan Swann
Manager, Governance and Accountability

Hon Grant Robertson
Minister of Finance

2021/22 Annual Report is publicly available and can be found at:
https://www.treasury.govt.nz/sites/default/files/2022-10/annual-report-2021-

APPOINTMENT-IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2194

Date: 13 October 2022

To: Minister of Education (Hon Chris Hipkins)

Deadline: None
(if any)

Aide Memoire: Network for Learning Documentation to Confirm Appointments at APH 19 October 2022

You are inviting the Committee to note shareholding Minister's intentions to make two appointments and one elevation to the Network for Learning Ltd (N4L) Board as follows:

Person	Designation	Appointment/ Reappointment	Term	Replacing
Mr Jeremy Banks	Deputy Chair Chair	Elevation Elevation	1 November 2022 up to 30 June 2023 1 July 2023 up to 30 June 2024	Dame Karen Poutasi Colin MacDonald
Mrs Mary-Ellen (Elle) Archer	Director	Appointment	1 November 2022 up to 31 October 2025	n/a
Ms Ming-chun Wu	Director	Appointment	1 November 2022 up to 31 October 2025	n/a

Elevation – Deputy Chair & Chair

Jeremy Banks, (Rangitāne, Ngāti Kuia), of Nelson.

- Mr Banks is a director of Reserve Bank of New Zealand, Network for Learning, vice chair of Ngāti Rārua Ātiawa Iwi Trust, and is on the Nelson Regional Development Agency. Mr Banks has strong governance and leadership experience to draw from.

Appointments – Directors

Elle Archer is a s9(2)(a) female from Canterbury who identifies as Māori (Ngāti Tamaterā, Ngāti Porou, Ngāi Tūhoe, Ngāpuhi).

- Ms Archer's experience includes working in the public and state sector and spans the infrastructure, education, technology environmental, community and compliance sectors. She has a strong science and technology background with strengths in strategy, digital and interpersonal connectivity, agile communication, transformational change and diversification.

- Her senior executive experience includes Chief Executive, Operations Management and General Management across small, medium and large private and public entities.

Ming-chun Wu is a s9(2)(a) female from Wellington and identifies as Asian.

- Ms Wu has strong public sector experience having worked for MBIE, DIA, MSD, TPK and MoE in a range of leadership, programme and project management roles including Manager of Design and Delivery for SmartStart – the first integrated cross-government digital service.

- Her skills include strategic planning, change management, business improvement and communication, she maintains her teachers registration, amongst her other formal qualifications, and is also fluent in Mandarin and Taiwanese Hokkien.

Diversity

With the proposed appointments the composition of the N4L Board from 1 November 2022 will be 57% female and 43% male, with ethnic representation of Māori, NZ European, and Other Asian (Chinese). The age range is 41 to 68 years with an average age of 53 years.

Simon Wi Rutene, Senior Advisor - Governance and Appointments, s9(2)(k)
Stella Kotrotsos, Manager, Governance and Appointments, s9(2)(k)

TE TAI ŌHANGA
THE TREASURY

Treasury Report: APEC Finance Ministers' Meeting October 2022 Briefing Pack

Date:	17 October 2022	**Report No:**	T2022/2266
		File Number:	IM-6-1

Action sought

	Action sought	Deadline
Associate Minister of Finance (Hon David Parker)	**Note** the travel briefing pack for your October 2022 trip to attend the APEC Finance Ministers' Meeting in Bangkok, Thailand.	Monday 17 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Susie McKenzie	Analyst, International	s9(2)(k)	s9(2)(g)(ii)	✓
Ben Lindsay	Analyst, International			
Conor McBride	Manager, International			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

RESTRICTED

Treasury Report: APEC Finance Ministers' Meeting October 2022 Briefing Pack

Purpose of Report

1. This report provides your travel briefing pack for your attendance at the Asia-Pacific Economic Cooperation (APEC) Finance Ministers' Meeting (FMM) in Bangkok, Thailand between 19 and 21 October 2022.

Overview of the trip

2. You are attending the FMM in your capacity as Associate Minister of Finance, on behalf of the Minister of Finance. Thailand's theme for its host year is "Open. Connect. Balance" and the two priorities for the APEC Finance Ministers Process (FMP) in 2022 are:

   a Priority 1 – Sustainable Finance

   b Priority 2 – Digitalisation for Digital Economy.

3. Early on Tuesday 18 October 2022, you will depart Auckland for Bangkok, transiting in Singapore. You arrive in Bangkok at 11am local time.

4. For your return to New Zealand, you will depart Bangkok for Auckland at 8.00am on Friday 21 October, transiting in Hong Kong. You arrive in Auckland at 8.30am on Saturday 22 October.

Objectives

5. The APEC FMM is an important meeting for New Zealand. Asia continues to be the primary economic centre of gravity for us and is central to our economic prosperity. In addition, Indo-Pacific economies continue to drive global economic growth. Attending the APEC FMM demonstrates our commitment to the region, as well as to regional stability, multilateralism, and sustainable economic growth.

6. The APEC FMM provides opportunities to engage with your counterparts across the Pacific and Southeast Asia, and this meeting is an opportunity to build off New Zealand's successful APEC 2021 host year, of particular importance with the United States hosting APEC 2023.

7. Officials see three objectives for your attendance at FMM:

   a Achieve consensus on a Joint Ministerial Statement.

   b Build relationships with key players in the Indo-Pacific, including through supporting Thailand's in-person hosting.

   c Leverage off New Zealand's successful host year in 2021 and influence the United States' host-year in 2023.

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Briefing pack

8. The Treasury has prepared the attached briefing pack with support from the Ministry of Foreign Affairs and Trade (MFAT), the Ministry for the Environment, and Toitū Te Whenua Land Information New Zealand.

9. The briefing pack provides an overview of the trip, including an itinerary and annotated FMM agenda, as well as logistical information. The bulk of the pack provides you with background briefings on key topics and bilateral briefings for your meetings with counterparts. Key briefings include:

   - session briefings on Sustainable Finance and Digitalisation for Digital Economy
   - background briefings on:
     - Tax and Digital Economy
     - Asia-Pacific and New Zealand Economic Outlook
     - Pacific Debt Dynamics
     - Ukraine/Russia and the New Zealand Sanctions Regime
     - Indo-Pacific Economic Framework (IPEF), and
     - New Zealand's Foreign Investment Screening Regime
   - bilateral overviews on Thailand, Australia, the United States, and Canada, and
   - bilateral briefings for your meetings[1] with:
     - Mr Wally Adeyemo, Deputy Secretary United States Treasury
     - Hon Randy Boissonnault, Minister of Tourism and Associate Minister of Finance, Canada
     - Ms Indranee Rajah, Second Minister for Finance and Second Minister for National Development, Singapore
     - Mr Shinji Inoue, Senior State Minister of Finance, Japan
     - Hon Dr Andrew Leigh, Assistant Minister for Competition, Charities and Treasury, Australia, and
     - Mr Arkhom Termpittayapaisith, Minister of Finance, Thailand.

Next steps

10. Officials from the Treasury and MFAT will be on the ground in Bangkok to support you.

[1] Note that not all meetings are confirmed at this stage.

Recommended Action

We recommend that you:

a **note** the travel briefing pack for your October 2022 trip to attend the APEC Finance Ministers Meeting in Bangkok, Thailand.

Conor McBride
Manager, International

Hon David Parker
Associate Minister of Finance

_____/_____/_______

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APEC Finance Ministers' Meeting
19 – 21 October 2022

Bangkok, Thailand

Prepared for Hon David Parker

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Trip Overview

You are attending the APEC Finance Ministers' Meeting (FMM) as Associate Minister of Finance, on behalf of the Minister of Finance. Thailand's theme for its host year is "Open. Connect. Balance". Its goal is to help member economies achieve sustainable economic growth and maintain the balance between the social and economic sectors as well as between humans and nature, in line with Thailand's Bio-Circular-Green (BCG) economic model.

The FMM will be the first in-person meeting for APEC Finance Ministers since 2019. Thailand has set out the following as its two priorities for the APEC Finance Ministers' Process (FMP) in 2022:

Priority 1 – Sustainable Finance: Recognising the region's vulnerability to climate change and the pressing need to move towards a more sustainable economy, Thailand places sustainable finance as an important agenda to ensure that the financial market contributes to the attainment of green and sustainable economic growth. By promoting environmental, social, and governance (ESG) related causes in the financial market, we can build back a greener and more sustainable economy that is not only resilient but also able to enhance the quality of life for all.

Priority 2 – Digitalization for Digital Economy: COVID-19 has expedited the adoption of digital means to trade, communicate, work, or even to conduct economic policies. Digitalization, including the development of financial technology, has been key to the region's recovery from COVID-19, and will be the tool to support financial inclusion and engage small businesses, thereby providing economic opportunities to all.

The primary deliverable for the FMM is the Finance Ministers' Joint Ministerial Statement. This will outline Ministers' views on the above priorities, as well as their assessment of regional and global economic developments and the appropriate policy responses. Unfortunately, Russia's invasion of Ukraine is casting a shadow over APEC work, and it will be difficult to achieve an agreed Joint Ministerial Statement.

The APEC FMM is an important meeting for New Zealand because Asia continues to be the primary economic centre of gravity for us and is central to our economic prosperity, and Indo-Pacific economies continue to drive global economic growth. Attending the APEC FMM demonstrates our commitment to the region, as well as to regional stability, multilateralism, and sustainable economic growth.

The APEC FMM provides opportunities to engage with your counterparts across the Pacific and Southeast Asia, and this meeting is an opportunity to build off New Zealand's successful APEC 2021 host year. This is of particular importance as the United States is hosting APEC 2023, and we may have an opportunity to influence their planning.

Trip objectives

1. Achieve consensus on a Joint Ministerial Statement (JMS).

Recent APEC 2022 Ministerial meetings have not achieved consensus on JMSs due to conflicting views on including mention of Russia's illegal invasion of Ukraine and the disruption it has caused. Russia and China have been the primary blockers of text referring to the invasion.

New Zealand APEC officials are actively working with likeminded and middle ground economies to find language that acknowledges and condemns Russia's actions while staying true to APEC's cooperation and consensus model, as well as supporting Thailand as Host.

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2. Build relationships with key players in the Indo-Pacific, including through supporting Thailand's in-person hosting

The region covered by APEC economies includes the vast majority of New Zealand's trade, including important markets such as China, Australia, and the United States (US). Meeting with Ministers and Senior Officials from these economies is an opportunity to reaffirm and build on these important relationships for the benefit of all New Zealanders. The FMM is also an opportunity to support the return to in-person APEC meetings, as well as support to Thailand (an ASEAN partner) as Host.

3. Leverage off successful host year and influence USA 2023

New Zealand's 2021 APEC Host year is widely regarded as a success, despite the challenges posed by the COVID-19 pandemic. We have an opportunity to share our experiences with the US as they prepare for their host year and an opportunity to influence that planning.

There is significant potential in the APEC FMP stream as the meetings focus on significant policy discussions and the sharing of experiences. The FMM provides an opportunity to discuss this with key US officials.

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APEC Conventions and Contacts

APEC Conventions	
Dress Code	The dress code for the FMM is business attire unless otherwise noted on invitations for specific events. It is recommended that participants bring appropriate light clothing to wear outside the meeting venues.
General Conventions	All participants are to adhere strictly to the APEC conventions and nomenclature (both spoken and written), throughout the meetings and in all related documents. We would entreat economies to refrain from displaying any: (i) Flags or visual images in any shape or form that depict a flag of any economy; (ii) Graphics/images that depict the map or boundaries of any economy; and (iii) Anthems or emblems, images, items, or any other materials which may imply the "political status" of any economy.

APEC Contacts			
Treasury Officials at APEC			
Mark Blackmore, Strategic Economic Adviser	s9(2)(k)	**Harry Nicholls, Senior Analyst, Treasury**	s9(2)(k)
New Zealand Embassy in Bangkok			
Jonathan Kings, Ambassador	s9(2)(a)	**Melissa Haydon-Clarke**, Deputy Head of Mission	s9(2)(a)
Sukarnchana (**Nam**) **Kongka**, APEC Liaison Officer		**Lucie Trask**, First Secretary, Trade and economic	
Thailand APEC			
Pharadee Naksai, Host Economy Liaison Officer (**HELO**)	s9(2)(a)		
General Contacts			
Thailand			
Police	191	Suvarnabhumi Airport	(+66) 2132 1888, (+66) 2132 1111-2
Ambulance	1669, 1554	Airport Taxi (Suvarnabhumi Airport)	(+66) 2132 0360
Med Park Hospital	+66 20233333	Immigration Bureau	1178, (+66) 2287 3101
Fire	199		
New Zealand			

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AIG Insurance Emergency Assistance	(+64) 9 374 1775	**Air New Zealand**	New Zealand 0800 737 000 Overseas +64 (0)9 357 3000
Singapore Airlines	Support Website	**Thai Airways International**	Thailand: +66 213 5483
Safe Travel	Thailand | SafeTravel		

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Itinerary

Local time	Engagement	Accompanying staff/ Comments
APEC Finance Ministers' Meeting Bangkok, Thailand 18 to 21 October 2022		
Tuesday 18 October – Auckland to Bangkok		
***Dress code:* Dress casual for the engagement with delegates and the Ambassador**		
1:05am	**Depart Auckland for Singapore** *Flight #:* NZ0282 *Duration:* 10 hours 35 minutes	Deb Thornton International Terminal
6:40am	**Arrive in Singapore**	Deb Thornton Terminal 3
9:30am	**Depart Singapore for Bangkok** *Flight #:* NZ0282 *Duration:* 2 hours 30 minutes	Deb Thornton Terminal 2
11:00 AM	**Arrival in Bangkok** *Met at Gate by:* New Zealand Ambassador to Thailand, Jonathan Kings, Thai Government representative (to be confirmed), and Thai Liaison Officer. Escorted to Airport VIP lounge. *Visa assistance and VIP transport will be provided by:* The New Zealand Embassy and APEC Thailand. Trask to collect passports to pass to Thai delegation.	Deb Thornton
11:30 – 12:00pm	**Executive time in VIP Lounge** *Accompanied by:* Ambassador Jonathan Kings, Deb Thornton, APEC Thailand Officials.	Deb Thornton
12:00 – 12:45pm	**Transfer to hotel: Shangri-La Hotel Bangkok** *Location:* Suvarnabhumi Airport entrance *Duration:* approx. 45 minutes *1. Police Leading Car:* plate TBC Driver: TBC *Passengers:* Police Officer, Liaison Officer s9(2)(a *2. Minister Car:* BMW (Black) – plate TBC Driver: TBC *Passengers:* Minister, Security Officer, HOM *3. Ambassador's Car:* BMW T58-0001 Driver: s9(2)(a *Passengers:* Thornton, Trask, Kongka	Deb Thornton, Ambassador Kings

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12:45pm	**Arrive at Hotel** *Met by:* Mark Blackmore *Location:* Shangri-La Hotel Bangkok *Address:* 89 Soi Wat Suan Plu, New Road, Bangrak, Bangkok 10500 Thailand *General Tel:* +84 236 7777 *Corporate Sales Manager:* +84 903 639 699	Deb Thornton You will be checked in prior to your arrival and will be met by Treasury Official and New Zealand APEC Deputy, Mark Blackmore.
3:00 – 6:00pm	**APEC FMM Registration** *Location:* Shangri La hotel	Registration will be completed by Mark Blackmore for the entire delegation
1:00 – 6:00pm	**Executive time**	
6:00 – 8:00pm	**Dinner (details tbc)**	

Wednesday 19 October – Finance Ministers' Retreat and Gala Dinner		
***Dress code:* Formal for all engagements**		
Local time	**Engagement**	**Accompanying staff/ Comments**
8:00 – 9:00am	**Breakfast at hotel** Officials may use this time to brief you on the upcoming meetings and answer any questions you may have.	AMoF and delegation
9:00am – 2:00pm	**Executive Time**	
12.00-1.00pm	**Lunch at the Hotel (details tbc)**	
2:00 – 2:15pm	**Depart Shangri-La Hotel for Four Seasons Hotel Bangkok at Chao Praya River by boat** *Location:* Upper deck *Travel time:* 15 minutes *By Boat:* HOD, Security Officer, Thai Liaison Officer	Minister will be accompanied by Security Officer and Thai Liaison Officer. One further delegate (Blackmore) will accompany by van.
2:30 – 4:00pm	**Finance Ministers' Retreat** *Gathering the Tailwinds, Tackling the Headwinds: Strategic Moves in Today's Economy*	
	APEC Finance Ministers are invited to discuss and exchange experiences on tailwinds and headwinds presented by the remnant effects of COVID-19 to produce strategic and innovative responses to keep the world economy steady and propel it forward, especially in the areas which require a collective action such as climate change, sustainable development, and digital connectivity.	AMoF Parker only. The Retreat does not produce a statement, it serves as an opportunity for free and frank

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	Attendance: APEC Finance Ministers only *Address:* 300/1 Charoen Krung Road, Sathorn, Bangkok 10120 Thailand *General Tel:* +84 032 0888	discussions between Ministers.
4:15 – 4:30pm	**Depart Four Seasons Hotel Bangkok for Shangri-La Hotel** *Location:* Four Seasons Hotel pier *Travel time:* 15 minutes *By Boat:* Minister, Security Officer, Thai Liaison Officer	
4:15 – 4:45pm	**Bilateral engagement with Hon Dr Andrew Leigh, Australia** Room booking: Valley Room 1, Shangri La Hotel Dr Andrew Leigh's portfolios include: • Assistant Minister for Competition, Charities and Treasury For talking points, see Bilateral Briefing: Hon. Dr Andrew Leigh.	*Attendance:* **NZ:** Deb Thornton, Mark Blackmore, and Harry Nicholls **Australia:** Cosi Thawley, Treasury's Minister Counsellor for South-East Asia
5:15 – 5:50pm	**Executive time**	
6:00 – 10:30pm	**Gala Dinner** *Venue:* Shangri-La Bangkok Hotel *General Attendance:* APEC Finance Ministers, Heads of International Organizations, and all delegates. *New Zealand delegation:* AMoF Parker, Ambassador Kings, Deb Thornton, Harry Nicholls, Mark Blackmore, Lucie Trask, and Sukarnchana (Nam) Kongka. Final details tbc but Ministers will be seated together (and the rest of the delegation will sit separately).	

Thursday 20 October – Finance Ministers' Meeting

***Dress code:* Formal for all engagements**

***COVID protocols:* Masks to be worn in meetings, can be removed for eating, drinking, and making interventions**

Time	Engagement	Accompanying staff/Comments
7:00am	**Breakfast at hotel**	AMoF and delegation

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	Deb and Minister to hand over their passports to Kongka during breakfast. Kongka will arrange check in for flight early the next morning	
8:10 – 8:50am	**Depart Shangri-La Hotel for Queen Sirikit National Convention Centre (QSNCC)** *Travel time:* 35-45 minutes *1. Police Leading Car:* plate TBC Driver: TBC *Passengers:* Police Officer, Liaison Officer (#061-351-9944) *2. Minister Car:* BMW (Black) – plate TBC Driver: TBC *Passengers:* Minister, Security Officer, Thornton *3. Delegation Van:* Toyota Commuter – plate TBC, Driver: TBC *Passengers:* Blackmore, Nicholls, Kongka	AMoF and delegation
9:00 – 9:10am	**Opening: Welcome Remarks by the 2022 Chair of FMM** Room: Plenary Hall 1 H.E. Mr. Arkhom Termpittayapaisith, Minister of Finance of Thailand	
9:10 – 10:10am	**Session 1: Global and Regional Economic and Financial Outlook** Room: Plenary Hall 1 Finance Ministers will discuss recent economic and financial developments and outlook, including key issues and risks for APEC economies and appropriate policy responses. Presenters: • International Monetary Fund • World Bank Group • Asian Development Bank (ADB) • APEC Policy Support Unit	
10:10 – 10:30am	**Coffee Break**	
10:10 – 10:30am	**Pull Aside/Bilateral meeting with US Deputy Secretary Wally Adeyemo**	*Attendance:*

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	Room: MR117 For talking points, see Bilateral Briefing: Deputy Secretary Wally Adeyemo.	**NZ:** Deb Thornton, Mark Blackmore, and Harry Nicholls **United States:** Erinn Taucher, other attendees tbc
10:30 – 12:00pm	**Session 2: 2022 FMP Priorities** Room: Plenary Hall 1 The session will focus on the importance of the FMP 2022 priorities and the work which the FMP has done throughout the year, and our ways forward, on sustainable finance and digitalization for digital economy. **2.1 Sustainable Finance** Finance Ministers will note outcomes from the Seminar on Developing the Ecosystem for Sustainable Finance in the Capital Market and its report. Finance Ministers will also receive an update on Policy Recommendation Paper on “Sustainable Finance” and discuss policy actions and priorities to promote sustainable finance and sustainable economic growth. **Presenters: Thailand** – Outcomes from the Seminar on Developing the Ecosystem for Sustainable Finance in the Capital Market on 21 June 2022 in Khon Kaen and an update on Policy Recommendation Paper on Sustainable Finance. **ADB** – TBC **Organisation for Economic Co-operation and Development (OECD)** – TBC **Open Discussion** – Economies will be invited to comment and express their views about policy actions and priorities to promote sustainable finance and sustainable economic growth.	
11:30 – 12:00	**Bilateral engagement with Canadian Minister Hon. Randy Boissonnault.** Room booking: MR118 bilateral meeting room at the QSNCC [tbc] Minister Boissonnault’s portfolios include: • Tourism, • Associate Minister for Finance.	*Attendance:* **NZ:** Deb Thornton and Harry Nicholls **Canada:** Morgan Breitkreutz (Director of Operations, Office of the Minister of Tourism and Associate Minister of Finance), and Alvine Nintai (Economist, International Trade and Finance Branch, Finance Canada)

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	For talking points, see Bilateral Briefing: Hon. Randy Boissonnault.	
12:00 – 1:30pm	**<u>Working Lunch:</u> ABAC's Executive Dialogue with APEC Finance Ministers on Inclusive Digital Finance** *<u>Venue:</u>* Plenary Hall 2, QSNCC *<u>Attendance:</u>* APEC Finance Ministers, Head of International Organizations and ABAC Finance Ministers will discuss with ABAC and private sector representatives on issues related to inclusive digital finance, and recommendations for further contributions from private sector to FMP.	AMoF Parker only at this lunch. The rest of the delegation will dine elsewhere.
12:00 – 1:30pm	**Lunch for all delegates** *<u>Venue:</u>* Plenary Hall 3, QSNCC	
1:30 – 2:30pm	**<u>Session 2:</u> 2022 FMP Priorities (Continued)** <u>Room</u>: Plenary Hall 1 **2.2 Digitalization for Digital Economy** **2.2.1 Digitalization for Fiscal Policy and Efficient Tax Collection** Finance Ministers will note the completion of a policy paper on "Digitalization of Fiscal Measures and Policy Innovations during the COVID-19 Pandemic" and the outcome of Webinar on Digital Technology for Efficient Tax Collection and its report as well as discuss the role of digitalization in fiscal policymaking. **Presenters: Thailand and OECD** – Update on a policy paper on "Digitalization of Fiscal Measures and Policy Innovations during the COVID-19 Pandemic" **Thailand** – Outcomes from the Webinar on Digital Technology for Efficient Tax Collection on 9 June 2022 **OECD** – International Taxation and update on the advancement of Base Erosion and Profit Shifting (BEPS) work **ADB** – TBC	*<u>Attendance:</u>* APEC Finance Ministers, Heads of International Organizations and all delegates

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	Open Discussion – Economies will be invited to discuss and exchange experiences on the development and future trend of digitalization and utilization thereof for the purposes of fiscal policy making. **2.2.2 APEC Policy Considerations for Developing Cross-Border Payments and Remittances** Finance Ministers will acknowledge the APEC Policy Considerations for Developing Cross-Border Payments and Remittances and discuss policy actions to promote cross-border payments and remittances. **Presenters: Thailand** – Update on the APEC Policy Considerations for Developing Cross-Border Payments and Remittances **Open Discussion** – Economies will be invited to discuss and exchange experiences on developing cross-border payments and remittances.	
2:30 – 3:00pm	**Bilateral engagement with Singapore Minister Indranee Rajah.** Room booking: MR118 bilateral meeting room at the QSNCC. Minister Rajah's portfolios include: • Prime Minister's Office, • Second Minister for Finance, and • Second Minister for National Development. For talking points, see Bilateral Briefing: Indranee Rajah	*Attendance:* **NZ:** Deb Thornton, and either Mark Blackmore or Harry Nicholls **Singapore:** Singapore APEC Finance Deputy Ian Wong and Ministry of Finance Official Cheryl Lum
2:30 – 3:00pm	**2.2.3 Seminar on Digitalization for Inclusive Finance: Embracing the Digital Fundraising** Room: Plenary Hall 1 Finance Ministers will note the outcome of Seminar on Digitalization for Inclusive Finance: Embracing the Digital Fundraising and its report as well as discuss the role of digitalization in promoting financial mechanism for SMEs.	

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	Presenters: Thailand – Outcomes from the Seminar on Digitalization for Inclusive Finance: Embracing the Digital Fundraising on 21 June 2022 in Khon Kaen **Open Discussion** – Economies will be invited to discuss and exchange experiences on the development and future trend of digitalization and utilization to promote financial inclusion.	
3:00 – 3:10pm	**Coffee Break**	
3:10 – 3:30pm	**Session 3: Implementation of Cebu Action Plan** Room: Plenary Hall 1 Finance Ministers will receive an update on the Champion Economy Initiative following the endorsement of the New Strategy for Implementation of the CAP in the 28th APEC Finance Ministers' Meeting. **Presenters: United States** – Update the progress of Champion Economy Initiative and outcomes from the Workshop on APEC Experiences and Available Tools for Financing a Just Energy Transition (FJET) **Open Discussion** – Economies will be invited to discuss next steps of the Champion Economy Initiative.	
3:30 – 3:45pm	**Session 4: Other Business** Room: Plenary Hall 1 **Presenters: APEC 2022 SOM Chair** – Update of SOM activities **United States** – Introduction of FMP 2023	
3:45 – 4:15pm	**Session 5: Adoption of the Joint Ministerial Statement** Room: Plenary Hall 1	
4:15 – 4:30pm	**Wrap-up and Concluding Remarks by the 2022 Chair of FMM** Room: Plenary Hall 1	

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4:30 – 4:50pm	**Bilateral meeting with Japanese Minister of State (Consumer Affairs and Food Safety, Science and Technology Policy) and Minister in charge of International Exposition, Shinji Inoue.** Room booking: MR118 bilateral meeting room at the QSNCC. Minister Inoue's portfolios include: • Minister of State (Consumer Affairs and Food Safety, Science and Technology Policy) and • Minister in charge of International Exposition For talking points, see Bilateral Briefing: Shinji Inoue	Minister Inoue will be accompanied by Mr Toshitaka Nagase, an interpreter, and four officials from the Japanese Ministry of Finance. Deb Thornton, Mark Blackmore, and Harry Nicholls will attend this meeting with you.
5:00 – 5:45pm	**Depart QSNCC for The Deck Restaurant** *Travel time:* 45 minutes *1. Police Leading Car:* plate TBC Driver: TBC *Passengers:* Police Officer, Liaison Officer (#061-351-9944) *2. Minister Car:* BMW (Black) – plate TBC Driver: TBC *Passengers:* Minister, Security Officer, Thornton *3. Delegation Van:* Toyota Commuter – plate TBC, Driver: TBC *Passengers:* Blackmore, Nicholls, Kongka	Ambassador Jonathan Kings will meet the delegation at the restaurant.
5:45 – 7:45pm	**Dinner at 'The Deck' Restaurant.** This is a mid-level restaurant on the Chao Phraya River, which is known for its view of Bangkok's Wat Arun temple. The temple lights up at night.	Minister, Ambassador Jonathan Kings, Mark Blackmore, Harry Nicholls, Deb Thornton
7:45 – 8:15pm	**Depart The Deck Restaurant for Shangri-La Hotel** *Travel time:*30 minutes *1. Police Leading Car:* plate TBC Driver: TBC *Passengers:* Police Officer, Liaison Officer s9(2)(a) *2. Minister Car:* BMW (Black) – plate TBC Driver: TBC *Passengers:* Minister, Security Officer, Thornton	

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	3. Delegation Van: Toyota Commuter – plate TBC, Driver: TBC *Passengers:* Blackmore, Nicholls, Kongka	
8:15pm on	**Executive time** *Due to early start, Thornton to check out night before*	

Friday 21 October – Departure		
Local time	**Engagement**	**Accompanying staff/ Comments**
4.45am	**Virtual speech BDO Conference –** Zoom details will be sent by BDO	Deb Thornton
6:30 – 7:30am	**Depart Shangri-La hotel for Suvarnabhumi Airport** *Travel time*: 45 minutes to an hour (subject to traffic) *Address:* Shangri La Hotel reception *1. Police Leading Car:* plate TBC Driver: TBC *Passengers:* Police Officer, Liaison Officer s9(2)(a) *2. Minister Car:* BMW (Black) – plate TBC Driver: TBC *Passengers:* Minister, Security Officer, HOM *3. Ambassador's Car:* BMW T58-0001 Driver: s9(2)(a) *Passengers:* Thornton, Kongka Airport support and facilitation will be provided.	
8:00am	**Depart Bangkok for Hong Kong** *Flight #:* NZ4198 *Duration:* 2 hours 45 minutes	You stopover in Hong Kong Airport for four hours.
4:45pm	**Depart Hong Kong for Auckland** *Flight #:* NZ0080 *Duration:* 10hours 45 minutes	
8:30am	**Arrive in Auckland**	

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Annotated FMM Agenda

Wednesday, 19 October 2022

APEC Finance Ministers' Retreat

2:30 – 4:00pm	**Finance Ministers' Retreat: Garnering the Tailwinds, Tackling the Headwinds: Strategic Moves in Today's Economy** During this private encounter, APEC Finance Ministers are invited to discuss and exchange experiences on tailwinds and headwinds presented by the remnant effects of COVID-19 in order to produce strategic and innovative responses to keep the world economy steady and propel it forward, especially in the areas which require a collective action such as climate change, sustainable development, and digital connectivity. *Venue:* Four Seasons Hotel Bangkok at Chao Phraya River *Attendance:* APEC Finance Ministers only *See talking points in Session 1 – Global and Regional Economic and Financial Outlook below*
6:00 – 10:30pm	**Gala Dinner** *Venue:* Shangri-La Bangkok Hotel *Attendance:* APEC Finance Ministers, Heads of International Organizations, and all delegates, as well as Ambassador Kings and Embassy staff

Thursday, 20 October 2022

APEC Finance Ministers' Meeting

8:30 – 9:00am	**Registration** *Venue:* Plenary Hall 1, Queen Sirikit National Convention Center (QSNCC) *Attendance:* APEC Finance Ministers, Heads of International Organizations and all delegates
9:00 – 9:10am	**Opening Session: Welcoming remarks by the 2022 Chair of FMM** – H.E. Mr. Arkhom Termpittayapaisith, Minister of Finance of Thailand
9:10 – 10:10am	Session 1: Global and Regional Economic and Financial Outlook Finance Ministers will discuss recent economic and financial development and outlook, including key issues and risks for APEC economies and appropriate policy responses. **Presenters**: **International Monetary Fund** **World Bank Group** **Asian Development Bank (ADB)** **APEC Policy Support Unit** *Comment: There may be limited time for interventions from economies following the presentations from the International Organisations. Moreover, there is likely to be*

	some overlap with the discussion in the Finance Ministers' Retreat. The following talking points can be drawn on as appropriate for both discussions. DRAFT PRIMARY INTERVENTION • We are here to discuss the global and regional economy, economic recovery, and sustainable growth. Our ability to have this conversation, and to engage in economic cooperation more broadly, however, is being stymied by the unprovoked and unjustified actions of one economy, which New Zealand condemns unequivocally. • The implications of those actions go well beyond that geographical region and cut to the heart of the principles and practices we have all come to rely on in pursuing international cooperation – including through APEC. • This conflict has disrupted supply chains, increased food and energy insecurity, and has negatively impacted financial markets. • Conflict will knock us off the path to global and regional economic recovery. It also directly contradicts our APEC Putrajaya Vision 2040 "…for an open, dynamic, resilient and peaceful Asia-Pacific community for the prosperity of all our people and future generations" – which our Leaders agreed to in 2020. DRAFT REPLY INTERVENTION – To follow an intervention from a likeminded economy • New Zealand supports the intervention by (economy) and strongly condemns the unprovoked and unjustified actions of one economy.

	• We are here to discuss the global and regional economy, economic recovery, and sustainable growth. This conflict has stymied our ability to have this conversation, and to engage in economic cooperation more broadly. • The implications of those actions go well beyond that geographical region and cut to the heart of the principles and practices we have all come to rely on in pursuing international cooperation – including through APEC. • This conflict has disrupted supply chains, increased food and energy insecurity, and has negatively impacted financial markets. • Conflict will knock us off the path to global and regional economic recovery. It also directly contradicts our APEC Putrajaya Vision 2040 "…for an open, dynamic, resilient and peaceful Asia-Pacific community for the prosperity of all our people and future generations" – which our Leaders agreed to in 2020. GENERAL ECONOMIC TALKING POINTS • New Zealand's economy has been relatively resilient through the COVID-19 pandemic, with both a strong health response and government support to people and firms aimed at keeping firms viable and people in jobs, playing key roles. • The economy is now fully open, but it is not "business as usual". Some sectors like tourism and international education, are only in the early stage of recovery from COVID-19.

	• At the same time consumers, importers and exporters alike have been hit by ongoing supply chain issues and high and volatile prices as a result of the pandemic and now, the war in Ukraine. • New Zealand faces many of the same challenges as our APEC partners; the labour market remains tight and wage growth has picked up; price inflation is high and households are experiencing a large cost-of-living shock; and monetary policy accommodation is (necessarily) being removed adding to the pressures on some parts of our populations. • Calibrating fiscal and monetary policy responses to ongoing recovery from COVID-19, inflation and cost of living shocks and now the increased downside risks to regional and global growth [we have just heard about] is of prime importance both for us as individual economies and as APEC. • Some of the challenges we face cannot be solved alone, climate change mitigation and the transition to a high wage low emissions global economy requires cooperation across our economies, particularly in our supply chains and financial markets. • New approaches to mobilising private capital towards climate change action are required. We have created New Zealand Green Investment Finance to work alongside firms to accelerate investment in New Zealand's low carbon future. We also announced recently a Green Bond Programme with the first issuance of green bonds likely to be issued later this

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	year. We commend other economies for their hard work in this space as well.
10:10 – 10:30am	**Coffee Break**
10:30 – 12:00pm	**<u>SESSION 2</u>: 2022 FMP Priorities** The session will focus on the importance of the FMP 2022 priorities and the work which the FMP has done throughout the year, and our ways forward, on sustainable finance and digitalization for digital economy. **2.1 Sustainable Finance** Finance Ministers will note outcomes from Seminar on Developing the Ecosystem for Sustainable Finance in the Capital Market and its report. Finance Ministers will also receive an update on Policy Recommendation Paper on "Sustainable Finance" and discuss policy actions and priorities to promote sustainable finance and sustainable economic growth. **Presenters:** **Thailand** – Outcomes from Seminar on Developing the Ecosystem for Sustainable Finance in the Capital Market on 21 June 2022 in Khon Kaen and an update on Policy Recommendation Paper on Sustainable Finance. **ADB** – Sustainable Finance for a Low-Carbon Transition. **Organisation for Economic Co-operation and Development (OECD)** – Presentation on sustainable finance and ESG investing **Open Discussion** – Economies will be invited to comment and express their views about policy actions and priorities to promote sustainable finance and sustainable economic growth. **Talking points (to draw on as appropriate)** <u>$1.3 billion climate financing contribution</u> • New Zealand's contribution to global climate financing is a grant-based $1.3 billion fund. • This provides opportunities to help more developing countries invest in a broader range of climate change mitigation and adaptation initiatives. • Half of the fund will be spent in the Pacific, particularly on adaptation initiatives – a key focus in the Pacific region.

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	• We are beginning work to establish an interagency group of officials to consider options for sustainable sources of finance in advance of the next climate finance commitment period from 2025. Climate Emergency Response Fund (CERF): • A $4.5 billion fund to help New Zealand achieve our climate goals, both in mitigation and adaptation will be rolled out over the next four years. • The CERF is funded through the proceeds from New Zealand's Emissions Trading Scheme. Half of the fund is going to capital expenditure and half to operating spending. • This CERF also allocates funding to help meet our international climate commitments. Global Carbon Tax: • New Zealand is open to engaging with partner economies on multilateral solutions to climate change, including carbon pricing. We are watching with interest proposals for carbon border adjustments in other jurisdictions, such as those of the EU and Canada. • The OECD is proposing an Inclusive Framework on Carbon Pricing to develop a consistent methodology for pricing carbon, including regulatory measures where there is no explicit carbon price. Agreeing on a consistent methodology for measuring and pricing carbon is a necessary first step towards aligning domestic carbon pricing policies.
12:00 – 1:30pm	**Working Lunch: ABAC's Executive Dialogue with APEC Finance Ministers on Inclusive Digital Finance**

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	Venue: Plenary Hall 2, QSNCC *Attendance:* APEC Finance Ministers, Head of International Organizations and ABAC Finance Ministers will discuss with ABAC and private sector representatives on issues related to inclusive digital finance, and recommendations for further contributions from private sector to FMP. 1. Welcome remarks from the FMM Chair H.E. Mr. Arkhom Termpittayapaisith) 2. Presentation by ABAC Finance and Economics Working Group Chair Mr. Hiroshi Nakaso *Lunch served* 3. Dialogue jointly moderated by APEC FMM Chair and ABAC Chair 4. Closing Remarks by APEC FMM Chair and ABAC Chair
1:30 – 3:00pm	**Session 2: 2022 FMP Priorities (Continued)** **2.2 Digitalization for Digital Economy** **2.2.1 Digitalization for Fiscal Policy and Efficient Tax Collection** Finance Ministers will note the completion of a policy paper on “Digitalization of Fiscal Measures and Policy Innovations during the COVID-19 Pandemic” and the outcome of Webinar on Digital Technology for Efficient Tax Collection and its report as well as discuss the role of digitalization in fiscal policy-making. **Presenters:** **Thailand and OECD** – Update on a policy paper on “Digitalization of Fiscal Measures and Policy Innovations during the COVID-19 Pandemic” **Thailand** – Outcomes from the Webinar on Digital Technology for Efficient Tax Collection on 9 June 2022 **OECD** – International Taxation and update on the advancement of Base Erosion and Profit Shifting (BEPS) work **ADB** – TBC **Open Discussion** – Economies will be invited to discuss and exchange experiences on the development and future trend of digitalization and utilization thereof for the purposes of fiscal policy making. **Talking points (to draw on as appropriate)** From Inland Revenue • The Government is undergoing public consultation on digitising our tax system to allow taxation to be more seamlessly part of the natural system for businesses. • This means tax calculations can be embedded in the software businesses use and tax can become an automated process that happens as a by-product of other processes.

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- A fully digital tax system can support a growing digital economy
- There are several potential benefits to digitising the tax system, including:
    - Better compliance as compliance improves when paying tax is easy to do;
    - Making it harder for taxpayers to get it wrong or manipulate data;
    - Lower compliance costs, stress and risk for taxpayers;
    - Lower administration costs for Inland Revenue; and
    - Creating value throughout the economy through more efficient processes or providing a spur to innovation.
- This proposal builds on Inland Revenue's previous work on digitally automating tax returns for most of our citizens.

2.2.2 APEC Policy Considerations for Developing Cross-Border Payments and Remittances

Finance Ministers will acknowledge the APEC Policy Considerations for Developing Cross-Border Payments and Remittances and discuss policy actions to promote cross-border payments and remittances.

Presenters:

Thailand – Update on the APEC Policy Considerations for Developing Cross-Border Payments and Remittances

Open Discussion – Economies will be invited to discuss and exchange experiences on developing cross-border payments and remittances.

Talking points (to draw on as appropriate)

- We thank Thailand for putting this work on APEC's agenda.

- Cross-border payments and remittances are issues of prime importance to New Zealand's Pacific Island

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neighbours. They are not new but they have only grown in importance as result of the pandemic.

- The Reserve Bank of New Zealand are working on de-risking and digitally upgrading remittance services to the Pacific.

- This upgrade includes work towards digital identity verification tools and payment systems that will increase security while lowering costs.

- Alongside this we are working with regional partners to ensure their needs are well understood and considered in global rule-making. Like with many areas of policy-making there is no "one size fits all" approach.

2.2.3 Seminar on Digitalization for Inclusive Finance: Embracing the Digital Fundraising

Finance Ministers will note the outcome of Seminar on Digitalization for Inclusive Finance: Embracing the Digital Fundraising and its report as well as discuss the role of digitalization in promoting financial mechanism for SMEs.

Presenters:

Thailand – Outcomes from the Seminar on Digitalization for Inclusive Finance: Embracing the Digital Fundraising on 21 June 2022 in Khon Kaen.

Open Discussion – Economies will be invited to discuss and exchange experiences on the development and future trend of digitalization and utilization to promote financial inclusion.

Talking points (to draw on as appropriate)

- As is the case with other economies we have heard from, digitalisation is taking place across a large number of fronts.

From MBIE:

- My colleague, the Minister for Digital Economy and Communications is leading a whole-of-government "Digital Strategy for Aotearoa"
- This strategy aims to identify the gaps in our digital capability and opportunities for future investment
  - Consultation on the draft strategy has concluded and there was strong support for the need for a Digital Strategy for Aotearoa from nearly all the submitters.
- The New Zealand government is working together to increase digital skills capability in our education system to create viable pathways into the digital sector
- We have launched Digital Boost – A peer-to-peer platform for SMEs to share their knowledge and experience to enable New Zealand to have the most digitally engaged small business sector in the world

From DIA:

- We are developing a modern, secure, and fit-for-purpose digital identity system.
- The digital identity system will allow for mutual recognition with key economies, such as our single economic market with Australia.
- Digital identity is often a key component in digital trade under free trade agreements, reducing trade barriers.
- The Digital Identity Services Trust Framework Bill aims to promote the provision of secure and trusted digital identity services that meet essential minimum requirements for security, privacy, identification management and interoperability. It also aims to support community resilience and realise the wider benefits of digital identity.
- The intention is for the Bill to establish:

	- a governance board as a public service authority within a public service department - an accreditation authority within a public service department - a liability framework subject to the development of the rules - the offences and penalties for the Trust Framework - infringement notices, provided through primary legislation - the accreditation authority's ability to recover costs - a disputes resolution process. From the FMA: • The FMA is digitising the licensing and registration system that covers auditors, financial service provides, peer-to-peer lenders and more • This digitisation project includes creating online reporting tools to reduce regulatory barriers • This system has yet to go live.]
3:00 – 3:10pm	**Coffee Break**
3:10 – 3:30pm	**Session 3: Implementation of Cebu Action Plan** Finance Ministers will receive an update on the Champion Economy Initiative following the endorsement of the New Strategy for Implementation of the CAP in the 28th APEC Finance Ministers' Meeting. **Presenters:** **United States** – Update the progress of Champion Economy Initiative and outcomes from the Workshop on APEC Experiences and Available Tools for Financing a Just Energy Transition (FJET) **Open Discussion** – Economies will be invited to discuss next steps of the Champion Economy Initiative.

	Talking points • We would like to thank the United States for taking the lead with their Champion Economy Initiative, not least because of urgency of achieving a Just Energy Transition. • We consider the Champion Economies concept is a useful mechanism to share experiences and learn alongside others to support development and implementation of initiatives under the Cebu Action Plan and areas of interest to the Finance Ministers Process.
3:30 – 3:45pm	**Session 4: Other Business** **Presenters: APEC 2022 SOM Chair** – Update of SOM activities **United States** – Introduction of FMP 2023
3:45 – 4:15pm	**Session 5: Adoption of the Joint Ministerial Statement**
4:15 – 4:30pm	Wrap-up and Concluding Remarks by the 2022 Chair of FMM
4:30 – 4:50pm	Bilateral meeting with Japanese Minister of State (Consumer Affairs and Food Safety, Science and Technology Policy) and Minister in charge of International Exposition, Shinji Inoue. Minister Inoue will be accompanied by Mr Toshitaka Nagase, an interpreter, and four officials from the Japanese Ministry of Finance. Deb Thornton, Mark Blackmore, and Harry Nicholls will attend this meeting with you.
4:30 – 5:00pm	Press Conference by the 2022 Chair of FMM

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Accommodation

Bangkok, Thailand

Shangri-La Hotel
89 Wat Suan Phlu Alley
Tel: +66 2-236-7777

Contacts List

Ministers in Acting Portfolios

Name	Portfolio
Hon Little	Attorney-General
Hon Nash	Revenue, and Oceans and Fisheries
Hon Allan	Environment

Treasury Officials

Name	Contact Details
Mark Blackmore, Strategic Economic Adviser, Treasury	s9(2)(g)(ii)
Harry Nicholls, Senior Analyst, New Zealand Treasury	

Weather

- Bangkok is in the central part of Thailand. The average range of temperature in Bangkok in October is approximately 24 °C – 32 °C.
- Bangkok averages 16 rainfall days during October and humidity can average 76%.

COVID-19 Requirements

- Starting from 1 July 2022, Thailand Pass registration has been cancelled, from October 1st, 2022, Thailand reclassified COVID-19 from a dangerous communicable disease to a communicable disease under surveillance. This reduces protocols and restrictions on COVID-19.
- While no longer required, we recommend carrying proof of vaccination status if possible.

Key points

- Masks are no longer mandated but individual businesses may still require masks.
- APEC Thailand may issue updated COVID-19 guidelines. We will advise you of any changes.

If you are feeling unwell

- Self-screening for COVID-19 with rapid antigen testing (ATK) is recommended only when present with suspected symptoms. If you think you have COVID-19 symptoms, you should contact the New Zealand Embassy and call the Thai COVID-19 Hotline on 1422.

New Zealand Embassy, Bangkok:

- Tel +66 (0)2 2542530 (during office hours)
- Alternative Tel +64 99 20 20 20 (for after-hours consular assistance).

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If you test positive

- If you test positive for COVID-19 and present with no or mild symptoms, you are not required to isolate, but would be advised to strictly follow measures of the distancing, mask-wearing, handwashing, and temperature-checking, and take strict precautions to prevent disease transmission for five days.
- If you have more severe symptoms Thai public health regulations require that you quarantine at either a hospital, a repurposed hotel with medical capabilities or field hospital.
- The Ministry of Foreign Affairs and Trade’s policy for delegation members who return a positive RAT is as follows. These are not requirements of the Thai authorities or those of the Thai APEC Secretariat:
    - Take a 2nd test to confirm the result
    - Remain or return to your accommodation
    - Inform the delegation
    - Inform APEC Officials
    - Inform your insurance provider – they will provide “next steps” information.

If you test negative

- If you test negative, there is no action needed but if you still feel unwell you should take regular tests over the next 5 days.
- If you are a close contact of someone who tested positive you should take a COVID test immediately. If you test positive, then the above information on if you test positive applies. If you test negative, you do not need to isolate but should continue to monitor for symptoms and take another test if you show any symptoms or feel unwell.
- RAT tests can be obtained from pharmacies

Miscellaneous

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Itinerary Ends

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Session Briefings

Session One: Sustainable Finance

New Zealand Green Bonds

Author: Treasury New Zealand Sovereign Green Bonds Project (*September 2022)*

Key points

- The New Zealand Sovereign Green Bond Programme was launched on 14 September 2022 – signifying a step on a continuing journey for the Government to increase transparency and reporting around climate, sustainability, and wellbeing outcomes for New Zealand. Subject to market conditions, the inaugural issuance of New Zealand Sovereign Green Bonds is expected in late 2022, via syndication.
- New Zealand Sovereign Green Bonds are nominal fixed income bonds which provide finance for specific Government projects with climate change mitigation and environmental outcomes. Alongside Nominal Bonds and Inflation-Indexed Bonds, Green Bonds are expected to be an important and enduring part of the New Zealand Government Bond portfolio.
- Green Bonds are a way to recognise green public sector projects already underway and planned that meet internationally recognised standards for eligibility, selection and reporting – giving investors the opportunity to refinance or finance projects that they can be assured contribute to climate and environmental objectives.
- Design of the Green Bond Programme has been informed by international best practice and incorporates New Zealand specific elements. New Zealand Debt Management (NZDM) has engaged with market participants and worked in consultation with external structuring advisors Bank of New Zealand and Deutsche Bank AG, Sydney Branch on details of the Programme.

Background

Alignment with climate and environmental priorities

- The New Zealand Government recognises climate change is an urgent issue and is committed to leading action domestically, in the Pacific, and around the world. New Zealand also recognises the importance of adapting to the effects of climate change along with opportunities to build a more productive, sustainable, and inclusive economy.
- New Zealand's commitment is reflected in its Nationally Determined Contribution (NDC), which was updated on 31 October 2021 to be a reduction of net emissions by 50 percent below 2005 gross emissions levels by 2030. The NDC covers the period 2021-2030.
- To meet our climate targets and cut emissions in line with what the science requires, capital needs to be directed towards activity that will accelerate this transition. In 2021, the Government announced that it would utilise New Zealand Emissions Trading Scheme (ETS) proceeds to establish an enduring, multi-year Climate Emergency Response Fund with $4.5 billion to invest in climate initiatives. This figure is based on forecast ETS proceeds between 1 July 2022 and 30 June 2026.
- The Government has legislated domestic climate targets through the Climate Change Response (Zero-Carbon) Amendment Act 2019, with the aim of reaching net zero long-life greenhouse gas emissions by 2050 and a 24-47 per cent reduction in gross biogenic methane emissions by 2050, compared to 2017 levels.
- New Zealand has a unique emissions profile compared with other countries – in 2020:

- half of New Zealand's gross emissions were methane and nitrous oxide from livestock farming,
- energy was the second largest source of emissions, largely from transport and manufacturing, contributing 40 per cent of gross emissions.

- In May 2022, the Government published the first Emissions Reduction Plan (ERP) for New Zealand to meet its first emissions budget (2022 to 2025), along with the direction for climate action to 2035. The ERP sets out policies and actions to reduce emissions in all sectors of the economy – transport, energy and industry, agriculture, building and construction, forestry, waste, and fluorinated gases.
- In August 2022, the Government released New Zealand's first National Adaptation Plan (NAP), which sets the Government's objectives and actions to enable New Zealanders to prepare for and adapt to climate change.
- New Zealand is internationally recognised for its beautiful and unique natural environment and indigenous biodiversity, which underpin the economy and New Zealanders' wellbeing. However, New Zealand's environment is facing a range of pressures across resource allocation, land use, indigenous biodiversity, the marine environment, freshwater, and infrastructure. The Government is reforming New Zealand's resource management and planning system to promote positive outcomes for both the natural and built environments.
- The Government is committed to protecting and restoring New Zealand's biodiversity. Te Mana o te Taiao – Aotearoa New Zealand's Biodiversity Strategy 2020 sets the Government's 30-year strategic direction for the protection, restoration, and sustainable use of biodiversity. In April 2022, the Government released an implementation plan, aimed at driving collective action nationally, regionally, and locally, which will be updated every five years from 2025.
- The Government recognises that green funding and finance play a key role in fulfilling its climate and environmental priorities and commitments. The Government has committed $1.3 billion to countries that are the most vulnerable to the effects of climate change for 2022 to 2025. At least 50 percent of this funding will support Pacific Island countries and at least 50 percent will target adaptation, a key priority for the Pacific.

Support for sustainable finance

- Around the world we have seen that there is substantial and growing investor demand for sovereign green bonds. When countries have done this before, it has attracted significant demand and driven an increase in the private green bonds market. For example, the UK Debt Management Office attracted GBP100 billion of orders for their inaugural Green Gilt issuance of GBP10 billion.
- Through the New Zealand Sovereign Green Bond Programme, the Government aims to promote the development of domestic green finance markets, as well as provide investors with opportunities to deploy funds to green assets.
- NZDM will focus on ensuring Green Bond issuance is consistent with its core objective of minimising costs over the long term while accounting for risk and that liquidity in all its products is supported. In addition, the issuance of Green Bonds is expected to provide further diversification of its investor base and support development in the broader New Zealand sustainable finance market.

New Zealand Sovereign Green Bond Framework

- Underpinning the Programme is the New Zealand Sovereign Green Bond Framework. It outlines the Government's climate and environmental priorities and sets the basis for identifying, evaluating, selecting, and reporting on expenditures included in the Programme. The Framework also outlines the governance and operational requirements of the Programme.
- The Framework was developed in accordance with the International Capital Markets Association (ICMA) Green Bond Principles (2021) (Green Bond Principles) and is aligned with the four core

components and the key recommendations of the Green Bond Principles: Use of Proceeds, Project Evaluation and Selection, Management of Proceeds, and Reporting.

Use of Proceeds

- The Treasury intends to allocate an amount equal to the total net proceeds of any Green Bonds issued to finance and/or refinance, in whole or in part, expenditures that meet the green eligibility criteria set out in the Framework (Eligible Expenditures).
- Eligible Expenditures can include, but are not limited to, any government operating and capital expenditures. This includes direct or indirect investment expenditures (including in physical assets and/or intangible assets, such as research and development), and transfers to public or private entities (grants, loans, subsidies, and contributions), including international transfers.
- Eligible Expenditures are limited to government expenditures that occurred in the financial year prior to issuance, the current financial year, and the two financial years following issuance (the Eligibility Window). The Treasury will allocate at least 50 percent of total proceeds to current and future expenditures.
- The Framework sets out eight Green Categories, which are categories of eligible expenditures: Clean Transport, Energy Efficiency and Renewable Energy, Green Buildings, Living and Natural Resources and Land Use, Terrestrial and Aquatic Biodiversity, Climate Change Adaptation, Sustainable Water and Wastewater Management, and Pollution Prevention and Control. The Green Categories are mapped to the UN Sustainable Development Goals.

Exclusions

- To avoid double counting, any expenditures wholly financed by green instruments issued by Crown entities, Crown companies or local government are excluded. Where expenditures are co-financed, only the Crown's portion of the expenditures will be included.
- In recognition of the Government's priorities and established environmental, social and governance (ESG) investment practices, and market expectations, the following expenditures are excluded: exploration and production of fossil fuels; nuclear energy; arms manufacturing and chemical weapons; manufacture and production of alcohol, tobacco, and recreational cannabis; gambling; and processing of whale meat. The Treasury will regularly review whether additional types of expenditures should be excluded.

Project Evaluation and Selection

- Robust project evaluation and selection is a core component of the Framework to ensure New Zealand Sovereign Green Bonds only finance high quality initiatives that support the Government's climate and environmental priorities. The Treasury will be responsible for periodically updating the pool of Eligible Expenditures (Expenditures Pool).
- A range of government agencies manage and deliver projects and programmes that are included in the Expenditures Pool. Agencies are responsible for monitoring their expenditures, including identifying, managing and reporting any political, legal, climate, environmental or social risks relating to their expenditures. Agencies will provide financial and non-financial information to the Treasury for inclusion in reporting.
- The Treasury will prepare advice for the cross-agency Green Bond Committee, a governance group that will consider the list of potential Eligible Expenditures and endorse expenditures for inclusion in the Expenditures Pool.
- The Treasury will periodically review the Expenditures Pool to determine if any changes are required. This will be limited to expenditures within the Eligibility Window. Expenditures that have been terminated, postponed or are no longer eligible will be removed from the Expenditures Pool.

Management of Proceeds

- The Treasury will ensure an amount at least equal to the total net proceeds of the bonds will be allocated to Eligible Expenditures and intends to fully allocate proceeds of all green bonds within two financial years following the financial year of issuance. An amount equivalent to unallocated bond proceeds will be deposited as cash in the Crown's Settlement Account with the Reserve Bank of New Zealand.

Reporting

- The Treasury intends to publish an annual allocation report commencing in the financial year following a Green Bond issuance, to include: total net Green Bond proceeds; an overview of the allocation of the issued Green Bond(s) to the Green Categories and, where appropriate and possible, to green objectives and specific expenditures; the amount of unallocated proceeds with confirmation that any temporarily unallocated funds were deposited as cash in the Crown's Settlement Account with the Reserve Bank of New Zealand; and any material political, legal, climate, environmental and social risks related to Eligible Expenditures, and actions taken in response.
- The Treasury intends to publish the first impact report, including outputs and outcomes, within two years of the first Green Bond issuance and annually thereafter, detailing impacts of expenditures, subject to available information. The Treasury intends for the impact report to include: climate and environmental impact indicators related to the Eligible Expenditures to which Green Bond proceeds have been allocated; case studies detailing the impacts of expenditures; and social co-benefits from Eligible Expenditures.

Second Party Opinion

- The Treasury engaged Sustainalytics, an independent ESG ratings company, to provide a Second Party Opinion (SPO) on the Framework prior to the first issuance of New Zealand Sovereign Green Bonds. The SPO provides investors with an independent assessment of the expected environmental benefits of the Green Categories and confirms the alignment of the Framework with the ICMA Green Bond Principles.

Climate Change and the Environment

Author: MFAT Climate Change Division and Treasury Climate Change (*September 2022*)

Key points

- To meet our climate commitments, we will need to work closely with other countries and secure access to new technologies and overseas investment. We will also be looking to cooperate on international carbon markets and other avenues for offshore mitigation that have strong environmental integrity.
- This year saw the release of New Zealand's first Emissions Reduction and National Adaptation plans, which will guide New Zealand's climate response and the transition to a high-wage, low-emissions economy that provides economic security in good times and bad. In addition to discussing decarbonisation efforts with other countries, we are particularly interested in their plans to build resilience to the climate change-induced increase of risks from natural hazards.

<u>Core pillars of New Zealand's climate response</u>

Ambitious decarbonisation targets

- In May 2019, the New Zealand Government passed **the Zero Carbon Act, which legislates a domestic target of long-lived gas emissions reaching net zero by 2050** alongside a target to reduce biogenic methane by 24-47 percent (and 10 percent by 2030).

- In October 2021, we updated **our NDC to reduce net emissions to 50 percent below gross 2005 levels by 2030**. To help meet this NDC, we are looking to cooperate on international carbon markets and on securing other avenues for offshore mitigation with strong environmental integrity.
- This year the Government also set the levels of our first three **domestic emissions budgets** out to 2035**.** The budgets, which set the total quantity of emissions that is allowed to be released during an emissions budget period, will guide the medium-term decarbonisation of the New Zealand economy and serve as stepping-stones to the 2050 target.

Pricing Greenhouse Gas emissions

- Emissions pricing is a core pillar of New Zealand's strategic approach to reducing emissions. **The New Zealand Emissions Trading Scheme**, established in 2008, is the primary tool through which we price our economy's emissions and covers all sectors except agriculture.
- By placing a price on emissions, the New Zealand ETS helps ensure that the cost of emissions is taken into account across the economy when businesses make investment decisions. The Government has also set out this year how it plans to **price agricultural emissions**, and will implement a scheme by 2025, ensuring that all sectors of our economy will face an emissions price.

Emissions Reduction and National Adaptation Plans implementation

- New Zealand's first **Emissions Reduction Plan** was published on 16 May 2022. It details the actions across all sectors of our economy that we will need to take to achieve the first emissions budget and be on track to ultimately meet our 2050 goal. The Plan outlines how we will play our part in the global effort to limit global warming to 1.5 degrees, empower Māori, ensure an equitable transition, work with nature, and make progress towards a high-wage, low-emissions economy.
- New Zealand's first **National Adaptation Plan** was published on 3 August 2022. It responds to the risks identified in the first National Climate Change Risk Assessment which was published in 2020. The Plan focuses on enabling better risk-informed decisions, driving climate-resilient development in the right places, laying the foundations for a range of adaptation options including managed retreat, and embedding climate resilience across government policy.

Funding and financing instruments and other programmes.

- Establishing an enduring, multi-year **Climate Emergency Response Fund (CERF)** with an initial NZD$4.5 billion down payment from the cash proceeds of the New Zealand Emissions Trading Scheme. We allocated NZD$2.9 billion through the CERF at Budget 2022 to foundational, high-value climate initiatives. The CERF eligibility criteria will also be extended to include adaptation initiatives in future Budgets.
- Implementing the **Carbon Neutral Government Programme** which will require government entities to report on their emissions and publish reduction plans, with an aim to reaching carbon neutrality for a number of organisations from 2025.
- Setting up **New Zealand Green Investment Finance Limited (NZGIF)** as a green investment bank to accelerate investment that can help to reduce greenhouse gas emissions in New Zealand. NZGIF invests on a commercial basis in companies, projects and technologies that accelerate emissions reductions. At Budget 2021, the Government brought NZGIF's total investment capital to NZD$400 million.
- Requiring **Crown Financial Institutions to reflect the Government's goal of a carbon neutral New Zealand by 2050**. The Crown Responsible Investment Framework has been issued to the NZ Superannuation Fund, the Accident Compensation Corporation, the Government Superannuation Fund and the National Provident Fund, which collectively manage over $100 billion of investments on behalf of New Zealanders.
- Establishing a **climate-related financial disclosures regime** (see MfE briefing).

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- Increasing our **climate finance commitment** to NZD$1.3 billion in the period 2022-2025 (see below).

International Dimension of Climate Change and New Zealand

Key points

- New Zealand has set three overarching objectives for our international climate change engagement: effective 1.5 degree-aligned global action; building Pacific resilience; and supporting our own decarbonisation and climate adaptation. These objectives are our focus this year, and we will look to contribute to a constructive climate conference (COP27) in November 2022.
- It is vital for New Zealand and for Pacific Island countries that all countries take 1.5 degree-consistent action. We are strongly encouraging all countries to align Nationally Determined Contributions (NDC) with that temperature goal by COP27, as agreed in the Glasgow Climate Pact.
- We quadrupled our climate finance to NZ$1.3 billion for 2022-2025, with a continuing key focus on the Pacific. Our International Climate Finance Strategy, launched in August, guides delivery of our commitment. We are interested in partnering in the Pacific, in a way that is thoughtful, collaborative and responsive to the region's priorities.
- Implementing our plan for domestic decarbonisation will require access to innovation, technology, and investment from offshore. We are keen to work together on our transitions (for example, on zero emissions vehicles, green technologies, just transition and climate equity).
- We are also interested in ways that we can cooperate to reduce global agricultural greenhouse gas emissions and support sustainable food systems. This could include increased cooperation with the USA and others through the Global Research Alliance, Agriculture Innovation Mission for Climate, and Sustainable Productivity Growth Coalition.
- New Zealand has a keen interest in the Clean Economy pillar of the US-led Indo-Pacific Economic Framework (IPEF). Fourteen economies across the Indo-Pacific region are participating in this recently-launched initiative, opening the door for: s6(b)(i) and 9(2)(j) [redacted]
- As a further example of the shared commitment between the US and New Zealand to address climate change, a major green technology conference, titled Blue & Green and featuring a range of experts from both countries, will be held in Auckland in December. Those speakers include the US Ambassador to New Zealand, Tom Udall, and New Zealand's Minister of Climate Change, James Shaw.
- 2023 will be important for the implementation of the Post-2020 Global Biodiversity Framework and the Biodiversity Beyond National Jurisdiction (BBNJ) treaty. Successful implementation will need to be supported by adequate funding, particularly to assist developing countries meet any commitments, and to contribute to global goals and targets.

<u>**Background**</u>

Environmental issues

- New Zealand is focused on concluding negotiations for an ambitious **Post-2020 Global Biodiversity Framework under the Convention on Biological Diversity** (CBD). The new global biodiversity goals and targets are due to be finalised and adopted at the 15th Conference of the Parties (CBD COP) in Montreal in December 2022.
- Negotiations on the financial resources needed to implement the Framework are far from resolved, including on the total amount needed to close the global funding gap, the sources of funds, and the mechanism to mobilise resources. Whereas a report commissioned for the negotiations signalled

that US$10 billion per annum would be appropriate for developed countries to contribute through official development assistance, developing countries are demanding larger figures (from US$100 billion to US$200 billion per annum and above).

- Developing countries are also proposing an entirely new financial mechanism, a position New Zealand disagrees with. The Global Environment Facility is the financial mechanism for the Convention on Biological Diversity. While New Zealand is a minor contributor, we almost doubled our previous contribution in the recently completed replenishment round to NZ$23.5 million for 2022-2026, through a top-up from official development assistance funding.
- s6(a) [redacted]
- Negotiations in August on a **new agreement under the UN Convention on the Law of the Sea (UNCLOS) to protect high seas ocean biodiversity (the 'BBNJ' treaty)** made impressive progress. Negotiations were suspended due to shortage of time, but officials assess negotiations will conclude with one final push at a resumed session, presumed to be in early 2023. [redacted] s9(2)(j) [redacted] The draft agreement is shaping up to be consistent with New Zealand's objectives, including a substantial environmental upgrade of the rules-based architecture that governs ocean activities beyond countries' jurisdictions.
- New Zealand welcomed the launch of negotiations towards a **new international legally binding instrument to end plastic pollution**. Negotiations will begin at the end of November and we will be advocating for an ambitious outcome that favours action at the beginning of the plastic lifecycle and supports our objective to transition to a circular economy. If a new instrument is agreed, New Zealand would be expected to make an annual financial contribution to assist with the administration and business function of the new Secretariat.
- Aotearoa New Zealand will provide NZD 1.3 billion in grant-based climate finance to developing countries between 2022 and 2025. At least 50 percent of the total climate finance commitment will support Pacific Island countries and at least 50 percent will target adaption.
- The new climate finance commitment is a considerable step-change in scale for New Zealand. This is more than four times the size of our 2018 commitment of $300m and underlines the importance New Zealand attaches to global and regional efforts to work together to combat climate change.
- Delivery of our climate finance commitment will be guided by our International Climate Finance Strategy – Tuia te Waka a Kiwa. New Zealand's climate finance will support developing countries reduce carbon emissions, support implementation measures to adapt to climate change, and build climate change capacity and capabilities.
- We wish to be guided by partner government priorities especially those described in NDCs and National Adaptation Plans.

Climate Finance

- Our International Climate Finance Strategy establishes four goals for investment. These cover mitigation, adaptation, capability building, and leveraging wider sources of climate investment.
- Biodiversity, nature and oceans, science and data for decision-making, and loss and damage, are elements we wish to have a particular focus on over the commitment period.
- Examples of activities include:
  - Expanded funding to the Global Environment Fund – as announced in April 2022.

- Action to address water shortages from changed climate patterns – including a partnership linking information technology, weather forecasts and water tank sensors to provide a Drought Early Warning System (pilot running in Cook Islands), and a project to increase water security in five atoll countries
- A partnership with the Global Green Growth Institute to support Pacific governments with their national approaches to long-term low-emissions climate-resilient development.
- strengthening the regional institutions that support Pacific countries such as the Pacific Climate Change Centre which works with Pacific governments to develop their NDCs.
- support for research institutes to work with Pacific governments to build detailed understanding of climate change impacts, such as coastal inundation modelling and analysis of the potential impacts of extreme climate events.

Overseas Efforts: EU Carbon Border Adjustment Mechanism (CBAM)

- The EU is proposing to introduce a Carbon Border Adjustment Mechanism (CBAM) – an emissions-based carbon adjustment on goods in certain sectors to ensure that imports of emissions-intensive products into the EU are on equal footing with EU products that are subject to the EU Emissions Trading System (EU ETS).
- The CBAM is intended to cover those sectors that are among the largest emitters in the EU ETS and that are judged to be at significant risk from emissions leakage, based on the level of additional production costs from EU emissions pricing and the intensity of trade with non-EU countries.
- The EU has proposed that the CBAM will initially apply to direct emissions from five sectors: cement, aluminium, fertilisers, electric energy production, and iron and steel. The European Parliament is pushing to extend this to also include organic chemicals, plastics, hydrogen and ammonia, as well as indirect emissions.
- The final form and ultimate WTO compliance of the proposal will be of interest to New Zealand, which is considering options (including a CBAM) for its long-term approach to emissions leakage [T2020/2003 refers] – the current approach is industrial allocation, which is also the existing policy in the EU.
- The European Council, Parliament and Commission are negotiating their positions on the CBAM and are aiming to reach agreement by the end of 2022 – with a view to the “transitional phase” of the CBAM beginning in 2023.
- The European Parliament has additionally proposed the establishment of an international ‘Carbon club’ as an open non-exclusive international forum to support international cooperation on carbon measures for emissions reduction – this is a separate but similar proposal to the proposed G7 ‘Climate club’.

Task Force on Climate Related Financial Disclosures

Author: Ministry for the Environment, Sustainable Finance team (*September 2022)*

Key points

- The Task Force on Climate Related Financial Disclosures (TCFD) was created in 2015 by the Financial Stability Board to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.
- The TCFD produced recommendations in 2017 that outline a framework for reporting climate-related information. To date, this has been the leading guidance on climate reporting and has received widespread support globally. TCFD-based disclosures have or are being introduced by governments or securities in multiple countries, including Australia, Canada, the European Union, and the United Kingdom.

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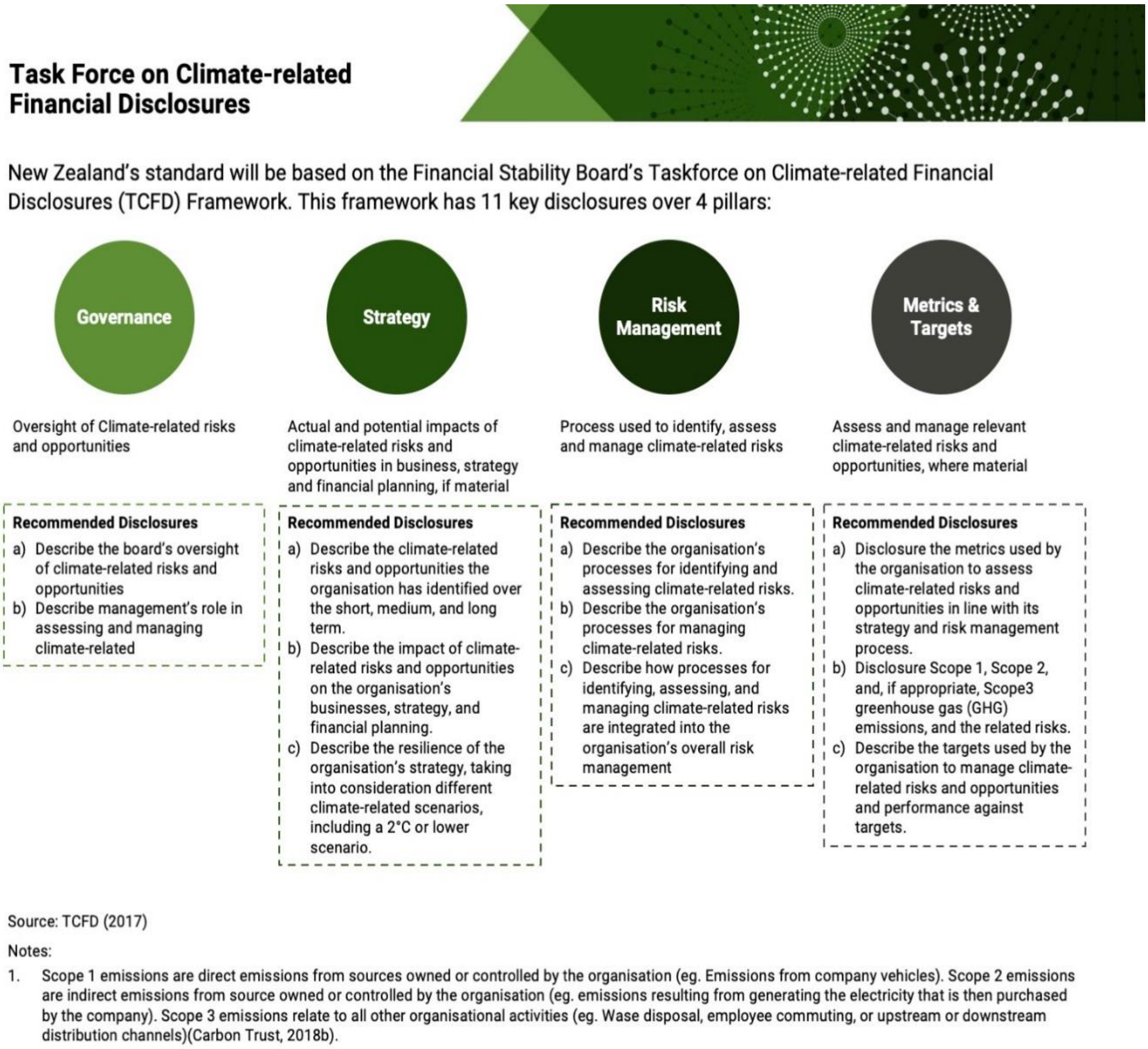
- The TCFD recommendations incorporate four key themes: governance, strategy, risk management, and metrics and targets. In total, 11 disclosures are recommended.



Climate-related Disclosures and Other Matters Amendment Act (CRD Act)

- In 2021, New Zealand enacted the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act (CRD Act). The CRD Act imposes obligations on approximately 200 large financial market participants to disclose information about their climate-related risks and opportunities. These disclosures must be made in climate statements prepared in accordance with standards issued by the External Reporting Board (XRB), based on the TCFD recommendations.
- We are expecting the final climate standards to be issued by the end of 2022. Under this timeframe, the first set of climate statements will be produced in 2024.

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Why New Zealand made TCFD reporting mandatory

- New Zealand made TCFD reporting mandatory for four primary reasons:
  - Investors, creditors, and insurers did not have access to the information they need. The great majority of financial market participants were not providing sufficient and credible information that would assist investors to make effective and efficient decisions.
  - Businesses were worried about being competitively disadvantaged if they were to reveal their climate-related risks and opportunities before their competitors.
  - It was challenging to compare climate disclosures made under different reporting approaches. Climate reporting which was taking place was often inconsistent and incomplete.
  - The status quo was not driving change with sufficient urgency given the pressing need for investment and business decisions to incorporate the destabilising physical and transitional impacts of climate change.

Reception to the TCFD

- During initial public consultation of the Government's proposal to introduce mandatory TCFD based reporting, 77% of respondents either supported or largely supported the proposals.
- Business and industry who were to be regulated by these proposals additionally supported these proposals with more than 75% of respondents either supportive or largely supportive.
- While the legislation was being drafted, further consultation was undertaken on the final proposals. The Government received 100% support to legislate mandatory TCFD based reporting from these submissions.
- Since introduction, the market has rapidly increased their processes, evaluation of climate-related risks and opportunities, and TCFD based reporting prior to legislative requirements coming into force.
- Government support has been requested for increased climate data availability and support for development of climate scenarios necessary to analyse entity's strategy and disclose under the proposed TCFD based climate standards.

What's next for New Zealand

- New Zealand currently only requires assurance over entities' greenhouse gas emissions. Officials are now exploring introducing assurance requirements over the whole of an entity's climate reporting and establishing an occupational assurance practitioner licensing regime.
- Our climate-related disclosures regime currently covers around 200 of the country's largest financial market participants, including roughly 90% of New Zealand's total assets under management. This includes large banks, insurers, publicly listed companies, non-bank deposit takers, asset managers, and asset owners.
- We are now exploring expanding requirements to the public sector and large non-listed entities.

Lessons from passing mandatory TCFD legislation

- Engaging early and often with industry is key to increasing support and providing time for organisations to consider their strategy and begin data collection.
- International standards setting is rapidly evolving and engaging with international developments to ensure alignment will be crucial. The International Sustainability Standards Board was recently established with the objective of developing a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. There is a further question as to whether international standards are appropriate for domestic business.

- Governments must understand the role they can play to support entities to disclose in line with the TCFD framework. Significant education and data provision support may be required depending on the maturity of the market.

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Session Two: Digitalisation for Digital Economy

Author: Treasury International Team (*September 2022*)

RBNZ:

- RBNZ are working on de-risking and digitally upgrading remittance services to the Pacific
- This upgrade includes work towards digital identity verification tools and payment systems that will increase security while lowering costs
- RBNZ reviewed the APEC Policy Recommendations for Developing Cross-Border Payments and Remittances and we have passed this feedback on to the APEC Secretariat

DIA:

- The DIA is developing a modern, secure, and fit-for-purpose digital identity system
- The digital identity system will allow for mutual recognition with key economies, such as our single economic market with Australia
- Digital identity is often a key component in digital trade under free trade agreements, reducing trade barriers
- This system is currently moving through our legislative programme with the next step being the committee of the whole house
- The Digital Identity Services Trust Framework Bill aims to promote the provision of secure and trusted digital identity services that meet essential minimum requirements for security, privacy, identification management and interoperability. It also aims to support community resilience and realise the wider benefits of digital identity.
- The intention is for the Bill to establish:
  - a governance board as a public service authority within a public service department
  - an accreditation authority within a public service department
  - a liability framework subject to the development of the rules
  - the offences and penalties for the Trust Framework
  - infringement notices, provided through primary legislation
  - the accreditation authority's ability to recover costs
  - a disputes resolution process.

FMA:

- Digitising the licensing and registration system that covers auditors, financial service provides, peer-to-peer lenders and more
- This digitisation project includes creating online reporting tools to reduce regulatory barriers
- This system has yet to go live

IRD:

- Undergoing public consultation on digitising our tax system to allow taxation to be more seamlessly part of the natural system for businesses.
- This means tax calculations can be embedded in the software businesses use and tax can become an automated process that happens as a by-product of other processes.
- A fully digital tax system can support a growing digital economy
- There are several potential benefits to digitising the tax system, including:

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- Better compliance as compliance improves when paying tax is easy to do;
- Making it harder for taxpayers to get it wrong or manipulate data;
- Lower compliance costs, stress and risk for taxpayers;
- Lower administration costs for Inland Revenue; and
- Creating value throughout the economy through more efficient processes or providing a spur to innovation.

- This proposal builds on Inland Revenue's previous work on digitally automating tax returns for most of our citizens

MBIE:

- The Minister for Digital Economy and Communications is leading a whole-of-government "Digital Strategy for Aotearoa"
- This strategy will find gaps in our digital capability and opportunities for future investment
    - Consultation on the draft strategy has concluded and there was strong support for the need for a Digital Strategy for Aotearoa from nearly all the submitters with many commending the Minister and the cross-agency team for progressing this work.
- MBIE and MOE are working together to increase digital skills capability in our education system to create viable pathways into the digital sector
- In 2020 MBIE launched Digital Boost – A peer-to-peer platform for SMEs to share their knowledge and experience to enable New Zealand to have the most digitally engaged small business sector in the world.

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Background Briefings

Background Briefing: Tax and Digital Economy

- There has been significant concern internationally about the under-taxation of the digital economy. The main two issues that damage the integrity and fairness of the tax system are:
  - Multinational enterprises (MNEs) can earn revenue from a country without being liable to tax within its borders; and
  - MNEs can shift profits to low tax jurisdictions, resulting in paying little tax anywhere on their global income.
- There has been significant work internationally at the OECD over recent years towards amending the international tax framework to help solve these significant issues. The OECD solution is made up of two different ‘pillars’.
  - **Pillar One** (specifically Amount A) reallocates a portion of in-scope MNEs’ profits to the jurisdictions where sales are made, giving those countries taxing rights over that portion. In scope MNEs for Pillar One are those with annual revenue above €20 billion and a profit margin above 10%.
  - **Pillar Two** provides a minimum 15% tax on corporate profits for in scope MNEs, putting a floor on tax competition. In scope MNEs for Pillar Two are those with annual revenue above €750 million.
- The other option that has been pursued by some countries is a Digital Services Tax (DST). This is a tax at a relatively low rate (e.g. 3%) on the gross revenue generated by digital platforms in the markets that they operate in.

<u>OECD work to improve the international tax framework – Pillar One</u>

- In October 2021, 137 jurisdictions (including New Zealand) endorsed a statement by the G20/OECD Inclusive Framework that outlines key design details of the two-Pillar solution, with an ambitious timeline for implementing the pillars in 2023.
- As part of this statement, countries agreed to refrain from imposing any newly enacted DSTs or other similar unilateral measures until the earlier of 31 December 2023 or the successful implementation of Pillar One.

Pillar One (Amount A)

- The work on Pillar One has continued to progress at the OECD and will require a multilateral convention (MLC) to be signed and ratified by jurisdictions in order to be effective. Some key aspects have already been agreed to in the October Statement (such as the scope, thresholds, and allocation percentage) and the design work is near completion. However, there are still some key design elements of the Pillar One solution that are yet to be agreed.
- s6(a) and 9(2)(f)(iv) [redacted]

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[redacted]

Digital Services Taxes – international experience and reaction

- Some countries have pursued DSTs as interim options for taxing the digital economy. France, Italy, Turkey, Spain and the United Kingdom implemented DSTs prior to the political commitment in the October 2021 political statement not to implement new DSTs. Canada was in the process of implementing a DST immediately prior to the October 2021 statement. It has drafted DST legislation which may be enacted (at the discretion of the Canadian Government) in January 2024 if the two-Pillar solution has not come into force by then. In that event, the Canadian DST would have a retrospective application date of January 2022.
- Other countries have adopted different unilateral measures to tax the digital economy. In some cases, the measures are narrower than a full DST (e.g. Hungary and Austria's digital advertising levy) while in some cases they go further (e.g. India's equalisation levy).
- s6(a) [redacted]
- [redacted]
- All countries that have adopted DSTs or other similar measures intend for them to be removed should Pillar One be successful. In addition, some countries that are currently collecting DST revenue intend to credit this against future Pillar One tax obligations, as part of an agreement with the United States to delay the imposition of trade retaliation.
- s6(a) and 9(2)(f)(iv) [redacted]

OECD work to improve the international tax framework – Pillar Two

- s6(a) [redacted] Model rules for the global minimum tax have been released, with some final technical design elements still to be determined.
- s6(a) and 9(2)(f)(iv) [redacted]

Background Briefing: Asia-Pacific Economic Outlook

Author: Asian Development Bank (September 2022)

- **Developing Asia's recovery continues but is being slowed by global headwinds.** Russia's invasion of Ukraine continues to affect economies in the region, with supply disruptions and elevated food and energy prices increasing inflationary pressures. Tighter monetary policy in advanced economies is denting global demand and rattling financial markets, and this is adding to the economic fallout from the war in Ukraine.

- **More flexible pandemic policies are allowing activity to expand, but the “zero-COVID” strategy of the People’s Republic of China (PRC) is a notable exception.** Easing pandemic restrictions, increasing immunization, falling COVID-19 mortality rates, and the less severe health impact of the Omicron variant are underpinning improved mobility in much of the region. But the PRC remains the big exception because of intermittent but stringent lockdowns to stamp out sporadic outbreaks, in line with its “zero-COVID” strategy.
- **Consumer spending and employment are picking up on reduced mobility restrictions.** Consumption and investment supported the recovery in the first half of 2022, and exports continued adding to growth despite an increasingly challenging external environment. Consumer spending became more broad-based and increasingly rotated from goods to services. Labour market conditions are on the mend, supported by the economic recovery.
- **Headline and core inflation are trending up in developing Asia.** While still below the global average, regional inflation rose to 4.0% in the first half of 2022—higher than pre-pandemic inflation rates—driven by rising prices for food and energy. Core inflation has also been rising in several economies. Although global food prices have abated recently, the continuing war in Ukraine is keeping the costs of imported energy elevated in the region. In response, many governments in developing Asia have taken various policy measures, including subsidies, tax cuts or suspensions, trade restrictions, and price controls.
- **Developing Asia’s exports remained strong in the first half of the year, but they are slowing rapidly.** Rising commodity prices supported exports, while global demand for electronics slowed. In the PRC, exports bounced back in June after the lockdown in Shanghai, but they declined in July and August. They also weakened in the Republic of Korea and fell sharply in Taipei, China, both crucial suppliers of inputs to the wider electronics sector. Manufacturing export orders point to a gloomier outlook. They declined in August in seven of the nine regional economies for which data are available, including the PRC and the Republic of Korea, and they plunged in Taipei, China.
- **Tourism is bouncing back in economies that reopened to travellers, and remittances remain healthy.** Tourist arrivals are back to pre-pandemic levels in Maldives. Arrivals continue rising in Armenia, Fiji, Georgia, Nepal, and Singapore, although they remain far below pre-pandemic levels. A rebound in tourism in Sri Lanka was interrupted by the crisis there, and arrivals are still close to zero in most Pacific Island economies.
- **Remittances remain healthy in Bangladesh**, Pakistan, and the Philippines, which are among developing Asia’s largest recipients in absolute terms. Remittances are still healthy in economies where these inflows are large relative to gross domestic product, as they are in the Kyrgyz Republic, Samoa, and Tajikistan.
- **Fiscal improvement continues at a slower pace, while the monetary policy tightening cycle is mounting across developing Asia.** In most economies, budget balances will improve less than initially expected this year and next, as slowing growth reduces tax revenue and governments increase spending to cushion the impact of higher energy and food prices. In contrast to the more gradual fiscal improvement underway across the region, monetary policy tightening is accelerating—there have been more, and larger policy rates hikes in the region since April than there were in the first quarter. The tightening cycle should continue into early 2023, given rising inflationary pressures and weakening currencies.
- **Financial conditions deteriorated further on the dimming growth outlook and accelerated monetary tightening.** Currencies depreciated, equity markets retreated, risk premiums widened, and there have been foreign portfolio outflows in most developing Asian economies since April 2022. Financial conditions deteriorated substantially in some markets on economy-specific factors that included heavy debt burdens, worsening macroeconomic fundamentals, and exposure to the economic fallout from Russia’s invasion of Ukraine.
- **This *Update* revises down the forecasts for developing Asia made in April to 4.3% from 5.2% for 2022 and to 4.9% from 5.3% for 2023.** Excluding the PRC, the rest of developing Asia is projected to grow by 5.3% in both 2022 and 2023. The revised outlook is shaped by a slowing

global economy, the fallout from the war in Ukraine, more aggressive monetary tightening in advanced economies, and lockdowns resulting from the PRC's "zero- COVID" strategy. East Asia and South Asia account for most of the downgrade. East Asia's growth is revised down to 3.2% from 4.7% for 2022, as growth in the PRC will be much weaker than expected earlier.

- This will be the first time in more than 3 decades that the rest of developing Asia will grow faster than the PRC. Growth in South Asia this year is revised down to 6.5% from 7.0% in the earlier projection and to 6.5% from 7.4% for 2023. This reflects modest downward revisions to India's forecast on higher-than-anticipated inflation and monetary tightening, and Sri Lanka's sharp contraction caused by its sovereign debt and balance-of-payment crises. Growth forecasts are raised for the Caucasus and Central Asia, and the Pacific. The forecast for Southeast Asia remains largely unchanged.
- **The regional inflation forecast is raised to 4.5% from 3.7% for 2022 and to 4.0% from 3.1% for 2023 due to higher energy and food prices.** Inflationary pressures in developing Asia are expected to remain less severe than elsewhere in the world. But headline inflation is expected to accelerate in all subregions, to varying degrees. With recoveries continuing and labour markets improving, monetary authorities in economies where inflation pressures are broadening should push forward with tightening**.**
- **Risks to the outlook are skewed to the downside.** A sharp deceleration in global growth would severely undermine demand for developing Asia's exports. Stronger-than-expected monetary policy tightening in advanced economies could result in large exchange rate depreciations, financial instability, and balance-of payment difficulties in economies with vulnerable fundamentals. An escalation of the war in Ukraine and the spill overs of this on global commodity markets remain a threat that could increase inflationary pressures further and trigger slower growth in the region. Other risks are a deeper-than-expected deceleration in the PRC, debt-related fragilities in some economies, food insecurity, geopolitical tensions, and climate change– related disruptions. Negative pandemic developments, such as the emergence of new COVID-19 variants, also remain a risk.

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Background Briefing: Thailand Relationship

Author: APEC Policy and South and South East Asia Divisions, MFAT (October 2022)

- New Zealand and Thailand share a friendly and longstanding relationship – with 2021 marking 65 years of diplomatic relations. As a top ten two-way trading partner of New Zealand, the second biggest economy in ASEAN, and a country seeking to balance strong relationships s6(a) [redacted] Thailand remains an important relationship for New Zealand in the region and in ASEAN. We are also strong partners on multilateral issues, including international disarmament.
- Our trade and economic relationship with Thailand is strong – we share common trade architecture across AANZFTA, RCEP, and our 2005 bilateral FTA: the Thailand-New Zealand Closer Economic Partnership (TNZCEP). In addition, Thailand is an important education market for New Zealand and was one of the larger markets for international education pre-COVID-19 (and the largest source market for New Zealand in South East Asia). We also share strong business links – with companies such as Fisher and Paykel, Mainfreight, Beca, Fonterra and T&G having operations in-country. Thailand's location and connections to the rest of South East Asia make it a good logistics hub for businesses.
- s6(a) [redacted] In addition to your visit, the Minister for Trade and Export Growth visited Thailand for APEC's Ministers Responsible for Trade (MRT) in May, and planning is under way for visits of the Minister for Trade and Export Growth, Minister of Foreign Affairs and Prime Minister in November for the APEC Economic Leaders Meeting and preceding Ministerial meetings.
- s6(a) [redacted]
- s6(a) [redacted] Thailand is a fully engaged and constructive member economy of APEC, s6(a) [redacted]
- The overarching theme of Thailand's APEC host year is "The Bio-Circular-Green Economy", in line with Thailand's aim to support a sustainable and innovation-based economic recovery that balances value creation with environmental conservation. Underneath this core theme are three priorities:
  - 'Open to all opportunities' through facilitating trade and investment;
  - 'Connect in all dimensions' by reconnecting the region; and
  - 'Balance in all aspects' through promoting inclusive and sustainable growth.
  - Thailand is hosting a fully in-person APEC this year, which is the first-time delegations have met face-to-face since 2020.

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Thailand: Key Facts

Geography / Demographics			
Land Area	513,120 sq. km	*Population*	69.7 million (2020)
Capital City	Bangkok (known in Thai as Krung Thep)	*Language*	Thai
Political			
Political System	Constitutional Monarchy	*National Government*	Elected coalition government
Last Election	24 March 2019	*Next Election Due*	To be confirmed, expected in 2023
Head Of State	His Majesty King Maha Vajiralongkorn		
New Zealand Trade – Good and Services (year ending June 2022)			
Ranking	New Zealand's 9th largest two-way trading partner	*Two-way Trade*	NZ$4.42 billion
Exports	NZ$1.38 billion	*Imports*	NZ$3.03 billion
Main Exports	Dairy, Fruit, and nuts	*Main Imports*	Vehicles; Machinery; Plastics
International Visitor Numbers (Year ended to December 2019 – pre-COVID)			
Total Arrivals into New Zealand from Thailand		28,378	
Total Departures from New Zealand to Thailand		47,676	

Background Briefing: Thailand Economic Outlook

Author: APEC Policy and South and South East Asia Divisions, MFAT (September 2022)

- Thailand's economy is on its way back to growth after a challenging 2020 and 2021. On the back of strong goods exports, the Economist Intelligence Unit has forecast that the Thai economy will grow by 3.3% in 2022.
- Thailand's projected growth, however, is still the lowest amongst ASEAN nations. This comparatively slow return to growth is due to a combination of factors, including the dominance of Thailand's tourism industry, as well as inflation and the weakening of the Thai baht – all reflective of an open economy, susceptible to changes in the global economic situation, and dependent on trading partners and regional supply chains.
- s6(a) [redacted]
- Pockets of real strength and innovation within the Thai economy exist, including investment in its electric vehicle production industry, as well as in the nascent but growing renewable/alternative energy sector.
- s6(a) [redacted]

Overview

- In 2020, Thailand's GDP contracted significantly by 6.1%, followed by just 1.9% growth in 2021. After a challenging two years, Thailand is finally emerging from the pandemic with the Economic Intelligence Unit forecasting growth of 3.3% for 2022.
- Goods exports have been the primary driver of growth in Thailand over the last couple of years. While the value of Thailand's goods exports initially fell in the early stages of the pandemic, this improved quickly in 2021 as demand from major markets such as China, the US, Japan, and the EU, recovered. Goods exports to New Zealand also recovered quickly and have increased from NZD 2.2 billion in 2020 to more than NZD 3 billion in 2021 led by vehicles.
- s6(a) [redacted] with 2020's sharp contraction in GDP – it will still be another year or so before Thailand is back to its pre-2019 position.

Thailand's structural reliance on tourism

- A key reason for Thailand's slow return to growth is its heavy reliance on the tourism industry, which has rendered the Thai economy especially vulnerable to global shocks.
- Officially, tourism accounts for 12% of Thailand's GDP. More broadly, however, tourism drives Thailand's economy by employing 20% of its total workforce, and by providing a considerable boost to domestic consumption.
- With entry restrictions (including a 'two-week quarantine' policy) having been progressively lifted throughout 2022, tourists are now returning to Thailand. In 2022, 8 to 10 million tourists are expected to visit, up from just 300,000 who visited in 2021. Compared, however, to the 40 million tourists who visited Thailand in 2019, Thailand's tourism industry continues to be in a tough position.
- A further issue for Thailand is the fact that China remains under strict travel restrictions. Pre-pandemic, one third of all international tourists to Thailand were from China.

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- With Chinese tourism on pause, the Thai Government has been making efforts to identify new growth markets, with a particular focus on the Middle East. Despite the efforts of the Government, however, in the near term no market will be able to fill the gap left by Chinese tourists. Economists across the board have advised Post that the tourism industry – and therefore the economy – simply cannot fully recover until Chinese tourists return to Thailand.
- There are number of New Zealand companies which have been affected indirectly by the decline in tourist numbers. For example, as upscale hotels and restaurants were forced to temporarily close over 2020-2021, exporters of New Zealand food and beverage products lost a significant market. Fortunately, the premium hospitality industry is now recovering. s9(2)(b)(ii) [redacted]

Headwinds in 2022

- Thailand's growth in 2022 has also been constrained by economic headwinds including because of Russia's invasion of Ukraine.
- The rise in oil prices has severely impacted Thailand as a large net importer of fuel. As a significant agricultural producer, Thai farmers have been impacted by the recent increase in the cost of fertiliser, while the manufacturing sector has seen increases in raw materials used in production. Cost pressures have been exacerbated by a drop in the value of the baht against the US dollar (with the baht declining to its lowest point in more than fifteen years). s6(a) [redacted]

Consumer price inflation

- These higher costs are, in turn, being passed on to consumers with Thailand experiencing its fastest rate of inflation in decades. Consumer price growth is likely to average 6% for the year with a notable rise in the price of food, as well as fuel. This has hit lower income groups the hardest, with those on a lower income generally needing to spend up to twice as much (as a proportion of total income) on food and transport.
- Growing liquidity issues for Thailand's poorest are reflected in the rising levels of household debt – currently 89.3% of GDP (the 11th highest in the world). Household debt in Thailand is often used to support day to day living costs, rather than the purchase of assets such as houses.
- To stem the impacts of rising fuel costs, the Thai Government has cut excise taxes and introduced subsidies targeting lower income groups (Thailand regularly uses subsidies to manage the price of fuel in Thailand) and introduced price caps on staple foods such as instant noodles. The Government has also moved to raise the minimum wage for the first time in more than two years (As of October, Thailand's monthly minimum wage will be NZD 450-485. This may seem relatively low, but in fact, is higher than almost all countries within ASEAN).
- Additionally, the Central Bank of Thailand has increased the interest rate from 0.50% to 1%. This will likely only have a modest impact on inflation given that its causes have been predominantly external. It will, however, help to manage a risk that funds are diverted from Thailand to the US, due to the interest rate differential between the two countries (this has also been contributing to the weakening of the baht). The Central Bank is, however, having to balance capital movement risk with the fact that raising interest rates will simultaneously make it even harder for households to service high levels of debt.
- s9(2)(b)(ii) [redacted]

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s6(a)

Pockets of strength and innovation…

- Thailand has, however, shown that it can put in place the necessary measures at points when the economy has reached a critical juncture.
- A prime example of this is in electric vehicle (EV) production. Thailand is currently the largest automobile producer in South East Asia with the industry contributing more than 10% to its GDP. Both the Government and the private sector in Thailand are aware that Thailand must start building EV production capability, or face losing this industry to competing countries.
- The EV industry represents an area of strength in the Thai economy right now. A comprehensive range of EV policies introduced by the Thai Government in 2022 (including subsidies and tax and excise cuts for automotive companies) has resulted in the investment value of Thailand's automotive sector rising 21.2% from January-June 2022 – Ford Motors recently made its largest ever investment in Thailand to upgrade factories to produce EVs; the first fully electric Mercedes to be manufactured in Thailand will roll out by December 2022; and BMW, Nissan, Honda, Mazda and Great Wall Motors have committed to begin at least some level of EV production in Thailand.
- Thailand will have to manage a number of challenges if it is to become the leading EV production base in South East Asia. s6(a) Indonesia, for example, is marketing itself as a new centre of EV car production as a major producer of nickel – a vital material in the production of EV batteries, which is not found in Thailand. It remains to be seen how this will ultimately play out, but the Thai Government will have a level of confidence based on the support it has received from investors so far this year.
- Renewable energy and environmental sustainability are also key areas in Thailand, which are currently nascent but growing. The Thai Government has embraced the 'Bio-Circular Growth (BCG) Economy' as the core theme for its APEC hosting year, with the concept of sustainability beginning to shift from 'buzzword' status to something that could drive real change.
- Some of this is due to commitments by the Government – including to increase the proportion of renewable energy in Thailand to 30% of total consumption by 2037. s6(a)
- Other key drivers are international companies operating in Thailand, which need to meet their own climate commitments. s9(2)(b)(ii)

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[redacted]

- While there is a growing will in Thailand to reduce emissions and shift to renewable energy, there continues to be a lack of high value technology and expertise. There are opportunities for New Zealand companies here. s9(2)(b)(ii) [redacted]

The future of the Thai economy

- On balance, 2022 has been a good year for Thailand. While economic headwinds have constrained growth, issues such as inflation remain manageable. Meanwhile international tourism has come back faster than expected, and goods exports have gone from strength to strength, with three quarters of all goods exports, including computer parts and vehicles, having surpassed pre-COVID export value (despite rising production costs). Thailand remains a strong manufacturing and exporting hub in the region.
- s6(a) [redacted]

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- [redacted]

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Background Briefing: New Zealand Fiscal and Economic Outlook

Author: Treasury Forecasting (*September 2022)*

Key points

- Resilience in the New Zealand economy continues as international tourism returns.
- The labour market remains tight and wage growth has picked up.
- Headline inflation is high and monetary policy accommodation has been removed.
- Expectations for growth in the year ended June 2023 have been revised down since the Treasury's Budget forecasts, reflecting a weaker global outlook, lower net migration inflows and higher domestic interest rates.
- The fiscal position remains sound, the operating balance is expected to return to surplus in 2024/25, and net debt is low by international standards.

New Zealand outlook

- The New Zealand economy has been resilient to disruption from COVID-19. Real GDP grew 1.7% in the June 2022 quarter following a contraction of 0.2% in the March quarter, which reflected the impact of Omicron. The easing of Omicron disruption, including the reopening of the borders, were the key drivers of June's increase. For the year ending June 2022, real GDP grew 1.0%.
- The labour market remains tight and wage growth has picked up. Employment has been flat in recent quarters, but the unemployment rate has remained around historically low levels as labour supply growth has slowed owing to the closed borders; population growth is the lowest since 1989. Wage growth, as measured by average ordinary time hourly earnings, increased 6.4% in the June 2022 quarter compared to the June 2021 quarter, the largest annual increase since 1990.
- New Zealand's international border restrictions have eased and a gradual recovery in international visitor spending is underway. Increased international tourism will support growth and help to narrow the current account deficit, which widened to 7.7% of GDP in the year ended June 2022.
- Commodity export prices rose sharply in late 2021/early 2022, supporting the terms of trade at near-record high levels. More recently, prices have eased, in line with other global commodities. Fonterra's current season forecast Farmgate Milk Price range is NZ$8.50-NZ$10.00 per kg of milk solids. The mid-point of $9.25 is slightly below the 21/22 season pay-out of $9.30.
- Overall, the outlook for activity in 2023 is fairly stagnant, with softening domestic activity offset by rising exports (in large part reflecting the ongoing recovery in tourism). The unemployment rate is expected to be around 4.5% by the end of 2023 according to the latest RBNZ forecasts. Neither the Treasury nor the RBNZ are forecasting a recession, but risks have increased both internationally and in New Zealand.

Inflation and interest rates

- House prices increased 44% between the end of 2019 and late 2021 reflecting macroeconomic policy measures in response to the pandemic threat. Subsequently, higher interest rates and tighter credit conditions have contributed to falling house prices. House prices in August were around 9% below their late 2021 peak. A peak to trough decline of about 15% is expected.
- Consumers Price Index (CPI) inflation reached 7.3% in the June 2022 quarter, which may be the peak in this cycle. The key drivers have been strong domestic demand pushing up against constrained supply, exacerbated by the shock to prices from the war in Ukraine.
- The RBNZ has lifted the OCR to 3.5% from 0.25% in October 2021, and the August Monetary Policy Statement projected the OCR to be over 4.0% by June 2023.

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Table 1: Budget Economic and Fiscal Update 2022 forecasts

June years	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Real production GDP (annual average % change)	5.3	1.7	4.2	0.7	1.6	2.5
Unemployment rate (June quarter)	4.0	3.1	3.3	4.4	4.8	4.7
CPI inflation (annual % change)	3.3	6.7	5.2	3.6	2.7	2.2
Current account (annual, % of GDP)	-3.3	-6.7	-6.4	-4.9	-4.0	-3.6
Fiscal measures ($billions)						
Core Crown tax revenue	98.0	103.8	116.1	122.7	129.9	138.5
Core Crown expenses	107.9	128.4	127.1	131.1	134.1	138.2
Total Crown OBEGAL[1]	-4.7	-19.0	-6.6	-2.6	2.6	7.0
Core Crown residual cash	-13.8	-31.8	-29.3	-9.3	7.9	17.7
Net debt	35.9	61.2	75.0	83.6	76.4	69.5
as a percentage of GDP	10.5	16.9	18.7	19.9	17.3	15.0
Total borrowings	162.6	200.5	230.6	245.1	243.0	248.2
Net worth attributable to the Crown	151.2	123.9	122.4	125.9	135.1	149.1

Financial Statements for the year ended 30 June 2022

- The operating balance before gains and losses (OBEGAL) recorded a deficit of $9.7 billion, roughly half of what was forecast at Budget 2022. This was due to stronger economic conditions and lower spending than forecast.
- Core Crown revenue was 4.1% ahead of forecast, reflecting strong business results and more people in work in the economy than ever before, contributing to higher tax revenue.
- Core Crown expenses were 2.2% below forecast, as our successful COVID-19 response meant allocated pandemic-related spending was not required in full. Some of these expenses, such as ongoing investment in protections like therapeutics and vaccines, will shift into the 2022/23 fiscal year. However, the end of the 2021/22 financial year marks the closing of the COVID-19 Response and Recovery Fund and the end of emergency spending.
- Net debt ended the year at 17.2% percent of GDP, in line with Budget 2022 forecasts. This is one of the lowest levels in the OECD and well below the Government's debt ceiling of 30 percent, ensuring we are well positioned to weather further economic shocks.

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Table 2 – Fiscal strategy and other supporting indicators

Source: The Treasury

					Forecast		
	Actual	Actual			Budget 2022		
Year ended 30 June	2022	2021	Variance		2022	Variance	
$ millions	$ millions	$ millions	$ millions	%	$ millions	$ millions	%
OBEGAL	(9,691)	(4,560)	(5,131)	-112.5%	(18,978)	9,287	48.9%
Core Crown residual cash	(27,043)	(13,767)	(13,276)	-96.4%	(31,780)	4,737	14.9%
Net debt	61,850	35,921	(25,929)	-72.2%	61,163	(687)	-1.1%
Gross debt	118,950	100,835	(18,115)	-18.0%	115,139	(3,811)	-3.3%
% of GDP							
OBEGAL	(2.7)	(1.3)		(1.4)	(5.2)		2.5
Core Crown residual cash	(7.5)	(4.0)		(3.5)	(8.8)		1.3
Net debt	17.2	10.5		(6.7)	16.9		(0.3)
Gross debt	33.1	29.5		(3.6)	31.8		(1.3)

1 Favourable variances have a positive sign and unfavourable variances have a negative sign.

2 Excluding minority interests.

3 GDP is updated to reflect the most recently published numbers (Source: Stats NZ).

International tax developments

- There has been growing concern internationally about the under-taxation of the digital economy. There has been significant work internationally at the OECD over recent years towards amending the international tax framework to help solve this issue.
- There have however been delays at the OECD level on this work. Despite this, officials are continuing to actively participate at the OECD level to try and ensure this work continues to develop in a way that benefits New Zealand.
- As an interim measure, other countries have implemented unilateral measures in the form of Digital Services Taxes (DSTs). s6(a) and 9(2)(f)(iv) [redacted]

s6(a) [redacted]

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Background Briefing: Pacific Debt Dynamics

Author: MFAT Development Economy and Prosperity Division (*September 2022)*

Debt Dynamics in the Pacific

- s6(a) [redacted]
- [redacted]
- In line with global trends, most Pacific countries have incurred high levels of public debt in the last decade, primarily to finance investments and imports in excess of what they could afford on the basis of their exports and aid flows.
- The policy debate around debt dynamics globally is often influenced by the debt situation of countries in Africa, and to a lesser extent Asia and the Caribbean; not the Pacific. In the Pacific: there is limited history of debt sustainability crises; the majority of debt is issued by the Asian Development Bank and the World Bank on concessional terms (rather than from bilateral creditors); most countries receive a blend of concessional loans and grants, or solely grants, from the International Financial Institutions; countries have generally been managing the challenges related to public debt well; debt transparency is generally sound; and only small amounts of debt is reported as being held by private creditors.
- However, the Pacific economies' small size and vulnerability to external shocks means that even moderate levels of debt can be inherently risky. s6(a) [redacted]

s6(a) [redacted]

- Ultimately, Pacific countries have the responsibility for keeping their debt sustainable and ensuring it does not jeopardise their future growth and stability. However, given the strong interest we have in supporting economic viability and resilience in the Pacific, we will continue to offer advocacy at the international level (including through our membership of the International Financial Institutions), and providing technical advice and assistance for initiatives aimed at promoting sustainable debt management. MFAT's Pacific Infrastructure Technical Assistance Fund is available to support early project stages and improve bankability of projects, including evaluating the merits and most appropriate means of financing different development investments.
- The fact that we do not directly hold any Pacific debt also provides us with an opportunity to bring a neutral perspective to discussions on debt dynamics in the Pacific, s6(a) [redacted]
- We are also able to encourage and support other ways of growing and mobilising revenue. For instance, via improving taxation systems, improving efficiency of spending, reducing corruption, improving the business environment, and strengthening the financial sector to play a greater role in financing productive investment.

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Background Briefing: Ukraine/Russia and the New Zealand Sanctions Regime

Author: MFAT Ukraine Response Unit (*September 2022*)

Key points

- Russia's illegal invasion of Ukraine and ongoing military aggression are an affront to all of us.
- As PM Ardern said at the NATO Summit, all countries should be concerned by such a flagrant attack on a sovereign nation in clear contravention of the UN Charter's prohibition on the use of force to solve disputes.
- Russia's aggression also undermines our multilateral institutions. Russia's use of its UN Security Council position to block consideration of the invasion demonstrates why we must continue to seek reform of the UN.
- Aotearoa New Zealand has responded by:
  - Implementing unilateral sanctions for the first time ever.
  - Providing humanitarian assistance and a special visa for family members of our Ukrainian community.
  - Providing military and non-military assistance. We have deployed NZDF people and assets throughout Europe to facilitate the flow of supplies to Ukraine, and together with the United Kingdom, we are training Ukrainian troops and supporting intelligence efforts.
  - Providing significant contributions to the international legal effort to hold Russia accountable and have intervened in support of Ukraine's case against Russia at the International Court of Justice.
- Aotearoa New Zealand, like other countries, have felt the effects of Russia's invasion, through higher energy and commodity prices. s9(2)(g)(i) [redacted] We welcome the UN and Turkiye's efforts to facilitate a negotiated solution for the export of Ukrainian grain, but Russia's missile attacks on Odessa illustrate the significant implementation challenges that remain.
- The principles at stake in Ukraine, namely respect for international law and the UN Charter's defence of sovereignty and territorial integrity, are deeply significant to New Zealand as a small state acting in the world. We are eager to work with our closest partners to uphold a rules-based international order that serves all our interests. With that objective, it would be helpful for you to:
  - Seek views on the likely trajectory of the conflict and the international response.
  - Seek views on the economic, political, and social impacts of the conflict, including implications of any energy shortages.

Background

Current situation on the ground

- The war in Ukraine has continued for over six months. s6(a) [redacted] Ukraine has demonstrated remarkable defensive resolve in the face of the much larger Russian war machine and has exploited Russian defensive vulnerabilities around Kharkiv to retake a large swathe of ground as of mid-September. s6(a) [redacted]
- Ukraine is beginning to think about its reconstruction needs, s9(2)(g)(i) [redacted] At the Ukraine Recovery Conference held in Lugano in early July,

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s6(a) and 6(b)(i) [redacted]

[redacted] Ukraine is also preparing a proposal for a registry of evidence of damages, with a view to establishing a compensation mechanism at some stage in the future. Aotearoa New Zealand's focus in the short-to-medium-term will be on supporting Ukraine through provision of humanitarian assistance, and support for international accountability efforts through the ICJ and ICC.

Aotearoa New Zealand's response to Russia's Invasion of Ukraine

- In response to Russia's war of aggression, New Zealand has sanctioned almost 1,000 Russian individuals and entities and has provided over NZ$65 million in assistance to Ukraine. This includes:
  - $33.77 million in military assistance (including the deployment of NZDF personnel to support Ukraine (see below), as well as lethal and non-lethal military assistance);
  - $8.75 million in humanitarian and economic assistance; and
  - $3.22 million for human rights monitoring and international legal accountability initiatives.
  - $750,000 in cyber resilience to be delivered in partnership with USAID.
- In total since March, New Zealand has deployed up to 224 personnel to Europe to provide intelligence, liaison, logistics and training contributions to partner efforts to support the self-defence of Ukraine. The NZDF also deployed a RNZAF C-130 Hercules to assist with the movement of military equipment throughout Europe (this returned to New Zealand in June). Most recently, Prime Minister Ardern announced the deployment of up to 120 NZDF personnel to the UK to support s6(a) [redacted] undertaking the training of up to 800 members of the Armed Forces of Ukraine.
- The NZDF has also activated its New Zealand-based open-source intelligence capability and contributed surplus equipment to the Armed Forces of Ukraine. Aotearoa New Zealand has donated over NZD$20 million for the provision of critical military equipment to Ukraine through the NATO Trust Fund and UK Ministry of Defence, as well as purchasing commercial satellite access for Ukraine.

Global economic implications

- Russia's war on Ukraine, and the resulting economic sanctions, is severely disrupting already tight food, energy, and financial markets, exacerbating supply chain disruptions globally and causing stresses in the global economic system.
- Russia is one of the world's biggest energy suppliers, particularly for crude oil and natural gas. The crisis has caused disruption to oil flows globally, resulting in significant volatility in crude oil prices since the invasion. Although oil prices have eased in recent weeks, s9(2)(g)(i) [redacted]
- [redacted]
- The impact on global food security is the most alarming concern in terms of international trade. Russia and Ukraine together account for 29% of the world's wheat exports and 20% of its corn exports. Many countries around the world (especially developing nations) are heavily dependent on these products.
- The war comes at a difficult moment for the world economy. The recovery from the pandemic-induced recession has been slowing as new coronavirus variants have emerged, Chinese lockdowns have reduced their own economic activity and governments have reduced fiscal

support. Rising inflation has also prompted central banks to raise interest rates, elevating risks of recession in many large, developed economies. As result, the IMF is forecasting global GDP growth to slow from 6.1% last year to just 3.2% in 2022, down a further 0.4% from its April forecast.

- s9(2)(g)(i)

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Background Briefing: Indo-Pacific Economic Framework (IPEF)

Author: Ministry of Foreign Affairs and Trade (*October 2022*)

Key points

- IPEF is a novel, cooperative economic initiative that has been driven by the United States as the Biden Administration's key economic plank of Indo-Pacific engagement.
- Trade ministers from the fourteen participating economies agreed the 'scope' of IPEF negotiations on 9 September 2022, in Los Angeles. The Framework has now moved into the negotiation phase. There is already significant momentum, and an ambitious negotiation programme ahead for the coming months.
- IPEF provides opportunities for positive region-wide collaboration across the four pillars of the Framework: i) to deepen regional trade linkages; ii) to shore up the resilience of our supply chains; iii) to accelerate action towards a clean economy; and iv) to uphold key principles of a fair economy.
- Principles of sustainability and inclusivity are embedded throughout the scope of the Framework. These correspond well with New Zealand's Trade for All Agenda.
- While thirteen of the fourteen IPEF economies joined the negotiations of all four pillars of the Framework, India joined three of the four pillar negotiations but opted out of the trade pillar negotiations. s6(a) [redacted]
- [redacted]

Background dynamics and initial priorities for New Zealand

- New Zealand made TCFD reporting mandatory for four primary reasons
- Prime Minister Ardern (virtually) joined President Biden, Prime Minister Modi, and other leaders at the political launch of IPEF in May 2022. s6(a) and 9(2)(g)(i) [redacted]
- IPEF will develop rules and deepen cooperation across a wide range of 'future-focused' trade, economic, and climate issues. Structurally, the framework is organised into four thematic pillars: i) trade; ii) supply chains; iii) clean economy; and iv) fair economy.
- New Zealand as well as several IPEF economies who are also CPTPP signatories have openly encouraged the US to consider re-joining CPTPP. s6(a) and 9(2)(g)(i) [redacted]
- Twelve of the fourteen IPEF members are also APEC members, with Fiji and India being the only two IPEF members who aren't in APEC. The following nine APEC members are not part of IPEF: Canada, Chile, China, Chinese Taipei, Hong Kong (China), Mexico, Papua New Guinea, Peru, Russia. Aside from membership differences, it's possible that IPEF may result in more legally binding elements (particularly under the trade pillar) than APEC. The US may look to use its APEC host economy status in 2023 to drive IPEF outcomes over the next year.

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[1] The US, seven ASEAN members (Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam), three non-ASEAN Asian economies (India, Japan, South Korea), and three economies in Oceania (Australia, Fiji, New Zealand).

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- s6(e)(vi) and 9(2)(j) [redacted]
- There is a strong 'green investment' theme running through the scope of IPEF, which has the potential to bring significant benefits to all members. Some US think-tanks have talked up the scope to leverage the roughly $100 trillion US institutional investment pool (e.g. insurance and investment funds) to drive the transition to green investment, s6(a), 6(e)(vi) and 9(2)(j) [redacted]
- More broadly, New Zealand will likely need to play an active role in driving high-ambition climate-related outcomes from IPEF. s6(e)(vi) and 9(2)(j) [redacted]
- s6(a), 6(e)(vi) and 9(2)(j) [redacted]

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Background Briefing: New Zealand's Foreign Investment Screening Regime – Status and Emerging Issues

Author: Treasury, International Team; LINZ, Policy and Overseas Investment Teams (*October 2022*)

Talking points

- New Zealand welcomes sustainable, productive, and inclusive overseas investment. Overseas investment supports job creation, the creation and adoption of new technologies, increases human capital, and grants New Zealand more diverse international connections, including access to global distribution networks and markets. At the same time, the Government recognises that foreign investment can pose risks. Foreign investment can take ownership and control of economic activity out of New Zealand and high levels of foreign ownership of sensitive New Zealand assets can conflict with a view that New Zealanders should own or control those assets. It can also, in extreme cases, present opportunities to undermine our national security.
- The Overseas Investment Act 2005 (the Act) is New Zealand's principal tool for regulating foreign investment. It seeks to balance the need to support high-quality investment, while ensuring that the government has tools to manage risks associated with foreign investment. The Overseas Investment Act 2005 provides the regime under which New Zealand screens inward foreign investment. The Act does so by providing an enduring framework for screening foreign investments in:
  - sensitive assets to help ensure that they benefit New Zealand and are not contrary to our national interest, and
  - certain strategically important businesses and business assets to help ensure that they do not pose significant risks to New Zealand's national security or public order.

Recent reforms

- From 1 July 2021, a broad set of reforms to the Act known as the 'Phase Two Reforms' came into force. These reforms were intended to streamline and reduce the burden of compliance for most lower risk investments, while also improving New Zealand's ability to manage areas of heightened risk associated with foreign investment.
- Key changes to streamline the regime and reduce the burden of compliance include:
  - Allowing small increases in existing interests, increasing the levels of overseas control or ownership required for an NZX listed entity to be considered an overseas person (and require screening under the Act) and introducing an applied for exemption for non-listed entities. These changes will benefit investors both by allowing them to invest more without being subject to screening and, indirectly, be allowing more entities they have an interest in to acquire sensitive New Zealand assets without consent.
  - Removing screening requirements for some investments in sensitive adjoining land (i.e. land that is considered sensitive because of what is next to), which will significantly reduce the number of sensitive land transactions that are subject to screening.
  - Simplifying the 'Benefit to New Zealand' test by reducing the number of factors being considered to seven broader factors (this is not intended to narrow the test, rather the broader factors will encourage a more holistic approach to determining whether the test is satisfied) and expressly introducing a proportionality approach, so the level of benefits required will depend on the sensitivity of land.
  - Narrowing the factors that can be considered under the good character component of the investor test, which applies to all transactions except some involving residential land, to serious offences and contraventions only. The previous test allowed decision-makers to consider any matter that reflected adversely on an investors character.

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  - Introducing statutory timeframes for decisions. The timeframes are ambitious and will require assessments to be completed more quickly than was previously the case. They will also give investors more certainty about when their applications might be processed.

- Key changes to improve the Government's ability to manage risk include:
  - **The national interest test** is a backstop tool to manage significant risks associated with transactions that ordinarily require screening under the Act and enables New Zealand to protect its core national interests in a broad sense.
  - **The national security and public order call-in power** allows review of investments in strategically important businesses and business assets, where consent would not normally be required (for example, because the business is worth less than $100m). Where investments that present risks, the responsible Minister is empowered to take steps to manage those risks, such as blocking or imposing conditions on the transaction.
- The Phase Two Reforms also repealed the temporary COVID-19 Emergency Notification Regime, introduced in early 2020 in response to economic impacts of the pandemic, which required investors to notify the Government of all foreign direct investments that would result in more than 25% foreign ownership of a firm or its assets to undergo a national interest assessment.

2022 changes to the special forestry test

- In August 2022, the Government passed legislation to strengthen the rules relating to overseas investment that result in the conversion of land to production forestry.
- The key change was the removal of forestry conversions from the Overseas Investment Act 2005's 'special forestry test', and to instead apply the 'benefit to New Zealand' test to these investments. This ensures that forestry conversions by overseas investors continue to bring broad benefits to New Zealand. The Amendment Act also made several minor changes and technical clarifications to improve the Overseas Investment Act 2005's existing forestry provisions.

Current status

- Following the passage of legislative reform, focus has shifted towards operationalising the new rules and regulations and bedding-in processes. LINZ and the Treasury are monitoring the performance of the regime, particularly its effectiveness in screening for investments that pose a national security risk.

National interest test

- Over the 2021/22 financial year, LINZ reviewed 376 investment applications. Just under half of these applications related to the acquisition of residential property. In total, 94% of applications gained approval to proceed. s6(a) [redacted]

National security public order call in power

- Since the introduction of the national security public order call in power, LINZ reviewed 51 investments into strategically important businesses. This only applies to detected and notified transactions and does not capture national interest assessments. Additionally, not every transaction was found to be notifiable, for example because the target business did not meet the definition of a strategically important business.
- s6(a) and 9(2)(b)(ii) [redacted]

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- Due to the voluntary nature of the majority of national security public order call in power applications, LINZ has established an operationalised a scanning regime to identify and assess non-notified transactions. This has led to the identification and assessment of 21 transactions under the regime. LINZ continues to collaborate across government and the private sector to identify and assess non-notified transactions to ensure the regime remains robust and effective.

Aggregation risk

- Aggregation risk refers to risks that may arise from the aggregation of foreign ownership in parts of an economy, particularly 'horizontal' and 'vertical' integration within sectors or supply chains. Aggregation of ownership can drive positive economic outcomes and is not, in and of itself, an issue. However, concentration of market power can increase the risk of reducing or limiting competition within a market, including cartel behaviour or manipulation of supply and/or demand.
- s6(a) [redacted]

s6(a) and 9(2)(f)(iv) [redacted]

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Bilateral overview – New Zealand and the United States

Author: MFAT Americas Division (*October 2022*)

Key points

- The US is one of New Zealand's closest and most important relationships. We are, as then-Secretary of State Colin Powell said in 2002, "very, very, very good friends".
- As two of the world's oldest democracies, committed to upholding human rights and the rule of law, we have close people-to-people, economic, and security ties.
- s6(a) [redacted] the US remains an indispensable partner for New Zealand. This bilateral relationship was put on firm footing by the 2010 Wellington Declaration, which established a framework for New Zealand-US strategic partnership, and which was supplemented in 2012 by the Defence cooperation-focused Washington Declaration.

The Prime Minister's United States May 2022 trip

- The Prime Minister's visit to the United States in May 2022 reaffirmed the central importance of the partnership between New Zealand and the United States at a time of global uncertainty and geostrategic change. s6(a) [redacted]
- Prime Minister Ardern and President Biden released a Joint Statement outlining shared perspectives on international issues. Central themes of the Prime Minister's discussions were:
    - New Zealand's long history of relations with the US and shared values;
    - The need for the US to integrate into the economic architecture of the Indo-Pacific – initially through the Indo-Pacific Economic Framework and longer term ideally through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP);
    - s6(a) [redacted]
    - Russia's invasion of Ukraine and the global and regional implications;
    - s6(a) [redacted]
    - The impact of disinformation and the rise of violent extremism;
    - Two high-profile mass shootings also spurred significant interest in New Zealand's experience with gun reform.

The New Zealand – US relationship

- New Zealand is respected for our inclusive and principled approach to difficult issues [redacted] s6(a) [redacted]
- The US values our understanding of and connection to Pacific Island countries s6(a) [redacted]
- [redacted]

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- s6(a) [redacted]
- [redacted]

Trade and Economic Relationship

- Our economic linkages with the US have significant value for the New Zealand economy. It is not just that the US is our third largest trade partner (worth NZ$20.7 billion in two way trade for the year ended June 2022) or our third largest source of foreign investment – it is the high quality and value of US tourism, trade and investment. Growing our connections with the US will contribute to New Zealand's ambition for a more productive, resilient, sustainable and inclusive economy.
- Stocks of US foreign direct investment in New Zealand totalled NZ$8.6 billion in March 2021. Large US investments into New Zealand have been focused on the tech, pet food, health, creative media and alternative protein sectors. With each of Microsoft, Amazon and Google developing data centres in New Zealand, US investment is set to grow strongly over the next decade. New Zealand firms are also increasingly actively investing in the US market. According to US statistics New Zealand was the US' fastest growing source of foreign direct investment in 2020 and majority New Zealand owned firms employed 28,000 US workers.
- The US is a particularly important market for New Zealand services. Pre-COVID almost half (46 percent) of our US$14.5 billion trade with the US was in services and post-COVID it has become our biggest services market. While tourism has traditionally been an important part of the services relationship, New Zealand's exports of computer services have doubled over the past four years, reaching $633 million in the year ended March 2022.
- The US is also important for New Zealand's value-add goods exporters given the sophisticated consumer base and high incomes. With significant tariff and other barriers impeding the levels of trade in some of our traditional agriculture exports, the US is a destination for our higher value products. For example, in 2020 the value of New Zealand's exports of packaging, grading, sorting and shrink-wrapping equipment - which often end up in US fruit pack-houses - was about the same as our apple exports - US$43 million vs US$39 million. New Zealand's exports to the US of electromagnets and electrical static convertors were more than double our apple exports (US$82 million). Exports of sleep apnoea machines were double that again (US$173 million).

US Trade and Economic Policy

- This economic and investment activity has developed in the absence of a free trade agreement. While the US has free trade agreements with Australia, Singapore, Japan and Canada, it does not have one with New Zealand. The US, New Zealand and other regional partners have recently launched negotiations for an Indo-Pacific Framework (IPEF), the first step toward further US economic integration in the region since it left TPP in 2017. However, given it excludes market access, IPEF is far from an equivalent prospect to a comprehensive trade agreement like CPTPP.
- s6(a) [redacted] Our Trade for All approach has been of interest to US trade agencies, which want to ensure trade policy delivers equitable outcomes for workers – particularly those in unionised manufacturing jobs and traditionally marginalised groups. The increased US focus on sustainable practices and addressing climate change is another area of potential deepening collaboration between the US and New Zealand, including through IPEF.
- At the same time, the US is increasingly focused on developing policies that favour trading with allies and trusted sources as well as reshoring manufacturing to the United States. These policies

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were in part prompted by the breakdown of critical supply chains during the COVID-19 pandemic s6(a) [redacted]

- s9(2)(d) [redacted]
- s6(a) [redacted] New Zealand’s inclusion on the Committee for Foreign Investment in the United States (CFIUS) expected state list earlier this year – which eases the regulatory requirements for New Zealand firms investing in the US is a good example of this. CFIUS will review our addition to this list in February next year, so it will be important to advocate for our continued inclusion.

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Bilateral overview – New Zealand and Canada

Author: MFAT Americas Division (*October 2022*)

Bilateral relationship fundamentals

- Canada is one of New Zealand's closest partners, and one of our bedrock bilateral relationships. Our Commonwealth heritage, shared respect for democracy and the rule of law, strong people to people links, and close trade policy ties form the foundation of the relationship. Our worldviews are underpinned by our shared parliamentary, legal, social, and defence traditions. The result is a rich, natural partnership, reflected in our instinctive like-mindedness on most issues.
- Canadian and New Zealand Government values and core interests are closely aligned internationally, including in our efforts to pursue sustainable and inclusive trade agendas. Our cooperation over the COVID-19 pandemic on open trade and supply chain resilience has been a feature of the past few years. Our countries share enduring democratic values and a fundamental interest in a rules-based order that builds a more liberal, sustainable, and inclusive world.
- Both countries also have a number of similar domestic priorities, and are increasingly disposed to share perspectives on complex policy issues; which were heightened in the COVID context. Canadian and New Zealand policy makers share similar perspectives on a variety of issues including indigenous reconciliation, climate change, health, housing, social development, and justice reform.
- Canada remains one of New Zealand's key defence, security, and intelligence partners. The Five Eyes intelligence partnership and our shared security interests are important to both countries, and the defence relationship is in very good shape with long-standing engagement at officials' level. A Canadian frigate, HMCS Calgary, visited New Zealand in August 2021 – the first foreign military ship visit since the start of the COVID-19 pandemic. Canada has also hosted the upgrades of our Anzac Frigates HMNZS Te Kaha and Te Mana in British Columbia.
- Canada and New Zealand signed a bilateral Indigenous Cooperation Arrangement in August 2022. This agreement aims to formulate a structure around our indigenous cooperation, which began at the official level through the Indigenous Peoples Economic and Trade Cooperation Agreement (IPETCA) in May 2022. Indigenous affairs remain top of mind across Canadian government, and by sharing best practices the aim is to deepen indigenous-indigenous links.

Canada political developments

- Canada held an early federal election on 20 September 2021, which returned an essentially unchanged Parliament. The Liberals continue to provide a stable minority government by working in the context of a confidence and supply agreement with the left-leaning New Democratic Party. This should prevent another election until 2025. The Liberals ran a COVID-19 and domestically-focused campaign, with no major changes to previous policy directions.

Ukraine - Russia

- Canada has long taken a strong position in opposing Russia's authoritarian and aggressive practices. This stems from Canada's commitment to international peace and security, and to international rules; Canada's membership of NATO; and also owes something to the large Ukrainian diaspora in Canada – the largest outside Ukraine and Russia. A number of MPs, including Deputy PM Freeland, have Ukrainian heritage.
- s6(a) Prime Minister Justin Trudeau visited Kyiv in May 2022. Canada was one of the first countries to ban the import of oil from Russia and has provided significant financial and military support to the Ukrainian government – including over CAD$626 million of military equipment delivered and committed and CAD$906 million in loans and direct financial contributions. Canada has deployed a further 460 troops to NATO since the conflict began, mainly in an artillery division

deployed to Latvia. Canada has also deployed 225 personnel to the Ukrainian training mission in the United Kingdom.

The economic relationship

- Canada's wealthy consumers and investors deliver large benefits to New Zealand. Canada is New Zealand's 20th largest trading partner for goods and services (year ended March 2022), with two-way trade valued at NZ$1.85 billion. Services exports had driven strong trade growth, making up 39% of our exports to Canada in the year ending March 2020, but have been severely affected by COVID-19 due to the collapse in travel (tourism from Canada was worth NZ$317.8 million in the year ending 2020).
- Canada is also one of the largest sources of foreign direct investment into New Zealand, driven by the investments of large Canadian pension funds in a range of industries including agri-food, forestry, healthcare, digital technology and services. One of the largest and most recent instances of Canadian pension funds investing in New Zealand is the Ontario Teachers Pension Plan which bought 70% of the mobile phone tower business of Spark New Zealand for NZ$900 million.
- Canada put in an accession request to join the Digital Economy Partnership Agreement (DEPA) and has commenced formal accession negotiations through a working group.
- CPTPP provides an important link between our two countries. Under the Agreement, 99% of existing New Zealand exports are tariff free, with estimated savings of NZ$5.2m per year. Highlights include removing tariffs of up to NZ$3.50 per bottle for wine and a 26% out-of-quota tariff on beef (over 6 years). Merchandise exports to Canada increased by 10% from 2018 to 2020, with significant increases in frozen beef (30%), kiwifruit (47%), butter (18%), and milk fats (35%). Tariff savings are at least $12 million for frozen beef, $4 million for butter and $2.5 million for wine.
- However, Canada applies significant restrictions that prevent New Zealand dairy exporters from using the limited access to the Canadian market negotiated under CPTPP. As a result of continuing Canadian inaction on this issue, New Zealand has initiated consultations with Canada under the CPTPP over its administration of its dairy tariff rate quotas. If approved by Cabinet, this will be our first trade dispute under a free trade agreement rather than through the WTO process. This s6(a) and has been raised numerous times with Canada, by Ministers and officials, including by Prime Minister Ardern.

Key economic data

GDP	USD $2.2 trillion (2022 est.)
GDP GROWTH	+4.6% (2021)
GDP PER CAPITA	USD $57,406 (2022 est.)
EXPORTS	CAD $637 billion (2021)
MAIN EXPORTS	Crude Petroleum, Cars, Refined Petroleum, Vehicle Parts and Petroleum Gas.
IMPORTS	CAD $631 billion (2021)
MAIN IMPORTS	Cars, Delivery Trucks, Refined Petroleum, Crude Petroleum and Computers.
UNEMPLOYMENT	5.1% (May 2022)

Exports/Imports – Key points
• Canada is a G7 member. Its trade with the USA is the largest bilateral trading relationship in the world at USD$763 billion in 2021.
• Agriculture, energy, mining, and forestry account for more than 50% of Canada's total exports. Machinery, equipment, and other manufactures account for the majority of remaining exports.
• Capital goods imports include machinery, crude oil, chemicals, and durable consumer goods.

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Bilateral Briefings

Bilateral Briefing: Wally Adeyemo, Deputy Secretary US Treasury

Lead: Minister Parker

Other attendees: Deb Thornton and New Zealand and US Officials

Date: Thursday 20 October

Time: 10.10 – 10.30am

Venue: MR117

Wally Adeyemo

US Deputy Treasury Secretary

Previous roles:

1st President of the Obama Foundation (2019-2021); US Deputy National Security Advisor for International Economics 2015-2016; Deputy Director of the National Economic Council 2015-2017; Non-Resident Fellow at New York University School of Law; Senior Advisor at Center for Strategic and International Studies and Senior Advisor at BlackRock.

Stated priorities: Cost of living, climate change and decarbonisation, job growth and the future of work.

Previous engagements

N/A

Author: Treasury

Aim:

- Reiterate the value New Zealand places on its relationship with the United States.
- Continue to leverage New Zealand's successful APEC host year as the US prepares for hosting in 2023.
- Discuss possible areas of future cooperation, including APEC 2023.
- Discuss our two countries important roles in the Pacific.

Background to issues

APEC	• The US are hosting APEC in 2023 but have not announced their priorities. They recently launched a 'Champion Economy' project focused on Financing a Just Energy Transition (FJET). This topic may be an APEC priority for the US. • The US, along with Canada, Japan, Australia, Singapore, and New Zealand, are aiming for consensus on a Joint Ministerial Statement (JMS) for the FMM. Russia may block consensus because each of these 'likeminded' economies want to include language recognising the economic impact of Russia's invasion of Ukraine.
IPEF	• The US are leading on the IPEF initiative and negotiations. This framework demonstrates their increased participation in the Pacific. • s6(a) • A key question for us is how serious the US is about using IPEF as a vehicle for climate action. This coalition – with 40% of global GDP, six of the biggest emitters, world's best technological and industrial resources and immense investment resources – is ideally positioned to have impact. An obvious focus is how IPEF rules or cooperation provisions might help drive the greening of investment flows across the region.
The Pacific	• NZ's 'resilience' approach to Pacific Island countries, supporting them in responding to and recovering from impacts of COVID-19. • Concern about critical services, including the financial sector (banking and insurance especially), exiting. • Note NZ's increasing focus on supporting Pacific Island countries and their economies; general engagement in the region; concern about regulatory barriers posing problems for the financial sector in the region; including Indo-Pacific Economic Framework for Prosperity (IPEF); climate-related concerns and initiatives

Talking Points: General

- New Zealand and the US have a warm relationship, and the US is our third largest trade partner (worth NZ$20.7 billion in two-way trade for the year ended June 2022) and our third largest source of foreign investment.

- Note that New Zealand and the US have a long history of working together in multinational fora like APEC, the IMF, and the World Bank.

IPEF and the Pacific

- Discuss the US objectives for the Indo-Pacific Economic Framework for prosperity (IPEF).

- s6(a) [redacted]

- Note NZ's increasing focus on supporting Pacific Island countries and their economies; general engagement in the region; the Indo-Pacific Economic Framework for Prosperity (IPEF); and climate-related concerns and initiatives.

- Note that New Zealand takes a 'resilience' approach to Pacific Island countries, supporting them to respond to and recover from impacts of COVID-19.

- Note New Zealand's serious concerns about critical services, including the financial sector (banking and insurance especially), exiting.

- Express desire for continuation and deepening of existing cooperation between the US and New Zealand governments, including at Officials-level, with respect to our Indo-Pacific partners economic topics.

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Bilateral Briefing: Canada Minister of Tourism and Associate Minister of Finance Randy Boissonnault

Lead: Minister Parker
Other attendees: tbc
Date: Thursday 20 October
Time: 11.30 – 12.00pm
Venue: QSNCC Bilateral room

Aim:

- Reiterate the value we place on our close relationship with Canada and our shared values.
- Discuss cooperation in multinational fora like APEC, work on climate action, and international tax.

Randy Boissonnault
Canada Minister of Tourism and Associate Minister of Finance
Previous roles:
Member of Parliament
for Edmonton Centre since 2021 and 2015-2019; Special Advisor to the Prime Minister on LGBTQ2 Issues 2016-2019; Parliamentary Secretary to the Minister of Canadian Heritage 2015-2017.for Edmonton Centre (since 2021) and 2015-2019; Special Advisor to the Prime Minister on LGBTQ2 Issues 2016-2019; Parliamentary Secretary to the Minister of Canadian

Previous engagements
N/A

Author: Treasury

Background to issues

APEC	• Canada, along with the US, Japan, Australia, and New Zealand, are aiming for consensus on a Joint Ministerial Statement (JMS) for the FMM. Russia may block consensus because each of these 'likeminded' economies want to include language recognising the economic impact of Russia's invasion of Ukraine.
Climate change and decarbonisation	• New Zealand's first Emissions Reduction Plan was published in May 2022 with a focus on driving domestic mitigation across several key sectors. Several foundational actions have been outlined, with a strong focus on supporting an equitable transition towards a high-wage, low-emissions economy. • Our first National Adaptation Plan (NAP, 2022-2028) was released in August and sets out the Government's plan to help New Zealanders adapt and includes institutional and legislative settings to ensure data and information supports others to manage their risks.
International tax	• There has been growing concern internationally about the under-taxation of the digital economy. • There has been significant work internationally at the OECD over recent years towards amending the international tax framework to help solve this issue, though there have been delays s6(a), 9(2)(f)(iv) and 9(2)(g)(i) • As an interim measure, other countries have implemented unilateral measures in the form of Digital Services Taxes (DSTs). • s6(a), 9(2)(f)(iv) and 9(2)(g)(i) • Canada has begun the implementation process for a Digital Services tax itself which would not be imposed earlier than 1 January 2024. This would apply a 3% tax on certain revenues when the company makes either more than CAD750 million globally or CAD20 million domestically.

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Talking Points: General

- Note that New Zealand and Canada have a warm relationship based on our Commonwealth heritage, shared respect for democracy and the rule of law, strong people to people links, and close trade policy ties. Our worldviews are underpinned by our shared parliamentary, legal, social, and defence traditions. The result is a natural partnership, reflected in our instinctive like-mindedness on most issues.

- Our countries share democratic values and a fundamental interest in a rules-based order that builds a more liberal, sustainable, and inclusive world, including in multinational fora like APEC, the IMF, and the World Bank.

- New Zealand is increasing its focus on supporting Pacific Island countries and their economies, particularly with climate-related concerns and initiatives.

Climate

- Like Canada, we have committed to reaching Net Zero emissions by 2050. Our first Emissions Reduction Plan was published in May this year. The ERP has a focus on driving domestic mitigation across several key sectors several foundational actions have been outlined, with a strong focus on supporting an equitable transition towards a high-wage, low-emissions economy.

- We would welcome an exchange of knowledge and experiences in planning to achieve Net Zero by 2050.

International Tax

- There has been growing concern internationally about the under-taxation of the digital economy. There has been significant work internationally at the OECD over recent years towards amending the international tax framework to help solve this issue. However, there have been delays s6(a), 9(2)(f)(iv) and 9(2)(g)(i)

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Bilateral Briefing: Indranee Rajah, Second Minister for Finance and Second Minister for National Development, Singapore

Lead: Minister Parker

Other attendees: Deb Thornton and New Zealand and Singaporean Treasury Officials

Date: Thursday 20 October

Time: 2.30 – 3:00pm

Venue: MR118, QSNCC Bilateral room

Indranee THURAI RAJAH

Minister in the Prime Minister's Office (since 2018); Second Minister for Finance (since 2020); Second Minister for National Development and Leader of the House (since 2020).

Previous roles:

Second Minister for Education 2018-2020; Second Minister for Law 2018; Senior Minister of State for Finance 2015-2018; Senior Minister of State for Law 2012-2018; Senior Minister of State for Education 2012-2015; Deputy Speaker of Parliament 2006-2011 and MP for Tanjong Pagar Group Representation Constituency since 2001.

Stated priorities: Cost of living, economic recovery from COVID-19, tourism.

Previous engagements

Recently met with Minister of Finance in Washington, accompanied the PM for her April 2022 Singapore visit

Author: Treasury

Aim:

- Reiterate the value we place on our relationship with Singapore.
- Discuss our bilateral cooperation in multinational fora like APEC, the IPEF negotiations, current work on climate action, and international tax.

Background to issues

APEC	• Canada, Japan, Australia, and New Zealand, and the US, are aiming for consensus on a Joint Ministerial Statement (JMS) for the FMM. Russia, with support from China, will likely block consensus because these 'likeminded' economies want to include language recognising the economic impact of Russia's invasion of Ukraine. Singapore has stayed silent on this issue.
IPEF	• The US are leading on the IPEF initiative and negotiations. This framework demonstrates their increased participation in the Pacific. • s6(a), 9(2)(f)(iv) and 9(2)(g)(i) •
Climate change and decarbonisation	• New Zealand's first Emissions Reduction Plan was published in May 2022 with a focus on driving domestic mitigation across several key sectors several foundational actions have been outlined, with a strong focus on supporting an equitable transition towards a high-wage, low-emissions economy. • Our first National Adaptation Plan (NAP, 2022-2028) was released August and sets out the Government's plan to help New Zealanders adapt. It includes institutional and legislative settings and ensuring data and information supports others to manage their risks.
International tax	• There has been growing concern internationally about the under-taxation of the digital economy. • There has been significant work internationally at the OECD over recent years towards amending the international tax framework to help solve this issue, though there have been delays s6(a), 9(2)(f)(iv) and 9(2)(g)(i) • As an interim measure, other countries have implemented unilateral measures in the form of Digital Services Taxes (DSTs). • s6(a), 9(2)(f)(iv) and 9(2)(g)(i)

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Talking Points: APEC / IPEF

- Note that New Zealand and Singapore have a warm relationship with strong industry, research, and business connections. The result is a rich, natural partnership, reflected in our like-mindedness on many APEC issues.

- Our countries share a fundamental interest in a rules-based order that builds a more liberal, sustainable, and inclusive world, including in multinational fora like APEC, the IMF, and the World Bank.

- Discuss the US objectives for the Indo-Pacific Economic Framework for prosperity (IPEF). Note that New Zealand values the IPEF focus on decarbonising economies.

Climate

- New Zealand is increasing its focus on supporting Pacific Island countries and their economies, particularly with climate-related concerns and initiatives.

- Like Singapore, we are aiming to reaching Net Zero emissions by 2050. Our first Emissions Reduction Plan was published in May this year. The ERP has a focus on driving domestic mitigation across several key sectors several foundational actions have been outlined, with a strong focus on supporting an equitable transition towards a high-wage, low-emissions economy.

- We would welcome an exchange of knowledge and experiences on climate action, particularly on sustainable finance. Note the recent SG/NZ Green Bonds officials knowledge sharing which was insightful (speaking from the NZ side), and encourage further exchanges.

International Tax

- There has been growing concern internationally about the under-taxation of the digital economy. There has been significant work internationally at the OECD over recent years towards amending the international tax framework to help solve this issue. There have been delays [redacted] s6(a), 9(2)(f)(iv) and 9(2)(g)(i)

- s6(a), 9(2)(f)(iv) and 9(2)(g)(i) [redacted]

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Recent media comments or speeches:

Opening speech at the launch of the Singapore Together: a series of short films (19 July 2022)
https://www.mccy.gov.sg/about-us/news-and-resources/speeches/2022/july/launch-of-singapore-together-short-films

- Launched in June 2019, 'Singapore Together' is a governance approach that involves Singaporeans working with one another, and with the Government, to build a shared future.
- In June 2022, and in the spirit of SG, the 'Forward Singapore' exercise was launched; a national effort to refresh Singapore's social compact and set out a roadmap for the next decade and beyond.
- In relation to Forward Singapore, Ms Thurai Rajah said in her speech "I am one of the Ministers overseeing the Care pillar. This explores how we might enable every Singaporean to lead a dignified and fulfilling life, and to better care for themselves and others around them".

Keynote speaker at the Southeast Asia Development Symposium 2022 (March 2022)
https://www.youtube.com/watch?v=XvDLP2al7QU

- Ms Thurai Rajah said "Southeast Asian countries must brace for headwinds including the longer-term risks of future pandemics and climate change, supply chain disruptions, rising oil and commodity prices, and prolonged geopolitical instability".
- In her keynote, she said governments have the responsibility to take concerted steps to mitigate these challenges, which will require countries to strengthen partnerships with the multilateral development banks, private sector, and philanthropies.

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Bilateral Briefing: Shinji Inoue, Senior State Minister of Finance, Japan

Lead: Minister Parker

Other attendees: Deb Thornton and New Zealand Treasury Officials, Finance Ministry Officials, and an interpreter

Date: Thursday 20 October

Time: 4.30 – 4:50pm

Venue: QSNCC Bilateral room

Shinji Inoue

Senior State Minister of Finance.

Previous roles:

Minister of State (Consumer Affairs and Food Safety, Science and Technology Policy), and Minister of International Exposition, and Minister of Special Missions of the Cabinet Office (2020-2021); Member of the House of Representatives for Tokyo's 25th District (since 2013).

Stated priorities: Tax, inflation, and cost of living.

Previous engagements

N/A

Author: Treasury

Aim:

- Reiterate the value we place on our important relationship with Japan.
- Discuss our bilateral cooperation and cooperation in multinational fora like APEC, the IPEF negotiations.
- Discuss mutual areas of policy focus such as tax and the cost of living crisis, and reaching net-zero.

Background to issues

APEC	• Japan, along with Canada, Australia, New Zealand, and the US, are aiming for consensus on a Joint Ministerial Statement (JMS) for the FMM. Russia, with support from China, will likely block consensus because these 'likeminded' economies want to include language recognising the economic impact of Russia's invasion of Ukraine.
IPEF	• The US are leading on the IPEF initiative and negotiations. • s6(a), 9(2)(f)(iv) and 9(2)(g)(i) •
Climate change and decarbonisation	• New Zealand's first Emissions Reduction Plan was published in May 2022 with a focus on driving domestic mitigation across several key sectors several foundational actions have been outlined, with a strong focus on supporting an equitable transition towards a high-wage, low-emissions economy. • Our first National Adaptation Plan (NAP, 2022-2028) was released August and sets out the Government's plan to help New Zealanders adapt. It includes institutional and legislative settings and ensuring data and information supports others to manage their risks.
International tax	• There has been growing concern internationally about the under-taxation of the digital economy. • There has been significant work internationally at the OECD over recent years towards amending the international tax framework to help solve this issue, though there have been delays at the s6(a), 9(2)(f)(iv) and 9(2)(g)(i) • As an interim measure, other countries have implemented unilateral Digital Services Taxes (DSTs). • s6(a), 9(2)(f)(iv) and 9(2)(g)(i)

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Talking Points: APEC / IPEF

- Note that New Zealand has strong political ties with Japan, common values and a shared interest in stability, growth, and development in our region and globally. We have substantial trade, economic, tourism and people-to-people links. Our relationship dates back over 100 years.

- Our countries share a fundamental interest in a rules-based order that builds a more liberal, sustainable, and inclusive world, including in multinational fora like APEC, the IMF, and the World Bank.

- Discuss the US objectives for the Indo-Pacific Economic Framework for prosperity (IPEF). Note that New Zealand values the IPEF focus on decarbonising economies.

Climate

- New Zealand is increasing its focus on supporting Pacific Island countries and their economies, particularly with climate-related concerns and initiatives.

- Like Japan, we are aiming to reaching Net Zero emissions by 2050. Our first Emissions Reduction Plan was published in May this year. The ERP has a focus on driving domestic mitigation across several key sectors several foundational actions have been outlined, with a strong focus on supporting an equitable transition towards a high-wage, low-emissions economy.

- We welcome an exchange of knowledge and experiences on climate action.

International Tax

- There has been growing concern internationally about the under-taxation of the digital economy. There has been significant work internationally at the OECD over recent years towards amending the international tax framework to help solve this issue. There have been delays s6(a), 9(2)(f)(iv) and 9(2)(g)(i) [redacted]

- s6(a), 9(2)(f)(iv) and 9(2)(g)(i) [redacted]

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Bilateral Briefing: Dr Andrew Leigh, Assistant Minister for Competition, Charities and Treasury; Australia

Lead: Minister Parker

Other attendees: Deb Thornton and New Zealand and Australian Treasury Officials

Date: Wednesday 19 October

Time: 4.15 – 4.45pm

Venue: Valley Room 1, Shangri La Hotel

Dr Andrew Leigh

Assistant Minister for Competition, Charities and Treasury (since 2022).

Previous roles:

Shadow Assistant Minister for Treasury and Shadow Assistant Minister for Charities (2019- 2022); Shadow Minister for Competition and Productivity, and Shadow Minister for Charities and Not-for-Profits, and Shadow Minister for Trade in Services (2016-2019); MP for Fenner (since 2016) and MP for Fraser (2010-2016).

Stated priorities:
International tax reform, competition policy,

Previous engagements

N/A

Author: Treasury

Aim:

- Build on the close, positive relationship between our countries.
- Discuss Australia and Aotearoa New Zealand's approach to the Pacific and emphasise the Pacific resilience approach.

Background to issues

The Pacific	• The Pacific resilience approach aims for a peaceful, stable, prosperous, and resilient Pacific where Aotearoa New Zealand operates as a true partner. • New Zealand works hard to promote strong, independent Pacific governance, human rights, and rule of law. We expect other partners in the Pacific to respect these principles and be transparent with their actions and intentions. • Growing debt servicing obligations in Pacific Island countries are redirecting investment away from building resilience. Development partners must maximise the availability of grant finance and highly-concessional loans for Pacific countries.
IPEF	• s6(a), 9(2)(f)(iv) and 9(2)(g)(i) •
40th anniversary of the NZ-Australia Closer Economic Relations (CER) Agreement	•
International tax	• There has been growing concern internationally about the under-taxation of the digital economy. • There has been significant work internationally at the OECD over recent years towards amending the international tax framework to help solve this issue, though there have been delays s6(a), 9(2)(f)(iv) and 9(2)(g)(i) • As an interim measure, other countries have implemented unilateral Digital Services Taxes (DSTs) measures. • s6(a), 9(2)(f)(iv) and 9(2)(g)(i)

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Talking Points: General

- Note that New Zealand and Australia have a uniquely close relationship aided through the CER and the SEM, which enables strong industry cooperation, research, people flows, and business connections.

- Our relationship is based on our Commonwealth heritage, shared respect for democracy and the rule of law, strong people to people links, and close trade policy ties. Our worldviews are underpinned by our shared parliamentary, legal, social, and defence traditions. The result is a rich, natural partnership, reflected in our instinctive like-mindedness on most issues.

The Pacific

- Note that New Zealand values the IPEF focus on decarbonising economies. New Zealand is increasing its focus on supporting Pacific Island countries and their economies, particularly with climate-related concerns and initiatives.

Climate

- Like Australia, we are aiming to reaching Net Zero emissions by 2050. Our first Emissions Reduction Plan was published in May this year. The ERP has a focus on driving domestic mitigation across several key sectors several foundational actions have been outlined, with a strong focus on supporting an equitable transition towards a high-wage, low-emissions economy.

- We would welcome an exchange of knowledge and experiences on climate action, particularly your government's ambitions.

International Tax

- There has been growing concern about international tax issues, with significant work internationally at the OECD over recent years towards amending the international tax framework to help solve this issue. There have been delays s6(a), 9(2)(f)(iv) and 9(2)(g)(i)

- s6(a), 9(2)(f)(iv) and 9(2)(g)(i)

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Recent media comments or speeches:

Dr Andrew Leigh, in a joint statement with Australian Treasurer Jim Chalmers, announces consultations have opened on International corporate tax reforms (4 October 2022)
https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/international-corporate-tax-reforms-consultations

- The Albanese Government has opened consultations on international corporate tax reforms as part of its commitment to ensuring multinationals pay their fair share of tax. Submissions close 1 November 2022.
- This follows on from their election campaign support for the OECD/G20 two-pillar solution on reforms, that included a global minimum corporate tax rate of 15 per cent, to address tax challenges arising from digitalisation and globalisation.

Dr Andrew Leigh introduces a bill to crack down on anti-competitive business practices by raising the maximum fine from \$10m to \$50m (28 September 2022)
https://thenewdaily.com.au/news/politics/2022/09/28/big-business-fine-increases/

- Dr Leigh says, "Fines should not be so modest that companies can treat them as a mere cost of doing business."

Dr Andrew Leigh authored a book titled 'Fair Game: Lessons from Sport for a Fairer Society & a Stronger Economy' which was launched in September (21 September 2022)

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Bilateral Briefing: Arkhom Termpittayapaisith, Minister of Finance, Thailand

Lead: Minister Parker

Other attendees: Deb Thornton and New Zealand Treasury Officials

Date: tbc

Time: tbc

Venue: tbc

Arkhom Termpittayapaisith

Minister of Finance (since 2020).

Previous roles:

Minister of Transport (2015-2019); Secretary-General of National Economic and Social Development Board (2010-2015) and Member of the National Legislative Assembly (2014).

Stated priorities:

Economic recovery from COVID-19 pandemic, supporting the Thailand 4.0 strategy to accelerate the Kingdom's development to a more advanced level, the future of work, and economic development.

Previous engagements

N/A

Author: Treasury

Aim:

- Establish a positive working relationship with the Thai Finance Minister and APEC 2022 host.
- Emphasise the value of Aotearoa New Zealand's relationship with ASEAN members.
- Discuss the opportunities presented by IPEF.

Background to issues

Economic conditions	• Thailand's economy is on its way back to growth after a challenging 2020 and 2021. On the back of strong goods exports, Thailand is forecast to grow 3.3% in 2022. • Thailand's projected growth is the lowest amongst ASEAN nations, due to a combination of factors such as the dominance of tourism, inflation, and currency depreciation. This reflects Thailand's open economy, which is exposed to global economic headwinds as well as opportunities. • The future of Thailand's economy presents opportunities and challenges, particularly in renewable energy and environmental sustainability, given the current dominance of natural gas and coal in Thailand's energy sector.
IPEF	• IPEF has four pillars: i) to deepen regional trade linkages; ii) to shore up the resilience of our supply chains; iii) to accelerate action towards a clean economy; and iv) to uphold key principles of a fair economy. • s6(a), 9(2)(f)(iv) and 9(2)(g)(i)
International tax	• There has been growing concern internationally about the under-taxation of the digital economy. • There has been significant work internationally at the OECD over recent years towards amending the international tax framework to help solve this issue, though there have been delays s6(a), 9(2)(f)(iv) and 9(2)(g)(i) • As an interim measure, other countries have implemented unilateral Digital Services Taxes (DSTs) measures. • s6(a), 9(2)(f)(iv) and 9(2)(g)(i)
Climate change and decarbonisation	• New Zealand's first Emissions Reduction Plan was published in May 2022 with a focus on driving domestic mitigation across several key sectors several foundational actions have been outlined, with a strong focus on supporting an equitable transition towards a high-wage, low-emissions economy. • Our first National Adaptation Plan (NAP, 2022-2028) was released August and sets out the Government's plan to help New Zealanders adapt. It includes institutional and legislative settings and ensuring data and information supports others to manage their risks.

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Talking Points: General

- Note that we have a long-standing and warm relationship with Thailand, and in 2016 Thailand and New Zealand commemorated 60 years of diplomatic relations. We have around 10,000 Thai people resident in New Zealand with over half living in the Auckland region.

IPEF

- Note that New Zealand values the IPEF focus on decarbonising economies. New Zealand is increasing its focus on supporting Pacific Island countries and their economies, particularly with climate-related concerns and initiatives.

Climate

- New Zealand and Thailand work cooperatively on environmental issues. We're both members of the Global Research Alliance on Agricultural Greenhouse Gases, which brings countries together to find ways to grow more food without increasing greenhouse gas emissions.

- Like Thailand, we are aiming to reaching Net Zero emissions by 2050. Our first Emissions Reduction Plan was published in May this year. The ERP has a focus on driving domestic mitigation across several key sectors several foundational actions have been outlined, with a strong focus on supporting an equitable transition towards a high-wage, low-emissions economy.

- We would welcome an exchange of knowledge and experiences on climate action, particularly your government's ambitions.

International Tax

- There has been growing concern about international tax issues, with significant work internationally at the OECD over recent years towards amending the international tax framework to help solve this issue. There have been delays s6(a), 9(2)(f)(iv) and 9(2)(g)(i)

- s6(a), 9(2)(f)(iv) and 9(2)(g)(i)

Annex 1: FMM Admin Circular

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Annex 2: FMM Finance Ministers' Retreat concept note

Annex 3: APEC Policy Options for Developing Cross-border Payments and Remittances

ADMINISTRATIVE CIRCULAR

APEC Finance Ministers' Meeting and Related Meetings

19 - 21 October 2022

Bangkok, Thailand

Release Date: 23 August 2022

APEC 2022
THAILAND

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SECTION 1 INTRODUCTION

Thailand is delighted to welcome all delegations participating in the APEC Finance Ministers' Meeting (FMM) and Related Meetings, scheduled from Wednesday 19 to Thursday 20 October 2022 in Bangkok, Thailand.

This Administrative Circular provides preliminary information on the meetings, as well as comprehensive details on administrative procedures, meeting logistics and general requirements. Requesting clarification or additional information can be directed through the email address provided in Section three.

Amendments to this Circular (if any) will be issued as necessary and sent via email to each APEC delegation and participant through its Delegation Liaison Officer.

SECTION 2 PROGRAMME AND VENUES

2.1 Programme

Day	Time	Meeting	Venue
Wednesday, 19 October	08:30 – 12:00	Drafting Session for the APEC FMM Joint Ministerial Statement (TBC)	Shangri-La Bangkok Hotel
	14:30 – 16:00	APEC Finance Ministers' Retreat	Four Seasons Hotel Bangkok at Chao Phraya River
	18:00 – 20:30	Gala Dinner	Shangri-La Bangkok Hotel
Thursday, 20 October	09:00 – 16:30	APEC Finance Ministers' Meeting	The Queen Sirikit National Convention Center (QSNCC)
	12:00 – 13:30	Working Lunch - ABAC's Executive Dialogue with APEC Finance Ministers	
	16:30 – 17:00	Press Conference	
Friday, 21 October	09:00 – 13:00	Social Programme for APEC Finance Ministers and all delegates	The Grand Palace

<u>Remark</u>: Please note the time indicated is Bangkok, Thailand time (GMT+7).

The draft agendas of the APEC FMM and related meetings will be distributed soon through the Program Director (PD) of Finance Ministers' Process (FMP) at the APEC Secretariat, Mr. Steven MILON ESPARZA sme@apec.org.

2.2 Meeting Venues

- **Shangri-La Bangkok Hotel**.

  Address: 89 Soi Wat Suan Plu, New Road, Bangrak, Bangkok 10500, Thailand
  Tel: (+66) 2 236 7777
  Website: https://www.shangri-la.com/en/bangkok/shangrila/

- **Four Seasons Hotel Bangkok at Chao Phraya River**.
  Address: 300/1 Charoen Krung Road, Khwaeng Yan Nawa, Sathon, Bangkok 10120, Thailand
  Tel: (+66) 2 032 0888
  Website: https://www.fourseasons.com/bangkok/

- **Queen Sirikit National Convention Center (QSNCC)**.
  Address: 60 Rachadapisek Road, Klongtoey, Bangkok 10110, Thailand
  Tel: (+66) 2 229 3000
  Website: https://www.qsncc.com/en/

Please refer to **Annex A** for a map of venue locations.

SECTION 3 APEC FMP 2022 CONTACT INFORMATION

Please direct enquiries to the appropriate email address as follows:

Department	Email Address
SECRETARIAT	AFMP2022secretariat@fpo.go.th
REGISTRATION AND ACCREDITATION	AFMP2022registration@fpo.go.th
MEDIA AND PRESS	AFMP2022media@fpo.go.th
LIAISON	AFMP2022liaison@fpo.go.th
ACCOMMODATION	AFMP2022accom@fpo.go.th
TRANSPORTATION	AFMP2022transport@fpo.go.th
AIRPORT	AFMP2022airport@fpo.go.th
SECURITY	AFMP2022security@fpo.go.th
TECHNICAL SUPPORT	APECFMP2022it@fpo.go.th

SECTION 4 ACCREDITATION AND LIAISON OFFICERS

4.1 Delegation Accreditation Officer (DAO)

The delegation of each APEC member Economy is required to appoint a primary Delegation Accreditation Officer (DAO) and an alternate. The DAO is responsible for the online registration and accreditation of all members of the delegation to the APEC FMM and related meetings, and will also be responsible for additional information or clarification on behalf of the respective delegation. While the DAO will be the primary point of contact regarding registrations and accreditation issues, their presence may not be mandatory during the meetings.

DAOs are required to be appointed by:

- Each APEC Member Economy
- APEC Secretariat
- Asian Development Bank (ADB), International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), and World Bank Group (WBG)
- ABAC Secretariat
- Official APEC Observer Organizations (ASEAN Secretariat, PECC, and PIF Secretariat).

In order to receive a link to access the APEC FMM and related meetings Online Registration Portal, all APEC delegations are required to submit the full name, title, and contact information (email and mobile number) of their DAO and the alternate to AFMP2022registration@fpo.go.th **no later than 29 August 2022**.

4.2 Delegation Liaison Officer (DLO)

Each APEC delegation is also required to appoint a primary Delegation Liaison Officer (DLO) and an alternate DLO. The DLO for each delegation should be present for the duration of APEC FMM and related meetings and available as a point of contact regarding any administrative or logistic matters that might arise.

DLO responsibilities include the following:

- To liaise with the Host Economy Liaison Officer (HELO);
- To pick up APEC ID badges, lapel pins and meeting kits of delegates;
- To pick up all invitations for delegates;
- To request (if any) bilateral meeting room and interpreting booth.

The DLO may be the same person as the DAO and is required to be appointed by:

- Each APEC Member Economy
- APEC Secretariat
- ADB, IMF, OECD, and WBG
- ABAC Secretariat
- Official APEC Observer Organizations (ASEAN Secretariat, PECC, and PIF Secretariat)

4.3 Host Economy Liaison Officer (HELO)

The following delegates will be assigned a HELO:

- One (1) HELO for each Finance Minister of APEC Economies (or Head of Delegation attending APEC FMM)

- One (1) HELO for the Head of Delegation of APEC Secretariat
- One (1) HELO for each Head of Delegation of ADB, IMF, OECD, and WBG
- One (1) HELO for the Head of Delegation of ABAC Secretariat
- One (1) HELO for each Head of Delegation of the Official APEC Observer Organizations (ASEAN Secretariat, PECC, and PIF Secretariat)

Note: HELO will be available one day before the start of the official meeting and one day after the last official meeting.

The HELO will serve as a point of contact for Ministers, Heads of Delegations and their delegations on logistic and administrative matters.

The name and contact information of HELO shall be provided to each economy after the submission of the DLO or an alternate. HELOs will be in touch with respective economies for further communication and coordination before the commencement of the events.

The HELO will always be accessible when the respective Minister or Head of Delegation is present, whether to attend formal meetings or events. The HELO may be contacted by email or by phone prior to the arrival of Ministers or Heads of Delegations and during the events and meetings.

The HELO will work closely with the DLO but is not entitled to perform the duties of the DAO or DLO.

SECTION 5 REGISTRATION AND ACCREDITATION

5.1 Delegate Registration

The online registration for APEC FMM and related meetings will be opened **from Tuesday 23 August and will be closed on Friday 16 September 2022.**

All delegates must be registered by their respective DAO via a secure online registration portal which will be emailed separately to each DAO only. Please note that the link to access the APEC FMM and related meetings online registration portal will not be provided until the names and contact information of DAO have been received.

A section for delegates with special needs has been included in the online registration form. All DAOs when registering the delegation are encouraged to clearly indicate in this section those officials that may have disabilities or those that may have other special needs so that this can be transmitted to the Thailand’s FMP Team for their on-the-ground support.

The registration information will be protected and will be available only for a limited number of people from the Thailand’s FMP Team. Upon completion of the 2022 APEC FMM, all personal data will be securely destroyed.

Upon successful accreditation, the system will generate a confirmation Email to the participant. If there are any difficulties, please contact AFMP2022registration@fpo.go.th.

5.2 Late Registration

After the online registration portal closes on **16 September 2022**, all other participants will be required to register on-site at registration desk at the Shangri-La Bangkok Hotel or at the QSNCC (see map in Annex A) during the following hours:

Date	Time	Location
18 October 2022	15:00 – 18:00 hrs	Shangri-La Bangkok Hotel
19 October 2022	07:30 – 18:00 hrs	Shangri-La Bangkok Hotel
20 October 2022	08:00 – 12:00 hrs	The QSNCC

For on-site registration, delegates or participants must be accompanied by their DLO or verified by their DAO by email to AFMP2022registration@fpo.go.th. Every effort will be made to provide timely, on-site registration and issuance of APEC ID badges for late registrants. However, no guarantee can be given that the registration process will be completed before the meetings begin.

5.3 Non-Member Participants (NMPs) and Guests Registration

There are two ways by which invited guests or speakers may be registered for APEC FMM and related meetings:

- Invited person (s) may be included as members of the delegation of any APEC Economy, the APEC Secretariat, ABAC, or an Official Observer Organization. Therefore, their respective DAO will be able to register the invited person(s) in the same manner as other delegation members via the online registration portal.
- Invited person (s) who are not members of a delegation or who come from non-APEC economies must be accredited through the process outlined in the APEC Guidelines on Managing Cooperation with Non-Members[1].

    1) The APEC Secretariat will be the contact point regarding applications to accredit non-members to all APEC FMM and Related Meetings. NMPs and guests should contact the FMP Programme Director (PD) for approval.

    2) Once approval has been granted, the FMP PD will send the name lists of NMPs/Guests to AFMP2022registration@fpo.go.th.

    3) The Registration and Accreditation Team will send a registration link directly to the NMP's email to register himself/herself on the website.

Additional inquiries regarding NMPs/Guests registration and accreditation may be directed to AFMP2022secretariat@fpo.go.th.

[1] https://www.apec.org/docs/default-source/aboutus/policiesandprocedures/2020/apec-guidelines-on-managing-cooperation-with-non-members.pdf?sfvrsn=e3479c48_1

After the online registration is closed, all subsequent amendments to delegates' information and a new request for delegates' registration must be submitted to AFMP2022registration@fpo.go.th.

SECTION 6 MEETING ACCESS

6.1 Pick-up and Display of APEC ID Badges

DLO Badge Pick-up: DLOs may collect APEC ID badges for their respective delegations after presenting proof of identity and signing a custody receipt at registration desk at the Shangri-La Bangkok Hotel and the QSNCC. DLOs are strongly encouraged to collect APEC ID badges and delegate bags for all members of their respective delegations.

Delegates Badge Pick-up: Delegates who do not receive their APEC ID badges from their DLO may collect their badges at registration desk at the Shangri-La Bangkok Hotel and the QSNCC upon presentation of passport or other applicable travel documents during the following hours:

Date	Time	Location
18 October 2022	15:00 – 18:00 hrs	Shangri-La Bangkok Hotel
19 October 2022	07:30 – 18:00 hrs	Shangri-La Bangkok Hotel
20 October 2022	08:00 – 12:00 hrs	The QSNCC

Delegates are requested to display their APEC ID badges at all times while in the meeting venues and social gatherings.

6.2 Lapel Pins

A meeting lapel pin will be provided to Ministers (or Head of Delegation attending APEC FMM), Head of Delegation of ADB, IMF, OECD and WBG, APEC Secretariat Executive Director, and Head of Delegation of ABAC Secretariat, in order to expedite entry to all venues, meetings and official events. These lapel pins will be given to DLOs for appropriate distribution prior to the start of the meetings.

6.3 Meeting Access Procedures

All delegates and participants are required to visibly wear their APEC ID badges (or lapel pin) to be allowed entry to all of the official meeting venues.

SECTION 7 MEDIA ARRANGEMENTS

Access to media facilities, services, and specified events will be available only to accredited media representatives. All media representatives wishing to cover the meetings should contact AFMP2022media@fpo.go.th no later than 12 September 2022 to request a link to access the online registration portal for media and register **by 16 September 2022**.

Media ID badges will be issued to accredited media representatives and must be worn at all times to be allowed entry to authorized events. Further inquiries should be directed to AFMP2022media@fpo.go.th.

SECTION 8 ACCOMMODATION

8.1 Designated Hotel

SHANGRI-LA BANGKOK HOTEL
Address: 89 Soi Wat Suan Plu, New Road, Bangrak, Bangkok 10500, Thailand
Tel: (+66) 2 236 7777
Email: delphigroup.slbk@shangri-la.com
Website: https://www.shangri-la.com/en/bangkok/shangrila/

8.2 Accommodation Reservation

Accommodation for Ministers and Heads of Delegation

The host economy will provide four (4) nights complimentary accommodation (Executive Suite Room) at the designated hotel for Ministers of APEC Economies and Heads of Delegation attending APEC FMM and APEC Secretariat Executive Director. Check-in and check-out dates are from 18 to 22 October 2022.

Arrangements can also be made for accompanying spouses of Ministers/ Heads of Delegation. DAOs must confirm, through the registration process, whether or not their Minister/ Head of Delegation will be accompanied by his/her spouse, so that information can be referred to Thailand's FMP Team.

Courtesy accommodation arrangements include daily breakfast and WiFi. Costs beyond the hospitality indicated above, such as additional nights, upgrades, and incidentals (e.g. room mini-bar use, laundry and all telephone calls), shall be borne by the respective delegation and paid directly to the hotel.

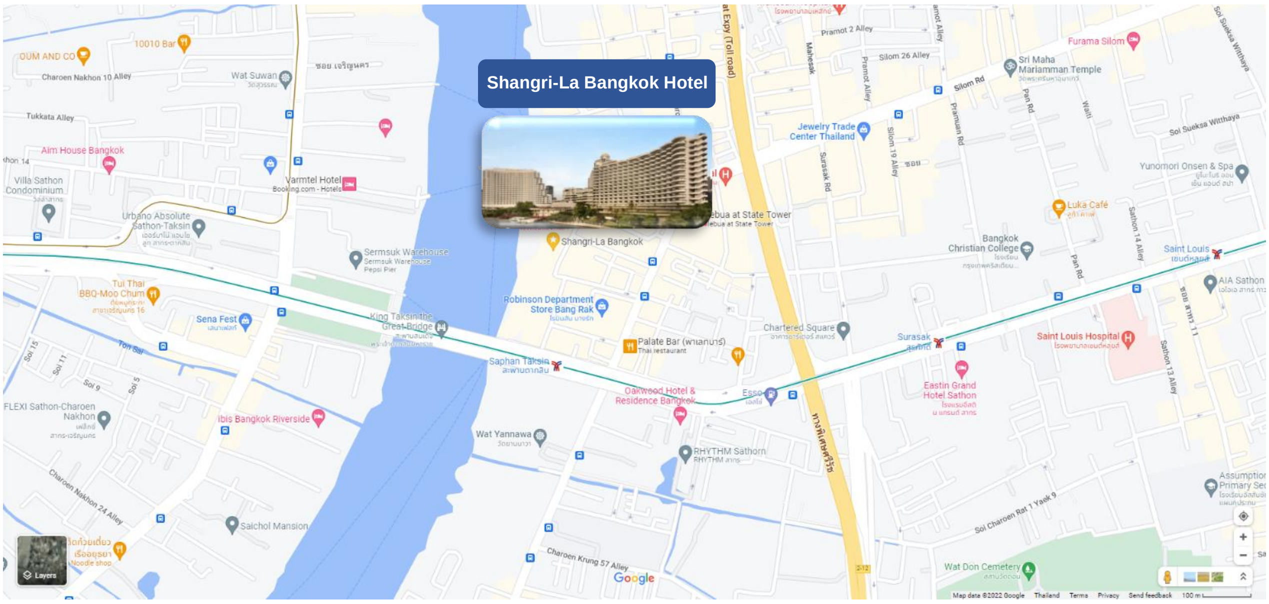
To secure a complimentary reservation, please fill up Annex B and email it to the reservation department of the designated hotel directly at delphigroup.slbk@shangri-la.com and copy to atcharaphon.ngaokla@shangri-la.com and areewan.sitthisuksakun@shangri-la.com.

Accommodation for Delegations

Reservation details of the designated hotel are provided in Annex C with location identified in the map below.

When making reservations, participating delegates are advised to notify the hotel of your attendance at the meetings in order to access the APEC special rates provided by them.

8.3 Hotel Map



For further information, please contact: AFMP2022accom@fpo.go.th.

8.4 Reservation Procedure

APEC rates have been arranged for participants attending the APEC FMM and related meetings **for the period of 18 to 21 October 2022**.

Delegations are encouraged to contact the designated hotel directly to book their accommodation **before 19 September 2022** and clearly state that their booking is APEC related. Booking made later than the above deadline will be subjected to room availability and will be allocated on a first-come-first-serve basis.

SECTION 9 AIRPORT ARRIVALS AND DEPARTURES

9.1 Visa Requirements

All delegates entering Thailand are required to hold a passport valid for six (6) months from the date of arrival. Each delegate is responsible for ensuring that they secure a visa as early as possible. If required, delegates can consult their local Thai embassy or consular office.

Member economies requiring a visa to enter Thailand are as follows:

Member Economy	Diplomatic/Official Passport	Ordinary Passport
Australia	YES	NO
Canada	YES	NO
People's Republic of China	NO	YES
Mexico	NO	YES

Member Economy	Diplomatic/Official Passport	Ordinary Passport
New Zealand	YES	NO
Papua New Guinea	YES	YES
Chinese Taipei	N/A	YES
United States of America	YES	NO

**As of 1 October 2021*

Delegates who wish to obtain visa on arrival should assign their DAO or DLO to consult the HELO about the process of applying for visa on arrival.

Holders of an APEC Business Travel Card (ABTC) are able to enter Thailand for 90 days without visa. The eligible person must carry ABTC card, which has a passport ID number identical to her/his passport. The ABTC card must be valid and has "THA" printed on the backside.

9.2 Customs

All the foreign citizens arriving to Thailand must pass through normal procedures of customs control.

For more information on customs control please visit website:
http://www.customs.go.th/list_strc_simple_neted.php?ini_content=individual_160503_03_160905_01&lang=en&left_menu=menu_individual_submenu_01_160421_01

9.3 Airport

Suvarnabhumi Airport is the recommended port of entry for the meeting period. Upon arrival at the Suvarnabhumi Airport, delegates will be met by Thailand's FMP Team staffs at the gate. It is requested that arriving delegates identify themselves to Thailand's FMP Team staffs upon arrival so that their passage can be expedited.

Any further information, please contact AFMP2022airport@fpo.go.th.

9.4 Airport Courtesy for Ministers and Heads of Delegation

The host economy is providing VIP courtesies for Ministers and Heads of Delegation upon arrival and departure. Each economy and delegation should assign a representative to assist in handling the travel documents for their Ministers and Heads of Delegation and their spouses.

Upon arrival at Suvarnabhumi Airport, Ministers/ Heads of Delegation will be ushered to the VIP Lounge where Senior Officials from the host will welcome them. Travel documents shall be collected and processed by the assigned representative.

After the documents have been returned, Ministers/ Heads of Delegation are then escorted to the VIP exit area where an awaiting chauffeured sedan will bring them to the designated hotel.

9.5 Pre-entry: Travel Regulations and Vaccination

Travel Regulations

Thailand has announced the latest entry scheme which is effective from 1 July 2022. Please visit https://tp.consular.go.th/en/plan for further details. The simplified explanation provided in this section is intended for APEC delegates' use in travelling to Thailand.

Starting from 1 July 2022, Thailand Pass registration has been cancelled. All travellers entering Thailand are required to have either a certificate of vaccination (for fully vaccinated persons) or COVID-19 RT-PCR/ professional ATK test result issued within 72 hours before travelling (for unvaccinated/ not fully vaccinated persons).

The aforementioned documents will be checked at the check-in counter before departure. Upon arrival, these documents will also be randomly screened again at the disease control at Suvarnabhumi Airport.

Vaccination

Being fully vaccinated means that you have finished your vaccine requirement with either vaccines registered by the Food and Drug Administration of Thailand or approved by the Ministry of Public Health of Thailand or the World Health Organization (WHO) for at least 14 days prior to departure.

The list of approved vaccines by Thailand are as follows (as of June 2022):

- CoronaVac (Sinovac)
- AstraZeneca (Vaxzevria, Covishield)
- Pfizer-BioNTech/ Comirnaty/ Tozinameran (INN)
- Moderna
- Sinopharm/ COVILO/ Hayat-Vax (Sinopharm)
- Janssen (Johnson & Johnson)
- Sputnik V
- Covaxin
- Novavax/ Nuvavoxid/ Covovax
- Medigen
- Sputnik Light
- TURKOVAC / ERUCOV-VAX (TUSEB)

Delegates who had been infected with COVID-19 will be considered as fully vaccinated and can travel to Thailand if:

(1) They received a single dose of COVID-19 vaccine at any time after their recovery. Please be advised that proof of medical record of COVID-19 recovery must be submitted together with their single-dose vaccination certificate; and

(2) They were fully vaccinated prior to contracting COVID-19.

Delegates who have recovered from symptomatic and asymptomatic COVID-19 within a period of three (3) months prior to travelling to Thailand are required to present a valid medical certificate certifying their full recovery (within 3 months but no less than 14 days before the date of travel).

FAQs and additional information are available at https://consular.mfa.go.th/

Further queries, please contact the Royal Thai Embassy/ Consulate-General in your area.

Kindly note that these travel regulations are updated as of 1 July 2022 and are subject to change depending on the COVID-19 situation. The Thailand's FMP Team will inform the DLO of any changes at the earliest opportunity.

SECTION 10 TRANSPORTATION

10.1 Transportation for APEC Ministers/ Heads of Delegation

The host economy has provided a chauffeured sedan for Ministers/ Heads of Delegation that will accompany them in Bangkok for the duration of 18 – 22 October 2022.

10.2 Transportation for Delegates

The host economy has provided a chauffeured 9-seater van for each Economy during the duration of 18 – 22 October 2022 from 08.00 – 21.00 hrs, including airport transfer.

For further transport information, please contact AFMP2022transport@fpo.go.th.

SECTION 11 MEETING VENUE FACILITIES, SERVICES, AND ACTIVITIES

11.1 Common Delegation Room

A Common Delegation Room will be available for use by all meeting participants, which will be equipped with computers, multifunctional copiers and printers, wireless internet, and basic stationery supplies, during the following hours:

Date	Time	Location
19 - 20 October 2022	08:00 – 20:00 hrs	Orchid Room on the 1st floor at Shangri-La Bangkok Hotel
20 October 2022	08:00 – 17:00 hrs	Room 119 at the QSNCC

11.2 Bilateral Meeting Room

Bilateral Meeting Room will be provided for delegations, which will be made available on a reservation basis with a room capacity of eight to twelve seats, during the following hours:

Date	Time	Location
19 - 20 October 2022	08:00 – 20:00 hrs	Valley Room on the 1st floor at Shangri-La Bangkok Hotel
20 October 2022	08:00 – 18:00 hrs	The QSNCC

Bilateral Meeting Room must be reserved in advance by emailing a Bilateral Meeting Room Booking Form (Annex D) to AFMP2022secretariat@fpo.go.th.

On-site request for the use of the bilateral meeting room must be emailed to the above mentioned address.

11.3 Prayer Room

Male and female prayer rooms will available at the QSNCC.

11.4 Simultaneous Interpreters (SI)

All meetings will be conducted in English. Delegates are responsible for registration and accreditation of their respective interpreters, if any.

If delegations are in need of interpreting booths during the APEC FMM, they must reserve Interpretation Booths in advance by emailing to the Thailand's FMP Team AFMP2022secretariat@fpo.go.th **not later than 16 September 2022**. Accommodation of the request for the interpretation booths would be on a first-come, first-served basis and subject to availability.

SECTION 12 DOCUMENT SUBMISSIONS AND ACCESS

12.1 Meeting Document Submission Requirements

All meeting documents need to be submitted in electronic format by the stipulated deadlines to facilitate review and access in advance of the meetings.

Please do not password protect or lock files for editing. The APEC Secretariat needs access to insert the standard cover page into each document.

While drafting documents, please be mindful of APEC nomenclature. APEC is a grouping of economies and members are referred to as “Member Economies” or “Members” or “Economies”.

Please also be mindful of the correct names of each Economy.

While the APEC Secretariat endeavours to cross-check submitted documents prior to meetings, this may not be possible for documents submitted late.

Submission of Papers for APEC FMM and related meetings

Documents for APEC FMM and related meetings need to be emailed together a completed Document Information Request Form (DIRF) (Annex E), attached via email, **by 10 October 2022** to the following email addresses:

To: sme@apec.org , agsm@apec.org
Cc: APECFMP2022secreatariat@fpo.go.th

12.2 Document Access

The APEC FMM and related meetings will be paperless.

Documents submitted by the stipulated deadlines will be made accessible via the respective APEC Collaboration System (ACS) pages under the Pre-Meeting Documents section to facilitate access and review prior to and during the meetings.

Access to the ACS requires an APEC Information Management Portal (AIMP) ID and password. If you do not yet have an AIMP ID, please contact aimp@apec.org well in advance of the meeting.

12.3 Final Papers

Final meeting papers will be made available on the APEC Meeting Document Database (MDDB) shortly after the conclusion of meetings.

The MDDB can be accessed at: http://mddb.apec.org/Pages/default.aspx.

12.4 Information Disclosure

APEC operates by consensus. APEC needs to consider and debate issues away from public scrutiny to develop said consensus and to ensure the free and candid exchange of ideas. APEC publicly makes available summary reports and other documents. Meeting participants, however, are expected to display sensitivity in disclosing to the public any information exchanged during the course of its deliberations.

SECTION 13 SECURITY ARRANGEMENTS

13.1 Security Measures

The necessary security measures will be undertaken at all official venues of the Meeting and Special Events. Screening methods may include the verification of APEC ID badges or lapel pins as well as electronic or physical searching of bags and other belongings.

All participants should wear their APEC ID badges or lapel pins visibly at all times while in meeting areas. In addition, APEC ID badges or lapel pins will be required to access the meetings and all social functions.

13.2 Personal Security Officer (PSO)

One Personal Security Officer (PSO) from host economy will be assigned to each APEC Finance Minister.

If Head of Delegation wishes to bring PSO(s) from his/her economy, the PSO(s) is required to register for the meetings as refer to Section 5 (Registration and Accreditation). Only PSO(s) with APEC ID badges will be permitted access to the meeting venues. In addition, if PSO(s) wishes to bring firearms, radio communication devices and/or other security equipment into Thailand, the respective delegations must notify the Thailand's FMP Team by email with subsequent submission of Permission Request Form together with a

Note Verbale from the respective Embassy/Office or Ministry of Foreign Affairs in order to seek for permission from relevant authorities before entry **by 12 September 2022**. Permission Request Form is available upon request.

The result of the request will be conveyed to the respective APEC economies' Embassy/Office in Thailand. Embassy/Office staff of each delegation must present the relevant permits to customs officers at the point of entry into Thailand for declaration of firearms, radio communication devices and other security equipment. PSO(s) is allowed to bring into Thailand and possess only handguns. Other types of weaponry, such as sub-machine guns, rifles, electrical/stun guns, etc. are not allowed to be brought into Thailand.

PSO(s) carrying firearms in Thailand must always follow the guidance of the Thai Security Officers. They must not display their firearms in public and must not use them arbitrarily. No firearms are allowed to be brought to the meeting room.

All weaponry carried by PSO(s) but not accompanied by appropriate permits issued by the Thai authorities will be deposited at the point of entry and will be returned upon departure.

Further inquiries regarding security and submission of related documentation can be directed to the Thailand's FMP Team at AFMP2022security@fpo.go.th.

SECTION 14 MEETING ETIQUETTE

14.1 Dress Code

The dress code for the APEC FMM and related meetings is business attire unless otherwise noted on invitations for specific events. It is recommended that participants bring appropriate light clothing to wear outside the meeting venues.

14.2 APEC Conventions

We would like to request all participants to adhere strictly to the APEC conventions and nomenclature (both spoken and written), throughout the meetings and in all related documents.

We would entreat economies to refrain from displaying any:

- Flags or visual images in any shape or form that depict a flag of any economy;
- Graphics/images that depict the map or boundaries of any economy; and
- Anthems or emblems, images, items or any other materials which may imply the "political status" of any economy.

SECTION 15 EXCURSIONS

15.1 Social Programme

The host economy will arrange social programme to visit the Grand Palace (participation is optional) on 21 October 2022, 09:00 – 13:00 hrs. Pre-registration is required via the online registration system by 16 September 2022. Further details of the programme will be disseminated at a later stage and can be inquired via HELO.

15.2 Spouse Programme

The host economy will arrange spouse programme (participation is optional) to visit the Jim Thompson Silk Museum on 20 October 2022, 09:30 – 14:00 hrs. Pre-registration is required via the online registration system by 16 September 2022. Further details will be disseminated at a later stage.

SECTION 16 GENERAL INFORMATION

16.1 Time Zone

Thailand Local Time is GMT +7.

16.2 Weather

Bangkok is located in the central part of Thailand. The average range of temperature in Bangkok in October is approximately 24 °C – 32 °C.

16.3 Electricity/Voltage

Thailand’s voltage is 220-240 AC, 50 Hertz. Electric plugs in Thailand are of two different types, with two pins and with three pins, thus it is suggested to bring a universal adapter.

16.4 Currency

The Thai Baht is the currency of Thailand. The currency code for Baht is THB, and the currency symbol is ฿. Major credit cards, including American Express, MasterCard and VISA, are widely accepted. Automated Teller Machines (ATMs) are widely available, and compatible with major credit cards and ATM cards.

Currency Exchange is available at the airport, banks and exchange service counters elsewhere in the city. The exchange rate as of August 2022 is approximately 35.78 Baht per 1 USD ($).

16.5 Business Hours

Government offices and tourist attractions usually operate from 08.30-16.30 hrs.

Banking hours are 08.30-15.30 hrs (Monday-Friday). However, some branches in the department stores open daily from 10.30-19.30 hrs.

Thailand Postal Services operate Monday-Friday between 08.00-20.00 hrs.; Saturday-Sunday between 09.00-12.00 hrs.

Shopping malls, department stores, and super markets open daily from 10.30- 21.00 hrs. Convenience stores are usually open 24/7.

Useful Telephone Numbers

Emergency Call Service	Phone Number
Police	191
Ambulance	1669, 1554
Fire Brigade	199
Tourism Police	1155, 1111
Tourism Authority of Thailand (TAT)	1672
Immigration Bureau	1178, (+66) 2287 3101
Suvarnabhumi Airport	(+66) 2132 1888, (+66) 2132 1111-2
Don Mueang International Airport	(+66) 2535 1192
Airport Taxi (Suvarnabhumi Airport)	(+66) 2132 0360

16.6 Health Care and Medical Emergency

Hotel and meeting venue are monitored to ensure hygiene and food safety. However, it is recommended that appropriate (medical grade) face masks be worn at all times in the meeting venue to prevent delegates from possible respiratory disease.

Basic and emergency medical services will be provided for all delegates at the meeting venues and the Shangri-La Bangkok Hotel at Room 505 on the 5th floor (Shangri-la Wing). For urgent medical assistance, delegates should inform the Thailand's FMP Team to assist you with getting prompt medical attention/treatment.

In case of further medical treatment, delegates may contact nearby hospitals:

- **Queen Sirikit National Convention Center (QSNCC)**

Hospital	Phone Number
Medpark Hospital	(+66) 2023 3333
Bumrungrad International Hospital	(+66) 2066 8888
King Chulalongkorn Memorial Hospital	(+66) 2256 4000

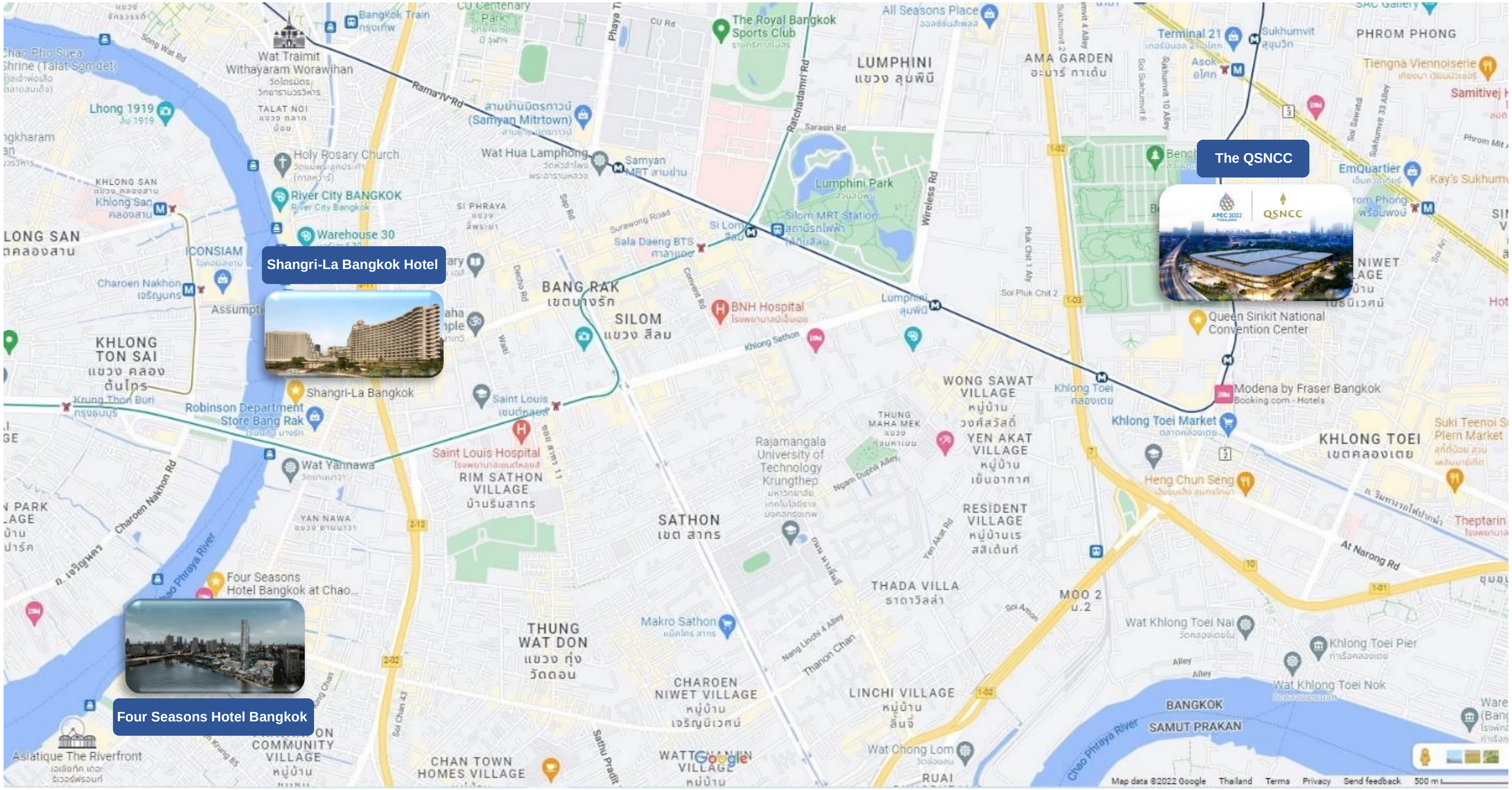
- **Shangri-La Bangkok Hotel**

Hospital	Phone Number
BNH Hospital	(+66) 2022 0700
Lerdsin Hospital	(+66) 2353 9800, (+66) 2353 9801
Saint Louis Hospital	(+66) 2838 5555

SECTION 17 SUMMARY OF IMPORTANT DATES

Task	Due date	Email Address / Contact
Appoint a DAO	29 August 2022	AFMP2022registration@fpo.go.th
Online Registration for Delegates	16 September 2022	AFMP2022registration@fpo.go.th
Hotel Reservation	19 September 2022	delphigroup.slbk@shangri-la.com
Submission of soft copy of papers for the FMM	10 October 2022	sme@apec.org, agsm@apec.org cc: APECFMP2022@fpo.go.th

Annex A: Map of Venue Locations



Annex B: Hotel Reservation

For APEC Finance Ministers and
APEC Secretariat Executive Director

SHANGRI-LA
BANGKOK

Finance Ministers' Meeting
Hotel Reservation Form during 18-22 October 2022
Shangri-La Bangkok

To: Reservations Department (Please return by email)
Shangri-La Bangkok
89 Soi Wat Suan Plu, New Road, Bangrak, Bangkok 10500 Thailand
Tel: (66-2) 236 7777
Email: delphigroup.slbk@shangri-la.com and copied areewan.sitthisuksakun@shangri-la.com , atcharaphon.ngaokla@shangri-la.com

Note: To send this form by email, please save the completed form as a new document and attach it to your mail.

Please reserve a room for the following guest(s) that are cordially invited by Ministry of Finance, Thailand

*****PLEASE FILL IN THE FORM WITH BLOCK LETTER*****

Guest name:

☐ **Mr /** ☐ **Mrs /** ☐ **Ms First Name:** ……………………………… **Last Name:** ………………………………

Economy : ……………………………………………………………………………

Tel no. : ……………………………………………………………………………

E-mail : ……………………………………………………………………………

Arrival date : ………………… **Flight no. :** ………………………… **Arrival time :** …………………………

Departure date : ………………… **Flight no. :** ………………………… **Departure time :** …………………………

Room type: Executive Suite / Executive River View Suite ☐ **Single** ☐ **Double**

Spouse First Name: ……………………………… Last Name: ………………………………

Special Requirement: ……………………………………………………………………………

Shangri-La Hotel Bangkok will confirm reservations directly with participants.

Please note that it is the delegate's responsibility to inform the hotel for any changes/cancellation.

All expenses will be paid by Ministry of Finance, Thailand

Annex C: Hotel Reservation

For APEC Delegates

Shangri-La Bangkok Hotel
Address: 89 Soi Wat Suan Plu, New Road, Bangrak, Bangkok 10500, Thailand

Room Type

Deluxe room	4,800 baht Inclusive of Tax
Bacolny Deluxe room	5,500 baht Inclusive of Tax

s9(2)(k)

For Direct Bookings Contact:
Reservation Department
Tel. (+66) 2 236 7777
Email: delphigroup.slbk@shangri-la.com and copy to atcharaphon.ngaokla@shangri-la.com
areewan.sitthisuksakun@shangri-la.com

Annex D: Bilateral Meeting Room Booking Form

Requesting Economy/ Organization Information	
Economy/ Organization	
Name of Contact Person	
Title	
Ministry/ Department	
Telephone	
Email	

Participating Economy/ Organization Information	
Economy/ Organization	
Name of Contact Person	
Telephone	
Email	

Meeting Room Request Details	
Date	
Time	
Total Number of Seats	
Special Requests (if any)	

Bilateral Meeting Room is available at The Valley Room on the 1st floor at the Shangri-La Bangkok Hotel from 19 – 20 October 2022, 08:00 – 20:00 hrs and at the QSNCC on 20 October 2022, 08:00 – 17:00 hrs.

Please submit one form per requested bilateral meeting. Email the completed form to AFMP2022secretariat@fpo.go.th. Requests shall be fulfilled on a first-come, first-served basis.

A confirmation email will be sent to both participating economies listed above with a notification of assigned bilateral room and meeting times.

Annex E: Documentation Information Request Form (DIRF)

Please use one DIRF per document

Meeting Name	APEC Finance Ministers' Meeting (FMM)
Meeting Date	
Contact Person	
Organisation	
Email	

DOCUMENT DETAILS The information below will be used by the APEC Secretariat to create the cover page for each paper/ presentation and to update the document classification list for the meeting.	
Title	
Agenda Item	
Purpose – Consideration or Information	
Access – Public or Restricted *If restricted, stated reasons e.g. draft, under consideration, working document, non-paper*	
Submitted By *State name of Economy or Forum or Secretariat or Organisation*	
Forum Doc. No. Applicable *only if this exact document has been tabled at an earlier forum*	

For APEC FMM Papers:

Please email document(s) and DIRF(s) by **10 October 2022**

To: sme@apec.org, agsm@apec.org

CC: APECFMP2022@fpo.go.th

Note: Please do not password-protect the files as the APEC Secretariat will need to insert a standard cover page for each document.

(Draft as of 13 September 2022)
Concept Note
APEC Finance Ministers' Retreat
Bangkok, Thailand
19 October 2022

Participants: Finance ministers of the 21 APEC economies and moderator

Topic

Garnering the Tailwinds, Tackling the Headwinds: Strategic Moves in Today's Economy

Background

The world economy has gone through unusual times in recent years. Starting from the outbreak of COVID-19 at the end of 2019, continuous disease control measures meant to ensure social distancing disrupted domestic and cross-border economic activities. The disruption left labors in furlough or unemployment, reducing household income, placing a greater pressure on household finance, and exacerbating household debts. In response, governments had to encroach into their fiscal space as they launched numerous measures to shore up the economy and to support healthcare as well as social protection systems. Now in 2022, while the world is trying to leave COVID-19 behind and attempting to address the scarring effect thereof, new hindrances arise in the form of supply chain disruption, labor shortages, inflationary pressures, and risks of stagflation, hampering the uneven and still fragile recovery.

Even with such headwinds presented by the remnant effects of COVID-19 and the new challenges countering our economic recovery, there are many encouraging tailwinds to ignite the new growth cycle. Current resurgence in travel and other economic activities reflects the pent-up demand. Digitalization made necessary during the COVID-19 pandemic has seen unprecedented growth and uptake. Pledges to tackle climate change and pursue sustainable development, which have increasingly materialized into more sustainable financing and investment, signal that the sustainable development agenda is now back on track.

All engulfed in such headwinds and tailwinds, economies need to work together to produce strategic, measured, and innovative responses in order to keep the world economy steady and propel it forward, especially in the areas which require a collective action such as climate change, sustainable development, and digital connectivity. Representing nearly two-thirds of the world's gross domestic products, APEC is undeniably a forum for such discourse, in which APEC finance ministers may touch upon fiscal policies, taxation regimes, redistribution programs, investment incentives, digital leverage, pursuit of sustainable development, and other concerns on the radar of APEC finance ministries. Given the diverse representations among APEC economies, the conversation between APEC finance ministers will bring together different perspectives and approaches, and produce shared foresights of the world economy and coordinated pathways to this multitude of issues.

Asia-Pacific Economic Cooperation

APEC 2022 THAILAND

Possible Dialogues

Business cycle: In view of current inflationary pressures, how do APEC economies foresee the current inflation and growth cycle?

Fiscal resource reallocation: While the world gradually leaves behind COVID-19, economies need to consider an exit strategy for COVID-19 stimulus measures to prevent the risk of misallocation of resources, to redirect the resources to long-term growth engines, and to maintain the long-run fiscal sustainability. How do economies devise such exit strategy, or combine it with the long-term sustainable development agenda? How can tax regimes be adapted to ensure that economies have sufficient resources to make up for spending during the era of COVID-19 and to tackle the long-term sustainable development agenda?

Policy focuses: Digital technology and climate-related sectors have been identified as two of the engines which will drive the economy towards a full recovery and propel it to a new growth cycle. What actions can finance ministries take to enable these two sectors to live up to such expectations? Are there any other growth engines which remain untapped? What should be the strategic moves by finance ministries to unleash the potential of these engines?

Format and Venue

Hosted by His Excellency Mr. Arkhom Termpittayapaisith, Thailand's Finance Minister and 2022 chair of APEC Finance Ministers' Meeting (APEC FMM), the retreat will be an opportune occasion for a casual gathering and an informal discussion among APEC finance ministers. No formal document will be produced as a result of the event.

Venue: Four Seasons Hotel Bangkok at Chao Phraya River

Time: Wednesday, October 19, 2022, 14.30 – 16.00 hour

Final draft prepared by the Bank of Thailand
as of 19/08/2022

APEC 2022
THAILAND

APEC Policy Considerations for Developing Cross-Border Payments and Remittances

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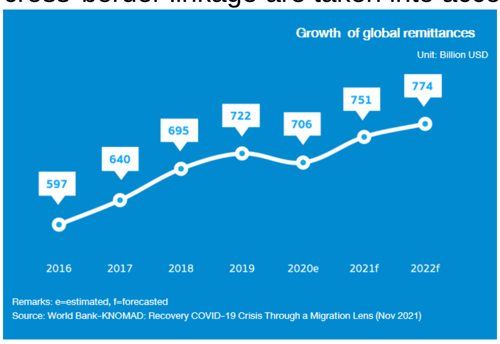
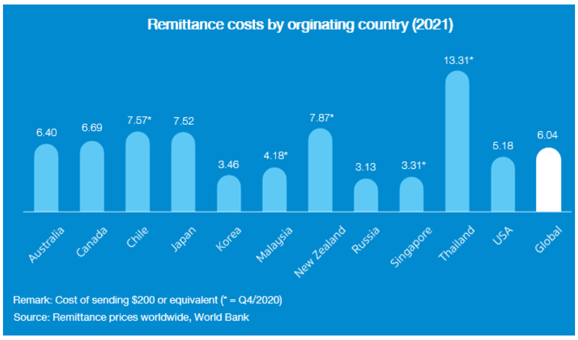
Cross-border payments and remittances are of vital importance to migrants, tourists and businesses alike. The World Bank expects global remittance volumes to reach 774 billion US dollars in 2022. Nevertheless, such cross-border transactions are beset by various inadequacies, such as high costs, long waiting times or inconvenience of users. Remittance costs, for instance, can constitute over 10% of the value of funds transferred.

Many member economies of APEC have significant flows of businesses or are key remittance economies, hence there are increasing demands from businesses and individuals for ways to make these cross-border transactions cheaper, safer and more convenient. These members may avail themselves to the following policy considerations, which are drawn from the recent but rich experience of several APEC economies within ASEAN that have successfully developed and launched cross-border linkages under the ASEAN Payment Connectivity Initiative. These policy considerations are meant to address long-standing challenges in cross-border payments, such as high cost, low speed, limited access and inadequate transparency wherein implementation is subject to each member's discretion and negotiation with its counterparties. They are also in line with the recent work of the Financial Stability Board (FSB); the G20 Roadmap for Enhancing Cross-border Payments, which specifically includes targets for these four key areas for cross-border payments.[1]

Despite numerous ongoing studies and proofs-of-concepts on CBDC and multilateral platforms for cross-border payment use cases, none has been operationalized yet. In the meantime, the policy considerations to develop bilateral connectivity may be considered as a preliminary solution to address customers' inconveniences. Member economies may freely use these considerations as a practical checklist to ensure that key aspects for developing a cross-border linkage are taken into account.



Remarks: e=estimated, f=forecasted
Source: World Bank-KNOMAD: Recovery COVID-19 Crisis Through a Migration Lens (Nov 2021)



Remark: Cost of sending $200 or equivalent (* = Q4/2020)
Source: Remittance prices worldwide, World Bank

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[1] Financial Stability Board: *Targets for Addressing the Four Challenges of Cross-border Payments* (2021)

Use Cases

The policy considerations are drawn from successful cross-border payment connectivity cases that have already been launched and are in service for the general public of the related economies. The following are the two key use cases:

1. Cross-border QR Payments

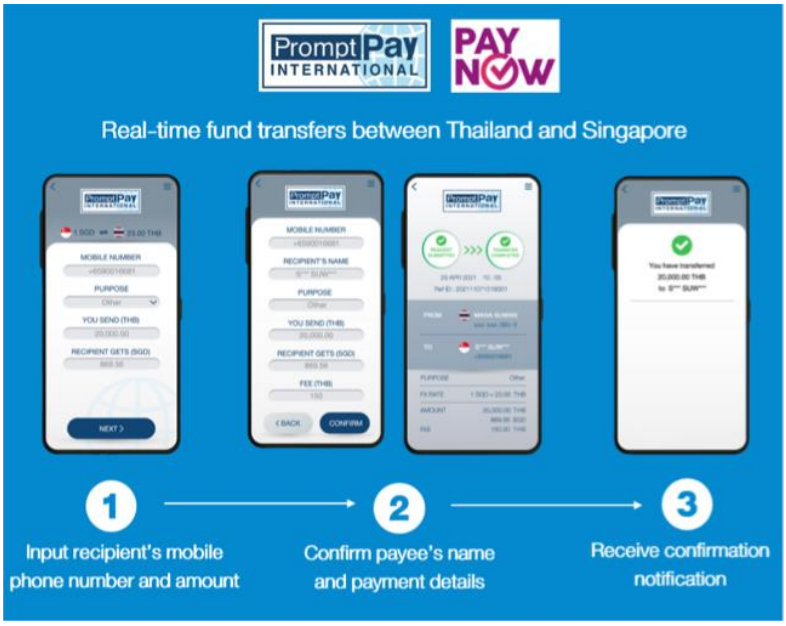
A user may make real-time payments for goods and services abroad by using the mobile banking application to scan the QR Code at the merchant in another economy (either physically or via e-commerce). The application will display the exchange rate and amounts in both currencies before confirmation. This service is aimed at facilitating trade and tourism, enabling convenient, fast, safe, and lower-cost payments.

Examples: Cross-border QR Payment Connectivity between Thailand-Vietnam (March 2021), Thailand-Malaysia (June 2021), Thailand-Indonesia (August 2021) and Malaysia-Indonesia (January 2022). Future linkages include, Singapore-Malaysia, Singapore-India, Thailand-India, and Thailand-Hong Kong.

2. Cross-border Remittances

A user, such as an expatriate worker, may make a real-time and cost-effective cross-border fund transfer to a receiver, like a family member. This can be made using proxies such as the recipient's phone number, without the need to fill in several required fields as with conventional services. The application will display the exchange rate and any costs associated with the transfer, which is executed real-time.

Example: Thailand's and Singapore's PromptPay – PayNow, the world's first cross-border real-time retail payment systems linkage (April 2021). Future linkages include Thailand-Malaysia, Thailand-Indonesia, Malaysia-Indonesia, and Singapore-Malaysia.



I. Objectives of cross-border real-time retail payments

The objectives for linking cross-border real-time retail payments are as follows:

1) To address inadequacies experienced by current customers, including high costs, long transaction times, inconvenience, limited access and lack of transparency, by providing more convenient, faster, safer, and more cost-attractive payment and remittance services to support tourism, trade, and inclusion;

2) To promote interoperability of retail payment systems between member economies;

3) To provide a safe and efficient means of making cross-border retail payments that comply with related international standards between member economies. For economies with no real-time retail payment systems, the policy considerations may be used to lead them toward enabling real-time retail payments within their economies;

4) To ensure that a mechanism is established to effectively manage risks arising from the receipt, processing, clearing and settlement of retail payment transactions between member economies, domestic rules and regulations of each economy should also be addressed; and

5) To ensure that the rights and interests of consumers are safeguarded, and that the cross-border retail payment systems are not used to facilitate illegal activities through observance of the respective anti-money laundering/combating the financing of terrorism (AML/CFT) rules.

In addition, linking up cross-border real-time retail payment systems is potentially a major milestone, and any decision to undertake such a project should ideally be backed by a clear business case and supported by relevant stakeholders. The business case will differ across APEC economies, as will the implementation complexities.

II. Governance

Linkage projects should adhere to good governance practices. These may include having a body in charge of oversight over the implementation of the project. This governance body may be set up on a project-by-project basis, or, if necessary, on a permanent basis as well. It will serve as the approving body for options and studies that may be conducted on various topics for the purpose of achieving payments linkages. For instance, the steering committee may be chaired by regulators, such as central banks.

The execution and enforcement of any decision of the governing body shall be done by each economy taking into consideration their respective domestic laws. There shall be a cooperative oversight arrangement and regular communication among the economies participating in establishing cross-border payment and remittance linkages to ensure the timely and proper enforcement of any decision of the governing body as well as to address concerns of respective economy.

III. Considerations

The economies that are interested in establishing cross-border retail payment and remittance linkages are recommended to conduct self-assessments of their readiness, which includes having a robust domestic fast payment system, prior to establishing cross-border linkages, and may make the following considerations:

- *Availability*: cross-border retail payment and remittance linkages should be available 24/7 to the extent possible through a relevant modality;

- *Accessibility*: consumers are able to use their electronic devices or channels to make payments and remittances from various sources of funds, as allowed by the member economies. This may be done through the adoption of an open infrastructure;

- *Affordability*: the costs, if any, to be borne by consumers and merchants should not be prohibitive to encourage the use of cross-border retail payment and remittance linkages;

- *Efficiency*: the cross-border retail payment and remittance linkages should operate seamlessly and efficiently;

- *Interoperability:* the cross-border retail payment and remittance linkages should be open for future connectivity. This could, for example, include the use of international standards for messaging, such as ISO20022 as well as data format, information exchange protocol or technical standards;

- *Safety*: the cross-border retail payment and remittance linkages should be robust, resilient, and able to protect the security of payment transactions and the customer information; and

- *Sustainable Development*: the cooperative arrangements on cross-border retail payment and remittance linkages should meet the needs of consumers in the member economies. Innovations and competition should be encouraged for further developments.

IV. Implementation Considerations

Effective communication among all stakeholders is of vital importance to the success of the project. This is because the various stakeholders—regulators, banks, associations and operators—have different focus areas, backgrounds, and processes to carry out their work. Furthermore, this becomes more complicated with regulatory and cultural differences across member economies, for instance, differences in AML/CFT screening both in real-time or at post transaction, and testing procedures. Communication would therefore align the way different stakeholders work to achieve a common objective. Moreover, it is recommended that end-to-end development phase should be thoroughly discussed prior to the start of the project to avoid unexpected discrepancies.

During the project, three workstreams should be established to address key challenges and relevant factors.

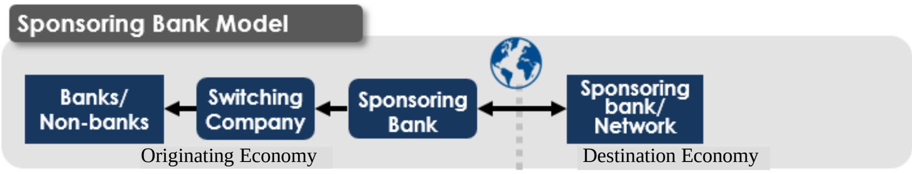
Business workstream	Technical workstream	Legal workstream
▪ Models: switch or sponsoring bank ▪ Commercial scheme / Pricing ▪ Settlement model / process ▪ Operating manual	▪ International standards ▪ Leverage on existing arrangements ▪ Technical details and arrangements ▪ Mechanisms to manage fraudulent activities	▪ Domestic laws and regulations e.g. FX regulations ▪ Dispute resolution ▪ Liabilities ▪ Agreements

1) Business Workstreamidentifies the common requirements and solutions that need to be aligned in the following areas:

- ***Models***: the participating economies may select the model that best fits their current landscape and requirements.

• Switch model: this model connects the domestic retail payment system, such as fast payment and switching system, to its foreign counterpart. The switch model has a number of advantages including its efficiency and accessibility, as it connects only one point to a foreign entity. Moreover, most customers can access such cross-border services. However, this model may be more complicated in terms of business, legal and IT arrangements and may lead to a long negotiation period. In addition, this model may not be suitable for economies that do not have a domestic retail payment system such as fast payment.

• Sponsoring bank model: this connects the system of a commercial bank acting as the sponsoring bank to its foreign counterpart. For this model, the sponsoring bank will receive information and perform settlement function for participants. Some of the advantages of the sponsoring bank model are that it is less complicated and may take less time to develop the cross-border linkage. This model is suitable for economies that do not have domestic retail payment systems, such as fast payment and switching systems. However, the coverage of such cross-border service may be hard to scale, compared to the switch model.



• Other models: establishing cross-border payments and remittance linkages by using modern technologies or innovations, with an aim to promote more convenient, faster, safer, and more cost-attractive payment and remittance services to support trade, tourism, and inclusion. For example, stylized models for interlinking cross-border payment systems suggested by the BIS[2].

- ***Commercial scheme***: Participants should agree on a pricing model that is attractive and sustainable, and offsets any imbalances of economic activities. The discussions on commercial scheme may follow these principles:

• Competitiveness: Providing customers and merchants with a competitive fee/pricing structure compared to traditional means of making cross-border payments;
• Sustainable Development: Providing a sustainable and win-win business model;
• Reciprocity: Acknowledging economy-specific differences;
• Flexibility: Conducting reviews on an ongoing basis; and
• Transparency: Ensuring transparent fees and exchange rates

- ***Settlement process***: Participants should agree on a common model and process that accommodates the interests of participating banks. Any potential settlement risks associated with cross-border settlement should be mitigated. Examples of such measures are guarantees

[2] BIS Bulletin 49, "Interoperability between payment systems across borders", (10 December 2021)

and overdrafts provided by each settlement bank. The economies that have local currency settlement arrangements (LCS) with their respective counterparts may leverage the benefits of such framework.

- ***Operating manual:*** Participants should agree on day-to-day operational requirements and procedures for future reference.

2) Technical Workstream

- Participants will facilitate cross-border clearing and settlement on international scale. For this purpose, the member economies may consider adopting **international standards** such as the ISO 20022 international messaging and communication standard, ISO 27001 information security management, and other related internationally accepted standards that may be mutually agreed on. In addition, the providers of member economies may also collaborate to set common business rules, agreements, tests, and working processes, to achieve interoperability among them.

- Participants may aim to **leverage existing arrangements, practices, and technologies** where possible to efficiently and cost-effectively clear and settle cross-border transactions. For example, in a model where a settlement bank (representative bank) is chosen to perform cross-border settlements in place of all other participating providers, the participating economy may decide to carry out subsequent clearing and settlement for domestic settlements in the existing retail payment system in its own economy.

- Mutually accepted **technical details and arrangements** such as security standard, network connectivity requirements, API standard, and testing methodologies before service launch should be discussed and agreed by the member economies prior to or at the beginning of the development phase in order to avoid potential misinterpretations and unnecessary disputes. Moreover, participating economies may consider leveraging modern infrastructures, such as digital identification facilities, to facilitate their cross-border payment projects.

- **Mechanisms to manage fraudulent activities** and limit risks should be established. These mechanisms may include, among others, security measures, transaction limits, daily aggregate limits, and rejection of suspicious transactions.

3) Legal Workstream

- *Domestic laws and regulations*: participants should take into account their respective domestic laws and regulations in their cooperative oversight arrangements. These include AML/CFT, foreign exchange arrangements, market conduct, personal data protection (e.g., whether customer data are to be stored domestically or shared between economies[3]), data management framework, Know Your Customer (KYC), and Know Your Merchant (KYM). Moreover, participants should also design appropriate regulatory frameworks that balance between data privacy, regulatory compliance, and cybersecurity.

- ***Dispute resolution*** should be agreed upon by participants to ensure the prompt resolution of any dispute that may arise from or be related to the implementation of said arrangements.

- ***Liabilities***: all relevant parties should agree on taking liabilities among the stakeholders.

[3] For PromptPay-PayNow linkage, when a sender inputs a recipient's mobile phone number, it will display the partially masked name of the recipient and his or her account number. However, all customer data are stored domestically within their economies.

- *Agreements:* participants should agree on the agreement arrangements, such as the simpler bilateral (e.g. between system operators) and the more complex but comprehensive multi-party agreements (among all parties involved).

V. Risk management

There should be measures put in place to mitigate risks that may arise from the cross-border retail payment and remittance linkages.

- *Operational risk*: the providers and system operators shall ensure that they have in place the necessary policies, processes, procedures, infrastructures, skilled personnel, and business continuity plans aimed at minimizing the potential operational losses that they may incur in view of their participation in the cross-border payment services.
- *IT and cyber security risk*: the providers and system operators should manage IT security risk to protect system integrity and reliability and ensure system availability. These include: protection of processors, communication networks, technical operating infrastructure, cyber security and technology solutions.
- *Fraud risk*: the providers and system operators should have robust fraud monitoring and prevention procedures to ensure the stability and security of the cross-border infrastructures.
- *Legal risk*: as the electronic payment channels can be used as quick means of laundering funds from illegal activities or funds meant to support these activities, the providers and system operators shall comply with relevant laws, regulations, and guidelines on anti-money laundering, counter-terrorism financing, as well as with the KYC and Customer Due Diligence procedures.
- *Liquidity risk*: the providers and system operators should maintain sufficient liquid resources to meet their payment obligations.
- *Credit risk*: the providers and system operators should effectively manage their credit exposures to participants and other credit exposures arising from payment, clearing and settlement processes.
- *Settlement risk*: the providers and system operators should take reasonable steps to confirm the effectiveness of cross-border recognition and protection of cross-system settlement finality.

Cooperation in supervision of the payment system and cooperation mechanisms among management agencies in terms of management, supervision, and exchange of cross-border payment information should be put in place, such as monitoring the flow of cross-border payments to ensure compliance with regulations on AML/CFT, customer identification, and fraud prevention.

VI. Consumer Protection

It is recommended that participants uphold consumer protection, recognizing their rights and freedom of use of the cross-border service and may adopt the following measures, among others:

- Development of user-friendly applications and provide for basic information and instructions to properly guide consumers when making payment transactions;
- Disclosure to consumers of their rights and the conditions for their use of the cross-border retail payment and remittance service;
- Provision of the breakdown of the charges and foreign exchange rates to the consumers;

- Real-time notification to verify the status of their payments and retrieve the historical records of their transactions;
- Regular communication to customers to protect them from threats and frauds related to cross-border retail payment and remittance;
- Availability of channels to request information or report incidents with quick turnaround times for addressing concerns; and
- Assurance that consumers′ personal private data are protected from unauthorized access or use, and other data privacy concerns are appropriately addressed. This may be accomplished through regulatory cooperation.

The existing cross-border payment linkages should be reviewed and monitored to ensure their effectiveness. Additionally, cross-border payment development in other areas based on new technologies that would achieve similar objectives, such as multilateral cross-border payment arrangements, should be explored for scalability purposes.

VII. Monitoring / Periodic Review

Post-implementation, linkages should be subject to periodic performance monitoring and reviews to ensure that they remain safe and efficient. Such reviews may entail further enhancements to the linkage to address any emerging risks as well as to introduce newer technologies to harness greater efficiencies.

BUDGET-SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: HYEFU 2022 Preliminary Economic and Tax Forecasts

Date:	14 October 2022	**Report No:**	T2022/2191
		File Number:	BM-3-6-1

Action sought

	Action sought	Deadline
Minister of Finance Hon Grant Robertson	**Note** the HYEFU 2022 preliminary economic and tax forecasts show weaker real activity as a result of higher interest rates, contributing to nominal GDP being a cumulative $28.5 billion lower than forecast at BEFU. **Note** core Crown tax revenue is forecast to be $1.7 billion higher than forecast at BEFU, despite weaker activity which is offset by stronger revenue in the June 2022 year.	None

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Henry Russell	Graduate Analyst, Forecasting	s9(2)(k)	s9(2)(g)(ii)	✓
Peter Gardiner	Manager, Forecasting			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: HYEFU 2022 Preliminary Economic and Tax Forecasts

Executive Summary

The New Zealand economy is nearing a turning point in its cycle. Strong demand across the pandemic, during a period of constrained supply, has caused inflation to rise to thirty-year highs. As a result, the Reserve Bank of New Zealand (Reserve Bank) has raised interest rates sharply, but overall domestic demand continues to hold up, with the economy expanding 1.7% in the June 2022 quarter. **We expect the economy to grow 0.8% in the September 2022 quarter, before a marked slowdown from the December 2022 quarter, as higher interest rates slow demand.**

There are signs emerging that higher interest rates are dampening demand, with consumer and business confidence depressed, and house prices and sales declining, **but underlying demand in the economy remains strong** with a shift toward services sectors evident, as tourism activity picks up.

Acute labour shortages are constraining domestic supply. Labour demand remains strong, with unemployment at near-record lows, exacerbated by net migration outflows. **Labour market tightness is contributing to strong wage growth, and annual wage growth is forecast to peak at 7.4% in the December 2022 quarter. The unemployment rate is now expected to rise to 5.2% by the end of 2024,** although current conditions and a slower pick up in net migration may reduce the impact of weaker demand on the labour market as businesses reduce hiring rather than reducing their workforce.

Continued global supply-chain disruption and strong global inflation are keeping tradables inflation high, despite recent falls in global commodity prices. Import price pressures are being further exacerbated by a depreciation in the exchange rate, and **while we anticipate inflation peaked in New Zealand in the June 2022 quarter, inflation is likely to be more persistent than previously expected.**

We expect the Reserve Bank to continue to raise the Official Cash Rate and 90-day rates to a peak around 4.3% in the June 2023 quarter, higher than assumed in our *Interim Update*, but below current market pricing. **Economic activity is expected to slow significantly in 2023**, particularly in sectors sensitive to interest rates. Falling house prices, cost pressures and tightening credit conditions are expected to see residential investment contract, while consumption weakens, and business investment softens.

Strong wage pressures and escalating costs will increase the cost of providing government services. The preliminary forecasts assume similar nominal levels of government spending as in the *Budget Economic and Fiscal Update* 2022 (BEFU) and, therefore, **higher costs reduce real government consumption**. Forthcoming fiscal strategy advice will consider the appropriateness of future allowances in this regard.

The current account deficit has increased to 7.8% of GDP and is expected to widen further to a new record of 8.4% of GDP in the September 2022 quarter. Large deficits can increase financial vulnerability if they persist. However, we expect these to be transitory with the deficit narrowing as services exports recover as international tourism picks up, and import demand softens as monetary and fiscal policy support is withdrawn.

Core crown tax revenue through to the June 2026 year is forecast to be a cumulative $1.7 billion higher than forecast at BEFU, reflecting revenue in the June 2022 year being $4.2 billion higher than expected, which is then offset by the weaker macroeconomic outlook. While the 2022 fiscal years positive variance does not persist through the forecast period, **effective tax rates are forecast to remain around historical highs.**

There are risks to the outlook both domestically and internationally. **Upside risks to the outlook include a faster-than-anticipated pickup in net migration** helping to alleviate skills shortages in the labour market, **or if inflation recedes faster than anticipated,** enabling a lower peak in interest rates, and therefore, stronger economic activity.

Downside risks include inflation proving more persistent, particularly import prices which would require further restraint on demand in order to narrow the current account deficit. There are also risks to interest-rate sensitive industries, particularly the construction sector, which may be more impacted by higher interest rates, causing a larger and more prolonged contraction.

Table 1: Summary of Key Forecasts

Year to June		2022	2023	2024	2025	2026	2027
Real GDP (AAPC)	Prelim HYEFU	1.0	2.7	0.5	1.9	2.7	3.1
	BEFU22	1.7	4.2	0.7	1.6	2.5	
Unemployment rate	Prelim HYEFU	3.3	4.0	5.0	5.2	5.0	4.6
	BEFU22	3.1	3.3	4.4	4.8	4.7	
CPI inflation (APC)	Prelim HYEFU	7.3	5.5	3.5	2.6	2.0	2.0
	BEFU22	6.7	5.2	3.6	2.7	2.2	
Nominal GDP ($billion)	Prelim HYEFU	359.4	391.0	413.7	435.7	458.9	484.2
	BEFU22	362.4	401.5	421.0	441.3	464.0	
	Change	-3.0	-10.4	-7.3	-5.6	-5.1	
Tax Revenue ($billion)	Prelim HYEFU	108.5	115.8	123.7	130.4	139.0	147.1
	BEFU22	103.8	116.1	122.7	129.9	138.5	
	Change	+4.7	-0.3	+1.0	+0.5	+0.5	

Recommended Action

We recommend that you:

a **note** that the final HYEFU 2022 economic and tax forecasts show weak real economic activity, as a result of tighter monetary policy and weaker global growth, contributing to nominal GDP being $28.5 billion lower than forecast at BEFU

b **note** that the unemployment rate forecast, while remaining low in the near term, rises to a peak of 5.2% in late 2024, as economic activity weakens

c **note** that core Crown tax revenue is forecast to be a cumulative $1.7 billion higher than forecast at BEFU, and

d **refer** this report to:

Refer/not referred
Hon Dr Megan Woods
Associate Minister of Finance

Refer/not referred
Hon David Parker
Associate Minister of Finance

Refer/not referred
Hon Kiritapu Allan
Associate Minister of Finance

Peter Gardiner
Manager, Forecasting

Hon Grant Robertson
Minister of Finance

Treasury Report: HYEFU 2022 Preliminary Economic and Tax Forecasts

Purpose and context of report

1. This report provides an overview of the Treasury's preliminary economic and tax forecasts for the *Half Year Economic and Fiscal Update* 2022 (HYEFU). These economic and tax forecasts underpin the preliminary fiscal forecasts currently being compiled.

2. Annex 1 provides tables with additional details on the economic forecasts, including changes since BEFU 2022.

3. Based on these preliminary forecasts, you will receive advice on your fiscal strategy for the Budget Policy Statement 2023 (BPS) on 20 October. We require your decisions on allowances no later than 7 November so that these can be incorporated into a consistent set of final HYEFU 2022 economic and fiscal forecasts. If requested, we can provide further advice to support these decisions following the completion of preliminary fiscal forecasts in early November.

4. The HYEFU 2022 economic and tax forecasts will be finalised on 9 November and will incorporate the preliminary fiscal forecasts, and the September 2022 quarter Consumers Price Index and labour-market data that will be released on the 18 October and 2 November, respectively. We will provide a Treasury Report summarising the final economic and tax forecasts to you on 21 November.

5. In early September, we met with several major New Zealand firms across different sectors of the economy, with an emphasis on construction and tourism, to understand the business community's view of the economic outlook, and to inform some of the judgements that underpin these forecasts. Alongside this report, you will receive an Aide Memoire (T2022/2190) summarising the key messages we heard from businesses.

Key assumptions underpinning the economic forecasts

6. The neutral 90-day interest rate, the interest rate at which monetary policy is neither expansionary nor contractionary, is assumed to be 2.75%, corresponding to a neutral Official Cash Rate (OCR) of approximately 2.5%. This assumption underpins our estimate of the sensitivity of economic activity to changes in short-term interest rates.

7. The New Zealand Trade-Weighted Index (TWI) is assumed to remain constant at 67 from the December 2022 quarter to September 2023 quarter, before then gradually increasing to 70.0 by the end of the forecast period. On average, the TWI is 9% below that in BEFU 2022 and reflects rising global interest rates, and capital flight to the US as a result of rising global recession risks.

8. COVID-19 is no longer assumed to have a material impact on the domestic economic outlook, reflecting the removal of public health restrictions, the completion of the *Reconnecting New Zealand* plan and declining reported cases due to increased immunity in the community.

9. Annual net migration is expected to return to net inflows from the second half of 2023 and gradually increase to 36,600 by the end of the forecast period.

10. Oil prices are assumed to average 76 USD per barrel in the December 2022 quarter, before gradually lowering to 70.5 USD per barrel at the end of the forecast period. Our near-term assumption is much lower than assumed at BEFU, reflecting the recent deterioration in the global outlook, which has weighed on demand.

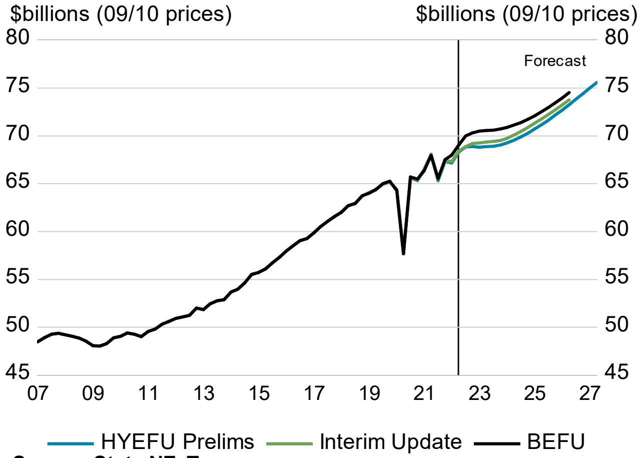
Economic Outlook

Activity continues to hold up, but a slowdown is expected…

11. **The New Zealand economy is nearing a turning point in its economic cycle,** as the withdrawal of monetary and fiscal policy support is required to control inflation. The Reserve Bank has sharply increased the OCR during 2022 and there are signs emerging that activity is weakening with consumer and business confidence depressed and house prices declining, but overall demand remains resilient as consumer spending holds up, with a shift toward the services sector evident as international tourism recovers.

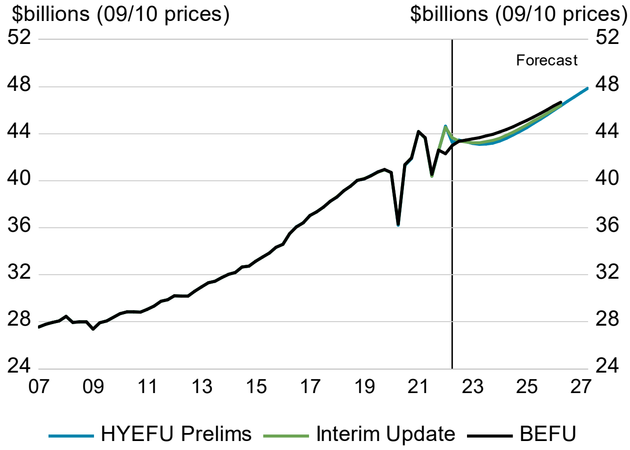
12. High interest rates are expected to significantly slow economic activity into 2023, with **quarterly GDP growth across the 2023 calendar year forecast to average 0.1% per quarter** (Figure 1)**.** Softer demand through 2023 supports the easing of inflationary pressure. From 2024 we expect that interest rates will gradually reduce to a more neutral level, supporting a pickup in growth over the remainder of the forecast period. The slowdown in activity sees private consumption contract in the first half of 2023 (Figure 2), before recovering gradually across the remainder of the forecast period.

Figure 1: Real production GDP



Source: Stats NZ, Treasury

Figure 2: Private consumption



Source: Stats NZ, Treasury

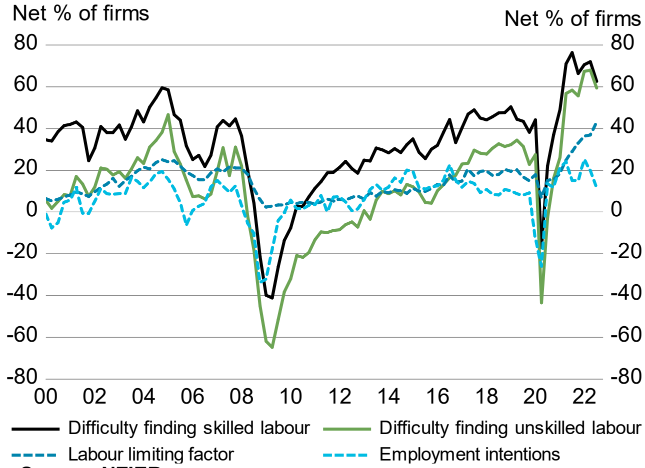
Inflation remains high, and is expected to ease gradually…

13. **Inflation remains broad-based in New Zealand, as a result of both domestic and global factors.** The labour market remains exceptionally tight, with firms continuing to report significant difficulty in finding labour, and a record net 43% of firms reporting labour as the limiting factor of output (Figure 3). **The tight labour market is placing significant upward pressure on wages,** supporting demand and putting pressure on firm margins, and firms are continuing to pass these costs on.

BUDGET-SENSITIVE

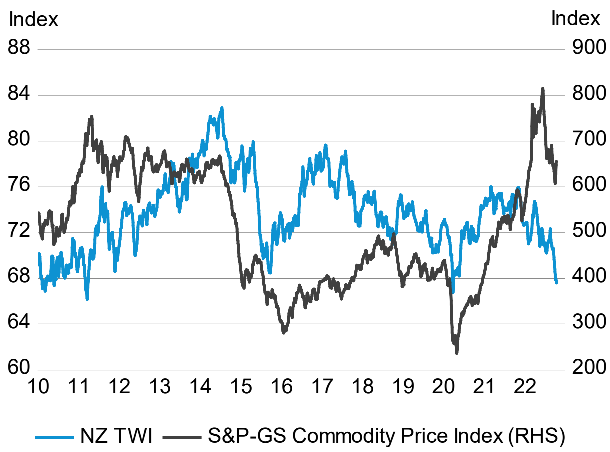
14. Globally, central banks are aggressively raising interest rates to combat high inflation. Global commodity prices have retreated as a result (Figure 4), with oil prices 14.7% lower in the September 2022 quarter compared to the previous quarter. Despite recent declines, import prices remain historically high; this coupled with on-going supply constraints and a lower New Zealand dollar **is exacerbating tradables inflation as firms have little room within tight margins to absorb heightened costs.**

Figure 3: Quarterly Survey of Business Opinion



Source: NZIER

Figure 4: Global commodity prices and NZ TWI

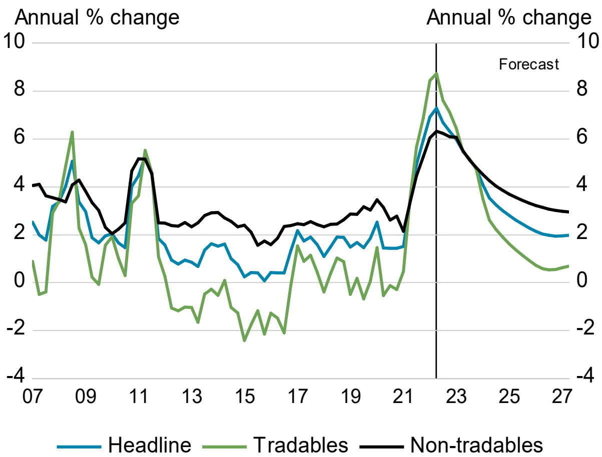


Source: RBNZ, Haver

15. **It is likely that inflation peaked at an annual rate of 7.3% in the June 2022 quarter, but we expect price pressures to remain for an extended period** (Figure 5). Non-tradable inflation is expected to ease as rising interest rates dampen economic activity. Forward-looking inflation expectations appear to have peaked in the June 2022 quarter and are slowly retreating, and as labour market imbalances are reduced when net migration picks up and labour demand eases in line with slower economic activity, wage-price dynamics will lessen through 2023.

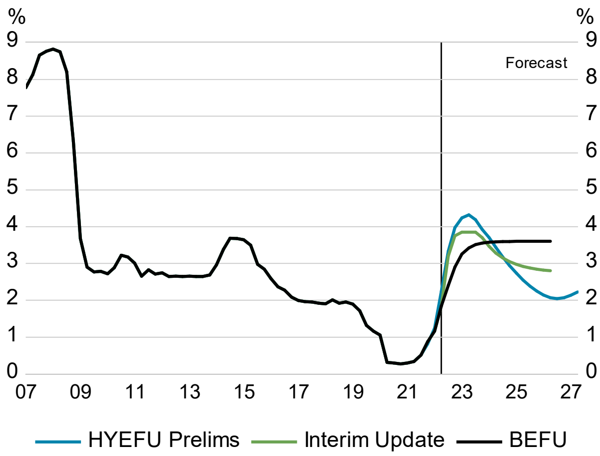
16. **Headline inflation is not expected to return to the 1-3% target range until the March 2025 quarter**, reflecting our expectation of the length of time for domestic and global supply capacity to normalise, and for short-term inflation expectations to be re-anchored within the target range.

Figure 5: Consumers Price Index



Source: Stats NZ, Treasury

Figure 6: 90-day interest rates



Source: Haver, Treasury

BUDGET-SENSITIVE

Further monetary policy tightening is needed to dampen demand…

17. **We expect the Reserve Bank will raise interest rates higher than previously anticipated, in order to return inflation to the target range** (Figure 6). The Reserve Bank has increased the OCR 275 basis points in 2022 to date, and while we are already seeing the impacts of this in interest-rate sensitive sectors, and in sentiment, the recovery in the services sector, driven in part by the return of international tourists, means demand continues to outweigh supply, and short-term inflation expectations have yet to be re-anchored.

18. **We expect 90-day interest rates to peak at 4.3% in the June 2023 quarter,** before easing to less contractionary levels, as output falls below potential. The interest rate track exhibits cyclicality in the medium term. As output remains below potential from the June 2023 quarter, reducing inflation, interest rates are later required to again fall below the neutral rate to ensure inflation expectations remain anchored at the 2% target midpoint.

19. **Market pricing for interest rates has increased in recent weeks, with a peak 90-day rate of approximately 5.0% now expected.** The large increases predominately reflect changes in the global environment, with global interest rate expectations increasing, placing downward pressure on the New Zealand exchange rate, culminating in higher tradable inflation expectations. While our forecast is below market pricing, this has been influenced by the reduction in real government consumption.

Cost pressures will reduce real government consumption…

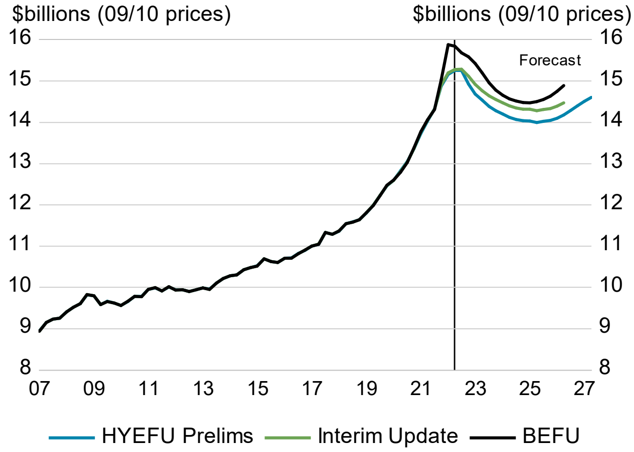
20. **Real government consumption declines over much of the forecast period** (Figure 7), as COVID-19 related expenditure unwinds. Since BEFU, we have also incorporated higher cost and wage pressures within the public sector, which given the assumption that nominal spending is maintained in line with BEFU fiscal forecasts, reduces real government consumption further. The final economic forecasts will reflect any decisions you make about future spending levels following advice relating to your Budget strategy on 20 October.

21. Figure 8 shows real government consumption per person with COVID-19 spending removed. Slower population growth relative to BEFU, from slower net migration, lifts real spending per person.[1] As expected, excluding COVID-19-related spending results in a less volatile series although the profile is not completely smoothed. Overall real government consumption per person ends the forecast period around 14 per cent higher than the 2019 level.

22. **The reduction in aggregate real government consumption contributes to weaker demand and, therefore, supports monetary policy,** requiring a lower terminal interest rate to return inflation to the 1-3% target.

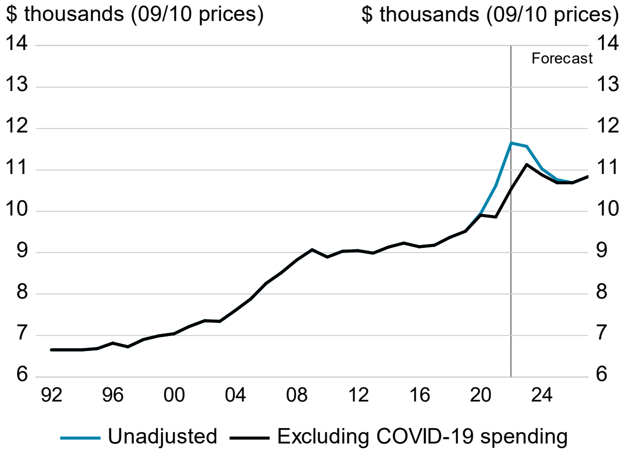
[1] The adjustment for COVID-19 spending should be treated as indicative only reflecting that it is based on <u>initial</u> cost estimates of COVID-19 policies (which were subject to considerable timing and cost uncertainty), as well as translating fiscal data onto the same basis as GDP data which involves considerable judgement.

Figure 7: Real government consumption



Source: Stats NZ, Treasury

Figure 8: Real government consumption per capita



Source: Stats NZ, Treasury

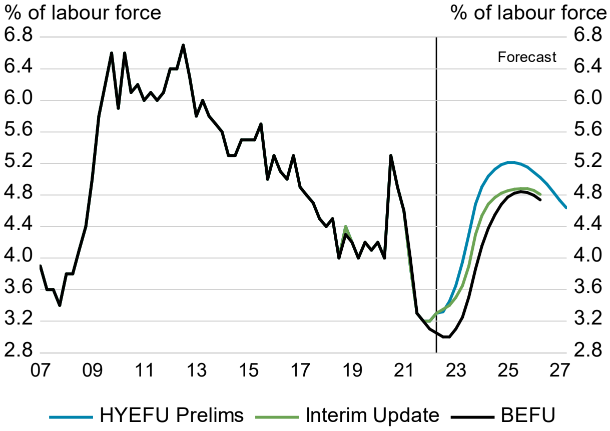
Unemployment is forecast to be higher than at BEFU…

23. **With higher forecast interest rates, the slowdown in economic activity is greater and expected to result in the unemployment rate rising to a peak of 5.2% by the end of 2024**, higher than forecast at BEFU (Figure 11). While rising unemployment will have a material impact on wellbeing in New Zealand, the increase is moderate compared to historical economic downturns.

24. **Current labour market conditions remain exceptionally tight,** with labour market indicators showing continued strong demand for labour, while labour supply remains constrained, exacerbated by net migration outflows. We expect the labour market to take some time to loosen, with the unemployment rate rising marginally to 3.4% in the December 2022 quarter, before the lagged impacts of rising interest rates dampen demand. **The unemployment rate is expected to lift throughout 2023, reaching 4.7% by the end of 2023,** although there is uncertainty around the rate of increase, given the current strength of labour demand as employers may reduce hiring rather than their workforce in response to weaker demand.

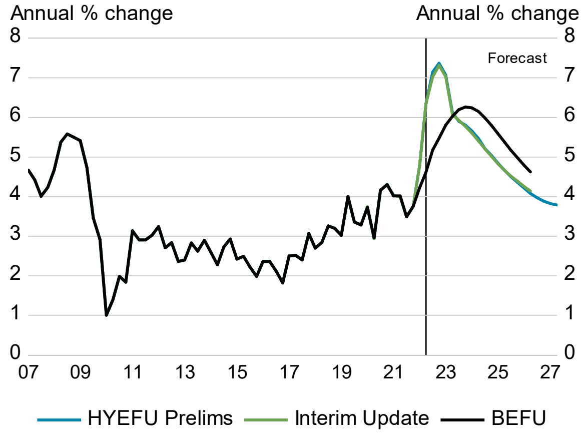
25. **The tight labour market is contributing to strong nominal wage growth which is forecast to peak at an annual rate of 7.4% in December 2022 quarter** (Figure 12). As the labour market loosens during 2023, nominal wage growth eases but remains above its long-run average, as the persistence of inflation contributes to stronger wage demands to maintain real incomes. **Annual real wage growth is forecast to be positive from the September 2022 quarter and return to December 2020 quarter levels from the start of 2024.**

Figure 11: Unemployment rate



Source: Stats NZ, Treasury

Figure 12: Nominal wage growth



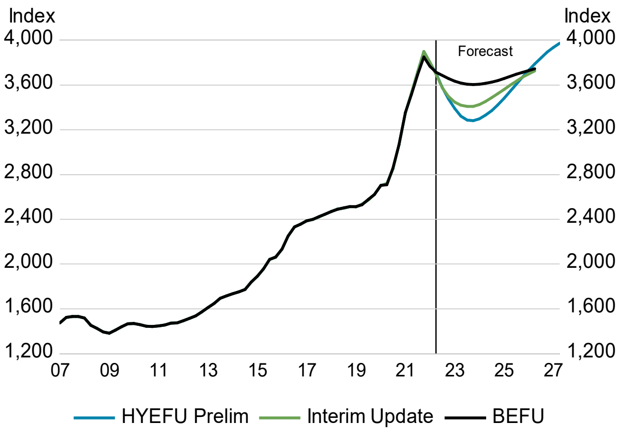
Source: Stats NZ, Treasury

…and house prices fall further…

26. **We expect house prices to fall 15.8% from their peak in the December 2021 quarter to their trough in the December 2023 quarter**, before gradually increasing from 2024 (Figure 13). House prices are expected to remain below their December 2021 quarter peak until the beginning of 2027.

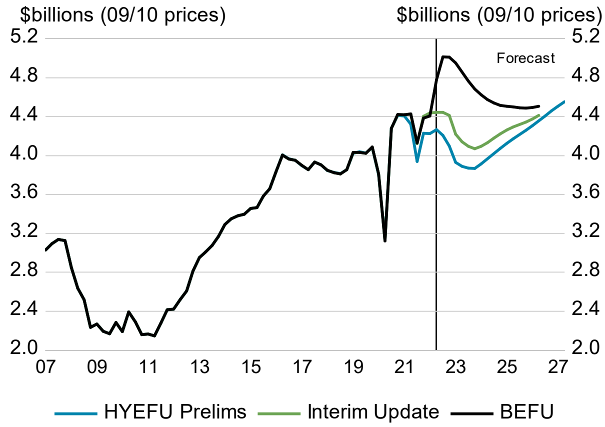
27. **Residential investment is expected to contract significantly in 2023**, as house prices continue to fall, and rising interest rates, labour and material costs make some developments unviable (Figure 14). The slowdown in residential investment is relatively gradual over 2022 as the industry continues to work through the existing pipeline of consented projects, but we expect the contraction to accelerate into 2023. **Residential investment is forecast to fall 7.4% in the 2023 calendar year compared to 2022,** although the contraction is shallow compared to historical downturns.

Figure 13: House prices



Source: CoreLogic, Treasury

Figure 14: Residential investment



Source: Stats NZ, Treasury

The global outlook has worsened…

28. Inflation has risen to multi-decade highs in many developed economies in recent months as robust demand hits against constrained supply. Global supply shocks, including the on-going constraints due to COVID-19 and the war in Ukraine are limiting output and are keeping prices high. In many developed economies, labour-force participation remains below pre-pandemic levels while demand remains strong, causing unprecedented labour shortages.

29. **In response to high inflation, central banks have aggressively tightened monetary conditions, which has weighed heavily on the global outlook**. In their October *World Economic Outlook,* the International Monetary Fund forecast global growth to slow from 6.0% in 2021 to 3.2% in 2022 and 2.7% in 2023.

Weaker global demand will flow through to lower terms of trade…

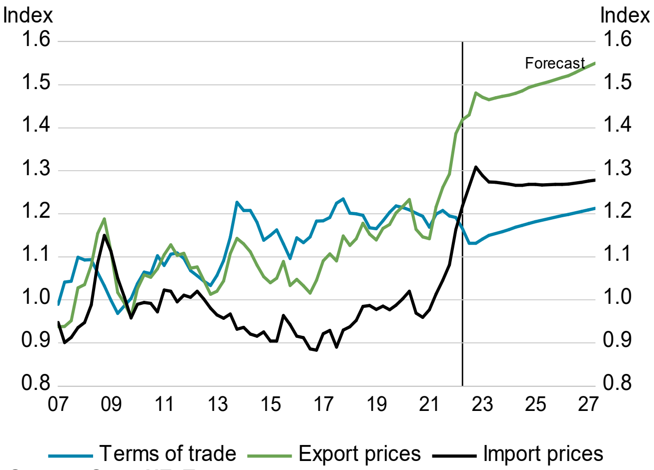
30. **The terms of trade are expected to continue to ease from their elevated level in the near term,** as NZ commodity prices are pulled down by weaker global demand (Figure 15). Commodities comprise a greater share of New Zealand's exports than imports, and while lower commodity prices will reduce some import price pressures, we expect a greater impact on export prices. Global core inflation remains elevated and will take some time to moderate, causing import prices to remain higher for longer.

Although we expect the current account deficit to narrow from 2023

31. **The current account deficit has widened significantly over the COVID-19 period** reflecting a confluence of factors. Increased policy support helped to smooth household consumption during periods of volatility. However, public health restrictions constrained the services sector, causing consumption to switch toward goods, increasing demand for imports, as import prices surged. Meanwhile, supply disruption constrained New Zealand's export revenue, despite surging export prices, with the closure of the border halting international tourism flows. While supply constraints are easing, **the current account deficit is expected to peak at a record-high of 8.4% of GDP in the September 2022 quarter** (Figure 16).

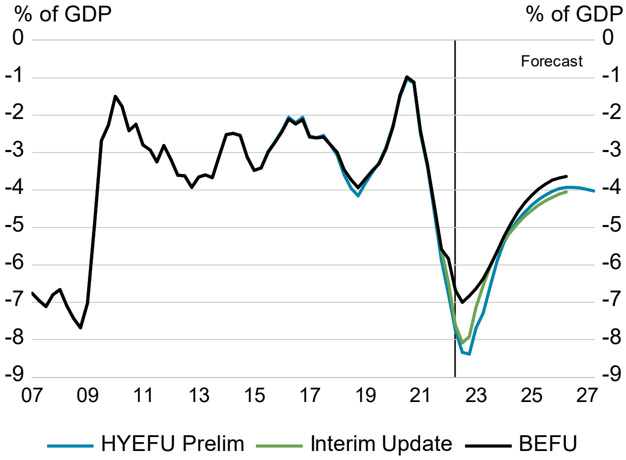
32. **The current account is expected to narrow from 2023,** reflecting a softening of import demand as economic activity weakens, while supply constraints in New Zealand's export industries are expected to unwind, supporting a continued recovery in goods export volumes. The recovery of travel services exports will also support the gradual return of the services balance to surplus, although travel services exports do not return to pre-pandemic levels during the forecast period. The wide current account deficit increases the economy's vulnerability to shocks, although its expected transitory nature has alleviated major concerns from credit-rating agencies.

Figure 15: Goods and services terms of trade



Source: Stats NZ, Treasury

Figure 16: Current account



Source: Stats NZ, Treasury

Overall, weaker real activity lowers nominal GDP…

33. **Overall weaker real activity, while partially offset by higher inflation, causes nominal GDP to be a cumulative $28.5 billion lower through to the June 2026 year compared to BEFU**. The largest downward revision occurs in the June 2023 year when nominal GDP is forecast to be $10.4 billion lower than BEFU.

Tax Outlook

Stronger tax revenue in 2022 offsets the impacts of the weaker macroeconomic outlook…

34. **Core crown[2] tax revenue is forecast to be a cumulative $1.7 billion higher than forecast at BEFU,** reflecting revenue (tax base) in the June 2022 year being $4.2 billion higher than expected, which is then offset by the weaker macroeconomic outlook. Over the forecast period, inflation contributes just over half of the increase in tax revenue.

35. Growth in tax revenue has been driven by a number of factors, which has seen tax-to-GDP ratios lift:

    a **Changes to spending patterns during the COVID-19 pandemic:** More spending domestically has lifted GST and corporate profits, although this will unwind with the reopening of borders and as travel normalises.

    b **Broadening of the tax base:** Tax policy changes and fiscal drag have lifted tax revenues, which are expected to persist through the forecast period.

    c **Underestimation of GDP**: GDP measures are understated, leading to subsequent revisions. This underestimation persists through the forecast period, elevating tax-to-GDP ratios.

[2] Preliminary HYEFU unconsolidated tax forecasts have been completed. The tax eliminations forecasts needed to produce core Crown and total Crown tax revenue will be calculated as part of the fiscal forecasting process. Since the tax eliminations forecasts are not yet available, the core Crown tax numbers presented here are **estimates.** The core Crown tax forecasts that will be included in the preliminary HYEFU fiscal forecasts are therefore **likely to differ from the forecasts shown in this report**.

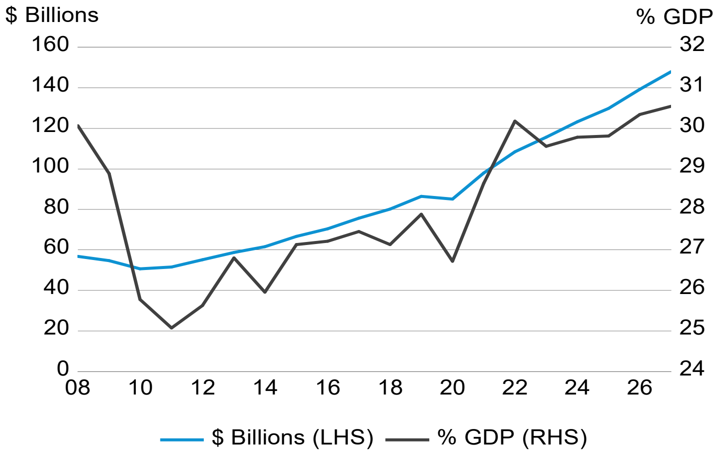
The core Crown tax to GDP ratio is forecast to remain elevated…

36. **Core crown tax revenue as a percentage of GDP reached 30.2% in the June 2022 year**, reflecting strong growth in provisional tax revenue estimates, the taxable components of nominal GDP rising faster than total nominal GDP, and fiscal drag.

37. **We expect the tax to GDP ratio to fall to 29.6% in the June 2023 year** reflecting a drop in terminal tax revenue (a consequence of the high provisional tax revenue estimates in 2022), while the main macroeconomic drivers of the tax forecasts particularly operating surplus and compensation of employees are expected to grow more slowly than GDP, partially offset by tax policy effects and fiscal drag.

38. **Over the remainder of the forecast period, the tax to GDP ratio is forecast to rise above 30% from the June 2026 year**, mainly owing to the effects of fiscal drag, excise rate indexation and recovery in macroeconomic drivers, particularly operating surplus, **and at no time over the forecast period is tax to GDP forecast to return to pre-pandemic levels** (Figure 17).

Figure 17: Core Crown tax revenue



Source: Treasury

Changes to the macroeconomic outlook drive differences in individual tax components…

39. Table 2 shows the change in estimated core Crown tax revenue by tax type over the forecast period. Apart from changes in the underlying macroeconomic variables, the forecasts include **various assumptions to align the tax forecasts with the most recent tax outturns up to September 2022.**

Table 2: Preliminary tax revenue forecast changes since 2022 BEFU, core Crown (estimated)

June years, $ billions	2023	2024	2025	2026	Total change
2022 Budget Update	116.1	122.7	129.9	138.5	
% of GDP	28.9	29.1	29.4	29.8	
Forecasting changes by tax type:					
Source deductions	46.7	49.6	53.1	56.7	
Change	+1.6	+1.1	+0.8	+0.5	+4.0
Net other persons tax	9.7	10.0	10.7	11.3	
Change	+0.4	-	+0.2	+0.3	+0.9
Customs & excise duties	5.1	5.7	5.8	5.9	
Change	-0.1	+0.2	+0.2	+0.1	+0.4
Corporate tax	20.3	22.1	22.7	24.9	
Change	-1.4	+0.4	-	+1.0	+0.0
GST	28.8	30.1	31.7	33.5	
Change	-0.6	-0.7	-0.7	-1.2	-3.2
All other taxes	5.3	6.3	6.5	6.6	
Change	-0.2	-	-	-0.2	-0.4
Total forecasting change	-0.3	+1.0	+0.5	+0.5	+1.7
2022 prelim Half-Year Update	115.8	123.7	130.4	139.0	
% of GDP	29.6	29.9	29.9	30.3	

Source: Treasury

40. **Source deductions (PAYE + ESCT) are forecast to be $4.0 billion higher compared to BEFU.** Source deductions revenue finished the June 2022 year $0.6 billion above the BEFU forecast, mainly owing to greater than forecast employment and wage growth. This positive variance is forecast to continue into the forecast period, reflecting the stronger wage growth forecast, despite weaker employment. **The fiscal drag associated with the wage growth adds $0.7 billion to PAYE revenue across the forecast period relative to the BEFU, and contributes $4.5 billion in total.**

41. **Corporate and other persons tax revenue are forecast to be a cumulative $0.9 billion higher compared to BEFU.** This has occurred despite the downward revision to the operating surplus forecasts, as some of the above-forecast 2022 result persists through the forecast period. Some of the costing for the 39% personal income tax rate has been re-allocated to other persons tax from corporate tax, which accounts for the small increase to the other persons tax forecast in the 2023 June year.

42. **GST revenue is forecast to be $3.2 billion lower across the forecast period compared to BEFU.** GST revenue finished the June 2022 year $0.2 billion below the BEFU forecast, as residential investment and private consumption activity slowed. We expect this to continue across the HYEFU forecast period, reflecting the weaker outlook for residential investment and private consumption.

Comparison with Inland Revenue…

43. **The Treasury and Inland Revenue's tax forecasts are broadly similar,** with the Treasury forecast $1.5 billion (0.2%) higher than Inland Revenue's forecasts over the forecast period. The main differences are in source deductions, GST, net other persons tax and corporate tax. These variances are explained by the differences in the modelling approach for PAYE and a stronger Treasury forecast for customs GST. Changes in the net other persons and corporate tax forecast are most significant in the 2022/23 year, owing to a different modelling approach and assumptions.

Risks to the central forecasts

44. **There are several upside and downside risks to our central forecasts that could lead to different outcomes for the economy and, in turn, tax revenue.**

45. **The global economic outlook is highly volatile, with risks skewed to the downside.** Continued uncertainty over COVID-19 in China, the war in Ukraine and energy supply concerns in Europe, and increased sensitivity of global demand to rising interest rates all add risks to the global growth outlook. This would likely spill-over into the weaker consumer and business sentiment in New Zealand, lower export prices, risks to the recovery in international tourism which would lower demand.

46. **High inflation has proved much more persistent than first thought**, and we now expect inflation to take considerable time to return to target. Should inflation pressures recede faster than anticipated, potentially due to a significant slowdown in global demand, or short-term inflation expectations becoming re-anchored faster than assumed, a lower peak interest rate will be required, causing strong economic activity.

47. COVID-19 has been a prevalent feature of the forecasts for nearly three years. The forecasts assume little in the way of future direct impacts in terms of disruptions. **The emergence of any new COVID-19 strain that required restrictions on activity would be a source of downside risk.**

48. Our forecast assumes that existing nominal budget operating allowances are unchanged. **If government operating allowances are increased to maintain current levels of real government spending this would add to aggregate demand and require higher interest rates** in order to return inflation to the target range

49. **The recovery of net migration inflows remains a key uncertainty in the forecast**. If net migration recovers faster than assumed, this will alleviate some labour supply challenges and boost demand and economic growth. If net migration takes longer than assumed to recover, this may further exacerbate labour supply shortages.

50. **There are risks that the expected increase in public sector wages as a result of PSPA generate spill-over to the private sector**, increasing private sector wage growth which will contribute to stronger demand, generating an inflation response requiring which may require further interest rate increases.

Annex 1: Forecast summary tables

Table A1: Summary of economic forecasts, June years

(Annual average percent change, unless specified otherwise)

June Years	2019	2020	2021	2022	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Private consumption	4.1	-1.0	7.8	-0.1	1.3	0.2	2.4	3.2	3.3
Public consumption	3.3	6.6	8.1	10.1	-0.4	-4.1	-1.5	0.4	2.6
TOTAL CONSUMPTION	**3.9**	**0.7**	**7.9**	**2.4**	**0.9**	**-0.9**	**1.4**	**2.5**	**3.1**
Residential investment	1.4	-4.4	15.9	-4.4	-3.2	-3.1	5.0	4.6	4.6
Business investment*	4.7	-3.7	3.6	4.7	1.1	-1.6	2.4	4.0	5.1
TOTAL INVESTMENT	**3.9**	**-3.9**	**6.6**	**2.3**	**0.0**	**-1.9**	**3.0**	**4.1**	**5.0**
Stocks (contribution to GDP growth)	-0.5	-0.3	0.3	0.5	-0.4	0.0	0.0	-0.0	0.0
GROSS NATIONAL EXPENDITURE	**3.3**	**-0.6**	**7.9**	**3.1**	**0.5**	**-1.2**	**1.8**	**2.9**	**3.5**
Exports	3.3	-5.0	-10.9	-2.8	11.7	6.0	4.1	3.5	2.8
Imports	2.3	-5.9	-4.3	11.4	-1.0	-0.8	3.4	4.2	4.5
EXPENDITURE ON GDP	**3.6**	**-0.4**	**6.0**	**-0.2**	**3.0**	**0.5**	**1.9**	**2.7**	**3.1**
GDP (PRODUCTION MEASURE)	**3.1**	**-1.1**	**5.2**	**1.0**	**2.7**	**0.5**	**1.9**	**2.7**	**3.1**
- annual % change, June quarter	2.7	-10.4	17.9	0.4	0.8	1.0	2.3	2.9	3.2
Other Output Measures									
Real Gross National Disposable Income	3.1	0.8	4.8	0.6	-0.1	0.8	2.6	3.3	3.4
Nominal GDP (Expenditure Basis)	4.9	2.7	7.4	5.1	8.8	5.8	5.3	5.3	5.5
Potential GDP	2.5	-0.5	5.0	0.0	4.2	2.3	2.3	2.4	2.5
Output gap (June qtr,% of potential)	1.6	-0.7	2.7	2.3	-0.3	-1.6	-1.5	-1.1	-0.4
Total Population (thousands, mean quarter ended)	4,972	5,087	5,110	5,122	5,145	5,185	5,237	5,296	5,358
Real GDP per capita (Production basis)	1.4	-3.0	3.9	0.7	2.4	-0.2	1.0	1.6	1.9
Labour Market									
Employment	2.0	1.6	0.6	2.9	-0.3	-0.4	0.8	1.5	1.8
Unemployment Rate (June quarter)	4.0	4.0	3.9	3.3	4.0	5.0	5.2	5.0	4.6
Labour Productivity (Hours worked basis)	0.6	0.1	1.7	1.7	0.6	1.1	1.2	1.1	1.3
Wages (QES average hourly ord time earnings, APC)	4.0	2.9	4.0	6.4	6.1	5.5	4.7	4.1	3.8
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	1.7	0.3	0.3	2.2	4.3	3.4	2.5	2.1	2.2
10-year Bond Rate (June quarter ave)	1.8	0.8	1.7	3.7	4.6	4.7	4.6	4.4	4.2
TWI (June quarter ave)	72.7	69.7	74.7	72.2	67.0	67.6	68.4	69.2	70.0
- annual % change (June quarter)	-1.5	-4.1	7.3	-3.4	-7.2	0.9	1.2	1.2	1.2
Price Measures									
CPI Inflation (ann % change, June quarter)	1.7	1.5	3.3	7.3	5.5	3.5	2.6	2.0	2.0
Consumption Deflator	1.6	1.9	1.5	4.9	6.7	5.2	3.1	2.3	2.0
GDP Deflator	1.2	3.2	1.3	5.3	5.6	5.3	3.4	2.6	2.4
House Price Inflation (ann % change, June qtr)	1.5	7.1	29.7	5.1	-10.1	0.3	6.6	7.0	4.9
Key Balances									
Current account balance ($ million)	-10,976	-4,803	-11,560	-27,853	-28,472	-20,963	-18,543	-18,030	-19,501
Current account balance (% of GDP)	-3.5	-1.5	-3.4	-7.8	-7.3	-5.1	-4.3	-3.9	-4.0
Terms of Trade (goods) - SNA Basis	-3.4	4.3	-0.2	2.9	-5.7	0.5	0.6	0.5	0.6
Net International Investment Position (%GDP)	-54.3	-56.9	-45.9	-49.9	-53.1	-55.3	-56.8	-57.8	-58.8

* Total investment excluding residential

BUDGET-SENSITIVE

Table A2: Change in economic forecasts from BEFU 2022, June years

(Annual average percent change, unless specified otherwise)

June Years	**2019**	2020	2021	2022	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Private consumption	0.0	-0.1	-0.0	1.5	-2.0	-1.1	0.3	0.6	NA
Public consumption	-0.0	0.0	-0.2	-2.5	-1.7	0.7	0.2	-1.1	NA
TOTAL CONSUMPTION	**-0.0**	-0.1	-0.1	0.5	-1.9	-0.6	0.3	0.2	NA
Residential investment	-0.0	-0.0	-0.8	-5.3	-15.3	2.9	8.1	5.0	NA
Business investment*	-0.0	-0.0	-0.1	-1.9	-8.8	-0.6	2.3	1.8	NA
TOTAL INVESTMENT	**-0.0**	-0.0	-0.3	-2.8	-10.4	0.3	3.7	2.6	NA
Stocks (contribution to GDP growth)	0.0	-0.0	-0.1	0.0	0.1	-0.0	0.0	0.0	NA
GROSS NATIONAL EXPENDITURE	**0.0**	-0.1	-0.2	-0.2	-3.8	-0.4	1.1	0.7	NA
Exports	-0.1	0.0	0.2	-5.5	3.3	-0.6	-0.7	-0.5	NA
Imports	-0.0	0.0	-0.1	-4.0	-6.4	-0.6	2.2	1.4	NA
EXPENDITURE ON GDP	**-0.0**	-0.1	-0.1	-0.6	-1.2	-0.3	0.3	0.2	NA
GDP (PRODUCTION MEASURE)	**0.0**	-0.0	-0.0	-0.7	-1.4	-0.2	0.3	0.2	NA
- annual % change, June quarter	*0.0*	-0.0	-0.0	-1.2	-1.4	0.2	0.4	0.2	NA
Other Output Measures									
Real Gross National Disposable Income	0.1	0.0	-0.1	-0.9	-3.5	0.2	0.9	0.7	NA
Nominal GDP (Expenditure Basis)	-0.0	-0.0	-0.1	-0.7	-2.0	0.9	0.5	0.2	NA
Potential GDP	-0.1	-0.0	-0.2	-0.2	0.0	-0.3	-0.3	-0.2	NA
Output gap (June qtr,% of potential)	0.2	0.2	0.4	-0.4	-1.8	-1.3	-0.7	-0.4	NA
Total Population (thousands, mean quarter ended)	**0**	**0**	**-2**	**-19**	**-42**	**-55**	**-63**	**-71**	**NA**
Real GDP per capita (Production basis)	**0.0**	**-0.0**	**-0.0**	**-0.5**	**-1.0**	**0.1**	**0.5**	**0.4**	**NA**
Labour Market									
Employment	-0.0	0.0	-0.1	-0.5	-1.2	-0.5	0.2	0.1	NA
Unemployment Rate (June quarter)	0.0	0.0	-0.1	0.3	0.7	0.7	0.4	0.3	NA
Labour Productivity (Hours worked basis)	0.0	-0.0	0.0	-1.2	1.1	0.2	0.0	0.0	NA
Wages (QES average hourly ord time earnings, APC)	-0.0	-0.0	-0.0	1.7	0.1	-0.7	-0.7	-0.5	NA
Unit Labour Costs (Hours worked basis)	-0.0	0.0	-0.0	1.7	0.1	-0.7	-0.7	-0.6	NA
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	0.0	0.0	0.0	0.4	0.9	-0.2	-1.1	-1.5	NA
10-year Bond Rate (June quarter ave)	0.0	0.0	0.0	0.5	1.1	0.9	0.6	0.3	NA
TWI (June quarter ave)	0.0	0.0	0.0	-2.8	-8.0	-7.4	-6.6	-5.8	NA
- annual % change, June quarter	0.0	0.0	0.0	-3.8	-7.2	0.9	1.2	1.2	NA
Price Measures									
CPI Inflation (ann % change, June quarter)	0.0	0.0	0.0	0.6	0.3	-0.0	-0.1	-0.2	NA
Consumption Deflator	-0.0	0.0	-0.0	0.2	0.8	0.9	-0.2	-0.4	NA
GDP Deflator	0.0	0.0	-0.0	-0.1	-0.7	1.2	0.2	-0.0	NA
House Price Inflation (ann % change, June quarter)	0.0	0.0	0.0	-0.7	-7.6	0.3	4.8	5.1	NA
Key Balances									
Current account balance ($ million)	-162	-104	-175	-3643	-2891	-330	-1036	-1139	NA
Current account balance (% of GDP)	-0.1	-0.0	-0.1	-1.1	-0.9	-0.2	-0.3	-0.3	NA
Terms of Trade - SNA Basis	0.0	-0.0	0.1	-0.4	-4.5	1.6	0.9	0.9	NA

* Total investment excluding residential

BUDGET-SENSITIVE

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2243

Date: 17 October 2022

To: Minister of Finance (Hon Grant Robertson)

Deadline: 19 October 2022 (meeting date)
(if any)

Aide Memoire: Meeting with the Parliamentary Commissioner for the Environment

You are meeting The Rt Hon Simon Upton, Parliamentary Commissioner for the Environment (the Commissioner / PCE), on Wednesday 19 October, 5:15pm. Your most recent meeting with the Commissioner was on 10 August 2022 (T2022/1723 refers).

The Commissioner invited you to the launch of his new report, "*Environmental reporting, research and investment - Do we know if we're making a difference?"* (the new report). As you were unable to attend the launch, to be held on 18 October, the Commissioner offered a meeting to introduce the new report to you.

We have not seen the new report in advance of its launch but have received a one-page summary from PCE. The Treasury will brief you as soon as possible after receiving the new report. It is likely that the new report will build on earlier themes and will help refine how the Treasury improves environmental budgeting and reporting.

This AM provides initial comments, based on the summary we received of the new report, and updates you on work in progress at the Treasury and Ministry for the Environment (MfE) in response to the recommendations in the PCE report, *Wellbeing budgets and the environment: A promised land?* (December 2021). Talking points are attached for your use if you wish.

The new PCE report *Environmental reporting, research and investment - Do we know if we're making a difference*?

The new PCE report synthesises and builds on three earlier PCE reports. These reports are described in Table 1 (below). MfE, Statistics New Zealand and the Ministry for Business, Innovation and Employment led the response to the first two reports, and MfE and the Treasury led the response to the third report.

Table 1: PCE reports and themes – three earlier reports and the new report

PCE report and date	Themes
1) *Focusing Aotearoa New Zealand's environmental reporting* system, November 2019	Recommends improving the evidence base to provide a reliable picture of the state of our environment so that the environmental reporting system can help focus environmental stewardship in the right places.
2) *A review of the funding and prioritisation of environmental research in New Zealand*, December 2020	Recommends developing an unambiguous national-level environmental research strategy and establishing an independent environmental research council to allocate ringfenced environmental research funding in alignment with the strategy.
3) *Wellbeing Budgets and the Environment: A promised land?* December 2021	Recommends changing the budget process to improve the way environmental considerations are analysed and communicated through its different stages. The process should mitigate future risks, uncertainty and tipping points and ensure the long-term nature of environmental impacts is not ignored.
4) (The new report) *Environmental reporting, research and investment - Do we know if we're making a difference?* October 2022	Public accountability is the principal theme of the new report, including clarity about which environmental outcomes governments are trying to achieve.

PCE has informed the Treasury that the new report recommends that the Government:

- provides national leadership in gathering environmental information
- provides clarity on the environmental outcomes that have been given priority and how it will achieve them
- supplies information about the impact that environmental spending is having and the progress we are making, and
- communicates this information transparently at a whole of government level to parliamentarians and the public alike.

MfE considers the new report will provide further reflection, additional to the first two reports, on the need for purposeful design and investment in systemic change to ensure we have the environmental data, research and information needed to know if we are making a difference.

We expect there will be detailed recommendations for the Treasury to respond to on transparency of Government spending and environmental impacts. While the new report may cast a critical lens on current practices, its recommendations are likely to reflect generally agreed goals about transparency.

Update on work in response to *Wellbeing Budgets and the Environment: A promised land?*

It may be possible to integrate the response to the new report within our ongoing response to *Wellbeing Budgets and the Environment*, which includes work at the Treasury and MfE, as outlined in earlier briefings to you.[1]

Recommendations to the Treasury are about improving the analysis and presentation of environmental information through the Budget process, and valuing environmental impacts appropriately, particularly long-term impacts. Budget templates and the CBAx discount rate for Budget 2023 have been the focus of our response to date:

- The draft Budget 2023 guidance has a section on environmental considerations[2], involving seeking cost benefit analysis that addresses both positive and negative environmental impacts, tipping points and wider environmental considerations in line with PCE recommendations, and
- The newly released CBAx guidance (7 October 2022) refers directly to the PCE report, and there are some new environmental values in the CBAx database.

Due to timing and confidentiality we have not been able to discuss the detail of draft amendments to the Budget 2023 guidance directly with PCE, but you could mention the work is in progress and that we are referencing its report.

The PCE placed considerable emphasis on its recommendation to change the methodology of discounting recommended by the Treasury for use in cost-benefit analysis of environmental proposals with long-term impacts. The Treasury has consulted with international experts and discussed options with PCE.

We found that the PCE's proposed discounting methodology ("hyperbolic discounting") would benefit from more consideration, including:

- better understanding the extent to which this discounting method is used internationally
- defining environmental and (potentially) social projects,
- defining 'long term'
- understanding the implications of having different discount-rates for environmental and (potentially) social projects with long-term impacts, compared with other projects

[1] *T2022/1345 Joint Report: Responding to the PCE's Budget process recommendations June 2022,* Written *Evidence from the Treasury responding to the report of the Parliamentary Commissioner for the Environment*, 1 July 2022.

[2] In addition to the climate considerations captured through the Climate Emergency Response Fund (CERF)

- maintaining consistency between capital and operating expenditure, and
- understanding alternative discounting methodologies, used in other OECD countries, that appear to achieve the PCE’s goal of giving greater weight to longer-term impacts.

We will continue to consider discounting options for potential inclusion in the Budget 2024 CBAx tool.

Recommendations being responded to by MfE relate to:

- developing new environmental values to add to CBAx for use in cost benefit analysis
- baseline forecasts or outlooks to support understanding of changing environmental conditions
- scenarios (identifying key environmental risks and potential mitigation strategies).

MfE is also supporting the wider Natural Resource cluster to consider aspects of systemic change recommended across the first two reports from the PCE. They include the foundational steps needed for a more consistent, connected environmental monitoring and reporting system, the role of environmental reporting in decision-making, and how research investment could be better matched and delivered to environmental outcomes.

Next steps

Once we have the new report, we will report to you with potential responses to its recommendations, and their fit with the response already in progress to *Wellbeing Budgets and the Environment*. This will incorporate a general update on the work in progress.

You will also soon be receiving a report on draft Budget 2023 guidance.

Leila Martley, Senior Analyst, Finance Policy, s9(2)(k)
Tom Hall, Manager, Finance Policy, Finance Policy, s9(2)(k)

Talking points for the meeting with The Rt Hon Simon Upton, Wednesday 19 October, 5:15 pm

What are the key points of *Environmental reporting, research and investment - Do we know if we're making a difference?*

What should I be aware of in my role as Minister of Finance, and for the Government as a whole?

Does the new report go beyond synthesising the three existing reports? If so, how?

Are there new recommendations on making public expenditure on the environment more transparent, including how effective environmental expenditure is?

We will need to consider any recommendations in detail – but would generally consider clarity and transparency as shared goals.

There is already work in progress at the Treasury and at the Ministry for the Environment responding to *Wellbeing Budgets and the Environment*. Our response to the recommendations of the new report will build on this work.

I understand there is a good level of interaction between the Treasury and PCE.

Wellbeing Budgets and the Environment will have tangible results for me to consider in Budget 2023. I expect to see Budget 2023 templates soon and understand that officials have been working to incorporate your advice.

Work on discounting will not show up in the CBAx tools for Budget 2023, but now be considered for Budget 2024, as there are more considerations to work through than the Treasury initially thought. The Treasury will be reporting to me further on this.

APPOINTMENT-IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2221

Date: 19 October 2022

To: Minister of Finance (Hon Grant Robertson)
Delegated Minister for State Owned Enterprises (Hon Dr Megan Woods)

Deadline: None
(if any)

Aide Memoire: New Zealand Post Ltd: Documentation to Confirm Appointment at APH 26 October 2022

On Wednesday 26 October 2022 you are intending to take a paper to the Appointments and Honours Committee to note Shareholding Minister's intention to make one reappointment /elevation to the New Zealand Post Ltd board, as follows:

Person	Designation	Appointment/ Reappointment	Term	Replacing
Mrs Carol Anne Campbell	Acting Chair	Elevation to Chair	1 November 2022 up to 31 October 2024	Rodger Finlay as Chair

Reappointment – Elevation Chair

Carol Campbell is an Auckland-based chartered accountant and professional director who was first appointed to the NZ Post Board in 2012. Until 2017 she was the joint owner of The Business Advisory Group Ltd and before that she was a Partner at Ernst & Young for 25 years. Mrs Campbell has held directorships on listed, private and public sector boards including T&G Global Ltd (previously Turners and Growers Ltd), Marlin Global Ltd. She is also a director of Kiwibank Ltd, NZME Ltd and NPT Ltd. She adds value to the board through her deep experience and understanding of governance, financial reporting, business knowledge, experience in audit and risk management and brings independence and objectivity to the board. She has served in community roles stepping down as chair of Ronald McDonald House NZ in 2017 and is a Trustee of NEXT Foundation.

Diversity

If the proposed New Zealand Post board reappointment and elevation is confirmed, the proportion of women on the board remains at 43%, and members identify as NZ European, Indian, Māori, British/Irish, and Pasifika. Board members are spread across Auckland, Northland, Hawkes Bay, Bay of Plenty, and Canterbury.

Joy Tracey, Senior Advisor, Governance and Appointments, s9(2)(k)
Stella Kotrotsos, Manager, Governance and Appointments,

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet 25 October 2022

Date:	21 October 2022	**Report No:**	T2022/2299
		File Number:	CO-6-2-3-5

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	8:00 am, Tuesday 25 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ash Ratnayake	Team Coordinator and support, Governance and Accountability	s9(2)(k)	N/A (mob)	
Rose Austen	Team Leader, Governance and Accountability		N/A (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet 25 October 2022

The Treasury is aware of two substantive and three oral items on the Cabinet agenda for 25 October 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury has **no comments** on the following papers on the agenda:

- Oral Item: Future for Local Government Panel: Publication of Draft Report
- Oral item: Code of Conduct for State School Board Members
- Establishing an Inquiry into the COVID-19 Pandemic Response to Inform New Zealand's Preparedness for a Future Pandemic

IN-CONFIDENCE

Resource management system reform – update on how the reform objectives will be achieved

Hon David Parker, Minister for the Environment

Treasury contact: Caitlin Daugherty-Kelly s9(2)(k)

Sign out contact: Geraldine Treacher s9(2)(k)

Description: This paper seeks agreement to the final policy and process decisions required to introduce the Spatial Planning Bill and Natural and Built Environments Bill to Parliament later this year. This paper has been revised since its lodgement for CBC on 3 October, with the most significant change the recommendation to include a Fast Track Consenting Pathway (FTC) in the new Resource Management (RM) system.

Comments: The Treasury supports this paper. As per our previous briefing [T2022/2154], we recognise the need for, and are supportive of the direction of, the programme. We note that further work – and in particular, the development of the National Planning Framework – will be critical for realising the objectives and benefits of the reforms.

Our earlier advice on the overall balance of the reforms and the extent to which we considered the enabling development objective had been achieved, had been predicated on the integration of the Avoidance of Doubt Clause or equivalent into the NBA, an expansion of FTC eligibility, and Select Committee consideration of an alternative to Section 6.

We had expected that each of these topics would be reflected in some form in either the Cabinet Paper or Legislation Paper, a new draft of which we have received this week.

Since our earlier briefing, the paper has been amended to include agreement to retain an FTC pathway in the new system. We support retention of this pathway, and the recommendation that certain housing projects should be eligible to use the pathway [BRF-2366].

We continue to work with MfE to understand the following, and expect to be able to provide advice on these issues alongside the Legislation Paper, due before Cabinet in November:

- how the intent behind the Avoidance of Doubt Clause drafted by Ministers Parker and Twyford to support the reforms' enabling development objective, and in particular, housing affordability goals, will be captured in the Bills, and

- where Minister Parker's request that Select Committee review Section 6 alternatives will be captured, noting that Te Waihanga has recommended the approach put forward by the Panel and considers that even with exemptions, Section 6 will constrain development.

Treasury is discussing the RM reforms with Minister Parker on 25 October, and intends to raise these topics, including how Select Committee can be meaningfully directed to consider them.

Treasury Recommendation: Support.

Fiscal Implications: There are no direct fiscal implications associated with this paper. Budgets 2021 and 2022 provided $311 million for the design, transition, and implementation of the new system. The Ministry for the Environment is also part of the Natural Resources Cluster and cannot seek new funding until Budget 2025.

Crown-Māori engagement in place on freshwater and geothermal resource allocation (following the proposed working group's recommendations, which) may result in more funding being sought at Budget 2025.

IN-CONFIDENCE

Oral item: Supplementary Order Paper for the Electoral (Māori Electoral Option) Legislation Bill Hon Kiri Allan, Minister of Justice Treasury contact: Shereen Capper s9(2)(k) Sign out contact: Colin Hall s9(2)(k)	The Minister of Justice will be seeking Cabinet's agreement to issue drafting instructions for a Supplementary Order Paper (SOP) to amend the Electoral (Māori Electoral Option) Legislation Bill, so that Māori voters are unable to switch rolls in the period immediately prior to a general election. We understand the Electoral Commission has not yet been consulted on the proposal but that there may be financial implications resulting from the SOP, beyond the operating costs initially estimated when Cabinet considered the Bill of $14.746 million across the forecast period (SWC-21-MIN-0181). The extent of any additional costs is not yet known but may result from initial costs assuming some efficiencies in communication campaigns, whereas the Commission may now need to consider tailored public communication. We expect that the subsequent LEG paper (expected to be considered by LEG on 10 November 2022) will provide detail on financial implications for Cabinet's consideration. Any additional Electoral Commission funding requirement would be outside the Justice Cluster funding. The Commission received $141.106 million total operating funding over the forecast period at Budget 2022 for electoral services. The Minister of Finance may wish to convey an expectation now that any additional costs be absorbed through baselines.

IN-CONFIDENCE

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 08:00 am on Tuesday 25 October 2022.

Rose Austen
Team Leader Governance and Accountability

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2129

Date: 19 October 2022

To: Associate Minister of Justice (Hon Aupito William Sio)

Deadline: None
(if any)

Aide Memoire: Public Trust: Documentation to Confirm Reappointments at APH 26 October 2022

On Wednesday 26 October 2022 you are intending to take a paper to the Appointments and Honours Committee to note shareholding Minister's intentions to make three reappointments to the Public Trust board, as follows:

Person	Designation	Appointment/ Reappointment	Term
Mr Ian Fitzgerald	Chair	Reappointment	1 November 2022 up to 31 October 2025
Mrs Meleane Debra Burgess	Director	Reappointment	1 November 2022 up to 31 October 2025
Mr Kevin James Murphy	Director	Reappointment	1 November 2022 up to 31 October 2025

Reappointment – Chair

Ian Fitzgerald of Blenheim will have been on the board for five and a half years at the end of his second term and has been chair since 2019. He is an experienced commercial director and chair. His previous professional experience includes roles at NZ Treasury, DPMC and Westpac, where he worked as Chief Economist. Mr Fitzgerald's current board appointments include World of Wearable Arts, chair of The Niue Development Bank, and Niue Commercial Enterprises. He is deputy chair and a Chartered Fellow of the Institute of Directors. He was previously a member of University of Waikato Council, chair of Ngati Apā ki te Rā Tō Investment Ltd and a director of Primeport and Timaru District Holdings Ltd. He retired as chair of Kiwibank Ltd in 2011 after serving on the board for ten years. He brings to the Public Trust board broad business exposure including in change management, banking, financial management, information technology, internal audit and public relations, deep commercial governance and extensive chair experience.

Reappointment – Members

Meleane Burgess of Hamilton will have been on the board for two years and four months at the end of her first term and is making a valuable contribution. She is a chartered accountant and the future director with NZ Post, a council member University of Waikato, a trustee on Te Tamawai Trust, chair of the board of trustees Hillcrest High School and a member of the Pacific Governance Group for MSD. Ms Burgess's working career includes strong regional engagement and indicates an ability to relate well with people of diverse ethnic and cultural backgrounds. Her governance experience includes chair of Samoa Business Network, The Good Collective, K'aute Pasifika Trust, and advisory committee member for Ministry of Pacific Peoples. Ms Burgess is Samoan and has credibility in community roles that deal with the Māori/Pacifica/Asian market that the Public Trust is interested to develop.

Kevin Murphy of New Plymouth will have been on the Public Trust board for two years and four months at the end of his first term and is making a valuable contribution. He has a breadth of governance experience and is currently a director of Adele Senior Living, SBS Bank, Finance NOW, Taranaki Rugby Football Union, Venture Taranaki and New Plymouth Operatic. His previous directorships include Augusta Capital and Fisher Funds. His career includes CEO of TSB Bank and experience in large commercial entities in the capital markets and investment industries. Mr Murphy brings to the board relevant expertise in audit and risk, owner understanding, and stakeholder understanding.

Diversity

If the proposed reappointments are confirmed, the composition of the board will remain 33% female and 67% male, with ethnic representation of NZ European, Pasifika and British/Irish. The age range is 43 to 69 years with geographical spread across Auckland, Taranaki, Bay of Plenty, Waikato, and Marlborough.

Joy Tracey, Senior Advisor, Governance and Appointments s9(2)(k)
Stella Kotrotsos, Manager, Governance and Appointments,

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Social Wellbeing Committee Wednesday 26 October 2022

Date:	21 October 2022	**Report No:**	T2022/2322
		File Number:	MS-5-3-SWC

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	8:15am Tuesday 25 October.

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Thulacksha Thayarooban	Graduate Analyst, Communities Learning and Work	s9(2)(k)	s9(2)(g)(ii)	✓
Thomas Parry	Manager, Communities Learning and Work			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Briefing for Social Wellbeing Committee Wednesday 26 October 2022

The Treasury is aware of seven items on the Social Wellbeing Committee agenda for Wednesday 26 October 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury **supports** the following papers, with briefings below:

- Highest Needs Review: Report back to Cabinet.
- Cabinet Paper: Reducing hardship for families with children through expanding subsidies s9(2)(f)(iv) [redacted]
- Extending Eligibility of the Prime Minister's vocational Excellence Award to the Realm Nations

The Treasury has **no comments** on the following papers on the agenda:

- Proposed Legislation to Regulate the Property Management Industry
- s9(2)(f)(iv) [redacted]
- Social Workers Registration Amendment Bill: Minor Policy and Technical Proposals
- Peke Waihanga Artificial Limb Service: Contribution to Address Cost Pressures

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Highest Needs Review: report back to Cabinet

Hon Jan Tinetti, Associate Minister of Education (School Operations)

Treasury contact: Ian Moore s9(2)(k)

Sign out contact: Laura King s9(2)(k)

Description: The paper seeks agreement to the direction of travel for an improved system of Learning Support, and the development of an underpinning Business Case to identify required levels of investment.

Comments: The Treasury supports the paper's aims and recommendations. The direction of travel and seven "building blocks" for change appear a reasonable response to the challenges in the current system.

However, this is a large and challenging potential work programme, with significant interdependencies with other major reforms. The implementation of reforms will need to be sequenced carefully to avoid overstretching the sector and the Ministry itself.

The paper does not have any direct fiscal implications. However, it indicates that the additional funding requirements beyond current funding levels are likely to be significant s9(2)(f)(iv) These costs will be subject to further analysis in the proposed Business Case process, with the Business Case due to be presented to Cabinet at the next report back in July 2023.

Treasury Recommendation: Support

Fiscal Implications: No direct fiscal implications at this stage, but likely to involve significant additional funding requests s9(2)(j)

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Extending Eligibility of the Prime Minister's Vocational Excellence Award to the Realm Nations of Cook Islands, Niue, and Tokelau

Hon Jan Tinetti, Associate Minister of Education (School Operations)

Treasury contact: Matt Amos s9(2)(k)

Sign out contact: Laura King s9(2)(k)

Description: This paper seeks to extend eligibility for the Prime Minister's Vocational Excellence Award to Realm Nations.

Comments: The Treasury has no view on the substance of the minor policy change itself. We understand this change will increase expenditure by approximately $20,000 per annum, though this has not been specified in the paper. This will be funded from structural underspends of approximately $100,000–$200,000 and will not require any changes to appropriations.

Treasury Recommendation: Support

Fiscal Implications: The Treasury has no concerns with the proposed policy change, but you may wish to ask for the additional cost of $20,000 per annum to be specified in the recommendations. You could also enquire about whether the structural underspend could be reprioritised through Budget 2022.

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Cabinet paper: Reducing hardship for families with children through expanding subsidies s9(2)(f)(iv) [redacted]

Rt Hon Jacinda Ardern, Prime Minister, Hon Carmel Sepuloni, Minister for Social Development, Hon Jan Tinetti, Associate Minister of Education

Treasury contact: Proposal 1: Jeanne Barnard s9(2)(k) [redacted] Proposal 2: Ian Moore s9(2)(k) [redacted]

Sign out contact: Keiran Kennedy s9(2)(k) [redacted]

Description: The paper has two proposals:

Proposal 1: Increase income thresholds for childcare and Out of School and Recreation (OSCAR) subsidies for low- and middle-income families in line with average wage growth since 2010.

s9(2)(f)(iv) [redacted]

Please note this briefing is based on a draft of the Cabinet paper as the final paper has not been lodged

Comments:

Proposal 1:

Proposal 1 seeks approval to increase the income thresholds for the childcare and OSCAR subsidies. Income thresholds have been frozen since September 2010, which has resulted in falling numbers of families being eligible. The proposal will increase income thresholds for the childcare and OSCAR subsidies to adjust for net average wage growth since September 2010.

The increases to income thresholds are proposed to be implemented by 3 April 2023, therefore funding of $7.788m in 2022/23 is sought, to be charged against the between Budget contingency. The proposal has an estimated cost of $189.391m over the forecast period, to be charged as a pre-commitment against Budget 2023. Increasing the income thresholds for the childcare and OSCAR subsidies will increase eligibility by approximately 36%. This amounts to parents of approximately 7,400 additional children becoming eligible for the childcare subsidy and 2,900 additional children becoming eligible for the OSCAR Subsidy in 2023/24.

The proposed income thresholds generally extend eligibility for childcare subsidies above that for Working for Families (WFF) tax credits. While the abatement of WFF tax credits and childcare subsidies will still overlap, the new thresholds will reduce this overlap for some families which will improve their gains from working.

Increasing the thresholds will not have a direct impact on child poverty targets as subsidies are paid to providers. However, as the package will improve childcare affordability, it may support increased workforce participation of parents and income from employment. This could have indirect positive impacts on income poverty and material hardship over time.

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There may be an option to only increase income thresholds for the childcare subsidy and not for OSCAR. This would decrease the overall costs of the proposal, but it is not clear at this time by how much. The childcare subsidy targets families with children under 5 years. OSCAR is targeted at families with children from 5 to 14 years (or up to 18 years if they receive Child Disability Allowance) to attend before and after school care, and school holiday programmes. Having different income thresholds for childcare and OSCAR subsidies would make the system more complicated to administer and for families to understand. Families may be eligible for the childcare subsidy for their children who are under 5, but not for the OSCAR subsidy for any children from 5 to 14 years. This could have an impact on their ability to work, especially for sole parents and secondary earners.

If the income thresholds for OSCAR are not increased through this paper, there will be a further opportunity to consider changes to OSCAR income thresholds at the Income Support Ministers meeting on 22 November.

As Proposal 1 asks for a pre-commitment against Budget 2023, s9(2)(f)(iv) [redacted] Further decisions on these policies are being considered at the Income Support Ministers meeting on 22 November.

The paper also seeks authorisation to delegate authority to the Minister of Finance and the Minister for Social Development and Employment to jointly approve further funding of up to $3 million to be charged as a
pre-commitment against Budget 2023 and for any appropriation impacts for 2022/23 to be met from Imprest Supply.

s9(2)(f)(iv) [redacted]

Treasury Recommendation: We **recommend you** support the paper.

Fiscal Implications: Proposal 1 – Increasing income thresholds for childcare and OSCAR subsidies

Funding source	Between Budget contingency and Budget 2023 pre-commitment							
Operating ($m)					Capital ($m)			
22/23	23/24	24/25	25/26	26/27 & outyears	22/23	23/24	24/25	25/26 & outyears
7.788	44.646	47.601	48.581	48.563	-	-	-	-

s9(2)(f)(iv)

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 8:15am on Tuesday 25 October.

Thomas Parry
Manager, Communities Learning and Work

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

Reserve Bank of New Zealand
Te Pūtea Matua

Reserve Bank Report: Presentation of Interim Solvency Standard to Parliament

To	Hon Grant Robertson, Minister of Finance	**Date**	13/10/2022
Authorised by	Christian Hawkesby, Deputy Governor, Reserve Bank of New Zealand	**Report no**	#5964/2
Prepared by	Adrian Allott, Senior Adviser, Financial Policy, Reserve Bank of New Zealand	**Security**	In-Confidence

Action Sought

Action sought	Deadline
a) **Note** that the Reserve Bank of New Zealand issued the Interim Solvency Standard 2023, as approved by the Board in its meeting on the 20th of September 2022.	
b) **Authorise** the House Office to present the Interim Solvency Standard 2023 to Parliament.	2/11/2022
c) **Authorise** the House Office to publish the Interim Solvency Standard 2023 on the 'papers presented' age of Parliament's website.	2/11/2022

Reserve Bank Contact for Telephone Discussion (if required)

Name	Position	Telephone
Adrian Allott	Senior Adviser – Prudential Policy	s9(2)(a)
Cavan O'Connor-Close	Manager – Financial Policy	

Actions for the Minister's Office Staff

Notify the author as to whether the Minister has authorised the House Office to present and publish the Interim Solvency Standard 2023.

Note any feedback on the quality of the report.	

Reserve Bank Report: Presentation of Interim Solvency Standard to Parliament

Purpose

1. The purpose of this report is to seek your assistance in presenting the Interim Solvency Standard 2023 (the Standard) to Parliament.

Background

2. On the 24th of August 2022 we provided you with report no. 5964, which advised that the Board of the Reserve Bank was to decide whether the Bank should issue the Standard for insurers at its meeting on the 20th of September 2022.

3. In that report we discussed the following:

   a. How the Standard meets the objectives of the Review of the Solvency Standards and how we have had regard to the financial policy remit.

   b. The content of the Standard and how we intend to implement it.

   c. The impact of the Standard on the capital required to be held by insurers.

   d. The content of the Regulatory Impact Statement to be published alongside the Standard.

4. At its meeting on the 20th of September 2022, the Board of the Reserve Bank of New Zealand approved the issuance of the Standard without amendment. The Standard was subsequently published on the Bank's website on the 3rd of October 2022, and is intended to come into force on the 1st of January 2023.

Fulfilment of legislative requirement

5. Section 114(1) of the Legislation Act 2019 states that "The relevant Minister must present secondary legislation to the House of Representatives in accordance with the House's rules and practice."

6. We understand that the House's rules and practice require us to submit:

   a. Two printed copies and a soft copy of the Standard[1] to your office, so that you can authorise the House Office to present the paper; and

   b. Five printed copies and a soft copy of the Standard[1] to the House Office at house.office@parliament.govt.nz for publishing to the Parliament website's Papers Presented page.

[1] A Word document or a PDF formatted, structured, and tagged to increase accessibility

7. Two printed copies of the Standard accompany this report and a soft copy can be found at this web address: Standards for insurers - Reserve Bank of New Zealand - Te Pūtea Matua (rbnz.govt.nz)

8. Five printed copies of the Standard will be sent directly to the House Office subsequent to your authorisation, and the soft copy link will be provided by email to house.office@parliament.govt.nz.

Recommendation

9. It is recommended that you:

- **Note** that the Reserve Bank of New Zealand approved the issue of the Interim Solvency Standard 2023 in its meeting on the 20th of September 2022.

- **Authorise** the House Office to present the Interim Solvency Standard 2023 to Parliament.

- **Authorise** the House Office to publish the Interim Solvency Standard 2023 on the 'papers presented' age of Parliament's website.

Hon Grant Robertson
Minister of Finance

Christian Hawkesby
Deputy Governor
Reserve Bank of New Zealand

20/01/2022

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Final approvals for loan facility for Kāinga Ora

Date:	20 October 2022	**Report No:**	T2022/2034
		File Number:	DE-11-7-4-3

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Subject to Cabinet agreement: • **Approve** lending to Housing New Zealand Limited (**HNZL**), a wholly owned subsidiary of Kāinga Ora, under the Public Finance Act 1989 • **Approve** borrowing by HNZL under the Crown Entities Act 2004 • **Approve** updates to the Kāinga Ora Borrowing and Derivatives Protocol, in relation to the approval by joint ministers for Kāinga Ora to borrow under the Crown Entities Act 2004 • **Delegate** the authority to sign the final Facility Agreement • **Indicate** whether you wish to make a public announcement regarding changes to Kāinga Ora's borrowing programme	25 October 2022
Minister of Housing **(**Hon Dr Megan Woods)	Subject to Cabinet agreement: • **Approve** borrowing by NZHL under the Crown Entities Act 2004 • **Approve** updates to the Kainga Ora Borrowing and Derivatives Protocol, in relation to the approval by joint ministers for Kāinga Ora to borrow under the Crown Entities Act 2004 • **Indicate** whether you wish to make a public announcement regarding the changes to Kāinga Ora's borrowing programme	25 October 2022

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Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Emily Pearse	Senior Analyst, Balance Sheet and Transactions	s9(2)(k)	s9(2)(g)(ii)	✓
Alistair Birchall	Head of Balance Sheet and Transactions			

Minister's Office actions (if required)

Return the signed report to the Treasury

Return the signed delegation instrument to the Treasury

Note any feedback on the quality of the report

Enclosure: All attachments withheld in full under s9(2)(f)(iv) and 9(2)(i)

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Treasury Report: Final approvals for loan facility for Kāinga Ora

Executive Summary

In August 2022, Joint Ministers (you, as the Minister of Finance along with the Minister of Housing) agreed to [HUD2022-000434 and T2022/1314 refer]:

1. An increase in Kāinga Ora's borrowing capacity of $2.8 billion through Crown debt, and
2. Kāinga Ora obtaining all future borrowing from New Zealand Debt Management (NZDM) rather than private markets.

A Cabinet paper on Crown lending for Kāinga Ora has been lodged for consideration at the Cabinet meeting scheduled for Tuesday, 25 October 2022, and that the decisions set out in this report are subject to Cabinet's agreement to those matters.

Requirements under the Public Finance Act 1989 (PFA)

Section 65L of the PFA provides that the Minister of Finance, as the Minister responsible for the administration of the PFA, may lend money to a person or organisation if it appears to the Minister to be 'necessary or expedient in the public interest' to do so, on any terms and conditions that the Minister thinks fit.

The Treasury considers that providing the requested facility on the key terms set out in Attachment A is expedient in the public interest and therefore it is open to you to conclude that the lending satisfies the 'public interest test' under section 65L of the PFA.

Requirements under the Crown Entities Act 2004 (Crown Entities Act)

Pursuant to section 160(1) and 162 of the Crown Entities Act, approval from Joint Ministers is required for Kāinga Ora (and its subsidiaries) to borrow from any person. It is recommended that Joint Ministers:

1. s9(2)(f)(iv)
2. Approve the document entitled Kāinga Ora Borrowing and Derivatives Approval, set out in Attachment 2, which:
   a s9(2)(i)
   b
   c

Facility Agreement

A Facility Agreement (the document that grants the Kāinga Ora and relevant lending conditions) has been prepared and is in near final form (Attachment 3 refers)

To ensure timely access to NZDM facilities, and to allow for the final negotiation of the remaining technical points, it is recommended that the Minister of Finance delegate authority for agreeing the final terms of, signing, and performing other incidental responsibilities under

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the Facility Agreement to the Secretary to the Treasury (with sub-delegation to other Treasury officials permitted).

Communications

The Treasury is current working with Kāinga Ora to finalise communications to markets,
s9(2)(i)

s9(2)(g)(i)

Should Ministers wish to make announcements regarding the change to Kāinga Ora's borrowing programme, the Treasury will provide talking points in the week commencing 31 October 2022.

Recommended Action

We recommend that you:

a **note** that a Cabinet paper on Crown lending for Kāinga Ora is expected to be considered at the Cabinet meeting scheduled for Tuesday, 25 October 2022, and that the decisions set out in this report are subject to Cabinet's agreement to those matters

Requirements under the Public Finance Act 1989

b **note** that under section 65L of the Public Finance Act 1989, the Minister of Finance, may on behalf of the Crown, give a loan if it appears to be necessary or expedient in the public interest to do so

c s9(2)(i)

d **agree** that it is expedient in the public interest to give a loan to HNZL on the key terms set out in Attachment 1

Agree / disagree.
Minister of Finance

e **agree** to provide a loan to HNZL under section 65L of the Public Finance Act 1989 on the key terms set out in Attachment 1

Agree / disagree.
Minister of Finance

Requirements under the Crown Entities Act 2004

f **note** that pursuant to section 160(1) and 162 of the Crown Entities Act 2004, Kāinga Ora (and its subsidiaries) require approval from the Minister of Finance and the Minister of Housing to borrow

g s9(2)(f)(iv)

Agree / disagree. Minister of Finance	Agree / disagree. Minister of Housing

h **approve** pursuant to section 160(1)(b) of the Crown Entities Act 2004 the updated Kāinga Ora Borrowing and Derivatives Approval set out as Attachment 2, in replacement of the existing Borrowing and Derivatives Protocol approved in May 2021

Agree / disagree. Minister of Finance	Agree / disagree. Minister of Housing

Facility Agreement

i **note** the attached draft Facility Agreement (Attachment 3 refers) grants the loan to HNZL

j **agree** to delegate the authority to agree the final terms of, sign, and perform other incidental responsibilities under the Facility Agreement to the Secretary to the Treasury

Agree / disagree.
Minister of Finance

k **sign** the attached delegation instrument set out in Attachment 4, to reflect your agreement to recommendation (j) above

Signed / not signed.
Minister of Finance

Communications

l s9(2)(i)

m s9(2)(g)(i)

n **indicate** whether you wish to make an announcement regarding the change to Kāinga Ora source of borrowing

Agree / Disagree Minister of Finance	Agree / Disagree Minister of Housing

o **note** that subject to (n), the Treasury will provide talking points in the week commencing 31 October 2022.

Alistair Birchall
Head of Balance Sheet and Transactions

Hon Grant Robertson **Minister of Finance** _____/_____/_______	Hon Dr Megan Woods **Minister of Housing** _____/_____/_______

Treasury Report: Final approvals for loan facility for Kāinga Ora

Purpose of Report

1. In July 2022, Kāinga Ora requested an increase in its private borrowing limit to deliver commitments to 30 June 2023 [BN 22 028 refers].

2. In August 2022, Joint Ministers (you, as the Minister of Finance along with the Minister of Housing) agreed to [HUD2022-000434 and T2022/1314 refer]:

   a An increase in Kāinga Ora's borrowing capacity of $2.8 billion through Crown debt, and

   b Kāinga Ora borrowing the $2.8 billion and all future borrowing from New Zealand Debt Management (NZDM) rather than private markets.

3. Cabinet will consider a paper to implement the decision about on Tuesday, 25 October 2022 [HUD2022-000675 refers]. The decisions set out in this report are subject to Cabinet's agreement to those matters.

4. The purpose of this report is to seek:

   a Formal statutory decisions in respect of the necessary legal approvals under the Public Finance Act 1989 (PFA) and the Crown Entities Act 2004 to establish the relevant loan facilities and permit Kāinga Ora (and its subsidiaries) to undertake additional borrowing, and

   b agreement to delegate authority for signing the Facility Agreement to the Secretary to the Treasury, to ensure timely access to lending from New Zealand Debt Management to Kāinga Ora.

Facility Agreement

5. The Treasury and Kāinga Ora are currently working to agree the final terms of the lending under the Facility Agreement, which is expected to be finalised by 1 November 2022.

6. s9(2)(f)(iv) [redacted]

7. A summary of the key terms of the loan facilities in the Facility Agreement is set out in Attachment 1.

8. A near-final draft of the Facility Agreement between the Crown and HNZL is provided in Attachment 3.

Requirements under the Public Finance Act 1989

9. Section 65L of the PFA provides that the Minister of Finance, as the Minister responsible for the administration of the PFA, may lend money to a person or organisation if it appears to the Minister to be 'necessary or expedient in the public interest' to do so, on any terms and conditions that the Minister thinks fit.

Public interest

10. While the PFA does not define ‘the public interest’, it is generally accepted that the public interest is broadly equivalent to the concept of the public good and can cover a wide range of values and principles relating to the public good, or what is in the best interests of society. In the context of the PFA, ‘the public interest’ should be viewed as ‘in the interest of the New Zealand public’.

11. s9(2)(f)(iv) [redacted] In August, Joint Ministers agreed [T2022/1314 and HUD2022-000434 refer] that there was a strong case to change the source of Kāinga Ora’s financing from private borrowing to an arrangement where NZDM borrows centrally and then ‘on-lends’ to Kāinga Ora (as opposed to further increasing the Kāinga Ora private borrowing limit).

12. Centralised borrowing significantly lowers borrowing costs at a whole-of-Crown level. This is because Kāinga Ora’s private borrowing comes at a premium to borrowing by NZDM (the premium is currently estimated to be 60 basis points). s9(2)(g)(i) [redacted]

13. s9(2)(g)(i) [redacted]

Risk and mitigations

14. There are both some general risks with the capital investment programme of Kāinga Ora, and some specific risks linked to securing financing through NZDM. These are considered, along with appropriate, in Table 1 below.

s9(2)(f)(iv) and 9(2)(g)(i) [redacted]

s9(2)(f)(iv) and 9(2)(g)(i)

[redacted]

15. s9(2)(g)(i) [redacted]

16. Kāinga Ora's housing initiatives are crucial to the Government's aspirations in the housing sector, and changing the source of Kāinga Ora's financing will have no impact on the organisation's ability to deliver. The Crown lending facility will allow for Kāinga Ora to continue to deliver Government housing commitments to 30 June 2023. This

includes continuing to build public and transitional housing under the Public Housing Plan 2021-24.

17. In order to enable Kāinga Ora to deliver to Government commitments (primarily the Public Housing Build Programme to June 2024) and continue other programmes (e.g. retrofit, Kāinga Ora Land Programme) additional Crown borrowing will be required within a medium-term borrowing programme.

s9(2)(f)(iv) [redacted]

Requirements under the Crown Entities Act 2004

21. The Crown Entities Act 2004 (Crown Entities Act) provides that:

Section 162:	A Crown entity must not borrow from any person, or amend the terms of any borrowing, other than as provided in section 160 of the Crown Entities Act.
Section 161(b):	Approval can be given jointly by Kāinga Ora's responsible Minister (the Minister of Housing) and the Minister of Finance.

Approval for HNZL to borrow from the Crown

22. The loan is to be advanced to HNZL, a wholly owned subsidiary of Kāinga Ora, and so the above Crown Entities Act provisions also apply to HNZL as a Crown entity subsidiary.

23. While the Crown Entities Act does not specify what Ministers should take into account when giving such an approval, it is recommended that the same public interest test described in paragraph 12 above be applied.

24. For the reasons identified in paragraphs 13 – 22 above, the Treasury consider that allowing the proposed borrowing is in the public interest. Accordingly, it is recommended that Joint Ministers give approval s9(2)(i) [redacted]

s9(2)(i) [redacted]

28. Subject to agreement from Joint Ministers, a copy of the Borrowing and Derivatives Protocol Approval will be forwarded to Kāinga Ora.

Delegation

29. To ensure timely access to NZDM facilities, and to allow for the final negotiation of the remaining technical points, it is recommended that you delegate authority for agreeing the final terms of, signing, and performing other incidental responsibilities under the Facility Agreement to the Secretary to the Treasury.

30. To give effect to this decision, it is recommended that you sign the attached delegation instrument provided in **Attachment 4**.[1] That instrument permits the further sub-delegation by the Secretary to the Treasury, to Treasury officials.

Fiscal Impacts

31. s9(2)(f)(iv) [redacted]

[1] Pursuant to clause 5 of Schedule 6 of the Public Service Act, and the powers in section 65L an 65O of the PFA

s9(2)(f)(iv)

32. [redacted]

33. [redacted]

34. [redacted]

Key workstreams that need to be progressed

35. There are a number of work programmes that NZDM will progress over the coming months to ensure a smooth transition for Kāinga Ora in switching its borrowing programme to NZDM.

s9(2)(f)(iv) [redacted]

Sovereign Green Bond programme

38. NZDM consider it would be desirable to incorporate Kāinga Ora's eligible expenditures in the New Zealand Sovereign Green Bond Programme as soon as is feasible. [redacted] s9(2)(f)(iv) [redacted]

39. WeWe are working with Kāinga Ora to ensure a timely transition. As a first priority, we will work with Kāinga Ora to identify those expenditures that may be included in the Sovereign Green Bond Programme. s9(2)(f)(iv) [redacted]

40. s9(2)(f)(iv) [redacted]

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41. s9(2)(f)(iv) [redacted]

Communications

42. The Treasury is current working with Kāinga Ora to finalise communications to markets, s9(2)(i) [redacted]

43. s9(2)(g)(i) [redacted]

44. Should Ministers wish to make announcements regarding the change to Kāinga Ora's borrowing programme, the Treasury will provide talking points in the week commencing 31 October 2022.

s9(2)(f)(iv) [redacted]

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Police Collective Agreement Contingency Drawdown

Date:	20 October 2022	**Report No:**	T2022/2201
		File Number:	DH-44-4-2

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Agree** to the tagged contingency drawdown requested by Police. **Agree** to write to the Minister of Police to set expectations about future negotiations and drawdowns from the tagged contingency.	None

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Reuben Alfred	Graduate Analyst, Justice, Security and Government Services	s9(2)(k)	s9(2)(g)(ii)	✓
Colin Hall	Manager, Justice, Security and Government Services			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: **No**

Treasury Report: Police Collective Agreement Contingency Drawdown

Purpose of Report

1. You have received a joint Ministers paper seeking your approval for the second drawdown from the *Police Collective Employment Negotiations – Tagged Operating Contingency*. This report provides some further information to support your consideration of the drawdown request.

Second Drawdown for 2021 Settlement

2. We have been working with Police to understand its costings for its recent Constabulary and Employee[1] collective agreements. While we have not been able to fully verify the costings, we consider that they are now materially accurate, and we recommend that you agree to the drawdown of s9(2)(j) [redacted] sought in the joint Ministers paper.

3. In April 2022 Ministers agreed to a partial draw down of s9(2)(j) [redacted]. This drawdown covered most of the first-year settlement increases. Police are now seeking a drawdown of the second-year settlement increases and the balance of the first year costs.

4. Since the April drawdown Police has revised down its forecast total settlement costs by s9(2)(j) [redacted] These decreases were largely driven by revisions to its forecast competency service increment costs and attrition assumptions.

5. Police's calculations are based upon its modelling of the settlement components and assumptions of workforce trends. s9(2)(f)(iv) [redacted]

Waka Kotahi Funding

6. Police remuneration costs are partly offset by the National Land Transport Fund (NLTF) as part of Police's Road Safety agreement with Waka Kotahi. s9(2)(f)(iv) [redacted]

7. s9(2)(f)(iv) [redacted]

[1] Non-sworn staff.

Police Settlement Costs are Rising

8. The costs of the last three Police wage settlements appear to have increased disproportionately compared to staff growth and the headline settlement wage increase.

	Increase from 2015 to 2018 settlement	Increase from 2018 to 2021 settlement
Constabulary Settlement Costs	41%	43%
Constabulary Staff Growth	1%	12%
Employees Settlement Cost	106%	37%
Employee Staff Growth	9%	27%

9. While we have not been able to fully reconcile the higher-than-expected increases in settlement costs, we are aware of some issues that are driving costs.

Growth in non-sworn staff costs

10. In 2018 the Government agreed to increase the number of Police officers by 1,800 and provided additional funding of $458.5 million to implement the policy. Higher than expected levels of attrition have meant that achieving this target has taken longer than planned. The 2022 Justice Cluster Spending Review found that growth of Police's non-sworn staff has grown significantly beyond the planned track and that non-sworn staff had grown from one-quarter of Police's workforce in 2017 to close to one-third in 2021.

11. It appears that funding freed up from the slower than planned implementation of the increase in constabulary staff may have been repurposed to fund an increase in non-sworn staff. This may be contributing to the higher costs of the 2021 settlement and could present a cost pressure risk once the full increase in constabulary staff of 1,800 is implemented.

12. s9(2)(j) [redacted]

13. [redacted]

14. [redacted]

15. s9(2)(j) [redacted]

Competency service increments are also driving costs

16. The Association's successful 2021 claim specifically called for the retention of the competency service increments (CSI) which sees all staff move up salary scales by an average of 1.70% every year on top of any general settlement increase (i.e. the 2021 settlement gives Police staff an average increase of 5.2% rather than the 3.5% headline number). s9(2)(j) [redacted]

17. Police has 10 pay bands for each of Constabulary and Employee staff, with each band having an average of 18 steps within them. Staff automatically move up one step each year, irrespective of performance, so remuneration costs become progressively more expensive. Attrition in constabulary staff reduces the cost to some extent as new recruits start at the bottom step but Police state attrition does not affect non-sworn remuneration costs as replacement staff are recruited at the same salary level as the person they replace.

18. The fact that the CSI drives an increasingly senior non-sworn staff cohort was highlighted in the Spending Review which found that the average growth in non-sworn remuneration had grown in real terms by 1.5% per annum over the last decade compared to only 0.4% per annum for constabulary staff.

19. s9(2)(j) [redacted]

20. [redacted]

21. [redacted]

22. [redacted]

23. [redacted]

s9(2)(j) [redacted]

Next Steps

24. s9(2)(f)(iv) and 9(2)(j)

25.

26.

Recommended Action

We recommend that you:

a **agree** to the drawdown of s9(2)(j) sought in the Police joint Ministers paper, *Drawdown of tagged contingency for Police constabulary and employee collective employee agreements*

Agree/disagree.

b s9(2)(f)(iv)

c

d s9(2)(j)

Agree/disagree.

e s9(2)(j) [redacted]

Agree/disagree.

f **note** that Treasury will prepare a draft letter to the Minister of Police for your consideration to convey, as appropriate, your decisions in the recommendations above.

Colin Hall
Manager, Justice, Security and Government Services

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Ministry for the Environment
Manatū Mō Te Taiao

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2261 BRF-2339

Date: 20 October 2022

To: Minister of Finance (Hon Grant Robertson)
Minister of Climate Change (Hon James Shaw)

Deadline: 2 November 2022

Joint Meeting Briefing: State of Sustainable Finance Forum

On 2 November 2022, you have both been invited to give keynote speeches and participate in a Q+A session at the State of Sustainable Finance Forum event. The session will run between 11am and 12pm at the Harbourside Function Venue, 4 Taranaki Street.

Kura Moeahu, Chair of Te Āti Awa, as tangata whenua, has been invited to formally open and close the event. It would be appropriate for you acknowledge Kura Moeahu at the beginning of your speeches.

The Forum is being hosted by Toitū Tahua - the Centre for Sustainable Finance. Government has been working with Toitū Tahua since its establishment last year following the recommendation in the Sustainable Finance Forum's Roadmap. Most recently the Ministry for the Environment have begun working with Toitū Tahua on the development of definitional tools for 'green' investment action (taxonomy) in the National Adaptation Plan (NAP).

Toitū Tahua and industry representatives wrote to both of you and the Minister for the Environment in July, expressing their support for the NAP taxonomy action and for government engagement in climate finance networks and platforms [Ministerial 5677/CORM-916 refers]. The Minister of Finance replied on your behalf on 30 August, indicating your joint commitment to ongoing engagement.

Your speeches will follow each other (the Minister of Finance will lead, followed by the Minister of Climate Change), you have each been allocated nine minutes to speak. Following your keynotes there will be a 20 minute Q+A with both of you, facilitated by Kaye-Maree Dunn. Kaye-Maree is Director of Making Everything Achievable and Ahau and is from Te Rarawa, Ngā Puhi, Ngāi Te Rangikoianaake, Ngāti Mahanga and Ngāi Tāmanuhiri. Kaye-Maree's work focuses on supporting the growth of regional Māori economies, Māori access to capital and enhancing technological innovation and blockchain to enable this.

We have attached three appendices to this Aide Memoire: talking points for the Minister of Finance, talking points for the Minister of Climate Change, and joint talking points for the Q+A session. We hope that providing these to you jointly reduces the risk of duplication and allows you to present collaboratively to the forum.
In the speaking brief, Toitū Tahua encourage you to speak to government's forward-looking plans rather than a retrospective focus of achievements made to date. The brief notes that the audience for the event is sufficiently across existing programmes such as the Climate Emergency Response Fund (CERF), New Zealand Green Investment Finance (NZGIF) and Crown Responsible Investment Framework. We have provided you with forward looking talking points on the CERF, and note that making any comments on the future of NZGIF would be prospective and commercially sensitive.

Lindsay Huthnance, Communications and Engagement Specialist, Treasury
Isobel Bruun-Kiaer, Senior Policy Analyst - Sustainable Finance, Ministry for the Environment
Rebecca Clements, Manager Sustainable Finance, Ministry for the Environment
Chris White, Head of NZ Sovereign Green Bond Project, Treasury

Appendix 1: Talking Points for the Minister of Finance

We recommend that the Minister of Finance use his keynote to highlight three initiatives: the Green Bond Programme, the upcoming 'Climate Economic and Fiscal Update' and the Climate Emergency Response Fund.

Green Bonds

- In September the Government furthered our commitment to climate change mitigation and environmental protection by launching the New Zealand Sovereign Green Bond Programme (the Programme) – ahead of the inaugural bond issuance to global financial markets before the end of this year, subject to market conditions.
- Green Bonds provide financing to advance climate change and environmental priorities like the transition to clean transport and support for biodiversity – they are issued globally to support climate-friendly initiatives, and New Zealand joins other governments around the world in making this commitment.
- Money raised from the bonds will be used to support projects that help reach this Government's pledge to reduce net greenhouse gas emissions by 50 percent by 2030 and reach our net zero carbon target by 2050.
- Alongside Nominal Bonds and Inflation-Indexed Bonds, Green Bonds are expected to be an important and enduring part of the New Zealand Government Bond portfolio. Green Bonds will help ensure high quality government projects with robust environmental outcomes are financed, delivered, monitored and reported on.
- New Zealand Debt Management (NZDM) will also focus on ensuring issuance is consistent with its core objective of minimising costs over the long term while accounting for risk and that liquidity in all its products is supported. In addition, the issuance of Green Bonds is expected to provide further diversification of its investor base and support development in the broader New Zealand sustainable finance market.
- Design of the Programme has been informed by international best practice and incorporates New Zealand specific elements that align with our priorities as stated in the Emissions Reduction Plan released earlier this year.
- In addition to providing financing for public sector projects, the Programme will support the development of New Zealand's wider sustainable finance market, which has been central to our vision for building a net-zero, productive, sustainable and inclusive economy since we came into Government.

The Climate Economic and Fiscal Update

- Treasury and the Ministry for the Environment will be jointly releasing a new report: the 'Climate Economic and Fiscal Update'. This report will provide a framework for understanding the economic and fiscal impacts from climate change. It will also provide an estimate of the fiscal costs of meeting New Zealand's first Nationally Determined Contribution (NDC). The report will be released early next year.

- Treasury has been progressively including information on the impacts of climate change in its stewardship documents, including the Long-Term Fiscal Statement, Investment Statement, and in the Specific Fiscal Risks outlined in every Economic and Fiscal Update. However, there is currently no single report that directly addresses the economic and fiscal implications of climate change (including climate-related policies).
- This ‘Climate Economic and Fiscal Update’ will fulfil this role by building on existing reporting and bring them together into one holistic report. This will become part of the regular fiscal reporting landscape and complement broader climate reporting.
- Treasury and the Ministry for the Environment also intend to build on the report in future. This report will be the first of its kind in New Zealand and will set an approach that will be improved over time.

Optional: The Climate Emergency Response Fund

Note: in the event briefing notes, the Centre has asked that you not speak about ‘retrospective’ initiatives, including the CERF. If you do choose to speak about it, we recommend that you explore the latter talking points on the future of the CERF, particularly on monitoring and reporting.

- The Climate Emergency Response Fund (CERF) is the source of funding for government’s transition activities.
- The CERF was announced in the Budget Policy Statement for Budget 2022 with a down-payment of $4.5 billion from the cash proceeds of the Emissions Trading Scheme, and has funded $3.7 billion of climate change mitigation activity.
- Looking ahead, in Budget 2023 the CERF criteria will be extended to cover climate change adaptation, given government’s recent release of the first National Adaptation Plan.
- We are also beginning to implement the monitoring and reporting approach for the CERF. This will also help decision-makers to evaluate the fund’s impacts and refine how we implement it in the future.
    - Financial monitoring and reporting information will be published on Treasury’s website on a quarterly basis, and non-financial performance information will be published annually.
    - Results from quarter one will be available later this year.
    - This will help to ensure that the CERF is delivering on the government’s climate objectives, and to track progress on implementation.

Appendix 2: Talking Points for the Minister of Climate Change

We recommend the Minister of Climate Change use his keynote to:

- highlight three key initiatives that government is committed to progressing over the next two years,
- emphasise the value that Toitū Tahua bring to the sustainable finance space, and,
- how we are engaging internationally to support transformation of New Zealand's sustainable finance system.

Climate-related disclosures regime

Through the Sustainable Finance Roadmap and engagement with the wider business community we've heard there is industry demand to improve and extend external reporting and disclosures.

- Our climate-related disclosures regime currently covers around 200 of the countries largest financial market participants, including roughly 90% of New Zealand's total assets under management.
- We are now exploring whether to expand requirements to the public sector and large non-listed entities.
- The External Reporting Board (XRB) has been working on its first climate standard which it aims to issue in December 2022. This would require disclosures alongside wider year-end reporting in 2023 at the earliest.

The Sustainable Finance Roadmap also set an outcome for comparable, unbiased, accurate and externally assured disclosures.

- New Zealand currently only requires assurance over entities greenhouse gas emissions from the second reporting year.
- Government will soon consult on further development of the climate-related disclosures assurance regime

Note this is expected to go out to consultation mid-November 2022 but has not received Cabinet approval yet.

Meeting data and information needs for disclosures

We have heard from Toitū Tahua that addressing key data needs and gaps is critical to support quality climate-related disclosures in New Zealand.

- By December 2023, all departments, departmental agencies and non-public service departments will publicly report on their emissions from the 21/22 financial year.
- This will provide a comprehensive picture of government emissions and the supporting data to support the funds management industry with their disclosures.
- The national adaptation plan also includes the provision of updated climate projections data in 2024, which will provide freely available regional climate projections to all New Zealanders.

- The updated climate projections will provide open source data and information related to the frequency and intensity of climate hazards.
- Current projections are of high quality but are not open source. Updated projections will be open source as production costs have been paid for up front by the New Zealand Government.

We have heard that data accessibility is also a key issue.

- Improved access to the higher quality data will make it easier for organisations to understand and analyse impact for climate-related disclosures.
- The national adaptation plan looks to enable better risk-informed decisions by enabling better access to information and data.
- Actions include the scoping of a risk resilience and adaptation portal to provide access to relevant data and information.
- To support interpretation of the latest IPCC WG1 report findings, the Ministry for the Environment has issued guidance on Aotearoa New Zealand climate change projections.

Supporting a taxonomy for New Zealand

We have heard that industry seek clarity and certainty from government around what is acceptable green investment and aligned with an equitable and fair transition in New Zealand.

- Government have committed to support the development of a 'green' taxonomy for New Zealand to identify common definitions of climate and nature-positive investments.
- We see a taxonomy as a way to help guide businesses investing in both adaptation and mitigation activities, and to protect against greenwashing.
- We expect that these definitions will be available for use in 2024, and will be developed through collaboration with industry, academia, iwi/Māori and the scientific community.

A New Zealand taxonomy must consider what is in the best interest of New Zealand's economy and support continued access to capital to enable our emission reduction and adaptation plans.

- New Zealand must take into account our unique domestic points of difference in defining and communicating what is 'green' through a taxonomy.
- Our unique points of difference include the importance of our indigenous economy, te ao Māori values and perspectives, and New Zealand-specific activities within certain sectors.
- A New Zealand taxonomy could unlock greater international investment in Aotearoa New Zealand's climate-resilient projects and businesses, this is where alignment with international best practice will be important.

Engaging with the finance sector in New Zealand, and internationally on best practice

Toitū Tahua plays a unique role in enabling the sustainable transformation of our finance system.

- We acknowledge and appreciate the work of Toitū Tahua who, over the past year, have coordinated insights from across the financial sector and raised key issues with us.
- Through Toitū Tahua, we have heard your feedback around closer engagement and different ways of working between government and industry.
- We are committed to collaborating more closely with the New Zealand finance sector going forward to accelerate our transition. This is an action in our emissions reduction plan.

We have heard from Toitū Tahua that building on international commitments and best practice is a key part of transforming New Zealand's sustainable finance system.

- I will be attending COP27 this month and intend to emphasise the importance of implementing the nationally determined contributions that are on the table and to continue to align capital flows with a low emissions and climate-resilient future.
- The New Zealand Government is a member of the International Platform for Sustainable Finance (IPSF) which is a forum for public authorities to help scale up environmentally sustainable finance internationally.
- We engage with the IPSF on our climate-related disclosures regime, the development of the Common Ground Taxonomy and the implementation of taxonomies around the world.

Optional: ***New Zealand Green Investment Finance***

Note: in the event brief, Toitū Tahua have asked that you not speak about 'retrospective' initiatives or achievements, including NZGIF.

The Sustainable Finance Forum's roadmap emphasised transforming public sector investment as important to delivering on sustainable outcomes.

- The government continues to support sustainable finance by mobilising private capital to green objectives. New Zealand Green Investment Finance Limited (NZGIF), a green bank, facilitates investment in green objectives.
- NZGIF invests on a commercial basis in companies, projects, and technologies that accelerate emissions reductions. It is intended to stimulate capital markets, attract and crowd-in private capital, and demonstrate the potential for green investment in New Zealand to the private market
- Cabinet has mandated that NZGIF be reviewed periodically to ensure NZGIF's mandate continues to deliver on its emissions reductions objectives. This is consistent with the approach for NZSuper and ACC.

Climate action unlocks economic opportunities, to realise these opportunities we need to shift our mindset about how we invest, and we need to continue investment into decarbonising New Zealand's economy.

- To accelerate projects that will support a low carbon future, NZGIF has committed more than $100m since 2019 and attracted another $150m of co-investment.

- Example:
  The transport sector is a major source of greenhouse gas emissions for New Zealand. Together, NZGIF and NZ Post have established a $20m credit facility to help purchase 60 e-vans and lease them out to contractors on four-year terms. NZGIF and NZ Post have noted that a secondary impact of this investment could be the kickstarting of a second-hand electric van market.
- Example:
  NZGIF has also provided a $10m debt facility to finance power-purchase agreements for solarZero, which runs a 'solar-as-a-service' model. Homeowners get the benefits of solar energy and a reduction of their carbon footprint but avoid the upfront installation cost, since the company retains ownership of the equipment and takes care of the maintenance.

Appendix 3: Joint Q+A Talking Points

We have prepared answers to some of the questions which could arise from your speeches, and areas that we are aware Toitū Tahua are interested in.

What is government doing to progress the recommendations in the Sustainable Finance Forum's roadmap?

- There are clear areas of alignment between the roadmap recommendations and the work that government is doing to implement the actions in the national adaptation plan and the emissions reduction plan.
- Government is progressing actions across the three overarching themes of the roadmap to:
  - Change mindsets – drivers leading to change
  - Transform the financial system – embed sustainability into our financial system
  - Finance the Transformation.
- For example, the actions included in the national adaptation plan progress the roadmap priority areas of governance, resiliency, data, disclosure and standards and pathways.

Are Green Bonds a new source of debt for the Government?

- No. Green Bonds **are not a new source of funding** for government agencies – they provide financing for funding decisions that have already been made, typically through the Budget or delegated decision-making processes.
- That is, while Green Bonds **are a new source of finance**, this does not represent additional funds for the Crown – they will be issued as part of the overall forecast core Crown borrowing programme run by the Treasury's New Zealand Debt Management function.

s9(2)(b)(ii) and 9(2)(g)(i)

What will the climate-related disclosures assurance regime consultation cover?

- We will be consulting on whether to introduce a licensing regime for assurance providers for climate statements.
- We will also consult on whether to expand the scope of the assurance requirement to the whole of the climate statement.

Note this is expected to go out to consultation mid-November 2022 but has not received Cabinet approval yet.

***What is the future of non-financial disclosures - what's after TCFD*?**

- Over the next 5-10 years, we are likely to see businesses increasingly embrace broader sustainability reporting, including disclosing nature-related risks such as biodiversity loss.
- Emerging frameworks like the Taskforce for Nature-related Financial Disclosures (TNFD) will play an important role in supporting businesses to assess these types of risk.

What role do you think TNFD will play in New Zealand?

- The New Zealand economy is heavily reliant on our natural environment and the environmental credentials of our businesses.
- TNFD is a tool that can support businesses to identify and respond to nature risks, and drive greater investment in nature-positive outcomes including greater uptake of nature-based solutions.

Does the government have plans to regulate nature-related disclosures?

- The Government has no current plans to regulate nature-related disclosures. Work in this area is still developing and we will have a better view once the TNFD framework is published in September next year.

What barriers do you see in implementing TNFD in New Zealand?

- The biggest barrier to implementing TNFD will initially be around the availability of data to support the disclosure recommendations. This will be less of a problem over time as we continue to build our environmental evidence base in New Zealand.
- It will also be important that the framework aligns with the New Zealand context, including emerging initiatives like the External Reporting Board's Ngā pou o te kawa ora framework, which will incorporate te ao Māori perspectives on non-financial reporting.

Will the CERF be topped up for Budget 2023?

- The CERF was set up in the Budget Policy Statement for Budget 2022 with $4.5 billion of ETS cash proceeds as a ‘down payment’.
- Government expects to continue topping up the CERF as additional cash proceeds from the Emissions Trading Scheme become available.
- We expect there will be significant calls for funding for high-value climate-related initiatives in the future.

What sectors will a New Zealand taxonomy include?

- The final form and function of a New Zealand taxonomy will be determined by collaborating with Toitū Tahua, industry, academia, iwi/Māori and the scientific community. This will give clarity on the sectors and how definitions will be presented.
- The industry-led Sustainable Agriculture Finance Initiative (SAFI) could be considered to be an initial ‘taxonomy’ for agriculture in New Zealand. This has already given rise to a number of ‘sustainability linked loans’ from New Zealand-based banks to the agricultural sector.

Emissions data associated with government debt.

- By December 2023, all departments, departmental agencies and non-public service departments will report on their emissions from the 21/22 financial year. This will provide a comprehensive picture of government emissions and the supporting data.
- Officials are looking to the work of the Partnership for Carbon Accounting Financials’ (PCAF) – particularly the new methods for calculating the emissions of Government bonds – and await the final accounting standard.

What is your response to the new industry-led Stewardship code?

- We support your commitment and leadership in developing the industry-led voluntary Stewardship Code and look forward to see how the broader financial sector will put this into practice.

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Proactive Release - Government Response to Rautaki Hanganga o Aotearoa, the New Zealand Infrastructure Strategy

Date:	28 October 2022	**Report No:**	T2022/2116
		File Number:	

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister for Infrastructure**	**Approve** the attached documents proposed for proactive release on the Treasury website. **Inform** the Treasury of any changes to the documents proposed for proactive release.	1 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Max Christie	Analyst, National Infrastructure Unit (NIU)	s9(2)(k)	N/A (mob)	✓
David Taylor	Manager, National Infrastructure Unit (NIU)		N/A (mob)	
Joe Mansell	Ministerial and Proactive Release Advisor, Ministerial Advisory Service		N/A (mob)	

Minister's Office actions (if required)

Inform the Treasury of any changes required to the documents proposed for proactive release.

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Treasury Report: Proactive Release - Government Response to Rautaki Hanganga o Aotearoa, the New Zealand Infrastructure Strategy

Purpose of Report

1. We propose to publish two Cabinet Papers and Minutes relating to the development of the Government Response to the Infrastructure Strategy. This report seeks your approval to release these documents.

Information Proposed to be Released

2. We propose to proactively release the following documents:

Doc	Date	Document Title
1	8 April 2022	Cabinet Paper DEV-22-SUB-0081: Rautaki Hanganga o Aotearoa, the New Zealand Infrastructure Strategy and Approach for the Government Response
2	14 April 2022	Cabinet Minute DEV-22-MIN-0081: Rautaki Hanganga o Aotearoa, the New Zealand Infrastructure Strategy and Approach for the Government Response
3	2 September 2022	Cabinet Paper CAB-22-SUB-0362: Government Response to Rautaki Hanganga o Aotearoa, the New Zealand Infrastructure Strategy
4	6 September 2022	Cabinet Minute CAB-22-MIN-0362: Government Response to Rautaki Hanganga o Aotearoa, the New Zealand Infrastructure Strategy

3. We propose to release the documents above, subject to information being withheld under the following sections of the Official Information Act 1982 as applicable:

   a section 6(a) – to avoid prejudicing the international relations of the Government,

   b section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials.

Communications Implications

4. No communications implications are expected.

Consultation

5. We consulted with Te Waihanga, the Department of the Prime Minister and Cabinet, and the Public Service Commission.

Recommended Action

We recommend that you:

a **agree** to the publication of the attached documents.

Agree/disagree.

David Taylor
Manager, National Infrastructure Unit

Hon Grant Robertson
Minister for Infrastructure

_____/_____/_______

Please note: Documents mentioned in report have been published and can be found at:
https://www.treasury.govt.nz/publications/information-release/finance-portfolio-cabinet-material-2022

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet Government Administration and Expenditure Review Committee 27 October 2022

Date:	21 October 2022	**Report No:**	T2022/2321
		File Number:	MS-5-3-GOV

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson) Associate Minister of Finance (Hon Dr Megan Woods) Associate Minister of Finance (Hon David Parker) Associate Minister of Finance (Hon Kiri Allan)	**Read** prior to the PreCab meeting with Treasury Officials.	8:00 am, 25 October 2022

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Tan Lakhawala	Graduate Analyst, Public Finance Policy	s9(2)(k)	s9(2)(g)(ii)	✓
Awhi Fleming	Manager, Spending Review			

Minister's Office Actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: **No**

Treasury Report: Briefing for Cabinet Government Administration and Expenditure Review Committee 27 October 2022

The Treasury is aware of five items on the Cabinet Government Administration and Expenditure Review Committee agenda for 27 October 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury has no substantive comments on the following two papers on the agenda:

- **A New Police Hub and Custodial Facility for Hamilton Central**
- **Disestablishing the Digital Council for Aotearoa**

Financial assistance to support primary industries recovery following severe weather and other adverse events

Hon Damien O'Connor, Minister of Agriculture, Minister for Rural Communities
Treasury contact: Guy Bennett-Longley s9(2)(k)
Sign out contact: Davin Hall s9(2)(k)

Description: This paper seeks agreement to provide the Ministry for Primary Industries (MPI) with an additional $1.5 million for the remainder of 2022/23 to respond to future adverse weather events affecting the primary sector.

Comments: The Treasury supports targeted and coordinated responses following adverse events to ensure the resilience of New Zealand's agricultural sector. However, we have concerns that providing additional funding *before* adverse events happen:

- undermines exceptions already agreed for the Natural Resources Cluster in Budget 2022, and
- creates a fragmented funding landscape across agencies who manage emergency responses [T2022/2022 refers].

We understand however that you (Minister of Finance) have indicated a preference to provide a one-off $1.5 million top-up from the between-Budget contingency to MPI's agriculture recovery appropriation for 2022/23.

The paper indicates that coordination across Government for emergency responses will be supported through the National Emergency Management Agency's review programme. We expect MPI to work with other agencies to coordinate a systematic approach that manages the risks of responding to adverse events. This may be supported through the National Adaptation Plan or the Climate CEs inter-departmental executive board, acknowledging that the primary sector is one of many grappling with the effects of climate change adaptation.

We recommend deleting recommendation 9 which seeks agreement to roll forward any underspends from the $1.5 million appropriation increase to future financial years. Consistent with the government's fiscal management approach, we think any underspends should be returned to the centre to allow them to be allocated to the government's priorities.

Treasury Recommendation: Conditional support - remove recommendation 9

Fiscal Implications: Agreement to this paper will increase MPI's agriculture recovery assistance appropriation by $1.5 million. Funding will be provided from the between-Budget contingency.

IN-CONFIDENCE

Preventing financial hardship caused by the use of Buy-Now, Pay-Later

Hon Dr David Clark, Minister of Commerce and Consumer Affairs
Treasury Contact: Amir Mehta s9(2)(k)
Sign out contact: Mary Lewellyn-Fowler s9(2)(k)

Description: This paper seeks agreement to apply the Credit Contracts and Consumer Finance Act 2003 (the Act) to Buy-Now, Pay-Later schemes. It seeks agreement to consult on a threshold for applying affordability assessments under the Act, and the nature of the affordability assessment (principles-based or prescriptive).

s9(2)(f)(iv)

Fiscal Implications: Minor (not specified in the paper), and to be met within baselines.

IN-CONFIDENCE

Longer-term approach to sustainable funding for Policy Advice and Related Services to Ministers in Workplace Relations and Safety

Hon Michael Wood, Minister for Workplace Relations and Safety
Treasury contact: Elliot Quitales s9(2)(k) [redacted]
Sign out contact: Laura King s9(2)(k) [redacted]

Description: This paper proposes to use the Health and Safety at Work levy (the levy) to fund health and safety policy advice, with an option to also expand resources to expedite regulatory reform work.

Comments: The Treasury recommends option 2B, which would provide funding from the levy only for the current scope of health and safety policy advice. MBIE has absorbed funding shortfalls in the past but have advised that due to pressures in other portfolios, it is not feasible to continue doing so without reducing work programme expectations in these other areas.

Option 2A, which funds expanded resources to expedite health and safety regulatory reform work, is a significant policy proposal that should be considered at Budget 2023 alongside other such proposals. Whilst agreeing to fund expanded resources now may provide greater certainty, we do not consider this proposal to be so urgent as to require an out-of-cycle funding decision before Budget 2023.

Progressing option 2B will enable better scrutiny and proper trade-offs to be made, [redacted] s9(2)(f)(iv)

We also note that that policy advice is categorised more closely as a service to the Crown rather than to levy payers. This means any further expansion to cover additional policy advice, as proposed by Option 2A, should be considered carefully.

Treasury Recommendation: The Treasury recommends that you **support Option 2B**.

Fiscal Implications: The fiscal impacts of both options below will be funded by proceeds from the HSW levy and are therefore fiscally neutral with no impact on the operating balance or net debt.

Under Option 2A:

Funding source: HSW Levy									
Operating ($m)					Capital ($m)				
22/23	23/24	24/25	25/26	26/27 & outyears	22/23	23/24	24/25	25/26	26/27 & outyears

s9(2)(f)(iv) [redacted]

Under Option 2B:

Funding source: HSW Levy									
Operating ($m)					Capital ($m)				
22/23	23/24	24/25	25/26	26/27 & outyears	22/23	23/24	24/25	25/26	26/27 & outyears
1.7	3.24	3.4	3.57	3.75	-	-	-	-	-

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 8:00 am on Tuesday 25 October 2022.

Awhi Fleming
Manager, Spending Review

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2082

Please note: Report number is incorrect. Correct number is T2022/2265

Date: 25 October 2022

To: Minister of Finance
(Hon Grant Robertson)

Deadline: None
(if any)

Aide Memoire: Large Scale Asset Purchase Programme Indemnity Payment for the month ended September 2022

Purpose

This Aide Memoire summarises the Large Scale Asset Purchase (LSAP) programme indemnity payment made to the Reserve Bank for their losses realised in September 2022.

Summary

- The Treasury made an indemnity payment of $248,521,000.00 on 17 October 2022. This payment reimbursed the Reserve Bank for the realised losses on LSAP bonds sold to New Zealand Debt Management (NZDM) and interest margin losses on the LSAP bond portfolio over the month of August 2022.
- The Reserve Bank had previously been earning net interest income on their bond holdings between March 2020 and March 2022 (Table 1), leading to a monthly payment of the income to the Crown. As the Official Cash Rate (OCR) has risen, the monthly cost of servicing the LSAP bond portfolio has risen to the point where it exceeds the interest revenue from the bonds. In addition, rising interest rates have reduced bond prices, resulting in the Reserve Bank realising losses on bonds it sells to NZDM.
- The latest projections from the Reserve Bank indicate that the monthly indemnity payments will rise to a peak of $347 million to cover the losses realised in the month of December 2022 (Table 2), $97 million higher than the $250 million monthly payment cap that you delegated to the Secretary to the Treasury. This payment will need to be settled on 18 January 2023.
- You will need to approve any monthly payments above $250 million. The latest projections show that you will need to authorise most of the monthly payments for losses realised from the month of December 2022 through to March 2024.
- The size of the monthly payments is dependent on the combination of funding costs exceeding expected interest revenue from the bonds, and realised losses from the sale of bonds to NZDM.

- Rising interest rates since late 2021 have increased the size of the total expected LSAP indemnity payments over the remaining life of the programme to around $9.683 billion as at September 2022. This reflects an indemnity value of around $9.493 billion as at the end of September (this is the most recent figure reported on the Reserve Bank's website), plus interest expenses of around $190 million paid to the Reserve Bank up to that date (Table 3).[1]

- The Annex provides background information on the LSAP programme and indemnity arrangements.

Table 1: Indemnity payments to / from the Treasury[2]

Payments for period ended		**Amount ($m)**
Annual	Year ended June 2020	15.6
	Year ended June 2021	195.1
	Year ended June 2022	63.0
Monthly	Jul-22	-225.3
	Aug-22	-238.0
	Sep-22	-248.5
	Oct-22	
	Nov-22	
	Dec-22	
	Jan-23	
	Feb-23	
	Mar-23	
	Apr-23	
	May-23	
	Jun-23	
Cumulative payments since start of LSAP programme		**-438.2**
Memo: Cumulative payments settled as at end September 2022 (excludes most recent payment)		*-189.7*

1 In these figures the latest payment is included in the indemnity value rather than cumulative payments to date as the payment had not yet been settled on that date.

2 Negative numbers represent payments from the Treasury to the Reserve Bank to cover LSAP losses; positive numbers represent payments from the Reserve Bank to the Treasury to pass on any realised gains. Payments are made the following month after gains and losses are realised. Cells highlighted yellow indicate payments above the $250 million cap.

Table 2: Forecast indemnity payments over the months ahead (the actual payments will depend on how interest rates evolve)[2]

Payment for the month ended	Forecast amount as at 30 September 2022 ($m)
Oct-22	-238.6
Nov-22	-218.5
Dec-22	-346.8
Jan-23	-290.3
Feb-23	-277.6
Mar-23	-323.0
Apr-23	-297.4
Jun-23	-284.1
Jul-23	-295.3
Aug-23	-286.6
Sep-23	-294.1

Table 3: Total indemnity payments currently expected under the LSAP programme ($m)

Total payments made to the Treasury up to the end of September 2022	-190
Indemnity value as at end September 2022[3]	- 9,493
Total expected indemnity payments[4]	- 9,683

Note: The figures above are as at the end of the previous month as this corresponds to the most recent publicly available valuation of the indemnity on the Reserve Bank website.[5] In the figures above, the latest indemnity payment is included in the indemnity value rather than cumulative payments to date as the payment had not yet been settled at the date of the latest indemnity valuation.

Carlos So, Analyst, Macroeconomic and Fiscal Policy, s9(2)(k)
Renee Philip, Manager, Macroeconomic and Fiscal Policy, s9(2)(k)

3 The indemnity value is approximately equal to the sum of the net present value of all expected future indemnity payments yet to be settled. This figure will vary over time depending on the path of interest rates and as the actual payments are made. In addition, the indemnity value may fully not capture all influences on future indemnity payments, such as impacts arising from term premiums. The figure for total payments made to date is in nominal terms (not net present value).

4 This equals the sum of payments to date and the indemnity value. Figures may not sum due to rounding.

5 Available at: https://www.rbnz.govt.nz/statistics/series/reserve-bank/our-balance-sheet

Annex – Background information on the LSAP programme

The LSAP programme is an additional monetary policy tool used by the Reserve Bank which played a significant role in supporting the economy during the COVID-19 pandemic.[6] The programme involves the Reserve Bank purchasing predominantly New Zealand Government Bonds (NZGBs) in the secondary market by paying settlement cash. This had the effect of switching the Crown's interest rate exposure from fixed interest to floating interest at the rate of the Official Cash Rate (OCR). LSAP purchases were halted in July 2021, after approximately $55 billion of bonds had been purchased.

The overall impact of the LSAP programme on the Crown's accounts and the wider economy is difficult to measure, but rough estimates suggest that there have been material impacts on the economy. For example, the Reserve Bank estimated that in August 2020 NZGB yields were at least 50 basis points lower, and potentially more than 100 basis points lower, than they would have been without the LSAP programme. The fiscal savings from lower bond yields and wider economic impacts have not been included in the estimates of the expected losses above but need to be considered when estimating the overall cost of the programme.

Initially, the low OCR meant that the Reserve Bank's LSAP bond portfolio was generating positive interest margin each month, which was paid to the Treasury. With interest rates and interest rates expectations now higher than they were when the bonds were purchased however, the Reserve Bank has realised losses on its LSAP bond portfolio since April 2022. It is now expected that the Treasury will need to make indemnity payments to the Reserve Bank until the LSAP bond portfolio is unwound, which is expected to be by 2027.

Additionally, the market value of the Reserve Bank's LSAP bond portfolio has fallen as interest rates have risen. The Reserve Bank will likely be experiencing a loss on sale for bonds they sell to New Zealand Debt Management as part of the unwind. However, the estimated losses will change over time as interest rates move, so the ultimate gain or loss on the LSAP bond portfolio will not be known until it ends.

These interest risk losses and losses on sale are indemnified by the Crown via the Letter of Indemnity agreed between the Minister of Finance and the Governor of the Reserve Bank in August 2020. The indemnity has no net impact on the consolidated accounts of the Crown as the Reserve Bank's losses are met by the Crown. In April 2022, the Minister of Finance delegated authority to the Secretary to the Treasury to make these indemnity payments on behalf of the Crown for values up to $250 million per month.

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6 The Reserve Bank has additional information about the LSAP programme on its website: https://www.rbnz.govt.nz/monetary-policy/monetary-policy-tools/large-scale-asset-purchases

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THE TREASURY

Treasury Report: Building resilience to supply chain risks

Date:	26 October 2022	**Report No:**	T2022/1977
		File Number:	TY-1-5

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Discuss** this paper and possible further work at the next Finance Priorities Meeting on 3 November.	28 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Caleb Morrall	Analyst, Economic Policy	s9(2)(k)	s9(2)(g)(ii)	✓
John Beaglehole	Manager, Economic Policy			

Minister's Office actions (if required)

Return the signed report to the Treasury.

s9(2)(f)(iv) s9(2)(f)(iv)

Note any feedback on the quality of the report	

Enclosure: No

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Treasury Report: Building resilience to supply chain risks

Executive Summary

s9(2)(f)(iv) [redacted]

This report s9(2)(f)(iv) [redacted] setting out a framework for thinking about resilience in a supply chain context and the Treasury's initial assessment of how resilient our supply chains are. It also provides you with the Treasury's view on approaches for building resilience and seeks your direction for further work.

A resilient supply chain can absorb shocks and adapt to changes in the global economy

In a supply chain context, resilience is the ability to absorb and adapt to shocks that affect wellbeing. How much resilience is appropriate for any given supply chain depends on how critical the good is to New Zealand, and its vulnerability to disruption. Given the amount of uncertainty around both questions, there is no single answer. Moreover, both firms and the government will have an implied level of acceptable risk when calculating criticality and vulnerability. That level of risk may align, or differ, which may lead to firms between themselves, or firms and the government, taking different positions on what level of resilience is appropriate for any particular good.

s9(2)(f)(iv) [redacted]

While the importance of resilient supply chains is increasing, building supply chain resilience is complex and costly

We are experiencing a fundamental change in the international economy. s6(a) [redacted] What is more, this shift is accelerating, and has consequential implications for New Zealand. When combined with climate change, COVID-19, geopolitical shifts s6(a) [redacted] and conflicts such as the Russia – Ukraine war, the international rules-based order is under pressure. In this context, like-mindeds are considering how to reinforce their supply chains and identify critical goods.

s9(2)(f)(iv) [redacted]

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Next steps

We would like to discuss this paper and the broader economic security landscape with you at the next Finance Priorities Meeting on Thursday 3 November.

Recommended Action

We recommend that you:

a s9(2)(f)(iv)

b **Note** that we are less resilient to longer shocks, or shocks that affect supply chains that provide imports important for other aspects of wellbeing;

c **Note** that in most cases, the Treasury considers a market-led approach to be most the effective way of sustainably building supply chain resilience;

d **Note** that more direct interventions may be justified in situations when the interests and risk tolerances of firms and the Government diverge;

e **Discuss** with officials your reaction to this report and the areas where you would find further Treasury analysis useful, at the next Finance Priorities Meeting on 3 November;

f s9(2)(f)(iv)

John Beaglehole
Manager, Economic Policy

Hon Grant Robertson
Minister of Finance

_____/_____/_______

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Treasury Report: Building resilience to supply chain risks

Purpose of Report

1. This report provides you with:

   a a framework for considering resilience in a supply chain context;

   b the Treasury's initial assessment of how resilient New Zealand's supply chains are; and

   c an examination of the trade-offs associated with building supply chain resilience.

2. This is an opportunity for the Treasury to test early thinking in this area with you. We would like to discuss the analysis in this paper, your reaction to it, and areas where you would find further Treasury analysis useful at the next Finance Priorities Meeting on 3 November 2022. s6(a) [redacted]

3. s9(2)(f)(iv) [redacted]

Background

4. Structural changes in the global economy, driven by forces like climate change and geopolitical competition, has made consideration of supply chain issues increasingly important. This need has been highlighted by New Zealand's recent experience dealing with COVID-19 related supply chain disruptions. Several workstreams across government have been created or prioritised to deal with matters of supply chain resilience:

   a s9(2)(f)(iv) [redacted]

   b Negotiations for the Indo-Pacific Economic Framework for Prosperity (IPEF) have recently started. Supply chains are one of the four pillars of the framework. Members have undertaken to act collectively to increase the resilience of sectors identified as critical to national security and the health and safety of citizens.

   c The Department of the Prime Minister and Cabinet (DPMC) is leading work to counter foreign interference, s6(a) [redacted]

   d DPMC is leading work to improve the resilience of critical infrastructure against all hazards and risks, including risks of supply chain disruption.

   e The Ministry of Transport's Freight and Supply Chains strategy, which is currently in development, has an objective of ensuring our transport and logistics systems are resilient to potential disruptions.

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f The Productivity Commission has recently started an inquiry into New Zealand's economic resilience to persistent, medium-term shocks.

5. The Treasury is engaging with these workstreams because economic security is a core objective of your economic strategy, and the importance of resilience to sustaining long-term wellbeing. Further, as any policy recommendation relating to economic security will likely have fiscal and economic impacts, it is important that all the associated trade-offs are appropriately considered.

Risk and resilience in a supply chain context

Resilience is the ability to absorb and adapt to realised risks

6. Resilience is important because it is how economies absorb (absorptive capacity) and adapt to (adaptive capacity) shocks that may reduce wellbeing. Sufficient absorptive capacity can mitigate the scarring impact of temporary shocks and smooth the path back to pre-shock levels of wellbeing. For shocks with a structural impact, an economy with sufficient adaptive capacity can reallocate resources to match the changed conditions.

7. The level of resilience, and subsequently the mix of capacities, sufficient to preserve wellbeing over time depends on the level of risk faced – how likely shocks are to occur and how severe the impact will be if they do.

A resilient supply chain can tolerate disruptions and respond to structural changes in the global economy

8. A society's aggregate level of supply chain risk depends on how critical its imports are to its ability to function and how vulnerable these imports are to disruption. The aggregate level of resilience is determined by decisions made by firms and governments engaged in these supply chains around how much efficiency should be traded-off to manage these risks.

9. For example, firms can choose to improve their resilience by holding more inventory (more absorptive capacity for higher warehousing costs) or by diversifying their suppliers (more adaptive capacity for higher input costs). The government can also affect the economy's resilience through measures like building stockpiles (more absorptive capacity for higher warehousing costs) or holding lower levels of debt (more adaptive capacity for lower levels of spending).

10. A society has sufficient absorptive capacity if it can maintain living standards in the event of a trade disruption, and sufficient adaptive capacity if it can repurpose its supply chains without impacting living standards if the disruption is permanent.

Initial assessment of New Zealand's supply chain resilience

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

[redacted]

However, our resilience likely worsens as the length of a disruption grows…

16. As a disruption lengthens, a larger number of imports become critical for sustaining life and health. For example, while the impact on life and health for deferring the purchase of new capital goods like medical equipment is likely low initially, it would grow over time. A prolonged inability to obtain or service specialist medical equipment could have a serious impact on current and future wellbeing once existing stocks are exhausted.

17. Disruption to the importation of skills via temporary and permanent migration would produce similar scarring impacts. For example, visa holders made up approximately 12 percent of the healthcare and social assistance workforce in 2021, a share that will likely increase as demand for these services grows. Disruption to the supply of these workers, for example as we have seen with COVID-19 border closures, constrains sector growth and decreases the quantity and quality of these services, with corresponding impacts on current and future health outcomes.

s9(2)(f)(iv)

18. s9(2)(f)(iv) There are a range of imports that fall outside this definition that, if disrupted, could have similarly significant wellbeing impacts on other human capability domains and other aspects of New Zealand's national wealth.

19. For example, New Zealand is dependent on imported sodium fluoroacetate (1080) to control invasive predators and prevent the spread of diseases like Bovine Tuberculosis (TB). A disruption to the supply of 1080 could degrade the ability to maintain and improve native ecosystems, and to protect rural economies from TB.

… and the impact of any disruption or adaptation will be unevenly distributed

20. While New Zealand can likely tolerate and adapt to significant short-term supply disruption at a macroeconomic level, such a disruption may still have distributional implications. Negative supply chain shocks typically produce inflationary pressure, and while the size and scale of a disruption would depend on which imports were disrupted, the role of tradeables (such as food and fuel) in determining domestic inflation means the impact could be significant. If this is the case, lower income households would likely be more affected as they typically have a smaller buffer to respond.

Improving the resilience of New Zealand's supply chains

The risk posed by future supply chain shocks will continue to increase…

21. Structural changes in the global economy are increasing the frequency and severity of supply chain disruptions. A deteriorating international security environment, exacerbated by events like the Russia-Ukraine conflict, is driving further deglobalisation and regionalisation as countries take measures to decrease their economic interdependence. These trends add further stress to the rules-based international system. Outside of explicit national security risks, climate change, through its impact on weather patterns and natural disasters, is similarly increasing the risk profile of our supply chains.

… and while building supply chain resilience is costly and complex…

22. The costs and benefits associated with interventions designed to build supply chain resilience need to be carefully assessed to reduce the risk of under- or over-investment as doing either undermines national wellbeing. Under-investing in resilience has a direct impact in that it leaves society overexposed to disruption, the cost of which can be seen through the impact on wellbeing. Over-investing in resilience, for example when the amount spent on diversifying suppliers exceeds the expected cost of an import disruption, has an indirect impact in that there is an opportunity cost in lower efficiency.

23. While difficult to measure, the opportunity cost of over-investment can be just as large as the direct cost of under-investing. Designing and implementing interventions that build supply chain resilience is particularly difficult because healthy economies are dynamic, and the mix of critical and vulnerable imports will change over time.

… it is timely to consider whether our resilience investment remains optimal

24. These structural changes likely represent a shift in what the wellbeing-maximising efficiency-resilience trade-off is. While this is impossible to measure precisely, it is a useful point in time to consider whether current policy settings match the new environment.

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25. A market-focused approach relies on firms managing their own vulnerabilities, with the government playing an enabling role by improving their understanding of the risk environment and supporting market functionality. This approach recognises that firms typically hold the industry-specific information required to make judgements around which supply chains need what level of resilience investment, and how that investment should change over time. This reduces the likelihood of over- or under-investment. However, this approach hinges on those firms having an accurate understanding of their risk environment, and that their interests and risk appetite aligns with the government's.

26. s6(a)

27. However, there are likely some supply chains where the profit-maximising level of resilience is lower than the society-wide wellbeing-maximising level, or where the firm's relevant time-horizon means they are willing to accept a higher level of risk. For example, a multinational firm that sells a critical good, where New Zealand comprises only a small fraction of their global sales, will likely tolerate a higher risk that its exports to New Zealand are disrupted than the government will.

28. More direct intervention could be justified in situations where divergences in interests and risk tolerances pose a significant risk to wellbeing. These interventions will necessarily involve a greater degree of structural change and would come with a higher chance of costly over-investment.

29. Table 1 below contains examples of market-focused and direct interventions that could build absorptive and adaptive capacities.

Table 1: Examples of policies that could build resilience

	Builds absorptive capacity	**Builds adaptive capacity**
Market-focused interventions	s6(a) • Regulatory reform to enable the adoption of alternative production methods (e.g., substituting structural steel for wood framing in construction).	• Information sharing, including to support firm decision-making about what to produce. • Regulatory reform to boost competition and allocative efficiency. • Trade policy aimed at greater diversification of product and market base.
Direct Government action	s9(2)(f)(iv) • Bespoke bilateral/multilateral supply agreements (e.g., NZ-Singapore Trade in Essential Goods for Combatting COVID-19 declaration, Indo-Pacific Economic Framework for Prosperity).	• Industry Transformation Plans (e.g., using them as a vehicle to reorganise industries into more resilient structures)

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The Treasury considers that further investing in the market-focused approach will be the most effective way to sustainably build supply chain resilience, in most cases

30. Enabling firms to manage their own vulnerabilities by improving their understanding of the risk environment and supporting market functionality is the most effective way of sustainably building supply chain resilience, in most cases. Supporting market functionality through interventions improves competitive pressures and enable faster reallocation. This builds adaptive capacity, which is critical for managing enduring shocks and shocks that would be too fiscally and economically costly to maintain sufficient absorptive capacity.

31. This market-led approach reflects that firms typically hold the industry-specific information required to make judgements around which supply chains need what level of resilience, and how that investment should change over time. This minimises the risk of over- or under-investing.

32. s9(2)(f)(iv) [redacted]

s6(a) [redacted]

33. Several major economies have made, or are planning, direct government interventions to improve the resilience of their supply chains for critical and vulnerable imports. These programmes are summarised in Annex Two. They have largely focused on imports of intermediate inputs rather than final goods. This reflects that, except for Australia, these economies sit at the centre of most global supply chains, rather than the beginning or end of global supply chains, like New Zealand does. We have not identified other economies of a similar size and structure to New Zealand with equivalent policy programmes, at least in the public domain. We will continue to monitor the situation.

34. s6(a) [redacted]

Next Steps

35. We would like to discuss this paper and possible options for further Treasury engagement on economic resilience at the Finance Priorities Meeting on Thursday 3 November.

36. The analysis in this report will also support discussions with your Ministerial colleagues as part of Cabinet's ongoing work around improving supply chain resilience and protecting New Zealand against foreign interference. Annex One contains specific feedback on the Minister for Trade and Export Growth's Cabinet paper that we recommend you provide during Ministerial consultation.

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s9(2)(f)(iv)

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s9(2)(f)(iv)

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Annex Two: Policy programmes in other economies to improve supply chain resilience

Economy	Policy programme
Australia	• The Office of Supply Chain Resilience (OSCR) has been established to lead this work. It has 14 staff. s9(2)(f)(iv) [redacted] • AU$110M was appropriated at Budget 21-22 to provide businesses with grants to establish or scale manufacturing capacity for specified critical goods. Grants have so far been awarded for chemicals (agricultural production and water treatment), pharmaceuticals, and semiconductors.
s6(a) [redacted]	
European Union	• “Smart reshoring” of pharmaceuticals, semiconductors, batteries, and rare earth supply chains is underway.
Japan	• The Japanese Government is very focused on semiconductors and has provided a $5 billion subsidy to build a local factory. • Government work on other critical goods (e.g., batteries, rare earths, and pharmaceuticals) is still in development. But it will involve a mix of regulation (e.g., requiring those in critical sectors to provide contingency plans to government) and subsidies to boost domestic production. The framework also contemplates that direct government intervention (e.g., nationalisation, stockpiling) could be necessary.
United States (US)	• Mix of White House- and Congress-led initiatives, both with a focus on decoupling from China. • Research and development investment and subsidies for domestic production are core to US plans, with a primary focus on semiconductors, rare earths, pharmaceuticals, and batteries. • The resilience of the food sector has also been considered, although less industry policy-oriented interventions (e.g., improved competition policy) have been proposed.

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Release of Cabinet submission *Budget 2022 Pilot: Clusters Multi-Year Funding and Performance Reporting Proposal*

Date:	26 October 2022	**Report No:**	T2022/2237
		File Number:	MS-10-2-M89777

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Agree** that the Treasury proactively releases the Cabinet submission '*Budget 2022 Pilot: Clusters Multi-Year Funding and Performance Reporting Proposal*" and associated minute of decision. **Refer** this report to Cluster Ministers for their information	9 November 2022

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Tan Lakhawala	Graduate Analyst, Public Finance Policy	s9(2)(k)	s9(2)(g)(ii)	✓
Tom Hall	Manager, Public Finance Policy			
Joe Mansell	Ministerial and Proactive Release Advisor, Ministerial Advisory Service			

Ministers of Finance's Office Actions (if required)

Return the signed report to Treasury. **Refer** a copy of this report to Cluster Ministers for information.

Note any feedback on the quality of the report	

Enclosure: **Yes (attached)**

Treasury Report: Release of Cabinet submission *Budget 2022 Pilot: Clusters Multi-Year Funding and Performance Reporting Proposal*

Purpose of Report

1. This report seeks your agreement to proactively release the Cabinet submission *Budget 2022 Pilot: Clusters Multi-Year Funding and Performance Reporting Proposal* and the associated minute on the Treasury website [CAB-22-MIN-0423, GOV-22-MIN-0033].

2. Proactive release of this material meets the requirements set out in Cabinet Office circular CO (18) 4 – Proactive Release of Cabinet Material: Updated Requirements. This circular requires all Cabinet and Cabinet committee submissions and minutes to be proactively released and published online within 30 business days of final decisions being taken by Cabinet, unless there is good reason to not do so.

Proposed Material for Release

3. A list of documents proposed for proactive release and the relevant withholding grounds are set out in the Annex to this Report. The documents with redactions are in the attached binder.

Communications Implications

4. We do not anticipate significant public comment following this release, given details on the Cluster pilots were included in the Budget 2022 proactive release and the documents proposed for proactive release primarily concern implementation details of the Cluster approach.

Consultation

5. The following agencies have been consulted on the proposed proactive release: Natural Resources Cluster agencies (Ministry for Primary Industries, Ministry for the Environment, Department of Conservation) and Justice Cluster Agencies (Ministry of Justice, New Zealand Police, Ara Poutama Aotearoa - Department of Corrections, Serious Fraud Office, Crown Law Office).

6. The above agencies agreed with the redactions in the documents for proactive release. We therefore recommend referring a copy of the proactive release to Cluster Ministers for their information.

Next Steps

7. The Treasury intends to release the attached papers within five working days following your approval to release.

Recommended Action

We recommend that you:

a **agree** to the release of the attached documents, and

Agree/disagree.

b **refer** the attached papers to Cluster Ministers for their information.

Refer/not referred.

Tom Hall
Manager, Public Finance Policy

Hon Grant Robertson
Minister of Finance

Annex – List of documents for proactive release

Item	Document Type	Document Title	Proposed Action
1	Cabinet Submission	Budget 2022 Pilot: Clusters Multi-Year Funding and Performance Reporting Proposal	Release in part
2	Cabinet Minute	Budget 2022 Pilot: Clusters Multi-Year Funding and Performance Reporting Proposal [CAB-22-MIN-0423, GOV-22-MIN-0033]	Release in part

We propose to release the documents above, subject to information being withheld under the following section of the Official Information Act 1982 as applicable:

a. section 9(2)(j) – to enable the Crown to negotiate without prejudice or disadvantage.

s9(2)(j)

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Report on Overseas Travel Minister of Finance UK and France July - August 2022

Date:	25 October 2022	**Report No:**	T2022/2309
		File Number:	IM-6-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Sign** and **lodge** the attached draft Cabinet Paper prior to Cabinet deadline of 10AM 27 October 2022	27 October 2022

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Brent Bautista	Analyst, International	s9(2)(k)	s9(2)(g)(ii)	✓
Conor McBride	Manager, International			

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

Return the signed report to Treasury.
Sign and **lodge** the attached draft Cabinet Paper.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

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Treasury Report: Report on Overseas Travel Minister of Finance UK and France July - August 2022

The attached draft Cabinet paper provides a summary of key points of interest from your recent travel to the United Kingdom and France in July and August 2022. Your trip focussed on attending the 2022 Commonwealth Games in Birmingham, and other engagements including in London and Paris, for your Finance and Sport and Recreation ministerial portfolios, and engaging with your counterparts in the British and French governments to discuss Government priorities and challenges.

The Cabinet Paper provides a summary of:

- Your attendance at the 2022 Commonwealth Games in Birmingham
- Your bilateral meetings with your British and French government counterparts in London and Paris:
  - Governor of the Bank of England, Andrew Bailey
  - Minister Delegate for Public Accounts of France, Gabriel Attal
  - Cross-ministerial delegate for the Paris 2024 Olympic and Paralympic Games, Michel Cadot
  - Deputy Leader of the Opposition, Angela Rayner
- The substantive issues you discussed with business and investment stakeholders in the following engagements and meetings:
  - International investors in New Zealand financial markets hosted by UBS bank
  - Mouvement des Entreprises de France (MEDEF) international NZ chapter chair and Transdev CEO Thierry Mallet
  - Roundtable with fintech businesses hosted by Xero

Recommended Action

We recommend that you **agree** to sign and lodge the attached draft Cabinet Paper by 10AM, Thursday 27 October 2022.

Agree/disagree.

Conor McBride
Manager, International

Hon Grant Robertson
Minister of Finance

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Office of the Minister of Finance
Chair, Cabinet

REPORT ON OVERSEAS TRAVEL: Minister of Finance UK and France July - August 2022

Proposal

I propose that Cabinet note the report of my visit to the United Kingdom (UK) and France, from 27 July to 8 August, to attend the 2022 Commonwealth Games in Birmingham, and engage with business and investment stakeholders, as well as my counterparts in the British and French governments, in London and Paris.

Report

1. My visit to the United Kingdom and France achieved its objectives of:

   1.1 supporting New Zealand's reconnection with the world, following the COVID-19 pandemic;

   1.2 building and consolidating our relationship with key partners;

   1.3 highlighting New Zealand's post-pandemic economic credentials;

   1.4 promoting New Zealand values and knowledge in support of multilateralism; and

   1.5 supporting wider NZ Inc priorities of internationalisation and trade and investment.

2. I attended the 2022 Commonwealth Games in Birmingham to support New Zealand athletes and highlight Aotearoa New Zealand's successful performance at the Games. While there, I met with the UK Minister for Sport, Tourism, Heritage and Civil Society, Nigel Huddleston.

3. In London and Paris, I met with my British and French government counterparts, which included meeting the Governor of the Bank of England, Andrew Bailey; UK Deputy Leader of the Opposition, Angela Rayner; French Minister Delegate for Public Accounts of France, Gabriel Attal; French Cross-ministerial delegate for the Paris 2024 Olympic and Paralympic Games, Michel Cadot.

4. I also met with business and investment stakeholders, which included international investors in New Zealand financial markets, at an event hosted by UBS bank, Mouvement des Entreprises de France (MEDEF) international NZ chapter chair and Transdev CEO Thierry Mallet, and a roundtable discussion with fintech businesses hosted by Xero.

5. I also conducted media interviews with BBC, CNBC and Attitude Magazine.

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Birmingham

6. The focus of my attendance at the 2022 Commonwealth Games was to support New Zealand athletes and celebrate our success in the Games, however, it also provided opportunities to further the NZ-UK bilateral relationship and government priorities.

7. I spoke at the official handover from Aotearoa New Zealand to the UK of the Secretariat of the International Working Group on Women and Sport. I also attended a Welsh-hosted event on Empowering Women and Girls in Sport and had a brief but warm meeting with the First Minister of Wales, Mark Drakeford.

8. I was interviewed by the BBC during the Commonwealth Games where I covered foreign affairs including on China, Taiwan and the Pacific, New Zealand's re-opening to tourists, and the New Zealand team's success in Birmingham.

UK Minister for Sport, Tourism, Heritage and Civil Society, Nigel Huddleston

9. I met with my Sports portfolio counterpart, Minister for Sport, Tourism, Heritage and Civil Society, Nigel Huddleston at New Zealand House in Birmingham[1]. This engagement was an opportunity to discuss both the challenges and real opportunities of hosting a Commonwealth Games.

10. We discussed shared challenges on 'integrity' in sport, female participation, importance of athlete mental health, and increasing participation in physical activity in schools. Huddleston offered to share England's Whyte Review, and he was interested in New Zealand's Balance is Better, and Healthy Active Learning programmes.

11. Minister Huddleston thanked the New Zealand Government for its cooperation on the sports-related response to Russia's invasion of Ukraine, while I in turn thanked the UK for its leadership on this issue. He noted in particular the need to influence other countries to support the initiatives.

12. I invited Minister Huddleston to New Zealand for the FIFA World Cup 2023, which he will accepted at the time. As of 20 September 2022 Minister Huddleston no longer holds a sport portfolio, and is now a Lord Commissioner of the Treasury (Associate Minister of Finance equivalent in New Zealand).

London

Governor of the Bank of England Andrew Bailey

13. I had a warm and collegial meeting with the Governor or the Bank of England, Andrew Bailey. s9(2)(a) [redacted] and I invited him to visit New Zealand, which he expressed a strong wish to do.

14. We discussed Bank of England's economic forecasts which were due out later that week, including New Zealand and the UK's shared challenge of a shortage of labour.

[1] The New Zealand Commonwealth Games Team took over Edgbaston Golf Club for the duration of the Games functioning as Birmingham 2022 New Zealand House.

15. Bailey outlined that the decrease in labour supply Bailey noted that 'things have not gotten better' since the UK came very near a technical recession in May 2022, and that inflation had further to go. While the UK does not import much gas from Russia, the flow-on effect to global gas markets mean UK gas prices are nevertheless rising.

16. The Bank of England in August raised interest rates to 1.75% - the biggest rise in 27 years - in an attempt to combat soaring inflation. The Bank also forecast a recession in the UK from the last quarter of 2022. Overall, Bailey noted that inflation was hitting the poorest in society given it was primarily impacting the price of food and fuel.

17. We also covered housing challenges in the UK. Bailey noted that house-price growth had been robust throughout the pandemic, but in a reverse pattern than normal i.e. strong price growth everywhere except London and the Southeast. s9(2)(g)(i) [redacted]

18. s9(2)(g)(i) [redacted] He noted that Russia's actions had raised some very good questions in the UK about energy resilience. For New Zealand energy storage is the issue, for the UK it is around having a high domestic 'baseload' of energy resource.

Deputy Leader of the Opposition, Angela Rayner

19. This meeting was an opportunity to discuss shared challenges and opportunities in the UK and New Zealand, including around equality and well-being, as well as to hear her views on the UK's political trajectory. Rayner expressed particular interest in New Zealand's work on Fair Pay Agreements.

Meeting with investors in New Zealand financial markets hosted by UBS bank

20. The New Zealand Debt Management office organised for me to engage with UK investors (the largest purchasers of New Zealand Bonds) ahead of the launch of New Zealand's Green Bonds. UBS, one of New Zealand Debt Management's key intermediaries and one of eight Registered Tender Counterparties, hosted this event.

21. I outlined the Government's priorities, fiscal strategy, New Zealand's economic outlook, and the opportunities for infrastructure investment, all of which were of interest to the group. Attendees were also interested in a number of other areas including in the NZ-UK FTA, measures to counteract the cost-of-living increase, and the current geopolitical situation (this meeting came one day before US Speaker of the House, Nancy Pelosi's Taiwan visit), and its effect on the New Zealand economy.

22. I emphasised the priority New Zealand placed on trade diversification, highlighting the NZ-UK FTA as a key feature of this strategy. Officials from the Treasury and the Ministry of Foreign Affairs and Trade received feedback from UBS which noted that attendees were impressed by the session, appreciating the frank nature of the discussions and wide-ranging discussion on the economic challenges facing New Zealand, and their interest in further engagements.

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Roundtable with fintech businesses hosted by Xero

23. New Zealand Trade and Enterprise (NZTE) and Xero, which currently supplies accounting services to over 850,000 businesses across the UK, hosted a Fintech roundtable with me and New Zealand businesses who use Xero's programme in the UK. Businesses highlighted the many opportunities which exist in the UK market and noted the importance of being on the ground to embed their businesses.

24. Businesses indicated that capital was easier to access in the UK, where investors were comfortable with risk and had larger sums to invest. A major challenge faced by businesses both in New Zealand and the UK is recruitment, particularly developers, as it was hard to compete with 'big name' tech companies.

Media Engagements

25. I conducted a media interview with Attitude Magazine on the side lines of the Fintech roundtable which allowed an opportunity to spotlight New Zealand's Fintech leadership, as well as New Zealand's re-opening to tourists.

26. I also conducted a media interview with CNBC which provided a chance to discuss New Zealand's economic outlook including forecasted growth, unemployment rates, and inwards migration.

Paris

Minister Delegate for Public Accounts Gabriel Attal

27. Minister Attal is a young up and coming member of Macron's party, Renaissance (RE), previously known as La République En Marche! who previously served as the party and the Government's main spokesperson. We discussed shared priorities, including the French Government's focus on easing COVID-related measures, while also having to address the cost-of-living crisis and supply chain constraints.

28. Attal told me that measures taken by the French Government to date include capping gas and electricity prices and a discount on petrol prices. s9(2)(ba)(i) [redacted]

29. We also discussed France's inflation being lower than any other Eurozone country, in part due to a greater reliance on nuclear energy and a wider set of measures to ease energy price pressures. s9(2)(g)(i) [redacted]

30. I underscored the importance of supply chain resilience and welcomed the conclusion of the free trade agreement between the European Union (EU) and New Zealand, (the EU-NZ FTA). Minister Attal agreed, and said the EU-NZ FTA was the EU's most ambitious FTA to date. The French Government had made a very positive assessment of the deal and hoped it would serve as a template for others.

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31. I asked for France's views on prospects for implementation of the OECD Inclusive Framework agreement. Attal caveated that this issue was being more closely followed by Finance Minister Le Maire, s9(2)(ba)(i) [redacted]

Cross-ministerial delegate for the Paris 2024 Olympic and Paralympic Games Michel Cadot

32. I met with the Minister Cross-ministerial delegate for the Paris 2024 Olympic and Paralympic Games, Michel Cadot to discuss France's upcoming hosting of the 2024 Olympics. Cadot told me that the Olympic and Paralympic Games in 2024 bid were a significant priority for the French Government. Their objectives were to deliver the Games on time and to budget, consider social and environmental aspects, ensure a legacy from the hosting, and to capture the passion of the country.

33. s9(2)(ba)(i) [redacted]

34. While the priority was on meeting deadlines and budgets, there were also discussions around wider objectives to ensure a strong legacy for the event. They were adding extra housing to transform a difficult part of Paris, respecting the local community in Tahiti by not building a hotel or bridge in isolated areas, wanting an open stadium to enable more people to attend (including those who could not afford stadium tickets), and linking into schools.

35. Cadot also noted the pressure on France to achieve a strong performance on the medal table, which had declined over time. Their target is to make the top 5 in 2024 (from 8th in 2021) and this will be supported by "Ambition Bleue", the country's new high-performance programme, Cadot acknowledged it will take time to get results, which I agreed to noting the Australian experience following poor performances in the 1970s and early 1980s. It took them about 15 years to see better results.

MEDEF international NZ chapter chair and Transdev CEO Thierry Mallet

36. I met with MEDEF international NZ chapter chair and Transdev CEO, Thierry Mallet. Mallet welcomed the conclusion of the EU-NZ FTA, for which he had personally lobbied the French government. In his view, New Zealand's shared values with the EU, sustainable development ambitions, as well as the impact of COVID-19 and the war in Ukraine, led France to support EU conclusion of the negotiations. I thanked Mallet for his advocacy in favour of the agreement.

37. s9(2)(ba)(i) [redacted]

38. s9(2)(ba)(i) [redacted]

39. [redacted]

40. [redacted]

41. [redacted]

Proactive Release

42. I intend to proactively release this Cabinet paper online within 30 business days of Cabinet making the decisions required by the paper as required by Cabinet Office circular CO(18)4, subject to redactions as appropriate under the Official Information Act 1982.

Recommendations

43. I recommend that Cabinet note this report.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2334

Date: 25 October 2022

To: Minister of Finance (Hon Grant Robertson)

Deadline: 3:30pm Thursday, 27 October 2022

Aide Memoire: Finance Priorities Meeting 27 October – Te Tai Waiora – key messages and findings

On Thursday 27 October you will be meeting with the Treasury Secretary and Chief Economic Advisor, and staff involved in the production of Te Tai Waiora, the Treasury's first Wellbeing Report.

The purpose of this item is to brief you on the key messages and findings from Te Tai Waiora.

The launch of Te Tai Waiora is scheduled for 24 November. We will send you a copy of the Report in the lead up to publication, with a recommendation to forward it to key Ministers who will have an interest in its findings.

Subject to your agreement, we also plan to discuss Te Tai Waiora prior to publication with all political parties represented in Parliament (to support the non-partisan nature of the work).

Attached to this Aide Memoire is a slide pack that contains key insights from Te Tai Waiora.

Chelsey Reid, Analyst, Economic Strategy Directorate, s9(2)(g)(ii)
Chris Nees, Acting Manager, Economic Strategy Team,

TE TAI ŌHANGA
THE TREASURY

Key findings from Te Tai Waiora: Wellbeing in Aotearoa New Zealand 2022

Context: What

In 2020, the Public Finance Act (1989) was amended to require the Treasury to produce a wellbeing report at least once every four years. Using indicators, the wellbeing report must describe:

- **the state of wellbeing in New Zealand**
- **how the state of wellbeing in New Zealand has changed over time, and**
- **the sustainability of, and any risk to, the state of wellbeing in New Zealand**

Te Tai Waiora provides a ‘big picture’ overview of wellbeing in Aotearoa New Zealand, how it has changed over decades, and how well we are positioned to sustain our wellbeing over time.

Context: Why

Economics is about choice. What do we value? How do we choose between competing priorities? How do we balance the needs of different groups? How do we balance the needs of current and future generations?

Te Tai Waiora helps to inform those choices.

Te Tai Waiora provides a lasting evidence base for the Treasury and other organisations to understand the trends, distribution, drivers and sustainability of wellbeing in Aotearoa New Zealand.

Top ten findings from Te Tai Waiora

1

In many ways, New Zealanders' wellbeing is strong and has improved over twenty years (e.g. longer life expectancy, greater safety, cleaner air, higher incomes).

2

Young people tend to face greater challenges than older New Zealanders:

- Young people have lower wellbeing across many facets of life.
- Worsening mental health and educational outcomes could pose future challenges.
- Māori and Pacific people have lower wellbeing in many ways and are a younger group.
- Deteriorating environment, climate change and other risks pose challenges for young people's future.

Top ten findings from Te Tai Waiora

3

We identify three important areas of low or deteriorating wellbeing: **Increasing rates of psychological distress, worsening educational outcomes, high-cost and low-quality housing.**

4

Approximately 5-10% have low wellbeing across many domains at once.

- Low wellbeing is more common among disabled people and sole parent families.
- Low wellbeing as measured by income poverty is often recurrent, particularly for sole parents and the unqualified.

Top ten findings from Te Tai Waiora

5

Children of poor parents are more likely to become poor themselves**. Our education system is less effective at countering early disadvantage than in many comparable OECD countries.**

6

The wellbeing of Māori is improving in many ways, but gaps remain. Particular areas of concern include psychological distress, low trust in government, and discrimination.

Top ten findings from Te Tai Waiora

7

Pacific New Zealanders have strong social connections and a high sense of belonging to New Zealand, but have low wellbeing in many other domains, notably housing and income deprivation.

8

Future New Zealanders will benefit from NZ's increasing stock of physical capital and human capability. High social cohesion bodes well for future wellbeing, although there are threats.

Top ten findings from Te Tai Waiora

9

There is some tentative evidence that we may be approaching biophysical limits which, if breached, would threaten overall wellbeing. **Whether we can sustain wellbeing depends on societal choices, technology and productivity.**

10

New Zealand's risk profile is skewed towards long tail events. Strong and flexible institutions and social cohesion will enable society to respond to these events.

Wellbeing trends are mixed

	WORSENING	STEADY	IMPROVING
Strengths	Life satisfaction	Adult skills	Employment
	Self-reported health	Engagement and voice	Air quality
	Loneliness	Social support	
Weaknesses	Psychological distress	Rental affordability	Safety
	School achievement and attendance	NEET rates	Incomes
		Suicide rates	Riverine E.coli
			Long hours of work

Experiences of wellbeing are different between groups

Māori and Pacific people have high wellbeing in some domains but concerns exist in others

Gender equity is complex with plenty of variation, depending on other characteristics

People with disability tend to experience low wellbeing on a range of measures, including finding it harder to express their identity, and having lower incomes

Older New Zealanders tend to do better than younger Kiwis across many dimensions of wellbeing, including a higher sense of belonging, being less lonely, and having more social support

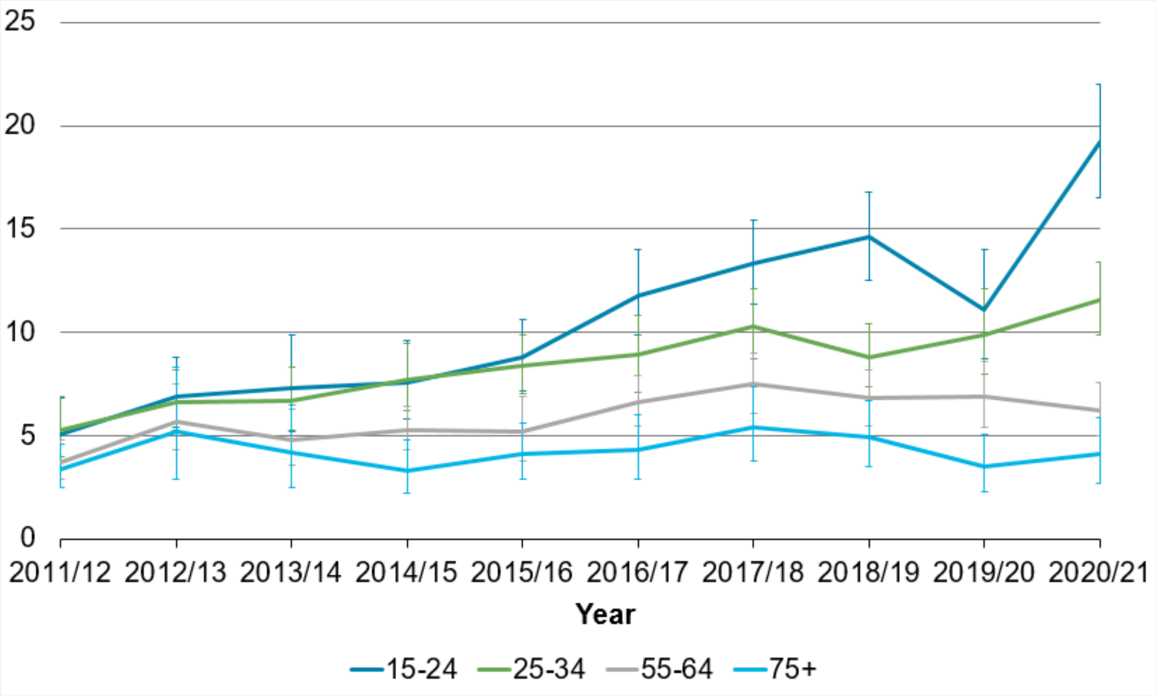
Key insights across three areas of low wellbeing

1. Increasing rates of psychological distress
2. Worsening educational outcomes
3. High-cost, low-quality housing

Increasing rates of psychological distress

Psychological distress by selected age groups

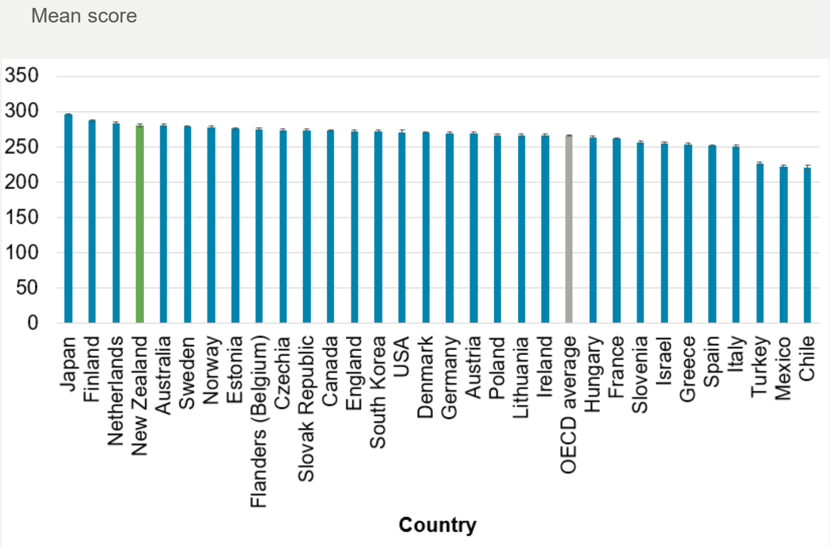
% of New Zealanders experiencing high or very high levels of psychological distress



Source: New Zealand Health Survey (Ministry of Health)

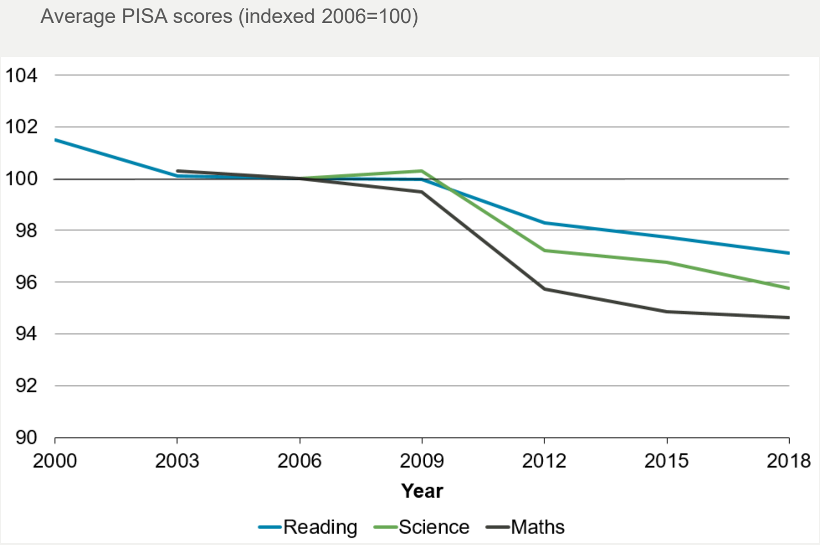
Adult skills are relatively high, but school achievement is declining

Average scores for adult literacy
across OECD, 2018



Source: OECD

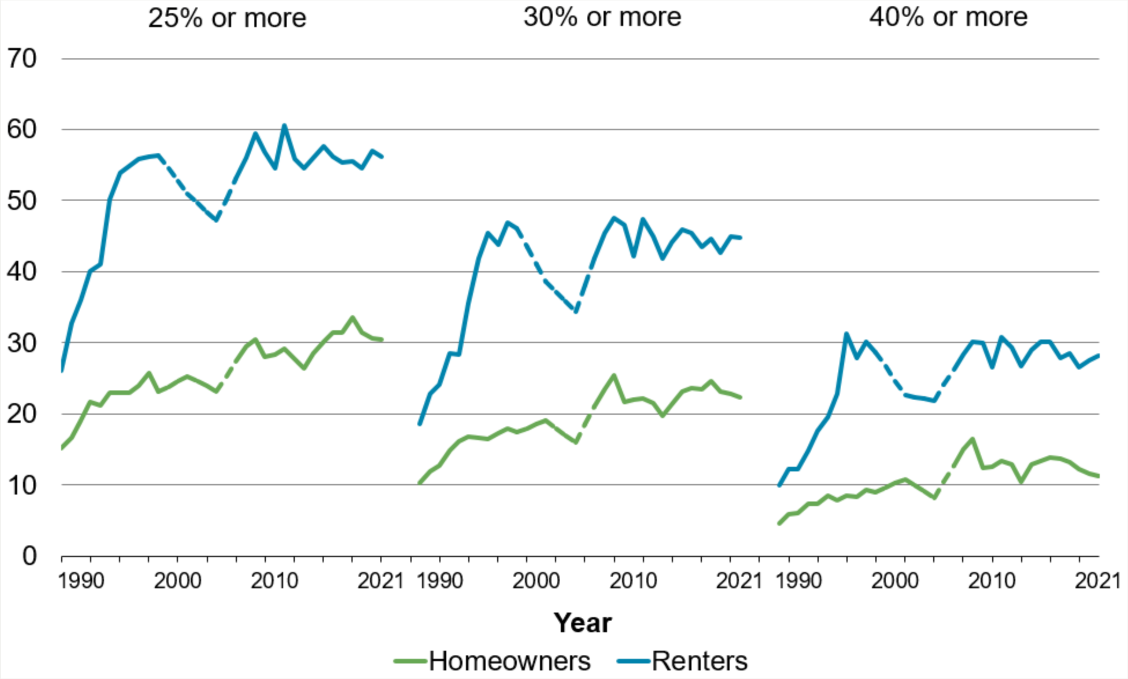
Trends in average PISA
Scores for New Zealand over time



Source: OECD PISA database, StatsNZ

Renters spend a higher share of their income on housing than homeowners

% of households with housing costs above a certain proportion of household income



Source: Stats NZ, Household Economic Survey

Summary and next steps

Te Tai Waiora provides – in one place – a broad perspective on the range of things that matter for wellbeing.

The findings from Te Tai Waiora will inform high-level Treasury advice on economic strategy and investment priorities.

We need to ensure our institutions are thinking broadly, long-term and about distributional impacts, and strengthen the way we collaborate and join up across the system.

Te Tai Waiora points to areas for future research (for Treasury and broader):

- Getting better at learning about ‘what works’, including ex post evaluation.
- Better data; identifying the causal relationship (and interactions) affecting wellbeing.

Background papers

Te Tai Waiora – Background papers

Trends in Wellbeing in Aotearoa New Zealand: 2000-2020
Uses LSF dashboard indicators across the 12 wellbeing domains, explores how wellbeing in each domain is tracking on average over time; how we compare to other OECD countries; initial distributional insights.

New Zealand's Wellbeing: Is it sustainable and what are the risks?
We look at how New Zealand's resources have tracked over time and what this says about the sustainability of our wealth. We focus on some of the major risks to wellbeing, such as climate change.

Wellbeing and Natural Capital: Understanding the sustainability and risks
This paper examines the existing evidence on the sustainability of the contribution of New Zealand's natural environment to the wellbeing of its people.

Estimating the value of New Zealand's Human Capability: 1986-2018
Updating estimates of human capital using the 2018 Census. We extend previous analysis by estimating human capital for Māori and non-Māori.

Wellbeing in New Zealand: A Population Segmentation Analysis
Identifies clusters of the population with shared wellbeing experiences; identifies the LSF domains most strongly correlated with high and low subjective wellbeing.

Pacific People's Wellbeing
This paper explores Pacific worldviews and community structures, and why they matter to Pacific peoples' wellbeing. It provides information about how Pacific people in New Zealand are faring across a range of wellbeing domains.

Trends in Māori Wellbeing
An exploration of current and emerging trends in Māori wellbeing using principles set out in He Ara Waiora. Quantitative evidence draws on indicators from the LSF Dashboard and Indicators Aotearoa New Zealand. The analysis is supported by qualitative evidence in the form of interview quotes from Māori participants and associated commentary.

The distribution of advantage in Aotearoa New Zealand
Evidence brief and overview on distribution, inequality and mobility, including the characteristics and clustering of multiple disadvantage.

Equality, equity, and distributive justice
A survey of the literature, addressing what we mean by concepts such as 'equality' and 'equity', and reasons why economic inequality might be problematic.

Social cohesion in New Zealand
Discusses the evidence base relating to social cohesion in New Zealand, introduces the relevant concepts and reviews cohesion indicators for New Zealand including those used in the Living Standards Framework Dashboard.

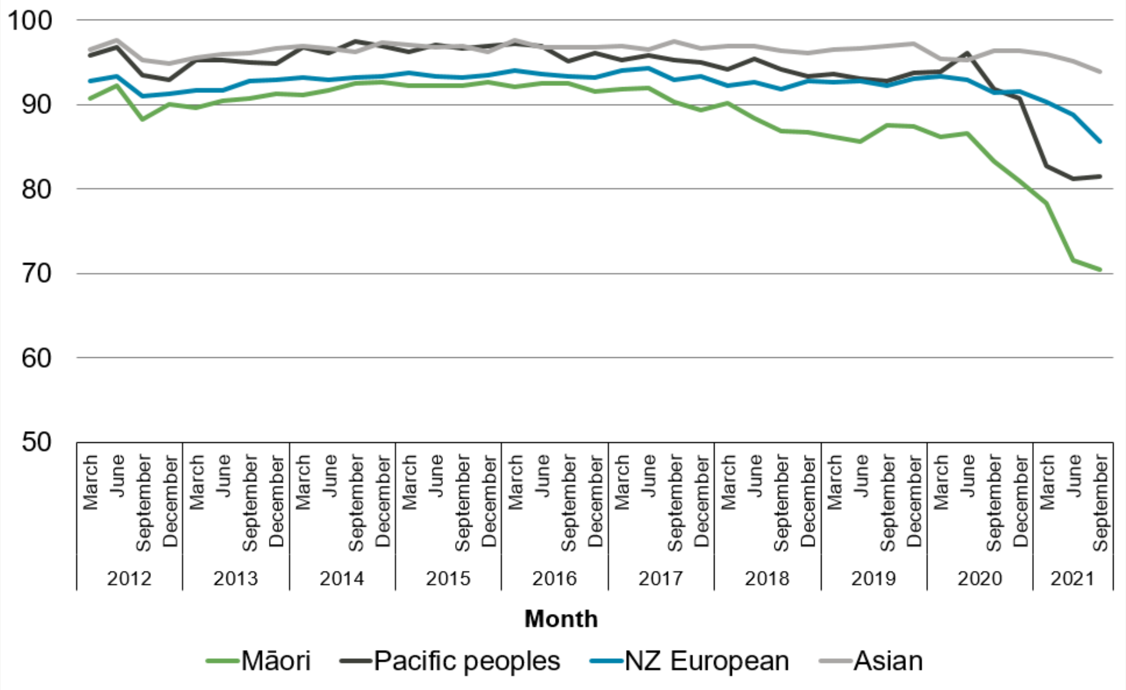
Our wellbeing throughout the COVID-19 pandemic
A review of evidence about changes in New Zealanders' wellbeing from the arrival of COVID-19 in early 2020 through to the first quarter of 2022. This paper uses the LSF as a framework to provide a summary-level view across a wide set of wellbeing indicators.

Wellbeing during the first year of COVID-19: An analysis of the wellbeing supplement to the NZ Household Labour Force Survey
This report, written by the Social Wellbeing Agency, focuses on how wellbeing changed in the immediate, short-term and medium-term over the first year of COVID-19. It tracks outcomes for all New Zealanders, as well as key groups that include parents, especially sole parents; disabled people; younger (18-39) and older (65+) people; Māori; Pacific people; and people living in Auckland.

Our wellbeing throughout COVID-19

Uncertainty around long-term impacts of COVID-19

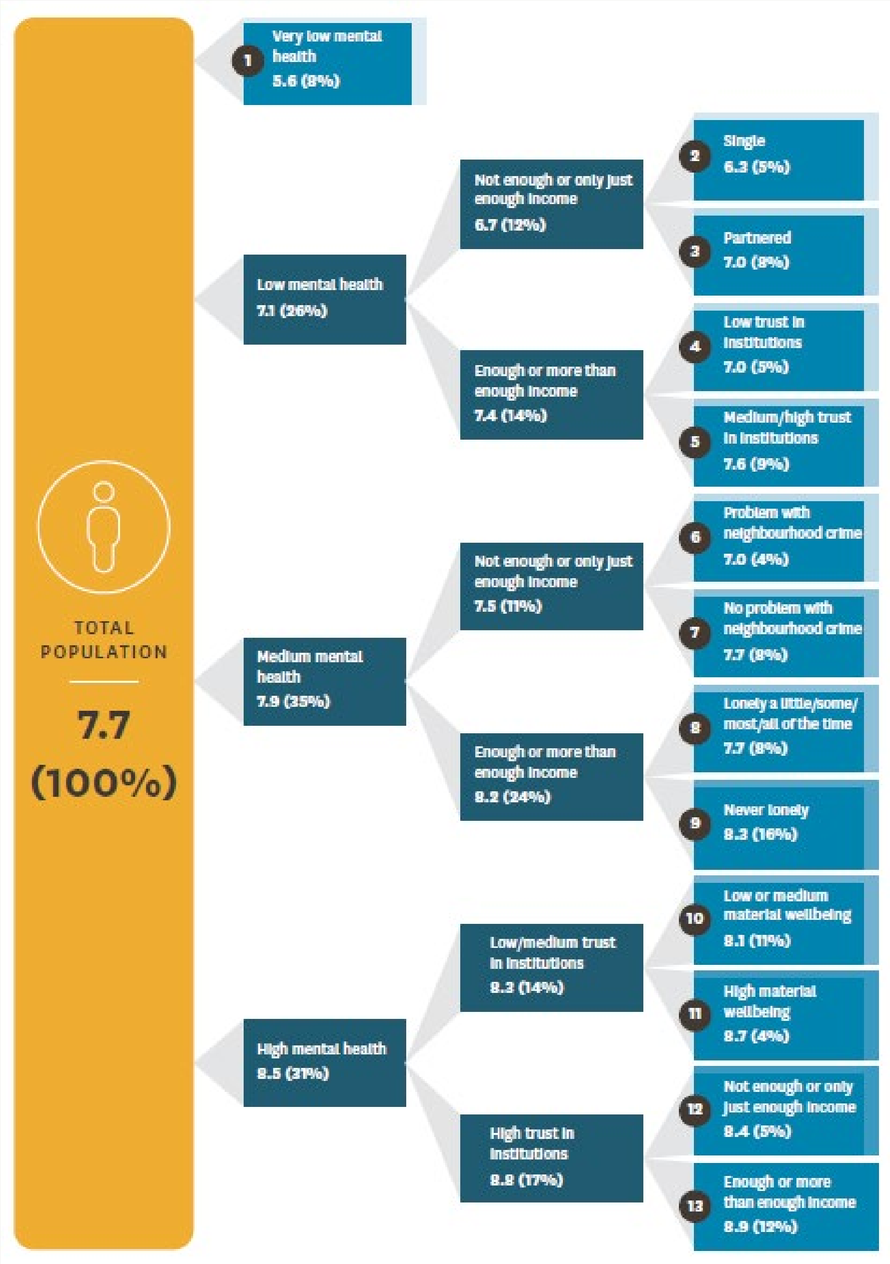
% of children immunised at 24 months of age



Source: Health Quality & Safety Commission

The distribution of wellbeing

Segmentation analysis showing key correlates of subjective wellbeing include mental health and income adequacy

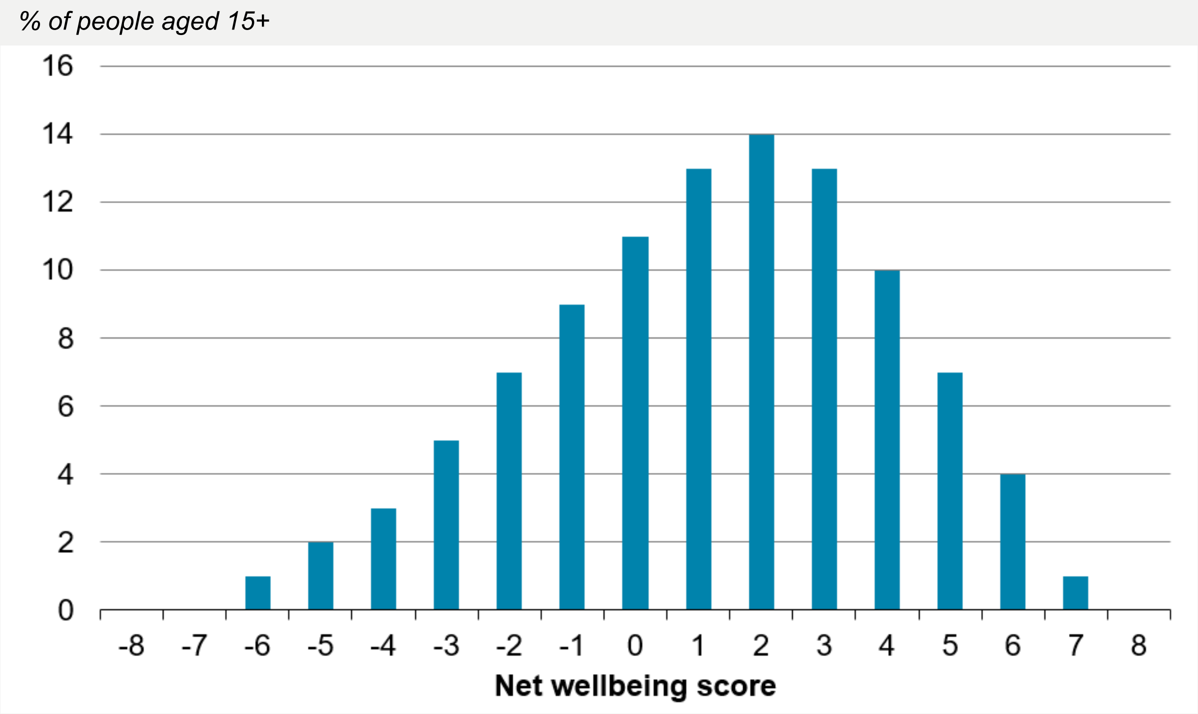


Population groups/segments

Group	Subjective wellbeing	% Pop.	Characteristics
TOTAL (ADULT) POPULATION	7.9 (0-10)	100%	Sex: Females 51%; People with: Disability 8%, No quals 15%, Sole parent 10%, Benefit 9%; Age: 15-34 35%, 65+ 18%; Ethnicity: Asian 15%, Māori 13%, Pacific people 8%
SEGMENT 1 • Very low mental health	5.6	8%	More: Females 60%, Disability 22%, No quals 24%, Benefit 17%; Age and ethnicity: Similar to overall population
SEGMENT 2 • Low mental health • Not enough or only just enough income to meet everyday needs • Single or sole parent	6.3	5%	More: Females 64%, Sole parent 45%, Aged 15-34 44%, Benefit 31%, Māori 28%, Pacific people 13%, Disability 15%, Renting 58%
SEGMENT 13 • High mental health • High trust in institutions • Enough or more than enough income to meet everyday needs	8.9	12%	More: Males 56%, Aged 65+ 28%, Asians 20%

A small group experience disadvantage in many domains

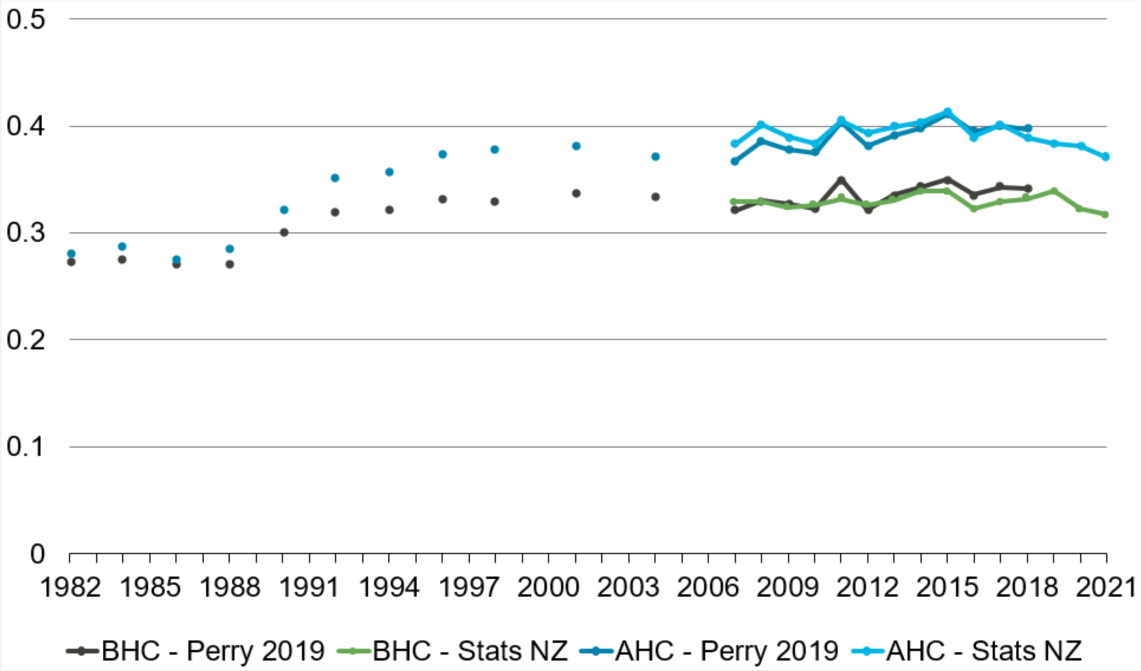
Net wellbeing distribution, combined 2014/2016 data



Source: Stats NZ, General Social Survey (analysed in McLeod, 2018)

Inequality roughly stable since 2000, but inequality is wider after housing costs

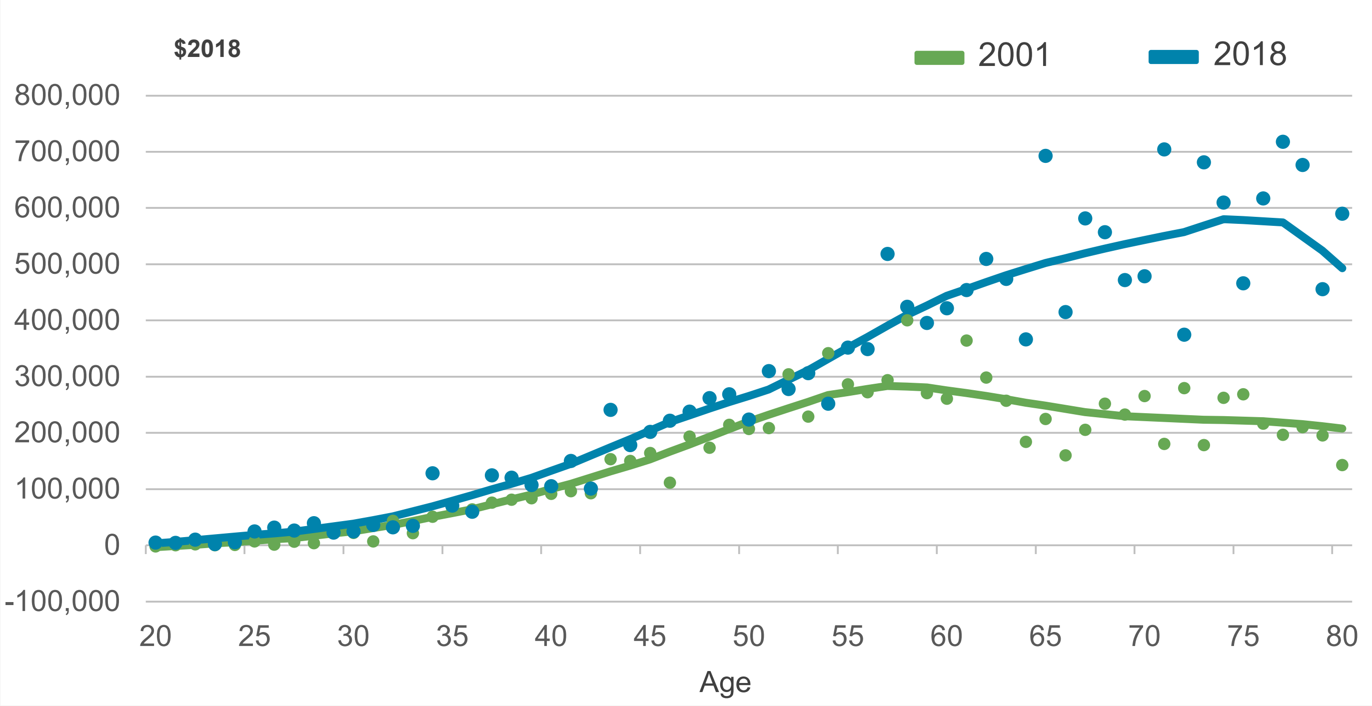
Gini coefficient of equivalised household disposable income



Source: Perry, 2019, Stats NZ, Household Income and Household Costs Statistics

Growing intergenerational wealth inequality

Median wealth by age in 2001 and 2018



Source: Treasury analysis of Household Economic Survey (Stats NZ)

The wellbeing of Māori and Pacific peoples

Trends in Māori wellbeing

An ao Māori worldview emphasises different aspects of wellbeing and their interrelationship, particularly prioritising Te Taiao.

Māori experience high levels of cultural belonging, collective identity, and communal sharing and giving, and the highest level of engagement in cultural activities.

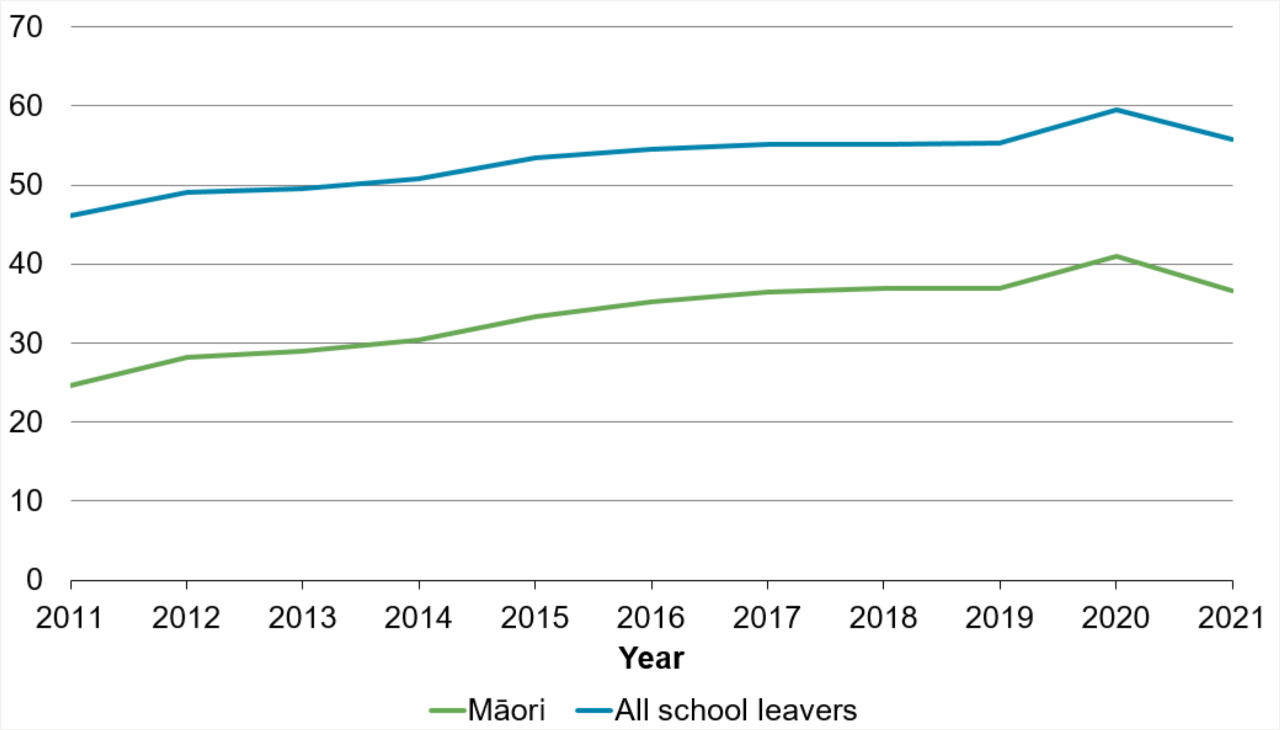
Educational attainment, NEET and skilled employment, and hardship rates are improving, but income, health, and housing outcomes remain challenging.

Māori experience low levels of trust in government, high rates of discrimination, and increasing psychological distress.

Educational achievement of Māori students

Māori and non-Māori achieving NCEA Level 3 or university entrance

% of school leavers



Source: Ministry of Education

The wellbeing of Pacific peoples

Pacific peoples in Aotearoa New Zealand encompass a range of backgrounds and experiences as well as ethnic, spiritual, religious and gender identities.

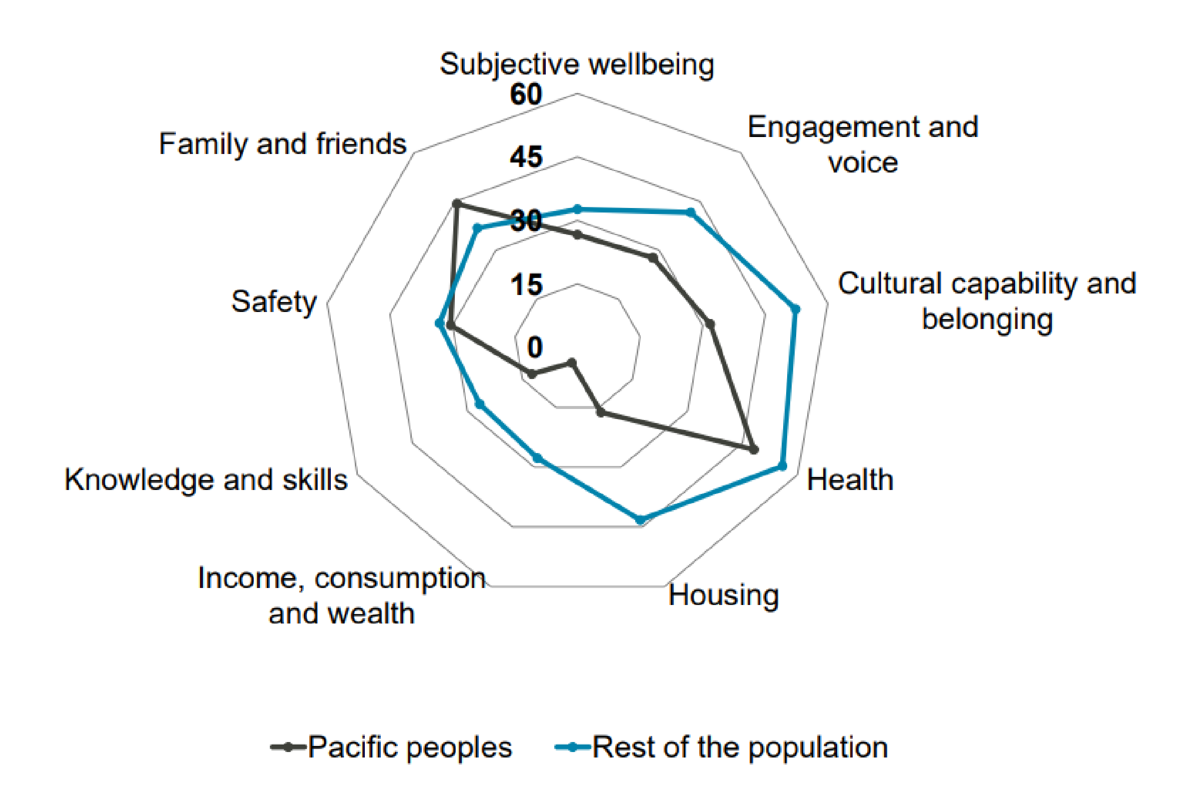
Strong relationships and social connections are a key feature of Pacific peoples' wellbeing.

Housing outcomes and low incomes are two standout issues that remain challenging.

This housing and income deprivation has negatively impacted Pacific peoples' health and education outcomes and aspirations.

Pacific peoples' wellbeing across the LSF domains

% reported high wellbeing

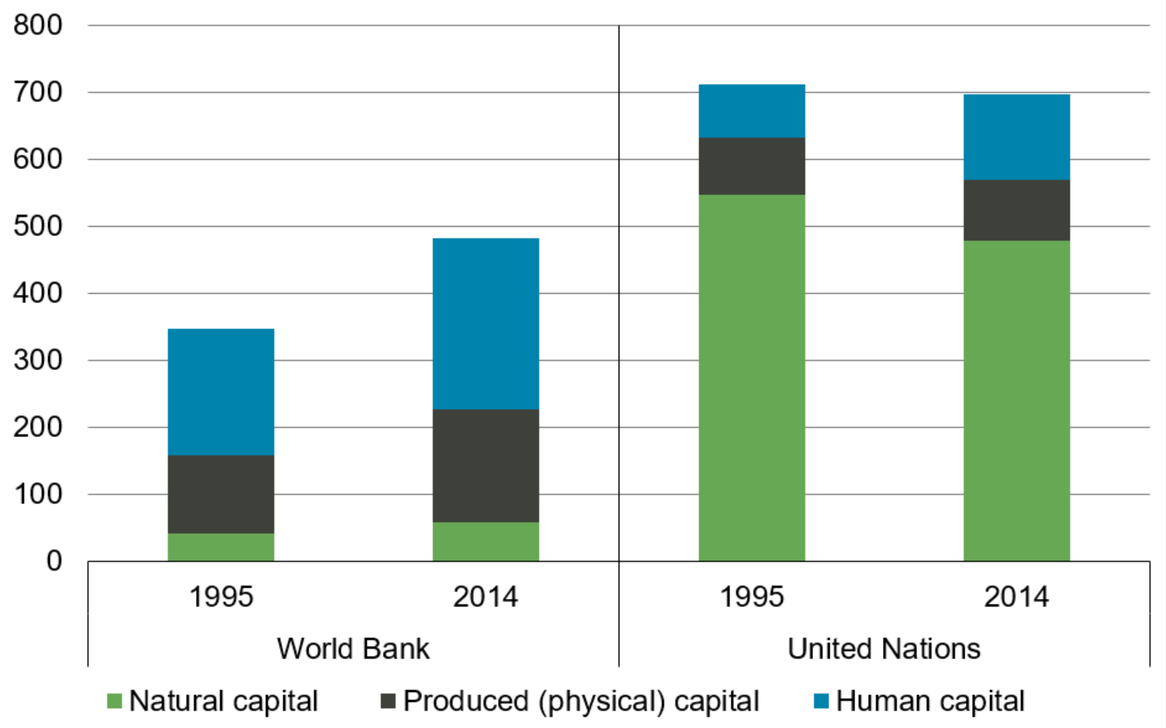


Source: General Social Survey 2018

The future of wellbeing

The two different estimates of Aotearoa New Zealand's wealth show different overall levels and trajectories, but human and physical wealth is growing in both

Estimates of New Zealand's wealth per capita, constant 2018 US$, 000s



Source: United Nations Environment Programme, 2018 (using the Living Standards Framework language for the equivalent capitals); World Bank, 2021 (produced and natural capital), direct communication; Le, 2022

Risks to wellbeing, and resilience factors

- New Zealand faces slow-moving risks to wellbeing – declining (PISA) skill levels, climate change, geopolitical instability
- New Zealand also has a very high proportion of highly unpredictable natural hazards (ring of fire)
- Compared to big countries, New Zealand's small size and risk profile suggests greater emphasis on strong central and community institutions, and access to rapidly repurpose-able resources, as pillars of resilience
- New Zealand's institutions score relatively well

APPOINTMENT-IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Dunedin International Airport Ltd and Hawke's Bay Airport Ltd Shareholders Resolution for Fees Approval

Date:	26 October 2022	**Report No:**	T2022/2113
		File Number:	CM-0-3-28

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Agree** to the recommendations	31 October 2022
Hon Dr David Clark **Minister for State Owned Enterprises**	**Agree** to the recommendations	31 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Simon Wi Rutene	Senior Advisor Governance and Appointments	s9(2)(k)	s9(2)(g)(ii)	✓
Stella Kotrotsos	Manager, Governance and Appointments			

Minister's Office actions (if required)

Return the signed report and Special Resolutions (Annexes II and IV) to the Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Dunedin International Airport Ltd and Hawke's Bay Airport Ltd Shareholders Resolution for Fees Approval

Purpose of Report

1. The purpose of this report is to seek shareholding Ministers' agreement to proposed increases to the Dunedin International Airport Ltd (DIAL) and Hawke's Bay Airport Ltd (HBAL) directors' fees.

Background on Board Fees

2. Crown company fees approvals, for Crown entity companies (named in Schedule 4A or Schedule 5 of the Public Finance Act 1989) and State-owned enterprises (named in Schedule 1 of the State-Owned Enterprises Act 1986) are currently being considered [*T2022/973 and T2022/1730 refers*].

3. DIAL and HBAL board fees are not covered by the Cabinet Fees Framework or the Treasury Fees Methodology. DIAL and HBAL are council-controlled organisations (CCO), and their fees are explicitly covered by a separate regime.

4. Notwithstanding section 161 of the Companies Act 1993 constitutions of DIAL and HBAL, require remuneration to be paid to directors to be approved by special resolution. By convention, only one responsible Minister is required to sign special resolutions approving board fees on behalf of both shareholding Ministers

5. Under section 120 of the Companies Act 1993, the DIAL and HBAL boards must hold an AGM no later than six months after the balance date of the company (before 31 December 2022).

6. The Airport Companies' boards have called the following AGMs:

   - HBAL – 31 October 2022, 10.00am at Hawke's Bay Airport, and
   - DIAL – 8 November 2022, 10.30am at Dunedin International Airport.

DIAL Board Fees

7. In May 2021, Dunedin City Council (DCC) approved an increase to DIAL fees. The increase was part of a Dunedin City Holdings Ltd (DCHL) portfolio-wide review i.e. the 2020 Strategic Pay Review, which was based on external advice commissioned by DCHL (attached as Annex I). Fee increases of the size approved by DCC and proposed by DCHL were considered inappropriate by Treasury at the time, due to the impact of COVID-19.

8. Shareholding Ministers instead agreed to the Treasury's recommendation to a small increase to the base director fee to $23,445, effective 1 October 2018. At the same time, you also agreed to increase the Chair rate to up to twice the base director fee from $33,334 to $46,890. Although the increase agreed to was below comparable private organisations fees less 10% ($25,547), it fell within Treasury's 2019 Strategic Pay Report's recommended ranges.

9. The current agreed base director fee for the DIAL Board is $23,445 per annum. The Chair rate is set to twice the base director fee ($46,890 per annum), effective from 1 October 2019 [*T2021/1531 refers*].

DCHL 2022 Board Fees Proposal

10. DCHL has contacted Treasury, asking shareholding Ministers to consider and support the increase in DIAL director and Chair fees as follows:

    - director fee increase by $5,555 (23.7%) from $23,445 to $29,000 per annum
    - chair fee increase by $5,150 (23.7%) from $46,890 to $58,000 per annum

11. DCHL has based its proposal to increase the fees paid to directors of the DIAL Board on its 2020 Strategic Pay Review (submitted in 2021). DCHL advises that it also considered survey data on the movement in fee levels for CCO in DCHL's portfolio. DCHL note that CCO director fees in their portfolio have increased at a higher rate than DIAL for several years, meaning that DIAL has fallen below the recommended range for CCOs in their portfolio.

2020 Strategic Pay Review Commissioned by DCHL

Table: December 2020 Strategic Pay recommended:

Organisation	Role	Current Fees	Recommended range		Range Midpoint
Dunedin International Airport Ltd	Chair	$46,890	$54,000	$62,000	$58,000
	Director	$23,445	$27,000	$31,000	$29,000

12. The 2020 Strategic Pay Review undertook specific analysis of DIAL comparable market data and advised the apposite fee range for DIAL directors was $27,000-$31,000. An increase in DIAL director fees to $29,000, the mid-point of the range, was subsequently approved by DCC. The DCHL Board was also comfortable, subject to Crown shareholder's agreement, for DIAL director fees to move to $29,000 when pay restraint on director remuneration is eventually lifted.

s9(2)(g)(i)

We recommend increasing DIAL Board fees to $26,100

15. DCHL would like to see alignment of director fees moving to the medium of the range indicated in the 2020 Strategic Pay Review above. An option is to adopt DCHL's proposed increase to the mid-point of the range, $29,000, less 10% public sector discount. This method of calculation yields a director fee of $26,100, which is only $553 more than our expert review determination in 2019, over three years ago.

16. Other factors we consider oblige a case to approve an increase to $26,100 are; DCC's 'prior May 2021' approval to increase the director base fee to $29,000, DIAL's important role in the Otago region's prosperity, and shareholders' expectations of DIAL to contribute to regional prosperity and lead the economic recovery.

17. On the basis of the Treasury's 2019 Strategic Pay Review, we consider a base director fee increase by $2,655 (11.3%) from $23,445 to $26,100 (Chair x 2 and Deputy Chair x 1.25) is a reasonable level and would be well-received by DCHL and directors, as it would show that the Government recognises the gap in fees compared to private sector rates.

18. We recommend that you approve an increase in DIAL's base director fees to $26,100. Should you agree, we provide recommendation (c) below for the Minister of Finance to sign the attached Special Resolution (Annex II).

Hawke's Bay Airport Ltd (HBAL)

HBAL Board Fees

19. HBAL has three shareholders – the Crown, which holds 50% shareholding, Napier City Council, which holds 26%, and Hawke's Bay District Council, which holds 24%. The Board has four members, two of whom are appointed by the Crown and the remaining two by the joint councils.

20. As part of normal board practice, HBAL's intention was to review the payment of directors' fees in 2020 and again in 2021, however due to the impact of COVID-19, increases were not considered appropriate at the time and therefore a review was not progressed. This decision was agreeable to all shareholders.

21. The current fee level has been in place since 2021 when the Board had an increase in fees of 10% (backdated to 1 October 2019) and in 2021/22, each of the directors was paid $23,500, with the Chair receiving $45,000. You previously agreed in-principle to set the Chair rate at twice the base director fee ($47,000 per annum), effective from 1 October 2019 [T2021/1531 refers].

22. A shareholder resolution to give effect to the Chair rate at twice the base director fee was not submitted at HBAL's AGM in 2021, and the Chair has continued to be paid at the lower $45,000 rate, as agreed in 2019 [T2019/2233 refers].

23. The Board of HBAL has called an AGM on 31 October 2022, 10.00am at Hawke's Bay Airport. Notice of HBAL's 2022 AGM agenda contained an item to approve director's fees and Shareholding Ministers agreed [T2022/2078 refers] for HBAL's Annual General Meeting proxy holders to confirm the rate of directors' fees consistent with Ministers' most recent decisions (or consistent with prior decisions made in T2019/2233). As has been the case in previous years, the Treasury will attend HBAL's AGM and, can vote on behalf of shareholding Ministers to action the items on the agenda.

24. If we receive Ministers' decisions prior to HBAL's 2022 AGM, proxy holders will act in accordance with that decision. If we do not receive Ministers' decisions before the AGM, proxy holders will act in accordance with shareholding Ministers' previous agreement in 2019 to directors' fees (T2019/2233 refers).

HBAL 2022 – Chair's Proposed Board Fees

25. On 3 October 2022, HBAL Chair, Wendie Harvey, wrote to the Treasury seeking shareholder approval to increase the total approved fee pool for the HBAL Board from $120,500 to $145,868 (an increase of 21%) as follows (attached as Annex III):

- director fee increase by $7,406 (31.5%) from $23,500 to $30,906 per annum
- Chair fee increase by $5,150 (12%) from $43,000 to $48,150
- audit and risk Chair (no change) $5,000.

26. HBAL has based its proposal to increase the fees paid to directors of the HBAL Board on a Strategic Pay Report released in September 2021. HBAL advises that it also considered survey data on the movement in fee levels for CCO (council-controlled organisations) nationwide.

27. Ms Harvey informs the Treasury that the proposed increases have been discussed with both Napier City Council and Hawke's Bay District Council, and both councils have agreed to Ms Harvey's proposal in-principle.

s9(2)(g)(i)

We recommend increasing HBAL base director fees to $26,100

29. We consider there is a reasonable case to support a smaller increase in the total fee pool, on a similar basis to the alternative option proposed above for DIAL.

30. In October 2021, the Chair of HBAL wrote to Treasury, informing Treasury she would like to see alignment of director fees aligning with the lower quartile ($27,000) of the range for CCO indicated in a Strategic Pay Report released in September 2021.

Table: September 2021 Strategic Pay recommended:

Organisation	**Role**	**Current Fees**	**Recommended range**		
			LQ	**Median**	**UQ**
CCO Hawke's Bay Airport Ltd	Chair	$45,000	$38,046	$55,000	$70,250
	Director	$23,500	$27,000	$36,000	$45,000

32. An increase from $23,500 to $26,100 (11%) more closely aligns with the lower quartile ($27,000) of the range for CCO sought by HBAL in 2021 (less 10% public sector discount).

33. The Treasury considers increasing HBAL base director fees to $26,100 would be well-received by council shareholders and directors, as it would show that the Government recognises the gap in fees compared to private sector rates. The Treasury considers that the increase is reasonable and maintains relativity with directors of other provincial airports, particularly DIAL.

34. The Treasury recommends that you approve an increase in HBAL's base director fees to $26,100, subject to the approval being endorsed by both councils. Should you agree, we provide recommendations (recommendations d and e) below for the appointed proxies of HBAL's 2022 Annual General Meeting to vote in accordance with that decision, and for shareholding Ministers to sign the attached Special Resolution (Annex IV).

35. If we do not receive Ministers' decisions before the AGM, proxy holders will act in accordance with shareholding Ministers' previous agreement in 2019 to directors' fees (T2019/2233 refers). The Treasury can circulate the written Special Resolution (Annex IV) as a resolution in lieu of meeting.

Financial Implications

36. If the recommendations to increase the board fees of both DIAL and HBAL are approved, there will be no financial implications for the Crown as shareholder.

Consultation

37. Fees for the boards of Crown-owned entities are not governed by the Cabinet Fees Framework and therefore there is no requirement to consult with the Public Service Commission.

Next Steps

38. If shareholding Ministers agree to the proposed fee increases for DIAL and or HBAL, the Minister of Finance is asked to sign the Shareholder Resolutions (Annexes II and IV) by 31 October 2022 to give effect to those decisions.

39. Once the Special Resolutions (Annexes II and IV) are signed, the Treasury will circulate these to the other shareholders of DIAL and HBAL. Once all relevant shareholders agree to and sign the Special Resolutions, these will be sent to the respective airport companies to give effect to the increase in board fees.

Attachments

40. Attached to this report are:

- Annex I: DIAL 2020 Strategic Pay Review
- Annex II: DIAL Shareholder Resolution (DIAL fee increase)
- Annex: III: HBAL Chair letter regarding review of HBAL director fees
- Annex IV: HBAL Shareholder Resolution (HBAL fee increase)

Recommended Action

We recommend that you:

DIAL Ltd Board Fees Increase

a. **agree** to increase the total annual fees pool of DIAL to $137,000 (rounded), bringing the allocation for each director to $26,100, $32,625 for the Deputy Chair, and $52,200 for the Chair

Hon Grant Robertson
Minister of Finance

Agree/disagree.

Hon Dr David Clark
Minister for State Owned Enterprises

Agree/disagree.

b. **agree** that the Minister of Finance signs the attached Special Resolution (Annex II) approving director fees

Hon Dr David Clark
Minister for State Owned Enterprises

Agree/disagree.

c. **sign** the attached Shareholder Resolution (Annex II) if you agree to recommendation (a)

Hon Grant Robertson
Minister of Finance
Agree/disagree.

Hawke's Bay Airport Ltd (HBAL) Board Fees Increase

d. **agree** to increase the total annual fees pool of HBAL to $135,500 (rounded), bringing the allocation for each director to $26,100, $52,200 for the Chair, and $5,000 to the Chair of the audit and risk committee, subject to approval of the other two HBAL shareholders

Hon Grant Robertson
Minister of Finance

Agree/disagree.

Hon Dr David Clark
Minister for State Owned Enterprises

Agree/disagree.

e. **agree** for the appointed proxies of HBAL's 2022 Annual General Meeting to vote in favour of the proposed fee increase in line with recommendation (d) if you agree to recommendation (d)

Hon Grant Robertson
Minister of Finance

Agree/disagree.

Hon Dr David Clark
Minister for State Owned Enterprises

Agree/disagree.

f. **agree** that the Minister of Finance signs the attached Special Resolution (Annex IV) approving director fees

Hon Dr David Clark
Minister for State Owned Enterprises

Agree/disagree.

g. **sign** the attached Shareholder Resolution (Annex IV) if you agree to recommendation (d)

Hon Grant Robertson
Minister of Finance

Agree/disagree.

Stella Kotrotsos
Manager, Governance & Appointments

Hon Grant Robertson **Minister of Finance**	Hon Dr David Clark **Minister for State Owned Enterprises**
_____/_____/_______	_____/_____/_______

DUNEDIN INTERNATIONAL AIRPORT LIMITED

SPECIAL RESOLUTION APPROVING DIRECTORS FEES EFFECTIVE 1 OCTOBER 2022

The Shareholders of Dunedin International Airport Limited resolved as a special resolution in writing in accordance with section 122 of the Companies Act 1993:

To set the base director rate at $26,100 per annum, chair rate at 2 x base director rate per annum ($52,2000), and deputy chair rate at 1.25 x base director rate ($32,625) per annum, effective from 1 October 2022. The level of fees is now $135,500 per annum, split as follows:

Director	$26,100
Chair	$52,200
Deputy Chair	$5,000

His Majesty the King in right of New Zealand,
acting by and through the Minister of Finance
on behalf of Shareholding Ministers

Hon Grant Robertson
Minister of Finance

Keith Cooper
Chair Dunedin City Holdings Ltd

SIGNED:

_____/_____/_______

_____/_____/_______

HAWKE'S BAY AIRPORT LIMITED

SPECIAL RESOLUTION APPROVING DIRECTORS FEES EFFECTIVE 1 OCTOBER 2022

The Shareholders of Hawke's Bay International Airport Limited resolved as a special resolution in writing in accordance with section 122 of the Companies Act 1993:

To set the base director rate at $26,100 per annum, chair rate at 2 x base director rate per annum ($52,2000), and chair audit and risk rate at $5,000 per annum, effective from 1 October 2022. The level of fees is now $135,500 per annum, split as follows:

Director	$26,100
Chair	$52,200
Chair (A&R)	$5,000

Hon Grant Robertson
Minister of Finance

SIGNED:

_____/_____/_______

Napier City Council

SIGNED:

_____/_____/_______

Hawke's Bay District Council

SIGNED:

_____/_____/_______

s9(2)(b)(ii)

s9(2)(b)(ii) and 9(2)(j)

s9(2)(b)(ii) and 9(2)(j)

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet Business Committee 31 October 2022

Date:	28 October 2022	**Report No:**	T2022/2360
		File Number:	CO-6-2-3-5

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	10:15 am Monday 31 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ash Ratnayake	Team Coordinator and support, Governance and Accountability	s9(2)(k)	N/A (mob)	
Rose Austen	Team Leader, Governance and Accountability		N/A (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Cabinet Business Committee 31 October 2022

The Treasury is aware of two substantive items on the Cabinet Business Committee agenda for 31 October 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury has **no comments** on the following paper on the agenda:

- New Zealand Income Insurance: Decisions on Outstanding Policy Questions

Natural and Built Environment Bill and Spatial Planning Bill: Approval for Introduction

Hon David Parker, Minister for the Environment

Treasury contact: Caitlin Daugherty-Kelly s9(2)(k)

Sign out contact: Geraldine Treacher s9(2)(k)

Description: This paper seeks Cabinet Business Committee's agreement to introduce the Spatial Planning (SPA) Bill and Natural Environment (NBA) Bill to the house.

Comments: The Treasury has not received an updated copy of this paper following Ministerial consultation.

Through the Ministerial consultation process we jointly produced a briefing with Te Waihanga, which included the following recommendations:

We recommend the Minister of Finance ask Minister Parker:

- How the NBA will reflect the objective of avoiding inflated urban land costs, specifically through ensuring flexible land supply,
- What direction Select Committee will receive to review the Section 6 alternative mechanism put forward by the Panel.

Te Waihanga additionally recommend the Minister of Finance asks Minister Parker:

- If the Select Committee can also be directed to consider how the NBA can better achieve the intention that less detailed information is required to support resource consent applications and notices of requirement for designations.

Treasury Recommendation: Support noting that work remains outstanding to ensure the Reform's Enabling Development objective is achieved.

Fiscal Implications: NA

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 10:15 am on Monday, 31 October 2022.

Rose Austen
Team Leader, Governance and Accountability

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

BUDGET-SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Half Year Economic and Fiscal Update 2022 - Key Judgements and Assumptions

Date:	Thursday 27 October	**Report No:**	T2022/2242
		File Number:	BM-1-2-3-2022-2

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the recommendations in this report **Note** we have requested some time at the Weekly Agency Meeting on Monday 31 October to discuss this report	Monday 31 October

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Hannah Singleton	Senior Government Reporting Accountant, Fiscal Reporting	s9(2)(k)	N/A (mob)	✓
Kamlesh Patel	Deputy Chief Government Accountant, Fiscal Reporting		N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Half Year Economic and Fiscal Update 2022 - Key Judgements and Assumptions

Executive Summary

The Treasury are currently in the process of preparing our preliminary fiscal forecasts for the 2022 Half Year Economic and Fiscal Update. These forecasts are due to be completed on Thursday 3 November 2022 and will help inform decisions around Budget allowances and the Climate Emergency Response Fund (CERF) to be signalled in the 2023 Budget Policy Statements (BPS).

You have recently received our advice on the Fiscal Strategy for the 2023 BPS [T2022/2030], that recommended increasing the Budget allowances and CERF. The fiscal numbers used in that report suggested that even after these increases the Government would still be able to achieve an operating balance before gains and losses (OBEGAL) surplus in the 2024/25 year.

However, the timing of our fiscal strategy advice meant that any fiscal implications from our key judgements and assumptions used in preparing our preliminary fiscal forecasts was not considered for the fiscal scenarios included in that advice.

This report provides you an update on where we are landing on some of our key judgements for our preliminary fiscal forecasts ahead of the scheduled Budget Ministers meeting on Monday 31 October. In addition, it highlights some potential communication challenges that may emerge with the HYEFU fiscal forecasts.

Overall, in the current and next year we expect that the impact of our key judgements will positively impact on fiscal indicators but will have an adverse impact over the remaining years of the forecast period. Our judgements around our estimate for pay equity settlements and top-down adjustments are the key drivers of this trend.

s9(2)(j)

[redacted]

We are assuming a significant operating and capital top-down adjustment for the current year, around $6 billion and $3 billion respectively. This is based on the larger than normal increase in expenses expected this year and the capacity constraints from the current economic conditions (e.g. supply chains and the labour market).

Our preliminary fiscal forecasts will include a number of assumptions that remain unchanged since the *2022 Budget Update,* such as Budget allowances and funding in the CERF. However, we aware there are potential decisions in the near-term which could impact on these assumptions and therefore may need to be updated for our final fiscal forecasts.

s9(2)(g)(i) [redacted]

We will work to ensure the key messages from these assumptions are clearly articulated in our Fiscal Outlook chapter and we plan to engage with your Office on our disclosures.

As well as our central assumptions discussed in this report, there will also be other factors that will influence our preliminary fiscal forecasts (e.g. the impact of a higher interest rate track on finance costs). We are currently working through these factors and are aiming to be in a position to share an early indication of the preliminary fiscal forecasts with you at the Weekly Agency meeting schedule on Monday 31 October 2022, ahead of the Budget Ministers meeting.

Recommended Action

We recommend that you:

a **note** that the Treasury's preliminary fiscal forecast for the 2022 Half Year Economic and Fiscal Update (HYEFU) are due to be finalised on Thursday 3 November and will reflect all Government decisions and potential decisions up to and including Monday 31 October;

b **note** that you will be receiving a Treasury Report on the preliminary fiscal forecasts on Thursday 10 November;

c **note** that we have request sometime at the Weekly Agency Meeting on Monday 31 October to discuss this report and provide you an early indication on some key indicators from our preliminary forecasts;

d s9(2)(j) [redacted]

e **note** that the top-down adjustment is likely to significantly increase compared to the *2022 Budget Update*, the specific dollar values included in the HYEFU preliminary fiscal forecasts will be included in the report that we will provide to you on Thursday 10 November;

f **note** the central assumptions around Budget allowances and the Climate Emergency Response Fund (CERF) are unchanged since the *2022 Budget Update*, if decisions are made to change allowance settings or top-up the CERF prior to our forecast finalisation date this will be reflected in our final fiscal forecasts;

g **note** that cash proceeds from the Emissions Trading Scheme have been forecast based on current legislated auction volumes and the 30 September 2022 market price of $78.00 per NZU;

s9(2)(g)(i)

i **note** that will work to ensure the assumptions outlined in recommendation (h) are clearly articulated in our Fiscal Outlook chapter and we plan to engage with your Office on our disclosures;

j **note** that with some of the assumptions outlined in recommendation (h) you may want to consider including some messaging in the 2023 Budget Policy Statement.

Kamlesh Patel
Deputy Chief Government Accountant

Hon Grant Robertson
Minister of Finance

Purpose of Report

1. The Treasury has begun preparation of the fiscal forecasts for inclusion in the 2022 Half Year Economic and Fiscal Update (HYEFU). The preliminary fiscal forecasts are due to be completed on Thursday 3 November 2022 and you will receive a report outlining our view of the Government's fiscal outlook on Thursday 10 November 2022.

2. These forecasts will be based on a number of key judgements using our best professional judgement. This report outlines where we are landing on some of these key judgements for our HYEFU preliminary fiscal forecasts and highlights some potential communication challenges with the HYEFU fiscal forecasts.

3. We have requested sometime at the Weekly Agency Meeting on Monday 31 October 2022 to discuss the context of this report and provide you with an early signal of the outlook for some key fiscal indicators ahead of the Budget Ministers meeting scheduled on that date.

Background and context

4. The Treasury's fiscal forecasts represent our best estimate of the Government's finances for the current year and next four years, based on the information we have available and our best professional judgement.

5. The fiscal forecasts are prepared based on information provided by Government reporting entities, along with some central assumptions. In some cases, we may need to use a greater level of judgement due to the uncertain nature of some matters in determining our central assumptions.

6. For the HYEFU preliminary fiscal forecasts, agencies whose forecasts are underpinned by key economic indicators have used the preliminary economic forecasts that were finalised on Tuesday 4 October 2022.

7. You have recently received a Treasury Report on the Fiscal Strategy for the Budget Policy Statement 2023 [T2022/2030], that included the implications of the preliminary economic forecasts on the forecasts for tax revenue and benefit expenses administered by the Ministry of Social Development only. The fiscal indictors communicated in that report will not fully reflect any fiscal implications from the assumptions outlined in this report.

8. This report outlines the key assumptions that are likely to impact on the preliminary fiscal forecasts. We are providing this to you for your consideration ahead of the Budget Ministers meeting on Monday 31 October 2022 and the completion of our preliminary fiscal forecasts on Thursday 3 November. The assumptions discussed in this report have been grouped as follows:

   - **Assumptions with significant fiscal implications** on the preliminary fiscal forecasts;
   - **Assumptions with minimal fiscal implications** on the preliminary fiscal forecasts; but are subject to decisions in the near future which could potential have significant fiscal implications; and
   - **Assumptions with presentational implications** that are likely cause some communication challenges.

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s9(2)(j)

s9(2)(j)

[redacted]

Top-down Adjustment

18. The top-down adjustment reduces overall forecast expenditure (both operating and capital) to reflect the extent departments use appropriations (which are upper limits), rather than best estimates, when preparing their forecasts.

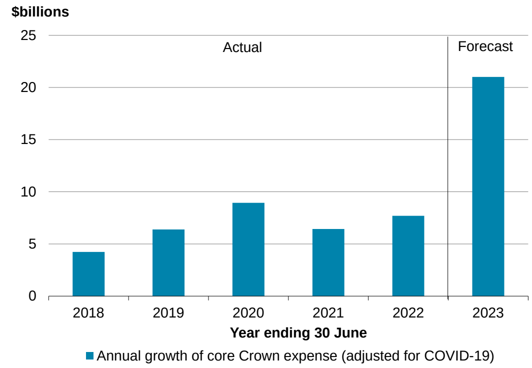
19. The level of the top-down adjustment is dependent on the quality of the forecasts provided by departments and the overall spending profile of the Crown. In general, the top-down adjustment in the current year is much higher than the other years in the forecast period to compensate for unused expenses being pushed in from previous years.

20. To inform the top-down adjustment we look at factors like historical trends in the forecasting accuracy of departments, the level of expense transfers, the forecast profile of expenditure and economic conditions.

BUDGET-SENSITIVE

21. Our initial analysis of the above-mentioned factors, suggest an overall increase in the top-down adjustment compared to the *2022 Budget Update,* particularly for the 2022/23 year. At this stage we think the operating top-down adjustment for the 2022/23 year could be around **$6 billion** ($2 billion at the *2022 Budget Update*), while the capital top-down adjustment could be around **$3 billion** ($1 billion at the *2022 Budget Update*). More modest increases are expected in the other years of the forecast period.

Figure 1 – Increases in core Crown expenses (excluding COVID-19 spending)



Source: The Treasury

22. The key factors that are contributing to the significant increase in the operating top-down adjustment for the 2022/23 year include:

- a larger than normal increase in core Crown expenses is expected in the 2022/23 year. Figure 1 above illustrates the expected increase in core Crown expenses without a top-down adjustment (excluding significant COVID-19 transfer payments). The 2023 forecast in Figure 1 is based on BEFU 2022 forecasts for 2022/23 adjusted for operating expense transfers. The increase primarily reflects the impact of Budget 2022 funding decisions which were close to $10 billion (refer Table 2), coupled with around $4.5 billion of expenses transferring into the current year (refer Figure 2);

Figure 2 – Indicative operating expense transfers

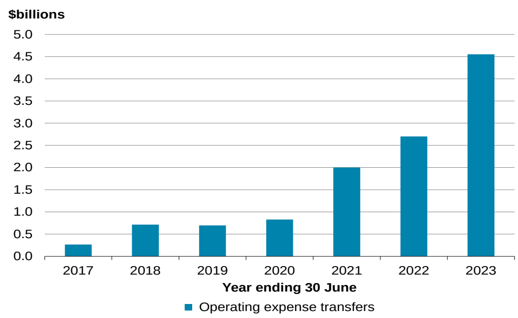


Table 2 – Impact of Budget 2022 decisions

	2022/23 Forecast $m
Core Budget 2022 operating package	6,493
Climate change new operating spending	625
COVID-19 spending	1,338
Cost of living support	1,046
Other spending	142
Total	**9,644**

- the significant level of underspends reported by agencies in the results to 30 June 2022 (core Crown expenses were around $7 billion lower than expected at the Budget Update when excluding the top-down adjustment); and

- the capacity constraints present in the current economic environment (e.g. supply chain constraints and labour market shortages) and the impact this is likely to have on the implementation of programmes and the capacity of agencies to spend the level of expenses forecast for the 2022/23 year.

23. There are few specific areas of expenditure that will make up a large part of the operating top-down adjustment. These include:

- We believe that the forecast for health expenditure relating to COVID-19 spending will not be fully required this year.

- Both the Ministry of Housing and Urban Development and Ministry of Business, Innovation and Employment had significant underspends last year and we expect this trend to continue in the current year.

- Our preliminary fiscal forecasts include tagged contingencies of nearly $4 billion in the 2022/23 year (refer to table 3 below). With a third of the fiscal year now completed we expected that less than half of these will be drawn down and spent in current year.

Table 3 – Operating tagged contingencies

	2022/23 Forecast $m	2023/24 Forecast $m	2024/25 Forecast $m	2025/26 Forecast $m	2026/27 Forecast $m
Budget 2020 and pre-Budget 2020 contingencies	358	232	206	213	222
Budget 2021 contingencies	175	228	110	111	144
Budget 2022 contingencies	635	804	752	832	683
Budget 2023 contingency (pre-commitment)	15	286	511	11	3
Climate Emergency Response Fund (CERF) contingencies	11	29	277	336	49
COVID-19 Response and Recovery Fund (CRRF) contingencies	1,546	70	20	20	20
Other contingencies (incl. sensitive)	1,037	1,245	1,307	1,311	1,298
Total	**3,776**	**2,895**	**3,183**	**2,833**	**2,420**

24. From our analysis to date, Table 4 outlines our current view on a top-down adjustment for inclusion in the preliminary fiscal forecasts for HYEFU. We are still working through our analysis, so the table below reflects an indicative profile and is subject to change based on further review.

Table 4 – Operating and Capital top-down adjustment

HYEFU 22 - prelim forecasts

$millions	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Operating	5,900	1,900	1,300	1,400	1,000
Capital	2,850	1,450	500	325	225
Total	**8,750**	**3,350**	**1,800**	**1,725**	**1,225**

BEFU 22 - final forecasts

$millions	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Operating	2,000	1,175	1,075	925
Capital	1,060	1,210	460	210
Total	**3,060**	**2,385**	**1,535**	**1,135**
Change in operating top-down	3,900	725	225	475
Change in capital top-down	1,790	240	40	115

25. The specific dollar values included in the HYEFU preliminary fiscal forecasts will be included in the report that we will provide to you on Thursday 10 November. It is likely the size of the top-down adjustments may attract some attention around the Government’s ability to deliver on their spending intentions.

Assumptions with Minimal Fiscal Implications

Budget allowances

26. The preliminary fiscal forecasts will include operating allowances of $4.5 billion for Budget 2023 and $3.0 billion for Budget 2024 and Budget 2025. This is consistent with the amounts signalled by the Government at the *Budget Update*. We are assuming that Budget 2026 will also be $3.0 billion, which was the amount assumed for the medium-term fiscal projections at Budget 2022.

27. The balances above will be lower in the preliminary fiscal forecasts to reflect any pre-commitments. At this time on average around $2.7 billion of the Budget 2023 operating allowance has been pre-committed, leaving $1.8 billion remaining for future decisions. While $2.6 billion of the Budget 2024 operating allowances remains available.

28. At Budget 2022, $5.1 billion of the multi-year capital allowance (MYCA) was available to fund capital investments for Budget 2023 through to Budget 2025. Since Budget 2022, a further $2.2 billion has been allocate leaving $2.9 billion in the MYCA in the preliminary fiscal forecasts.

29. Our recent fiscal strategy advice [T2022/2030] has recommended that allowances communicated in the 2023 Budget Policy Statement are increased to the following: $5.0 billion average operating per annum for Budget 2023, $4.0 billion for Budget 2024, and $3.5 billion for each of Budgets 2025 and 2026. We are recommending a top-up to the MYCA of $9.1 billion, which would bring this to a total of $12.0 billion for allocation across Budgets 2023 to 2026.

30. If Budget Ministers agree to any changes in allowance settings prior to our forecast finalisation date (25 November 2022) this will be reflected in our final fiscal forecasts to be published in the HYEFU.

The Emissions Trading Scheme (ETS) forecast assumptions

31. The preliminary fiscal forecasts will include cash proceeds from the selling of NZUs through the Emissions Trading Scheme. The auction volumes assumed within the forecasts are based on the current legislated ETS auction volumes, which is unchanged from the Budget Update.

32. The current legislation outlines the auction volumes up to the 2026 calendar year however the HYEFU forecast period goes out to 2026/27, which means the final six months of the forecast period are not covered by the current legislation.

33. For the preliminary fiscal forecasts, we have assumed that the legislated auction volumes for 2026 will roll out to 2027. This allows for the final year of the HYEFU preliminary fiscal forecast to reflect a more realistic cash profile based on current Government policy. Table 5 below shows the expected level of ETS proceeds for the preliminary fiscal forecasts and the change to the *2022 Budget Update*:

Table 5 – ETS cash proceeds

HYEFU 22 - prelim forecasts

$millions	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**5-year Total**
ETS cash proceeds	1,720	1,427	1,346	1,229	1,170	**6,892**

BEFU 22 - final forecasts

$millions	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**4-year Total**
ETS cash proceeds	1,438	1,389	1,309	1,195	-	**5,331**
Change	282	38	37	34	1,170	

34. Over the forecast period, ETS cash proceeds have increased by around $1.6 billion since the *2022 Budget Update*. This is primarily due to the roll out of 2026/27 into the forecast period ($1.2 billion) and also increases in the price of NZUs ($0.2 billion).

35. We are aware that a decision may be made in November 2022 on the level of future auction volumes. If the decision results in a change to auction volumes, this may impact the level of cash proceeds forecast from the ETS going forward. Depending on the timing of any decisions in November 2022 or knowledge of the likely decision, these may be incorporated into the final fiscal forecasts.

36. In addition to auction volumes, the fiscal forecasts also apply assumptions around the price of the NZ units (NZUs) being transacted through the ETS. The fiscal forecasts use the current market price as at the base month (which is 30 September 2022 for the preliminary fiscal forecasts) and this price is assumed to hold constant across the forecast period. The 30 September price was $78.00 compared to $75.90 at the *2022 Budget Update*.

37. We have explored whether alternative price assumptions could be used in the fiscal forecasts, such as using the mid-point or high point of the price path between the NZ ETS price control settings (the current price control settings or those the Climate Change Commission recommended). Due to decision timing, uncertainty over those decisions, price assumptions cannot use the price control settings that will actually be in place over the period. In our view that creates a fundamental problem with using any of the price path assumptions based on price controls.

38. As our forecasts are based on current policies and we use fiscal risk reporting to be transparent about the effects of policy under consideration, such an approach would go against our forecasting policies.

39. The NZU market price incorporates all the information known to the market including sentiment around likely ETS policy decisions and so we continue to believe this provides the best estimate for the forecasts.

Climate Emergency Response Fund

40. The preliminary fiscal forecasts will include the remaining unallocated portion of the CERF ($1.5 billion), assumed to be allocated evenly across 2022/23 to 2025/26 with a 90/10 split between operating and capital expenditure.

Table 6 – Climate Emergency Response Fund

HYEFU 22 - prelim forecasts

$millions	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Total**
Operating	-	456	456	456	-	**1,368**
Capital	-	51	51	51	-	**153**
Total	**-**	**507**	**507**	**507**	**-**	**1,521**

41. These assumptions and the dollar amounts are unchanged from the *2022 Budget Update* and were based on the Budget 2022 allocation of funding and the Government’s intention that the full amount will be spent over the forecast period.

42. Since Budget 2022, no further decisions have been managed against the fund and no decision has yet been made to top-up the CERF based on the updated forecasts for cash proceeds generated ETS.

43. If a decision is made to top-up the CERF by the additional cash proceeds from the ETS reflected in our preliminary fiscal forecast, this would adversely impact OBEGAL by around $350 million per annum from the 2023/24 year onwards. Any decision will be reflected in the final fiscal forecasts.

New Zealand Income Insurance Scheme (NZIIS)

44. Similar to the *2022 Budget Update*, the preliminary fiscal forecasts will include a central adjustment to recognise the NZIIS. The direct impacts of NZIIS included in our *2022 Budget Update* were NZIIS levies collected (and GST on those levies), compensation paid to displaced employees, and the administration costs of running the scheme. Although the scheme is called an insurance scheme all the expenses were forecast as 'other operating expenses' as opposed to insurance expenses due to not enough information being known about how the scheme will operate in order to assess whether it should be accounted for as an insurance scheme.

45. Based on information at the time, we estimated that the scheme would start in the last quarter of 2024/25 resulting in three months of levy income - and the associated expenses - in the 2024/25 year and a full year in the 2025/26 year. We also assumed that the levy revenue would equal the expenses in the same year, so that there would be a neutral impact on the forecast.

46. Since the *2022 Budget Update*, there have been several Cabinet papers on the scheme, but uncertainties about how the scheme will operate still remain in particular around levy setting. More detail of the scheme and how it will operate will also need to be known before it can be determined whether this scheme should be accounted for as an insurance scheme or not.

47. For the HYEFU preliminary fiscal forecasts in the absence of further certainty about how the scheme will operate, we intend to take the same approach as we did at 2022 Budget Update. The key assumptions around NZIIS for our preliminary HYEFU fiscal forecast are below:

- We will be taking the annualised levy amount set out in the consultation document ($3.5 billion based on 2019 wage incomes) and updating this for the Treasury's preliminary HYEFU economic forecast wage inflation for the 2024/25, 2025/26 and 2026/27 years.
- We continue to assume the scheme would start in the last quarter of 2024/25 resulting in three months of levy income - and the associated expenses - in the 2024/25 year and a full year in the 2025/26 and 2026/27 years
- We will continue to assume that the scheme's levy revenue is fully offset by operating expenses to cover the administration costs of the scheme and the compensation to displaced employees.
- We will be assuming cash receipts and payments occur in the same year that the levy revenue and associated expenses are recognised.
- The annualised levy amounts collect also include GST with the portion of GST collected on levies paid by employees recorded as part of core Crown tax revenue.

48. The table below shows the amounts in relation to NZIIS that are expected to be included in the preliminary fiscal forecasts, compared to *2022 Budget Update*:

Table 7 – NZIIS

HYEFU 22 - prelim forecasts

$millions	2022/23	2023/24	2024/25	2025/26	2026/27
Levy income	-	-	1,100	4,600	4,900
Operating expenses for compensation and administrat	-	-	(1,100)	(4,600)	(4,900)
GST revenue on levies paid by employees	-	-	82	346	365

BEFU 22 - final forecasts

$millions	2022/23	2023/24	2024/25	2025/26
Levy income	-	-	1,100	4,700
Operating expenses for compensation and administrat	-	-	(1,100)	(4,700)
GST revenue on levies paid by employees	-	-	83	353

Health agency reform assumptions

49. The health system reforms came into effect on 1 July 2022 when the District Health Boards (DHBs) were disestablished and Health New Zealand (HNZ) and the Māori Health Authority (MHA) came into force. This HYEFU is the first time the new agencies have provided their own fiscal forecasts to the Treasury.

50. Cabinet agreed that HNZ should be provided with funding sufficient to establish a starting balance sheet with no deficits, meet its expected costs and should not be forecasting a deficit position on Day One.

51. Some high-level assumptions have been applied for the forecast information submitted for HNZ, most of which are largely unchanged from the *2022 Budget Update*. In summary, the key assumptions are:

- The funding for HNZ aligns to the Ministry of Health information including cost pressure funding that has been set aside in tagged contingencies ($0.5 billion per annum from 2022/23 and an additional $1.3 billion per annum from 2023/24).
- s9(2)(g)(i) [redacted]
- The opening balance sheet forecasts for HNZ have been based on the 30 June results (unaudited) from the DHBs. MHA have assumed a nil opening balance sheet position.

52. There is a high level of uncertainty around some of the HNZ and MHA forecast information, however we believe it is unlikely to have a material impact on the key fiscal indicators.

Assumptions with Presentational Implications

The Government's purchase of Kiwibank

53. It was announced in August 2022 that the Government will acquire 100 percent of Kiwibank's parent company, Kiwi Group Holdings Limited (KGH). KGH had previously been owned by NZ Post, ACC and New Zealand Superannuation Fund.

54. For the preliminary fiscal forecasts, we are assuming the transaction will occur in November 2022, with a transaction price of $2.1 billion which has been signalled publicly. In addition, a special dividend of $0.7 billion is assumed to be received from NZ Post.

55. At the whole-of-government level, this transaction is expected to have no impact on the Government's key fiscal indicators as the government continues to have control over Kiwibank. Therefore, 100 percent of Kiwibank's revenue, expenses, assets and liabilities will continue to be reflected for Government fiscal reporting purposes. However, there will be a presentational change in the segmental reporting included in the Government's financial statements.

56. The financial activity of Kiwibank is currently reported in the SOE segment, the decision to establish a new schedule 4a Crown entity company, Kiwi Group Capital Holding Limited, will be reported in the Crown entity segment. This is because the segmental

classification for financial reporting purposes strictly follows the legal and/or constitutional form of entities within the Government reporting entity. The segmentation has always been categorised according to institutional accountability mechanisms (e.g. Departments, Crown entities, SOEs).

57. The change in segmental reporting will be reflected in our fiscal forecasts included in the 2022 HYEFU. This will mean that Kiwibank's customer deposits will be reported as Crown entity borrowings. Although a decision (DEV-22-MIN-0146) has been made that this borrowing should be excluded from the new headline net debt indicator, we expect this decision could cause some communication challenges.

58. We will work on the narrative to include in the Fiscal Outlook chapter to explain why Kiwibank borrowings have been excluded from the net debt indictor. We would recommend a similar narrative is included in the 2023 BPS. In addition, to preserve the credibility of the new indicator it may be worth setting out and communicating a framework to use when items should be excluded from the measure. We can provide you with further advice on developing some kind of framework if you are interested.

Kāinga Ora borrowings

59. We understand that there have been recent discussions between Ministers around the financing of Kāinga Ora (KO) future funding requirements. A Cabinet decision has been sought to provide a Crown lending facility of $3.25 billion and agreement to transition from private market borrowings to lending from the Crown.

60. The preliminary fiscal forecasts will reflect the decisions sought by Cabinet, therefore they will reflect a switch from private market borrowings to Crown borrowings. Although this will not impact on net debt, there will be a significant increase in gross debt (around $14 billion over the forecast horizon) and a structural lift in core Crown finance costs of around $0.5 billion by the end of the forecast period.

61. The Government have used the track of core Crown finance costs to explain the affordability of increasing the level of net debt. This coupled with the expected rise in interest rates may mean debt servicing costs may not be as low as reflected in past Economic and Fiscal Updates.

62. The increase in KO borrowing over the forecast period delivers on existing Government commitments and is therefore already captured in net debt at the *2022 Budget Update*. From Budget 2024, all of KO's borrowing programme will be managed against capital allowances, regardless of whether the source of the financing was through private markets or the Crown.

Disclosure of in-year decisions and adequacy of allowances

63. Since the *2022 Budget Update*, there have been a number of in-year decisions made which have been pre-committed against the Budget 2023 operating allowance or managed against the MYCA. This has led to a reduction in the allowances available for future decision making as part of the Budget process.

64. In the 2022 HYEFU we are considering including some disclosure of any material in-year decisions to provide greater transparency to uses of decisions outside the annual budget cycle. At present, particularly with capital investments we believe there could be better disclosures of these decisions. For example, close to $3.0 billion of in-year capital investments managed against the MYCA were not communicated as part of the 2022 Budget capital package.

65. Although you may choose to increase the operating allowances for Budget 2023, the fiscal forecasts presented in the 2022 HYEFU will still show a significant portion has already been allocated.

66. We expect that there will be some interest in the ability of the remaining allowances to cover all the Government's spending intentions at Budget 2023. To help explain the adequacy of allowances that have been included in our fiscal forecasts, we plan to do a similar analysis and commentary to what was included in the Fiscal Outlook chapter in the *2022 Budget Update*.

67. This analysis will show under the current economic conditions that the allowances included in the fiscal forecasts will be sufficient to cover future costs pressures, however there will be limited room for new investments unless revenue raising, or savings are identified. This analysis is supported by the recent advice you received identifying cost pressures for Budget 2023 [T2022/2246].

68. We understand you are considering a number of saving options for Budget 2023. Although these may provide space within allowances for new investments, they may not result in improving the fiscal outlook, given the likely interplay with our top-down adjustments.

69. We will share any disclosures on in-year decisions and the adequacy of allowance with you for commenting. Ideally, we are aiming to have this included in our Treasury Report covering the preliminary fiscal forecasts.

Next Steps

70. We have requested sometime at the Weekly Agency Meeting on Monday 31 October 2022 to discuss the context of this report. At this meeting we should also be in a position to provide an oral update on the fiscal outlook for some key fiscal indicators ahead of your meeting with other Budget Ministers.

71. We will continue to work on finalising our key judgements and assumptions ahead of completing the preliminary fiscal forecasts for HYEFU on Thursday 3 November 2022.

72. You will receive a report on the preliminary fiscal forecasts for HYEFU on Thursday 10 November 2022.

Table 8 – Timetable of key upcoming dates

Key date	Description
Monday 31 October	Weekly Agency Meeting
Thursday 3 November	Completion of preliminary fiscal forecasts
Thursday 10 November	Treasury report on preliminary fiscal forecasts
Friday 25 November	Completion of final fiscal forecasts
Wednesday 30 November	Treasury report on final fiscal forecasts

COMMERCIAL-IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2287

Date: 27 October 2022

To: Minister of Finance (Hon Grant Robertson)
Minister for State Owned Enterprises (Hon Dr David Clark)

Deadline: Read before 2.30pm, Wednesday 2 November 2022

Meeting with KiwiRail on 2 November 2022

You are scheduled to meet with the Chair, David McLean, and Chief Executive, Peter Reidy of KiwiRail Holdings Limited (KiwiRail) at 2.30pm on Wednesday 2 November 2022. KiwiRail has separately provided you with its briefing for this meeting. This aide memoire provides Treasury comment on agenda items proposed by KiwiRail. Suggested talking points are provided as Annex 1.

As KiwiRail's shareholding Ministers, this meeting is a good opportunity for you to discuss developments in KiwiRail's operating environment and to reiterate your key expectations[1]. Relevant context for the meeting includes Ministers' recent announcement that KiwiRail will remain a state-owned enterprise (with the expectation that the above-rail business will transition to commercial self-sufficiency), the publication of KiwiRail's FY22 results, s9(2)(b)(ii) and 9(2)(j) [redacted]

Discussion with the Chair only / Governance

There will be some 'Chair only' time for Ministers at the start of the meeting. The Chair is likely to raise the vacancies on KiwiRail's Board. The Treasury has completed its due diligence interviews of three candidates identified by the Chair: Rob Jager, s9(2)(a) [redacted] and Ed Sims. We recommend appointing all three candidates to fill the three vacancies on the Board and a report will be provided to you shortly with further details to seek your agreement (T2022/2224 refers).

s9(2)(g)(i) [redacted] We agree that the complementary core skillsets provided by all three candidates will be beneficial to the Board in helping it to deliver on its strategic objectives.

KiwiRail is at a critical stage in its business transformation and is facing operating pressures. s9(2)(g)(i) [redacted]

[1] Shareholding Ministers' annual Letter of Expectations, scheduled to go to KiwiRail in December 2022, will be a further opportunity for you to state, and go into more detail on, your expectations.

s9(2)(g)(i)

FY22 performance and KiwiRail's commercial strategy

KiwiRail's FY22 operating surplus was $133.9m. In a presentation at a recent rail conference, KiwiRail's new Chief Executive Peter Reidy outlined KiwiRail's intent to increase operating profit to $235m by 2025.

With shareholder support, KiwiRail is renewing its assets over the medium-term with a focus on generating better commercial returns through improved asset reliability and utilisation and renewed commercial arrangements. This strategy, which if successful will result in broader public benefits through mode shift, underpins the recent decision for KiwiRail to remain a state-owned enterprise (T2022/633 refers). However, KiwiRail's programme of transition to long-term commercial self-sustainability is ambitious and KiwiRail is not immune to factors such as cost escalation and a tight market for specialised labour. s9(2)(b)(ii) and 9(2)(j)

Health and safety

KiwiRail wrote to you on 12 September 2022 regarding safety concerns that Waka Kotahi, WorkSafe and Maritime New Zealand had raised with KiwiRail. Safety is a critical component of KiwiRail's culture, and its relationship with staff and unions. In a recent presentation, the Chief Executive outlined plans to reduce its injury frequency rate by 50% over three years and improve staff engagement by 20%. In FY22 KiwiRail reported a total recordable injuries frequency rate (TRIFR) of 23.96 injuries per million people-hours worked, and an employee net promoter score of +1.

Project iReX

s9(2)(b)(ii) and 9(2)(j)

The Treasury's view remains that shareholder equity (including through the established *s9(2)(b)(ii) and 9(2)(j)

* tagged contingency) should be provided as a last resort, consistent with a standard commercial transaction. Constantly work programmes to meet funding envelopes is normal for a private company and is consistent with KiwiRail's status as a state-owned enterprise.

The Treasury would expect KiwiRail's Board to robustly test management on how cash-inflows are most effectively allocated, including what spending could be re-prioritised and delivered later to improve KiwiRail's ability to contribute to Project iReX costs in the short- or medium-term. As funding shortfalls are more likely to fall towards the end of the project timeframe, KiwiRail's balance sheet may be able to support higher private debt. Furthermore, there are potentially options for the Crown to provide support to KiwiRail in the form of debt as opposed to equity, which would seem appropriate given that the overall project is projected to deliver a positive commercial return.

Budget 2023

s9(2)(f)(iv)

The Ministry of Transport has provided early information on these initiatives to Treasury's Vote and Investment Management teams. The Treasury has provided the Minister of Finance with initial high-level advice on inviting these initiatives into Budget 2023 and Budget Ministers are due to make invitation decisions on 31 October 2022.

Daniel Madley, Senior Analyst, Commercial and Institutional Performance,
s9(2)(g)(ii)
Michael Moore, Principal Advisor, Commercial and Institutional Performance,
s9(2)(g)(ii)

Annex 1: Suggested talking points

Governance (in discussion with the KiwiRail Chair only)

- We expect to receive advice from the Treasury shortly regarding new appointments to the KiwiRail Board.

- s9(2)(g)(i) [redacted]

FY22 performance and KiwiRail's commercial strategy

- To what extent has FY22 performance and recent cost escalations impacted the longer-term financial projections? Has this reduced the likelihood of achieving above-rail commercial self-sustainability from FY25?

Health and safety

- We agree that health and safety should be a critical, ongoing focus for KiwiRail. We look forward to receiving further updates on your work with staff to develop KiwiRail's safety culture, and your ongoing engagement with regulators to address their concerns.

- What immediate steps are you taking to improve safety in the workplace?

Project iReX

- We look forward to receiving more information on cost escalations once further analysis has been completed, and we expect your team to work with our officials as this analysis is undertaken.

- s9(2)(b)(ii), 9(2)(f)(iv) and 9(2)(j) [redacted]

- To what extent is the Board considering how other spending can be re-prioritised to ensure that KiwiRail can increase its contributions to Project iReX?

- Our view remains that new shareholder funding should be considered as a last resort. We would like to see the Board demonstrate that they have made every effort to find alternative funding sources and to minimise a further call on the Crown's resources. We expect our officials to explore this further with KiwiRail.

Budget 2023

- s9(2)(f)(iv) [redacted]

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Cabinet 31 October 2022

Date:	28 October 2022	**Report No:**	T2022/2364
		File Number:	CO-6-2-3-5

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Dr Megan Woods **Associate Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Kiri Allan **Associate Minister of Finance**	**Read** prior to the PreCab meeting with Treasury Officials.	10:15 am Monday 31 October 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ash Ratnayake	Team Coordinator and support, Governance and Accountability	s9(2)(k)	N/A (mob)	
Rose Austen	Team Leader, Governance and Accountability		N/A (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

IN-CONFIDENCE

Treasury Report: Briefing for Cabinet 31 October 2022

The Treasury is aware of four substantive and two oral items on the Cabinet agenda for 31 October 2022. This report provides the Treasury's comments and recommendations on key items and identifies any relevant fiscal impacts.

The Treasury has **no comments** on the following papers on the agenda:

- Supporting Child Wellbeing by Improving Childcare Affordability and Enhancing Social and Emotional Learning
- Consequential Amendments to the Human Rights Act 1993 Relating to Gender and Intersex
- Oral Item: Budget 2023: Update
- Oral item: Progressing Work on the Status of Foreign Nationals: Update

Government Support for Alternative Solution for Continued Operation of the Ski Field at Mt Ruapehu

Hon Stuart Nash, Minister for Economic and Regional Development

Treasury contact: Kevin Cho s9(2)(k)

Sign out contact: John Marney s9(2)(k)

Description: This paper updates Cabinet that Kānoa – Regional Economic Development & Investment Unit will lead negotiations with the major creditors of Ruapehu Alpine Lifts Limited (RAL) for a resolution that will ensure the continued operation of the ski field at Mt Ruapehu and protect the investment of Bondholders. The paper seeks proposes writing off $15m in Crown loans and providing bridging finance of $2m**.**

Comments: We acknowledge the impact of RAL ceasing to operate on nearby businesses and the local economy.

However, we note that the ongoing viability RAL is unknown at this stage and writing off Crown loans to private businesses going through liquidation and mitigating losses to private investors may have precedent setting impacts on other investments by the Crown and by Kānoa with risks of moral hazard. We have included a Treasury comment in the paper on this point.

The unknown ongoing viability of RAL also means the remediation liabilities noted in this paper s9(2)(j) and the loss on Crown loans could eventuate even with bridging finance being provided to RAL.

There was limited time to fully assess the risks and options in this paper

Treasury Recommendation: Note the risks outlined above

Fiscal Implications:

Funding source: Multi-Year Capital Allowance									
Operating ($m)					Capital ($m)				
21/22	22/23	23/24	24/25	25/26 & outyears	21/22	22/23	23/24	24/25	25/26 & outyears
						2			

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

Recommended Action

We recommend that you **read** this report prior to the PreCab meeting with Treasury officials at 10:15 am on Monday 31 October 2022.

Rose Austen
Team Leader, Governance and Accountability

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Hon Dr Megan Woods
Associate Minister of Finance

_____/_____/_______

Hon David Parker
Associate Minister of Finance

_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance

_____/_____/_______

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Supporting decisions on updating NZ ETS settings

Date:	28 October 2022	**Report No:**	T2022/2280
		File Number:	SH-10-8

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Note** the contents of this report. **Provide** the recommended feedback to the Minister of Climate Change.	1 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Melanie Craxton	Principal Advisor, Climate Change	s9(2)(k)	s9(2)(g)(ii)	✓
Nicky Lynch	Manager, Climate Change			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Supporting decisions on updating NZ ETS settings

Executive Summary

The Minister of Climate Change is currently consulting on a Cabinet paper seeking agreement to update New Zealand Emissions Trading Scheme (NZ ETS) limit and price control settings following public consultation, which included options recommended by the Climate Change Commission (the Commission).

We are strongly supportive of using emissions pricing as a key tool in achieving our emissions reductions goals and supporting New Zealand's transition to a low-emissions economy. To effectively drive emissions reductions, it is important for NZ ETS settings to be calibrated to the outcomes the scheme is meant to drive. This is likely to mean an increase in emissions prices from current levels in the future. While a robust emissions price is important to incentivising low-emissions investment and behaviour, emissions price increases will likely have negative impacts on households, firms and industries, in particular where low-emissions substitutes are not affordable or readily available. These impacts are most likely to be exacerbated when prices increase rapidly.

NZ ETS settings and their implications are both important and complex. The Commission has recommended a significant departure from status quo settings, with an underlying assumption that the NZ ETS should shift from driving *net* emissions reductions to primarily driving *gross* reductions. Adopting their recommendations in full is likely to significantly increase prices within a relatively short timeframe.

We recommend taking a more cautious approach to updating NZ ETS settings this year than recommended by the Commission for two key reasons:

- s9(2)(f)(iv) [redacted]
- In the current economic climate, there is a risk that higher NZ ETS prices may fail to achieve modelled emissions abatement and instead translate into an economic 'pain point' through exacerbating cost-of-living pressures and driving broader distributional and economic impacts. Investment in low-emissions substitutes requires availability of technically feasible and economic alternatives and often time to make these investments or phase them into asset management cycles. Current supply-side and labour constraints, along with heightened inflation and interest rates, are likely to create additional barriers to the uptake of low-emissions technologies as compared to what has been modelled.

At a high-level, Ministers have three main choices in updating NZ ETS settings this year:

1) <u>*Accept the Commission's recommendations now*</u>, acknowledging the associated risks.

2) <u>*Make more modest changes now*</u>. Ministers have options as to how significantly and how quickly they wish to change NZ ETS settings. Such adjustments could be made by starting more slowly than recommended by the Commission, but still ramping up over time. Another option could be to align settings for the next two calendar years (2023 and 2024) with the status quo while signalling greater changes now for the latter three years of the regulatory window as defined by the CCRA for NZ ETS settings.

3) *Defer consideration of any major changes* so that NZ ETS settings decisions can benefit from additional direction from work programmes s9(2)(f)(iv) [redacted] The Commission is expected to provide another round of advice as soon as February 2023 and s9(2)(f)(iv) [redacted] Deferral could also allow for additional time for broader economic conditions, including cost-of-living pressures, to change, and potentially improve.

We suggest that through your Ministerial consultation feedback you ask for the paper to include options broadly reflecting these three approaches alongside analysis on their impacts before the paper is lodged.

Due to the extremely tight timeframes for updating the regulations there will be limited opportunity for Cabinet discussions before decisions need to be made. We therefore recommend that officials are directed as soon as possible to work on any additional options Ministers would like to see in the paper.

Recommended Action

We recommend that you:

a **note** the contents of this report.

b **provide** the recommended feedback to the Minister of Climate Change.

Nicky Lynch
Manager, Climate Change

Hon Grant Robertson
Minister of Finance

_____/_____/_______

Treasury Report: Supporting decisions on updating NZ ETS settings

Purpose of Report

1. The Minister of Climate Change is required to recommend updates for the NZ ETS unit limits and price control settings every year, to ensure they always provide a five-year look-ahead period for the scheme.

2. Following advice provided by the Commission and public consultation, the Minister of Climate Change is seeking final policy decisions from Cabinet on proposed settings updates for this year.

3. A draft Cabinet paper is currently out for Ministerial consultation. The purpose of this report is to support your consideration of the paper and recommend feedback for you to provide.

Background

4. NZ ETS unit limits and price control settings are laid out in the Climate Change (Auctions, Limits and Price Controls for Unit) Regulations 2020. They require regular update to ensure they always cover the next five calendar years. The Minister of Climate Change is required to consider the settings for years 3 and 4 of this five-year window and extend the settings to year 5. Under certain circumstances updates can also be recommended for years 1 and 2 of this window. Such an approach is intended to support flexibility to incorporate new information while providing near-term regulatory certainty.

5. The Government's recent setting of New Zealand's first emissions budgets, update to New Zealand's first Nationally Determined Contribution (NDC) under the Paris Agreement and the release and sale of the units held in the NZ ETS auction Cost Containment Reserve (CCR) are all grounds upon which to consider updating the settings for years 1 and 2 of the window.

6. This year is also the first year the Commission has provided dedicated advice on these settings. Its advice was provided relatively late in the year due to the timing of the setting of New Zealand's first emissions budgets and publication of the first Emissions Reduction Plan (ERP), both of which were delayed by COVID-19. This has influenced the timing of the process to update settings this year. In 2023 the Commission is expected to deliver its advice in late February. s9(2)(f)(iv) [redacted]

7. The Commission's recent advice recommended significant changes to both the unit limit and price settings. These were based on an underlying assumption that the NZ ETS should drive gross rather than net emissions reductions. We previously advised you on what the Commission has recommended and its implications, including the risk of pre-empting significant policy decisions the Government has yet to take [T2022/1718 refers].

8. Public consultation was undertaken on a number of options for updating NZ ETS settings, including the Commission's recommendations, between 8 September and 6 October this year. As reflected in the draft Cabinet paper, feedback was broadly split between supporting continuation of the status quo and the Commission's recommended settings.

Timing considerations

It is likely that future policy decisions may warrant changes to the NZ ETS. However, there are several risks associated with making significant changes to NZ ETS settings now.

9. We recommend taking a more cautious approach to updating the settings this year than the Commission recommends given the state of a number of closely related work programmes currently underway, and the broader economic context. More significant changes could be considered in 2023, after more information has been obtained, including the direction of travel for key related policy decisions. The rationale for this view is laid out below.

While regulatory certainty is an important objective, making significant changes based on assumptions that may not be aligned with future policy direction could create risks of perceived regulatory volatility

10. Transparent and well-communicated updates to NZ ETS settings can promote longer-term regulatory certainty when such changes are enduring and are perceived to be so by market participants. There is also benefit in NZ ETS settings reflecting the Government's preferred direction of travel for both the scheme and New Zealand's broader transition to a low-emissions economy.

11. The draft Cabinet paper suggests that it is essential to make further significant changes to NZ ETS settings now to support regulatory certainty. In our view a significant departure from the status quo this year is more likely to create significant regulatory <u>volatility</u> risk. The primary reason for this is the number of upcoming decisions across several work programmes that are likely to have significant implications for how NZ ETS settings should be considered and updated. These include:

    - s9(2)(f)(iv) [redacted]
    -
    - implementation of industrial allocation reform decisions;
    - s9(2)(f)(iv) [redacted]
    - pricing agricultural emissions.

12. A number of these decisions are likely to be significant enough to provide grounds for reconsideration of the first two years of the five-year window set out in the regulations again as early as next year. All of these decisions will have material implications for future years' settings; especially from 2025.

13. s9(2)(f)(iv) [redacted]

Market responses are difficult to predict, but in the current climate there is a risk that significant changes may drive up prices without necessarily achieving modelled emissions reduction. Broader economic and distributional impacts are also likely.

A possible 'magnet' effect could cause prices to rise sharply if the CCR trigger price is raised

14. However Ministers choose to update NZ ETS settings this year, effective communication with the market and the public will be important.

15. To date, the market has been highly responsive to policy announcements and updates to the NZ ETS. Since the introduction of emissions budgets, auctions, unit limits and price settings to the NZ ETS in 2021, the market has also trended towards the upper, rather than the lower, bound of the price collar defined by the auction reserve and trigger prices.

16. The draft Cabinet paper refers to a 'magnet effect', where the secondary market price has seemingly informally anchored itself to the CCR trigger price. The paper suggests that this effect is driven by the CCR trigger price and the secondary market price being too close together and therefore not allowing for effective price discovery. The solution posed in the paper is therefore to raise the trigger price significantly so as to "remove" this magnet effect.

17. There is not sufficient evidence at this point in time to test whether such a magnet effect is occurring, or to provide evidence for a judgment on what level of trigger price could remove this effect, if any. It is also possible that the proximity of the trigger and secondary market prices is <u>due to</u> a magnet effect, rather than the cause of it. If market participants consider the trigger price to reflect an expectation of future NZ ETS prices, or a 'desired' future price, this will drive the market towards this price.

Economic conditions could limit emissions impacts of higher prices

18. In its advice on NZ ETS settings the Commission reiterated that prior modelling undertaken to support its advice on setting emission budgets and the first emissions reduction plan had indicated that the economy would continue to grow under the recommended emissions budgets. However, it assessed that the level of GDP could be around 0.5% lower than if the budgets were not set and achieved. The economic impact is sensitive to assumptions about the successful adoption of key mitigation technologies (e.g., electric vehicles) and lowering the emissions intensity of agricultural production so that production can largely be maintained. If key measures are not rolled out successfully, the Commission estimated that the impact to GDP of achieving the budgets could be closer to 1% in 2035.

19. We previously advised you that if current economic conditions limit the economy's ability to adjust, a sharp upward shift in NZU prices could translate into a pain point without necessarily driving anticipated emissions reductions [T2022/2018 refers]. On this point, some submitters to public consultation noted that the consultation document did not sufficiently consider barriers such as access to technology, availability of skilled labour and supply chain issues. Others stated that the Commission's proposed price control settings did not support a 'just transition' to a low emissions economy and increased the risk of emissions leakage or business closure.

20. To the best of our understanding, the Commission's whole-of-economy modelling to support its advice on emissions budgets remains the latest estimate of the cost to the economy of achieving the emissions budgets. Since this modelling was undertaken in 2020 – 2021, economic conditions have materially shifted. Many of these shifts are likely to create additional barriers and frictions to the uptake of these key technologies, regardless of the emissions price.

21. Over time we support emissions prices rising in alignment with the levels required to support achievement of New Zealand's emissions budgets. However, in the current environment, it is likely more important to address supply-side constraints and barriers to low-emissions behaviour and investment uptake before seeking to materially increase emissions prices.

Additional actions may be needed to address distributional impacts

22. The paper notes that the Commission has provided detail on the likely impacts on households and the economy at different emissions prices and concluded that they are likely to be "moderate but not insignificant". The Commission has therefore provided a view that these impacts should not be a primary determinant for NZ ETS price control settings.

23. Table 6 in the paper presents the anticipated impact of varying NZU prices on electricity and fossil fuels. The table below provides analysis based on the information provided in Table 6 to illustrate the potential impact of increasing emissions prices from $80 to $120 in both absolute terms and as a percentage of 2021 prices.

Table 1: Emissions price impacts on key energy commodity prices

Commodity		**If emissions prices were to increase from $80 to $120**	**% Increase on 2021 prices**
Electricity	Residential	Residential electricity prices would increase by 0.88 – 1.52 cents per kwh.	2.88% - 5%
	Commercial	Commercial electricity prices would increase by 0.8 – 1.36 cents per kwh.	4.32% -7.35%
	Industrial	Industrial electricity prices would increase by 0.72 – 1.28 cents per kwh.	4.21% - 7.49%
Fossil gas	Residential	Residential fossil gas prices would increase by 0.96 cents per unit of fuel.	6.53%
	Commercial	Commercial fossil gas prices would increase by 0.8 cents per unit of fuel.	12.12%
	Industrial	Industrial fossil gas prices would increase by 0.8 cents per unit of fuel.	25%
Diesel		Diesel prices would increase by 12.32 cents per litre.	8.18%
Petrol		Petrol prices would increase by 10.72 cents per litre.	4.77%
Coal		Coal prices would increase 3.6 cents per gigajoule (a unit of measuring energy).	36%

24. The CCRA explicitly requires that the Minister of Climate Change consider these impacts when recommending updates to NZ ETS price control settings. The paper notes the Minister's view that they should not be a primary determinant for NZ ETS settings. Instead, the paper reflects the Commission's view that distributional impacts should be addressed with complementary measures outside of the NZ ETS. At this stage these measures have yet to be developed so it is unclear how effective they would be, their cost, or timing for implementation.

25. We broadly agree with this view that trying to achieve too much with the NZ ETS may undermine the efficacy of the scheme. However, a core purpose of the NZ ETS auction 'price collar' (as bounded below by the auction reserve price, the 'floor', and the CCR trigger price, the 'ceiling') is to mitigate the risk of 'unacceptably low or high' prices within the NZ ETS. This design element therefore inherently serves a purpose of adjusting the NZ ETS to address distributional concerns, to an extent.

26. If Ministers wish to wholly decouple NZ ETS settings from the consideration of distributional impacts it is likely that regulatory amendments would be required on the structure and design of NZ ETS settings as well as the matters required for consideration when recommending updates. If Ministers were interested in this, we recommend doing this outside of the annual regulatory update process and as part of consideration of a broader potential package of amendments to the NZ ETS.

Proposed settings

27. The paper is seeking agreement to update NZ ETS settings in line with the Commission's recommended approach.

28. As presented in the paper, explicit agreement is only being sought to three overarching decisions. Some of these decisions assume implicit agreement to a number of other things. The table below outlines the explicit and implicit decisions being sought through this paper's recommendations:

Table 2: Decisions being sought

Topic	Explicit decision being sought	Implicit decision(s) being made	Recommendation number
Unit limits	Agreement to update limits for units in line with the Commission's recommendations, including: • setting New Zealand units available by auction, • approved overseas units used and • an overall limit on units.	• Incorporate a technical adjustment (with material impacts) • Agreeing to the Commission's calculations of and approach to drawing down the estimated liquid portion of the NZ ETS stockpile.	13
Auction reserve price	To update the auction reserve price to reflect the Commission's recommendation.	N/A	17
Cost containment reserve (CCR)	To update the structure, volume and trigger prices for the CCR in line with the recommendations provided by the Commission.	• Splitting the CCR into two tiers • That the CCR auction volumes should be equivalent to the amount of 'stockpile withholding' used to support the calculation of unit limits. • That the trigger prices should be set in line with the Commission's recommendations.	27

29. Decisions and supporting analysis presented by the paper for these decisions are also only provided for a single option in each case. The paper as currently written therefore does not support Ministers to consider different options or agree to an option other than what is reflected in the recommendations.

30. We have not yet seen a final version of the Regulatory Impact Statement (RIS). The version of RIS that was circulated for agency feedback laid out different options. Public consultation also canvassed a much wider set of options than retaining the status quo and the Commission's recommendations. Alternative options to those recommended by the Commission are discussed further below.

Key decisions and alternative options

31. Annex 1 provides an overview of decision points, our comments and possible other options should you wish to consider alternatives to the approach currently proposed in the paper.

Unit settings

32. In general, we support an overall approach to setting auction and overall unit volumes in a manner that aligns with New Zealand's emissions budgets.

33. However, the relationship between unit limit settings and emission reductions is complex, due to the existence of the stockpile of privately held units, the role of forestry units and the operation of the secondary market. There is a risk that the Commission's proposed settings, which involve much more constrained volumes, could have unintended consequences due to this complexity.

34. There is a balance between ensuring the stockpile is not so large that it poses a threat to the achievement of New Zealand's emissions budgets and targets, and risking pushing NZ ETS participants too far too quickly which could result in significant price increases that have associated fiscal, economic and distributional implications.

35. The core judgements in balancing these considerations are:

- how much of the stockpile is 'liquid' or 'excess'. In other words, how much of the stockpile is not being held for hedging purposes by emitters or for future forestry harvest liabilities (noting that there is also a consideration of the degree to which emitters could or should hedge); and

- the willingness of market participants with 'excess' stockpile units to sell them at any given point in time. This is likely to be influenced by their expectations of future prices.

36. If auction volumes are significantly constrained with little notice, participants with compliance obligations may struggle to procure sufficient units, despite sufficient volume theoretically being available from the stockpile. Importantly, holders of 'stockpiled' units (including those who earn units through forestry removal activities) need to be willing to sell these units at a price that participants with compliance obligations are willing to buy them. In a market with expectations of continual price increases it is likely that stockpile holders will either choose not to sell or only do so at a very high price. This creates risk of significant price increases in the short-term.

37. We note public consultation feedback highlighted a range of views on what the 'liquid' or 'excess' portion of the stockpile was, including views that is smaller than estimated by the Commission.

38. Signalling an enduring reduction of auction volumes from status quo levels may also create additional incentive for investment in forestry removals, in particular through exotic afforestation. s9(2)(f)(iv) [redacted]

39. Alternate options for stockpile withholding could include shrinking auction volume by a smaller amount per year across the considered regulatory coverage period *or* a gradual approach where auction volumes for 2023 and 2024 stay closer to status quo levels with greater reductions being signalled for 2025 onwards.

40. We recommend against making the technical adjustment recommended by the Commission until officials are more confident there is a problem to fix via a technical adjustment.

The auction reserve price

41. In general, we recommend viewing the auction reserve price (the price 'floor') and the CCR trigger price (the price 'ceiling') as components of a singular 'price collar', reflecting the range of 'acceptable' prices within the NZ ETS. It is useful to consider the decisions on the reserve price and the trigger price together since collectively they define how broad or narrow this price collar is.

42. The paper currently seeks agreement to the Commission's recommended auction reserve prices. These represent a material increase (essentially doubling) from the status quo. They also push the auction reserve price very close to the status quo trigger price; this materially narrows the price collar.

43. At present, the price floor is well below prevailing domestic prices. Broadly, there are general expectations for unit prices to continue increasing over time and therefore it is unlikely that the price floor will be triggered in the short- to medium- term, particularly at its current level.

44. The main benefit cited in the paper for raising the price floor is to provide greater certainty that helps mitigate investment risk in gross emissions reductions. However, the draft RIS also cites the greatest risk associated with increasing the price floor as further incentivising additional afforestation, since the floor could be seen as a form of 'guarantee'. It is unclear at this point which of these effects would dominate.

45. The potential for material increases to the reserve price to drive additional forestry provides a further reason for why it may be more appropriate to defer the decision until after [redacted] s9(2)(f)(iv)

The cost containment reserve

46. We see the decisions on the CCR trigger price to be some of the most important decisions sought through this paper. As reflected in the Commission's advice, the Cabinet paper and the RIS, these increases are likely to have meaningful implications for cost-of-living pressures for households and distributional impacts for high-emitting, hard-to-abate firms and industries. Signalling significant increases to the trigger price carries material risk of exacerbating these impacts to the extent that NZ ETS prices are driven by the trigger price.

47. In theory we agree with the Commission and the view currently presented in the paper that the trigger price *shouldn't* be a target for the secondary market price or a reflection of where the Government wants prices to rise. We also agree that theoretically the trigger price should be set sufficiently high that the CCR is not triggered, and the wider price collar set such that the market is able to 'discover' the emissions price that supports the achievement of New Zealand's emissions objectives.

48. However, in practice there has been evidence that the market may have interpreted the trigger price as an expectation. Given the relatively small size and thinness of the NZ ETS market we have also seen quick and sharp reactions to announcements regarding the NZ ETS, in particular where they generate expectations of future price increases.

49. Despite observed behaviour being contrary to what would theoretically be expected or desired, we do not believe there is sufficient evidence that materially increasing the trigger price above the current secondary market price would remove the 'magnet' effect, rather than exacerbate it. We therefore recommend a cautious approach to updating CCR trigger prices this year, in particular for the 2023 and 2024 calendar years.

50. While we recommend against raising the trigger price to the levels recommended by the Commission, we see merit in considering smaller increases to mitigate the risk presented by the secondary market price currently exceeding the legislated trigger price for 2023. The risk that any increase to the trigger price acts as a magnet for NZU prices, and therefore may still lead to the release of the CCR, could be partially mitigated by setting a smaller CCR volume. However, such a decision invokes a trade-off with the core purpose of the CCR and trigger price (mitigating against ‘unacceptably high’ NZU prices).

51. Furthermore, while we acknowledge that it is likely that emissions prices will have to rise in the future to levels that reflect those able to effectively and efficiently support the achievement of New Zealand’s climate targets, the levels recommended by the Commission may be excessively high if Ministers prefer the NZ ETS to retain a net emissions focus. [redacted] s9(2)(f)(iv) [redacted]

52. We recommend against changing the structure of the CCR at this point in time. An additional tier creates risk of adding unnecessary complexity and the cost of its implementation is likely to be outweighed by the benefits.

Fiscal implications

53. The financial implications section in the paper currently focuses on the anticipated impact on the Climate Emergency Response Fund (CERF) driven by proposed reductions in auction volumes. The paper also implicitly suggests that changes to price controls only have financial implications if they result in the CCR being released. In our view this presents an overly narrow view of the implications of the proposed setting changes.

54. Changes to NZ ETS settings will have direct impacts for government cash inflows through NZ ETS auctions. They are also likely to drive indirect revenue impacts through both how we account for the NZ ETS and through broader economic impact channels (for example, increased fuel prices may cause people to use less fuel or travel less vehicle kilometres – this will have implications for fuel excise and road user charge revenues). More broadly where increased NZ ETS prices cause distributional impacts, such as through cost-of-living pressures, there could be fiscal implications from additional policies the Government may wish to put in place to mitigate these impacts, including those specifically targeted at driving an equitable transition. Given the potential impacts of increased emissions prices to both households and certain industries, there is a chance that some of these impacts could be material.

55. We see the potential implications of the impacts identified in the paragraph above to be important pieces of information to support decision making. We suggest that potential implications for the CERF should not be as important in driving decisions, as raising funds for investment elsewhere is not the core purpose of the ETS. While your approach to the sizing the CERF has to date been based on forecasts of NZ ETS cash proceeds, s9(2)(f)(iv) [redacted]

General fiscal implications of changes to NZ ETS settings

Changes to NZ ETS settings will have implications for both forecasts and actuals for NZETS cash proceeds

56. Forecasting of NZ ETS proceeds for the Crown’s accounts uses the number of units to be auctioned in each financial year as reflected in the CCRA and the secondary market spot price for NZUs as at our forecast date. This approach reflects our best understanding of auction volume and price at the point in time forecasts are undertaken.

57. There are two key ways in which NZ ETS proceed actuals could differ from forecasts:

- With respect to unit volumes, we assume that the CCR is not triggered. Differences between the forecasts and actual proceeds could therefore result from:
  - auction volumes as laid out in the CCRA being updated between the delivery of the Treasury's fiscal updates
  - the release of the CCR resulting in additional units being sold beyond the volumes included in the forecasts, and/or
  - the full auction volume not being sold by the end of the calendar year.
- With respect to price, updates to NZ ETS settings will indirectly influence the secondary market price through the market's response to these updates.
  - The price on the secondary market is not explicitly constrained by the auction price collar.
  - However updates to NZ ETS price settings are likely to have a lagged effect on Treasury forecasts through the secondary market spot price, depending on how this market responds.

Broader fiscal implications

58. As noted above, updates to NZ ETS settings will impact the fiscal position more broadly than through NZ ETS cash proceeds. This includes broader fiscal impacts of the NZ ETS and indirect impacts through broader economic channels. Additionally, policy decisions that Ministers take on addressing the cost-of-living pressures and broader distributional impacts associated with higher emissions prices (for both households and industries/firms) are likely to have financial and fiscal implications. Depending on the policies developed, this spending could be significant.

59. Relevant fiscal impacts include:

- NZU auctions produce a cash inflow for the Crown.
- However, the newly auctioned NZUs are a liability for the Crown (representing the Crown's obligation to accept NZUs for ETS participants' emission responsibilities).
- Because both an asset (cash) and a liability (NZUs) of equal size have been created, no revenue is recognised at this point; ETS auctions are revenue-neutral despite generating a cash inflow.
- Revenue is only recorded once NZUs are surrendered.

60. As a result, changes to ETS auction settings do not immediately impact Crown revenue despite impacting cash inflows. However:

- any resulting change to ETS *prices* will impact the level of revenue recorded when NZUs are surrendered, which is valued based on secondary market prices.
- auctioning a lower *volume* of NZUs into the market will also decrease the number of NZUs ultimately surrendered to the Government, which will decrease revenue recorded at surrender (price being equal).

61. Updates to NZ ETS settings which drive increased afforestation will increase the volume of NZUs the Crown allocates to foresters for sequestering carbon.

- This represents an expense to the Crown since NZUs have been allocated at no cost to foresters, and increases the Crown's liability of outstanding NZUs.

62. As explained above, the stockpile of NZUs held by ETS participants is a liability for the Crown. At BEFU 2022 this liability was valued at $11 billion, calculated as the volume of outstanding NZUs multiplied by the spot secondary market price at the time of calculation.

- Gains and losses driven by fluctuations of the secondary market price and the volume of the stockpile are reflected in the Operating Balance.

- Changes to ETS prices resulting from updates to ETS settings will therefore also impact the valuation of this liability, and could cause significant paper gains or losses for the Crown.

- Drawing the stockpile down, as proposed in the paper, decreases the liability for any given price. However, this impact could be partially offset or even outweighed by secondary market price increases that may be associated with a stockpile reduction.

63. The interactions involved and uncertainty over the market response mean that the broader fiscal implications of changes to NZ ETS settings cannot be precisely estimated at this time.

64. The tables below summarise the key impacts referenced above, illustrating where certain events and activities within the NZ ETS at and after auction create a fiscal impact and what these impacts are.

Table 3: Fiscal impacts at auction from selected events

Event	**Cash**	**Stockpile Liability**	**Revenue**	**Expenses**	**Gains/ Losses**
Higher auction volume (same auction price)	↑	↑			
Lower auction volume (same auction price)	↓	↓			
Higher auction price (same auction volume)	↑	↑			
Lower auction price (same auction volume)	↓	↓			

Table 4: Fiscal impacts after auction from selected events

Event	**Cash**	**Stockpile Liability**	**Revenue**	**Expenses**	**Gains/ Losses**
NZU secondary market price increase		↑			↓
NZU secondary market price decrease		↓			↑
Greater afforestation generating NZUs		↑		↑	
More NZUs surrendered		↓	↑		
Fewer NZUs surrendered		↑	↓		

Implications for the CERF

65. To date you have chosen to establish the CERF with forecast cash proceeds from the NZ ETS as a 'down payment' and subsequently opted to 'top-up' this amount based on updates to the Treasury's forecasts. s9(2)(f)(iv) [redacted]

66. Our prior advice on the size of the CERF provided a range for NZ ETS *forecasts* of cash proceeds based on the secondary spot price as at 30 September [T2022/2056 refers]. The tables below complement this analysis by attempting to provide an indicative view of how NZ ETS cash proceeds actuals may differ under the different NZ ETS settings being considered through this paper. Table 6 supports Tables 7 and 8 by indicating which prices were used in modelling considered scenarios.

Table 5: Forecast NZ ETS Cash Proceeds - Current Treasury forecasts based on secondary market prices as at 30 September 2022 ($78.00)

	2023/24	*2024/25*	*2025/26*	*2026/27*
Auction Volume (million):	18.30	17.25	15.75	-
Forecast Proceeds (million):	$1,427	$1,346	$1,229	-

Table 6: Supporting price assumptions for the analysis presented in Tables 7 and 8

Scenario	Price assumptions				
		2023/24	*2024/25*	*2025/26*	*2026/27*
Table 7: Inflation-adjusted status quo	Current secondary market price	$82.50	$82.50	$82.50	$82.50
	Price floor	$33.23	$35.55	$38.04	$39.32
	Midpoint of price collar	$58.17	$64.31	$71.14	$74.74
	Price ceiling	$83.11	$93.08	$104.25	$110.15
Table 8: Commission recommendations	Current secondary market price	$82.50	$82.50	$82.50	$82.50
	Price floor	$62.00	$66.00	$69.50	$73.00
	Midpoint of price collar	$141.50	$150.25	$158.50	$167.00
	Price ceiling – Tier 1	$176.50	$187.50	$198.00	$208.50
	Price ceiling – Tier 2	$221.00	$234.50	$247.50	$261.00

Table 7: NZ ETS Cash Proceeds - Status quo NZ ETS settings, with prices adjusted for inflation

	2023/24	*2024/25*	*2025/26*	*2026/27*
Auction Volume (million):	18.30	17.25	15.75	-
Potential Proceeds (million)…				
…at the current secondary market price	$1,510	$1,423	$1,299	-
…at the price 'floor'	$608	$613	$599	-
…at the midpoint of the price 'collar'	$1,064	$1,109	$1,120	-
…at the price 'ceiling'	$1,521	$1,606	$1,642	-

Table 8: NZ ETS Cash Proceeds - Climate Change Commission's recommended NZ ETS settings

	2023/24	*2024/25*	*2025/26*	*2026/27*
Auction Volume (million):	16.30	15.60	14.00	12.10
Potential Proceeds (million)…				
…at the current secondary market price	$1,316	$1,221	$1,077	$928
…at the price 'floor'	$988	$975	$906	$820
…at the midpoint of the price 'collar'	$2,255	$2,220	$2,065	$1,875
…at the price 'ceiling' – tier 1	$2,813	$2,771	$2,579	$2,341
…at the price 'ceiling' - tier 2	$3,523	$3,465	$3,224	$2,930

67. Key qualifications of the analysis in Tables 5 – 8 include:

- that the analysis is indicative only and is not a prediction of either market behaviour or NZ ETS actuals;
- an assumption that the CCR is not released in any auction;
- that the NZ ETS auction price will either sit at the floor (the reserve price), the ceiling (the trigger price) or at the midpoint of the price collar; and
- that the secondary market price is independent of the legislated auction price corridor and is a function not only of NZ ETS settings but also of broader market expectations and investment behaviour in abatement technologies as well as sequestration.

Recommended feedback

68. At a high-level Ministers to have three broad choices:

- accept the Commission's recommendations now, acknowledging the associated risks of doing so;
- make more modest changes now that differ from the Commission's recommendations in how significantly or quickly NZ ETS settings are changed; or
- defer consideration of major changes.

69. Options for making more modest changes now include changing limit and price control settings more slowly than recommended by the Commission, but ramping up over time, or aligning settings for the next two calendar years with the status quo, with more significant change signalled for the latter three years of the regulatory window.

70. Deferring major changes to next year would enable consideration of additional direction from work programmes s9(2)(f)(iv) which may themselves result in decisions being taken that are significant enough to warrant revisiting near-term settings as early as next year. Deferral could also allow for additional time for macro-economic conditions, including cost-of-living pressures, to change and potentially improve.

71. We recommend providing feedback on the paper asking for options that broadly reflect these choices to be included in the paper prior to lodging. The Commission's recommendations as currently presented in the paper can still be identified as the Minister of Climate Change's preferred options, but the paper would strongly benefit from presenting alternate options and supporting analysis to support Cabinet decision-making. Given a number of options were considered and analysed by officials in the RIS, we recommend leveraging these in the first instance.

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Annex 1: Proposed settings and potential alternative options (if Ministers wish to pursue some changes this year)

Area	Cabinet paper proposal	Treasury comments	Potential alternatives
Unit limits	Agreement to update limits for units in line with the Commission's recommendations, including: • setting New Zealand units available by auction, • approved overseas units used and • an overall limit on units.	Agree in principle with an approach that aligns NZ ETS unit limits with emissions budgets and attempts to manage the stockpile over time. Agree with the limit of overseas units being zero given there are currently no approved sources. See below for comments on overall unit limits and drawing down the stockpile.	
	Incorporate a technical adjustment (with material impacts)	We do not recommend adopting this adjustment at this point in time. The draft RIS notes that this decision would have material impacts on auction volume and units supplied, and that the least-cost and least-impact option is to make no adjustment. It also notes that officials are not yet confident such an adjustment needs to be made.	Do not incorporate this adjustment until officials are confident that such an adjustment needs to be made (noting that this could be next year, if still relevant).
	Agreeing to the Commission's calculations of and approach to drawing down the estimated liquid portion of the NZ ETS stockpile.	Unit settings should seek to balance the desirability of drawing down the stockpile over time with the risk of driving prices upwards if there is not sufficient liquidity in the market to meet surrender obligations. We suggest a more cautious approach than what the Commission has recommended given the nature of the market. Significantly constraining auction volume within relatively short timeframes may cause NZ ETS compliance participants to struggle to procure sufficient units to cover their surrender obligations, especially since surrender obligations are for the prior calendar year and therefore the covered emissions have already been emitted. This could drive prices further upwards, with a range of implications. A more ambitious approach to drawing down the stockpile also has potential to drive increased incentives to invest in forestry – exotic forestry in particular. s9(2)(f)(iv) [redacted]	More gradual auction volume reductions with settings for 2023 and 2024 closer to the status quo and instituting greater reductions from 2024 onwards. Option in the draft RIS: *accepting* the Commission's recommended stockpile withholding figure while *not incorporating* the proposed technical adjustment. This results in unit limits that are between the current status quo and the levels recommended by the Commission. Alternative options include: *not incorporating* the proposed technical adjustment and selecting a *relatively smaller amount by which to draw the stockpile down or delaying* the relatively more significant constraint of auction volume to later years thereby creating a buffer of sorts for the next two years.

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Auction reserve price	To update the auction reserve price to reflect the Commission's recommendations. These represent a material increase (roughly doubling) from the status quo. They also push the auction reserve price very close to the status quo trigger price; this materially narrows the price collar.	We recommend considering potential amendments to this price 'floor' alongside CCR settings (the price 'ceiling') since these two settings create an overall price 'collar' for NZ ETS auctions. The current price floor is well below prevailing domestic prices. It is unlikely that the price floor will be triggered in the short- to medium- term, particularly at its current level. The potential benefit of raising the price floor is that it could mitigate investment risk on gross emissions reductions by providing greater certainty in higher values for emissions reductions. However, the draft RIS also notes that increasing the price floor could further incentivising additional afforestation, since the floor could be seen as a form of 'guarantee'. It is unclear which of these effects would dominate.	To adjust current settings for inflation, but not beyond. Consider potential further updates following s9(2)(f)(iv) (and other key climate policy decisions anticipated before settings are required to be set again next year).
Cost Containment Reserve: Updating the structure and settings for the CCR to those recommended by the Commission.	Splitting the CCR into two tiers	We recommend against changing the structure of the CCR at this point in time. An additional tier creates risk of adding unnecessary complexity and the cost of its implementation is likely to be outweighed by the benefits. This is particularly true if CCR trigger prices are seen as 'targets' for market expectations and therefore secondary market prices.	Retain the single tier structure of the CCR. Reconsider changes to the CCR s9(2)(f)(iv)
	That the CCR auction volumes should be equivalent to the amount of 'stockpile withholding' used to support the calculation of unit limits.	We broadly agree with the Commission's recommendation to amend the calculation of CCR volumes to remove the 'additional 5%' on top of the auction volume 'withheld' to draw down the stockpile. If Ministers are concerned that price settings and market expectations are likely to trigger the CCR in the near-term, a mitigant for this could be a CCR of lower volume. The relevant trade-off for such a decision is that the NZ ETS settings' ability to mitigate 'unacceptably high prices' in NZ ETS auctions would potentially be limited. If Ministers opt to withhold a smaller volume in updating NZ ETS auction volumes, this could allow for relatively smaller CCR volumes in the next two years while still retaining the recommended methodology of linking the CCR volume to this stockpile withholding amount.	That CCR volumes could be lower than the amount of 'stockpile withholding' used to support the calculation of unit limits.

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2022/2349

Date: 27 October 2022

To: Minister of Finance
(Hon Grant Robertson)

Deadline: None

Aide Memoire: Australian 'mini-Budget' 2022-23

This Aide Memoire, which is for your information only, briefs you on key points from the 2022-23 Australian 'mini-Budget'[1], delivered on 25 October by Hon Jim Chalmers, the Australian Treasurer.

Key points

- This is the first Budget delivered under a Labour Government in Australia since 2013.
- The Australian economy is experiencing high energy prices and high consumer price inflation (expected to peak at 7¾% in Q4 2022 before moderating over the next two years).
- Economic growth is forecast to slow from 3¼% in 2022–23 to 1½% in 2023–24, as global challenges, increasing interest rates and cost-of-living pressures weigh on growth. Employment growth is expected to moderate, with the unemployment rate forecast to rise to 4½% by the June quarter of 2024, which is still below the pre-pandemic level of 5%.
- The Government continues to face fiscal challenges. The March 2022 Pre-election Economic and Fiscal Outlook (PEFO) revealed a persistent structural deficit, with budget deficits projected for a decade and gross debt as a share of GDP at its highest level in over 70 years. The fiscal position has improved in the near term[2], due to increased tax revenue from strong domestic demand and higher commodity and wage prices. However, from 2024-25, this boost is projected to moderate and be outweighed by growing spending pressures.
- The Budget aims to provide cost-of-living relief without adding to inflationary pressures. Key initiatives include making childcare more affordable, cutting the cost of medicines, expanding the Paid Parental Leave scheme to reach 26 weeks in 2026 and delivering more affordable housing. The Budget also invests in Australia's energy grid and domestic renewable energy market.

[1] A full Budget will be delivered in May 2023.

[2] The 2022-23 deficit is expected to come in at AUD$36.9 billion (1.5% of GDP), less than half the AUD$78 billion forecast at the PEFO.

Australian Economic Outlook

The Australian economy has withstood the pandemic well and is forecast to deliver strong real GDP growth of 3¼% in 2022-23 on the back of a rebound in household spending and strong employment growth. Much like in New Zealand, the return of international students and tourists following the reopening of international borders is expected to further boost the services recovery. Labour market outcomes have been stronger than expected at the March 2022 Pre-election Economic and Fiscal Outlook (PEFO), seeing the unemployment rate reach a near 50-year low of 3.4% in July 2022.

However, facing similar challenges to many advanced economies (a rapidly deteriorating global economic outlook, the global energy price shock, rising and persistent inflation, aggressive monetary tightening, and the risk of recession) the outlook for real growth slows to 1½% in 2023-24 (Table 1).

Inflation is forecast to be more persistent than at the PEFO. Annual inflation is expected to peak at 7¾% in late 2022, before moderating gradually to 3½% by June 2024 and returning to the Reserve Bank of Australia's (RBA) inflation target of 2% - 3% by 2024-25.

Table 1 - Australian Commonwealth Budget economic forecasts

	Actual	Forecasts			
	2021-22	2022-23	2023-24	2024-25	2025-26
Real GDP	3.9	3 1/4	1 1/2	2 1/4	2 1/2
Employment	3.3	1 3/4	3/4	1	1 1/4
Unemployment rate	3.8	3 3/4	4 1/2	4 1/2	4 1/4
Consumer price index	6.1	5 3/4	3 1/2	2 1/2	2 1/2
Wage price index	2.6	3 3/4	3 3/4	3 1/4	3 1/2
Nominal GDP	11.0	8	- 1	4 1/4	5

Note: Real GDP and Nominal GDP are percentage change on preceding year. The consumer price index, employment, and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter.
Source: Australian Treasury

This inflation is largely driven by higher electricity and gas prices[3]. While global oil prices have come down from recent peaks, elevated liquid natural gas and thermal coal prices are expected to have an impact on domestic energy prices. Electricity and gas prices are expected to rise sharply over the next two years, as the cost of energy market disruptions are passed through to households.

More persistent inflation and rising interest rates are forecast to weigh on household spending, increasing mortgage repayments and dampening house prices and other asset values. Based on a survey of market economists (current at publication of the Budget), the cash rate is now assumed to peak at 3.35% in the first half of 2023. This is both sooner and higher than assumed at PEFO, but much lower than current market expectations in New Zealand, which anticipates the Official Cash Rate will peak at 5.35% in Q2 2023.[4]

[3] The Australian Treasury has assumed retail electricity prices will increase by an average of 20 per cent nationally in late 2022, contributing to higher forecast CPI in 2022–23. Given forward wholesale contract prices for electricity remain elevated, retail electricity prices are expected to rise by a further 30 per cent in 2023–24. These increases are expected to directly contribute to ¾ of a percentage point and 1 percentage point to inflation in 2022–23 and 2023–24, respectively

[4] Source: ANZ Bank Monetary Policy Expectations, 27 October

Australian Fiscal Strategy

The Government's Economic and Fiscal Strategy is focused on making the economy and fiscal position stronger, more resilient, and more sustainable over the medium term. The strategy is focused on the objectives of strong, inclusive and sustainable economic growth, full employment, growing real wages, ensuring women's economic participation and equality, and improving living standards for all Australians.

The Budget outlines the first steps towards building fiscal buffers to withstand economic shocks and better manage the fiscal pressures arising from an ageing population and climate change. The Budget does not introduce any codified or numeric fiscal rules for medium-term fiscal sustainability, which is attracting some criticism in commentary.

The Budget is delivering the new Economic and Fiscal Strategy by:

- largely offsetting the fiscal impact of new policies across 2022 and 2023 while inflationary pressures are expected to be most acute;
- implementing $28.5 billion in savings to 2025-26 by unwinding and redirecting spending, deferring infrastructure investment so as not to compound supply constraints, and announcing measures to improve the fairness of the tax system[5]; and
- reducing gross debt as a share of GDP and keeping it lower in each year of the forward estimates than at PEFO.

The immediate priority is to ensure fiscal policy is not adding to inflationary pressures and to begin 'budget repair'. Over time, the focus will shift to achieving measured improvements in the fiscal position to stabilise and reduce gross debt as a share of the economy. The Budget signals that a 'national conversation about how the services Australians need are funded' is required. Commentary suggests significant tax reforms to achieve medium-term fiscal sustainability may be presented in the May 2023 Budget.

Australian Fiscal Outlook

The underlying cash deficit is estimated to be $36.9 billion (1.5% of GDP) in 2022-23, an improvement of $41.1 billion (1.9 percentage points of GDP) since PEFO. Near-term improvements are driven by an improved outlook for receipts. The improvement in receipts is projected to moderate from 2023-24 alongside slowing economic activity and lower commodity prices (Figure 1).

The underlying cash deficits are higher from 2024-25 onwards, with payment pressures related to higher prices, higher debt servicing costs and pressures associated with delivering essential services outweighing improved receipts. Still, the underlying cash balance has improved by a cumulative $42.7 billion over the four years to 2025-26.

This Budget provides an updated assessment of the medium-term fiscal outlook. Pre-election forecasts showed persistent deficits, with many payments[6] growing faster than the economy. Since PEFO, these challenges have grown. The adoption of a more realistic productivity growth assumption, together with higher borrowing costs due to increased interest rates and an upward revision in the estimated cost of delivering the National Disability Insurance Scheme, account for the increased deficit and higher gross debt since PEFO.

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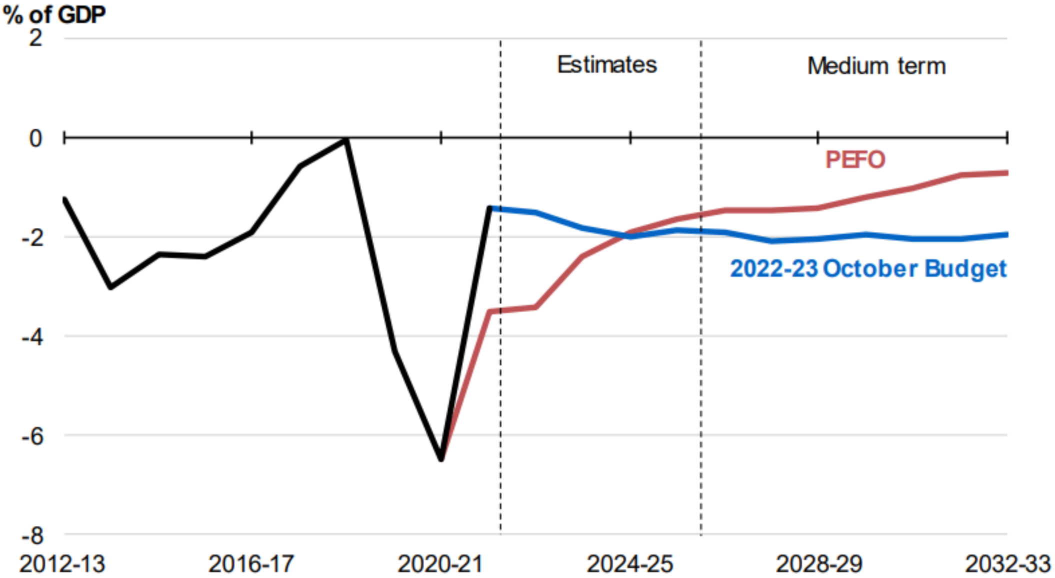
[5] Tax measures include closing tax loopholes to ensure multinationals pay their fair share (raise around $1 billion over 4 years), extending Australian Tax Office compliance programmes (raise net $3.7 billion over 4 years) and implementing previously announced personal income tax cuts by 2024.

[6] Such as the National Disability Insurance Scheme, hospitals, aged care, defence, superannuation, medical benefits, and interest payments on government debt

Figure 1 – Underlying cash balance

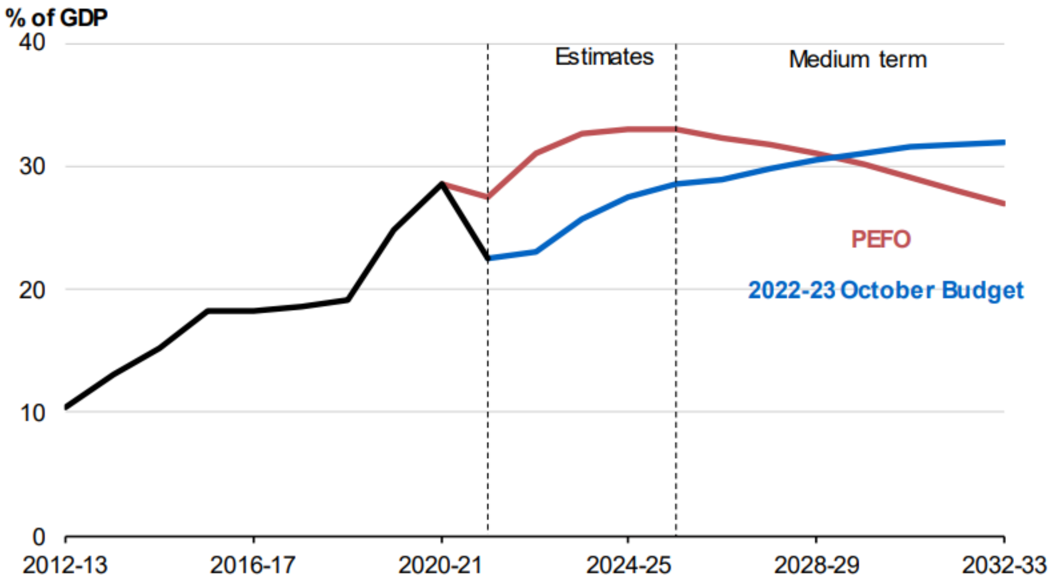


Source: Australian Treasury

Net debt (Figure 2) is estimated to be 23.0% of GDP ($572.2 billion) at 30 June 2023, lower than the estimate of 31.1% of GDP ($714.9 billion) at PEFO. However, net debt is forecast to stabilise much later than previously projected. Note that this debt measure is not the same as the net debt indicators that are produced by New Zealand and the IMF.

The near-term improvement since PEFO primarily reflects the Government's decreased borrowing requirement resulting from the improvement in the underlying cash balance and a decrease in the market value of existing debt due to higher yields. Net debt remains lower than estimated at PEFO across each year of the forward estimates. It is expected to worsen over time in line with an increase in the borrowing requirement, the unwinding of market valuation effects and new debt being issued at higher yields. Net debt is projected to be 31.9% of GDP by 30 June 2033.

Figure 2 – Net debt projections (as share of GDP)



Source: Australian Treasury

Australia's approach to 'measuring what matters'

This Budget introduces the Government's new approach to measuring what matters, by outlining how indicators that measure broader quality of life factors should be considered in addition to traditional macroeconomic measures. The Budget notes that *broader measurement allows society and government to better evaluate the impact of decisions today on future outcomes. For example, education, healthcare, infrastructure and access to childcare are key drivers of future labour force participation and productivity. Similarly, environmental stewardship today will impact living standards and the future health of tourism and agricultural industries, as well as trade partnerships.*

This approach centres on the OECD Framework for measuring well-being and progress. The New Zealand Wellbeing Budget 2019 is referred to as an example of how a wellbeing framework has been successfully integrated into budget and policy-making processes. The Budget specifically notes that *New Zealand's 'Living Standards Framework' includes:*

- *Goals: transitioning to a climate resilient economy, improving health outcomes, improving outcomes for Māori people, reducing child poverty, lifting productivity and wages.*
- *Process: by law, all new policy proposals in the budget must state how they contribute to progress outcomes in the Framework.*
- *Reporting: annual budget describes how policy proposals contribute to progress outcomes with 3-yearly reviews evaluating the impact of policies on goals.*

The Budget states that in 2023, the Government will release a new stand-alone 'Measuring What Matters' Statement tailored to Australia. The Australian Treasury will continue to research and consult experts and other stakeholders on what the Statement should measure, how the Statement should link to other frameworks and goals – including at the state and territory level – and how the Statement should be communicated. We expect the New Zealand Treasury will be engaged as part of this process.

Key Budget Initiatives

Key budget initiatives have been announced as part of three major themes, which are summarised below.[7]

Cost of living relief

The Budget outlines a five-point plan for responsible and targeted cost-of-living relief. The Plan aims to deliver cost-of living relief and an economic dividend without putting pressure on inflation:

- $4.7 billion over four years to deliver cheaper childcare for 1.26 million families.
- $531.6 million over four years to expand Paid Parental Leave to 26 weeks by 2026.
- More affordable housing, including through a new national Housing Accord that brings together governments, investors and industry to boost supply and deliver up to 20,000 new affordable homes.
- $787.1 million over four years to reduce the general patient co-payment for treatments on the Pharmaceutical Benefits Scheme from $42.50 to $30 per script.
- Supporting wage increases for lowest paid workers.

[7] Budget October 2022-23 - Budget at a Glance

Improving resilience and modernising the economy

The Budget aims to invest in the capacity of the Australian economy and the capabilities of the Australian people:

- 480,00 fee-free Technical and Further Education (TAFE) places and a $50 million TAFE Technology Fund to modernise TAFEs.
- Providing 20,000 additional university places for disadvantaged Australians.
- $474.5 million over two years to support student well-being and improve classrooms.
- Initiatives to support women's workforce participation and advancing gender equality.
- Boosting the Work Bonus income bank to give older Australians the option to work and keep most of their pension.
- A Powering Australia Plan to drive investment in cleaner, cheaper energy, including $20 billion of low-cost finance under Rewiring the Nation to upgrade electricity infrastructure.
- Acting on climate change and a $1.8 billion investment in strong action to protect, restore and manage the natural environment.
- Up to $200 million per year on disaster prevention and resilience initiatives through the Disaster Ready Fund, as well as additional funding for flood affected communities and extra staff to quickly get Australians the support they need.
- Establishing the $15 billion National Reconstruction Fund to support a future made in Australia.
- More than $120 billion of investment in transport infrastructure over the next 10 years.
- $2.4 billion in NBN Co (Australia's federally-owned broadband network) to extend fibre access to 1.5 million more premises and $1.2 billion for the Better Connectivity for Regional and Rural Australia Plan.
- Protecting farmers from pests and diseases such as foot-and-mouth disease.

Repairing the Budget for medium term fiscal sustainability

This Budget begins the task of 'Budget repair', so that government can pay for the services that Australians value:

- $28.5 billion in Budget improvements, including spending reductions, re-prioritisations and strengthening the fairness and integrity of the tax system.
- Returning 99% of upgrades to tax receipts to the Budget and offsetting nearly all policy decisions across this year and next.
- $235 million to commence the rollout of Urgent Care Clinics and $750 million set aside for the Strengthening Medicare Fund.
- New investment of $3 billion to deliver better aged care.
- Preparing for the referendum to enshrine a First Nations Voice to Parliament in the Constitution.
- Restoring the National Disability Insurance Scheme and securing its future.
- $1.7 billion over six years in initiatives to support women's safety.
- Equipping Defence to respond to global and regional security challenges, with funding for Defence rising to more than 2 per cent of GDP over the forward estimates.
- Initiatives to ensure the integrity and security of Australia's borders.
- Establishing a National Anti-Corruption Commission to restore trust and integrity in government.

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