

# The Treasury

## Budget 2021 Information Release

### August 2021

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- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Not in scope
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## Treasury Report: Budget 2021 Bilateral Advice: Economic and Regional Development

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<b>Date:</b>	11 December 2020	<b>Report No:</b>	T2020/3769
		<b>File Number:</b>	BM-2-4-2021-5

### Action sought

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	Action sought	Deadline
Hon Grant Robertson <b>Minister of Finance</b>	<b>Note</b> the contents of this report ahead of your Budget 2021 bilateral discussion with the Minister for Economic and Regional Development.  <b>Raise</b> the speaking points suggested in this report.	14 December 2020
Hon Dr Megan Woods <b>Associate Minister of Finance</b>		

### Contact for telephone discussion (if required)

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Name	Position	Telephone	1st Contact
Tayla Forward	Graduate Analyst, Transitions, Regions, and Economic Development	[39]	N/A (mob) ✓
Jean Le Roux	Manager, Transitions, Regions, and Economic Development		N/A (mob)

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

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**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

## **Treasury Report: Budget 2021 Bilateral Advice: Economic and Regional Development**

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### **Executive Summary**

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This report provides you with initial advice about the funding needs for the Economic and Regional Development (ERD) portfolio in Budget 2021, to inform your bilateral discussion with Minister Nash on Monday 14 December.

Within the ERD portfolio, the Treasury is aware of ten proposed bids relating to manifesto commitments and four cost pressures. After a brief initial assessment, we consider there to be up to eight proposals meeting the criteria to be invited to submit bids in Budget 2021. More information on the proposals is provided in Annex Two.

Talking points for this meeting are provided in Annex One. Key aspects to investigate related to the ERD portfolio are:

- MBIE has indicated disruptions to third-party revenue sources due to COVID-19. You may wish to discuss with the Minister how he intends to approach risks surrounding MBIE's funding model.
- You may wish to ask the Minister how he intends to prioritise within, and consider the linkages between, the tourism, economic and regional development portfolios in relation to the COVID-19 response and recovery.
- You may wish to seek options on phasing or reprioritisation options for the Regional Strategic Partnership Fund that would avoid the need for Budget 2021 funding.

[33]

## **Recommended Action**

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We recommend that you:

- a. **note** the advice about the Economic and Regional Development portfolio ahead of your Budget 2021 bilateral discussion with the Minister for Economic and Regional Development on 14 December.
  - b. **raise** the speaking points suggested in Annex One of this report in your Budget 2021 bilateral discussion with the Minister for Economic and Regional Development.
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Jean le Roux

**Manager; Transitions, Regions and Economic Development**

Hon Grant Robertson  
**Minister of Finance**

## Treasury Report: Budget 2021 Bilateral Advice: Economic and Regional Development

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### Purpose of Report

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1. This report provides you with initial advice on funding needs for the Economic and Regional Development portfolio in Budget 2021. This advice can inform discussions during your bilateral meeting with the Minister for Economic and Regional Development on 14 December, and your letter of invitation to the Minister to submit Budget 2021 initiatives.

### Background and Context

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2. The Economic and Regional Development (ERD) portfolio is responsible for approximately \$750 million for the 2020/21 financial year, within Vote Business, Science and Innovation. This combines the Regional Economic Development and Economic Development portfolios that have previously been separate.
3. Though this meeting engages Minister Nash in his capacity as Minister for Economic and Regional Development, he also holds the Tourism and Small Business portfolios within Vote Business, Science, and Innovation. We expect Minister Nash to raise concerns relating to funding across his ministerial portfolios. We consider it appropriate for Small Business and Tourism to be discussed together with ERD given the relevance of these portfolios for economic development. They have been included in this briefing accordingly.
4. Minister Nash is the Minister responsible for MBIE. As such, MBIE-wide cost pressures are addressed through the ERD portfolio and are outlined in this briefing insofar as they relate to Budget 2021.
5. The ERD portfolio has a particular role to play in supporting government priorities around accelerating the recovery and rebuild from the impacts of COVID-19, and preparing for the future.
  - a. Supporting small business and entrepreneurs is one of the key priorities raised by the government in line with its economic strategy. [33]
  - b. The ERD portfolio contains the Industry Transformation Plans (ITPs) and responsibility for NZ Trade and Enterprise (NZTE). These are key levers for progressing government strategic objectives around positioning New Zealand globally, by assisting in unlocking high-productivity export opportunities and building on New Zealand's comparative strengths.
6. Significant funding was allocated through the Economic Development portfolio from the COVID-19 Recovery and Response Fund. While there has been some reporting through the Implementation Unit, the Treasury does not have sufficient information to form a view on agency-wide delivery of these initiatives by MBIE. You may wish to ask the Minister how he intends to monitor and report on CRRF delivery.

7. The remainder of this report outlines manifesto commitments and cost pressures relating to the ERD portfolio, which you may raise in the discussion with Minister Nash. Annex Two provides an overview of our initial views of the bids identified in Minister Nash's response letter.

## Key Funding Issues

8. The Minister for ERD has identified ten bids relating to manifesto commitments and four cost-pressures seeking invitation to the Budget 2021 process.
9. The Treasury has carried out a high-level initial assessment against the criteria outlined in the letter from the Minister of Finance to the Minister for ERD on 27 November. The initiatives that satisfy our preliminary considerations to be invited to submit a bid for Budget 2021 are as below:

### *Manifesto commitments*

Portfolio	Initiative	Indicative cost	Initial Vote team comment
Small Business	Accelerating and strengthening Business Connect	\$10.5 million per annum	We consider this bid to likely be a sufficiently high priority to be invited to submit a bid for Budget 2021. We would propose scaling options be explored.
Small Business	SME digital training scheme	[33]	We consider this bid to likely be a sufficiently high priority to be invited to submit a bid for Budget 2021. We would propose scaling options be explored.
[33]			
[33]			
Tourism	[33]		We consider it likely that this bid is sufficiently time-sensitive to necessitate funding through Budget 2021. Reprioritisation/scaling options available

### *Critical cost pressures*

Portfolio	Initiative	Indicative cost	Initial Vote team comment
Economic Development	New Zealand Screen Production Grant – International	\$140 million next year, further funding required in outyears	We consider that this meets the definition of a critical cost pressure.

[33]

## **Manifesto commitments**

### *Acceleration and strengthening of Business Connect - [33]*

10. The government has signalled a commitment to accelerating and strengthening Business Connect. Business Connect provides a single point of contact that enables businesses to manage and update the information required of them by government.
11. The Business Connect appropriation is funded until the end of the current financial year (June 2021), after which all funding ends. Business Connect will cease to operate if it is not successful in gaining additional funding.
12. We understand that Minister Nash intends to advance a bid for this initiative. The Labour manifesto and fiscal strategy documents signalled that the Business Connect development unit will be funded from within MBIE baselines. If you wish to progress this commitment at pace, you may consider allocating additional funding for the initiative, or accepting a cost pressure bid for small business policy capability (discussed later in this report). Of these options, we would favour specifically funding the initiative, in order to tighten accountability on policy deliverables.

### *Digital Training Vouchers - [33]*

13. The government has committed to funding 30,000 Digital Training Vouchers for short-courses or training in digital capability.
14. The intent is to establish a small business national digital training, advisory and support programme. Increasing the rate at which New Zealand and its businesses adopt digital ways of working, develop weightless goods and digital commerce will support more businesses and employees to keep working safely through COVID alert levels and support New Zealand's economic recovery.
15. As such, you may consider Budget 2021 an opportunity to promote firms' resilience to public health escalations, and injecting support for long-term productivity as the broader economy enters a weaker phase.
16. We understand that Minister Nash intends to advance a bid for this initiative. MBIE has indicated that they can achieve the policy intent for this initiative at a significantly lower cost than the \$75 million referred to in the manifesto costings, so scaling options will be explored.
17. We consider this bid to likely be a sufficiently high priority to be invited to submit a bid for Budget 2021.

[33]



[33]

*Industry policy: Industry Transformation Plans* [33]

22. The government has signalled its commitment to working with industry through Industry Transformation Plans to support their transition and grow high-value export firms.
23. The ITP program as it is currently scoped is funded through MBIE's policy advice baseline. It received time-limited funding from the CRRF to expand services. We consider there to be no obvious driver for funding to be sought through Budget 2021 for further expansion of services.
24. The risks present in not providing further funding for ITPs are uneven across the involved sectors. Funding for the NZ Food innovation Network (NZFIN) is not for an extension of services, but funding for continuation of current services through the Network. The risk of no funding being provided is possible closure of a number of the food hubs which are presently supporting innovation and diversification in the food and beverage sector.
25. We consider this bid to likely be a sufficiently high priority to be invited to submit a bid for Budget 2021, though would encourage prioritisation within the ITP work programme and propose scaling options be explored.

*Tourism - \$30 million over two years*

26. The government has also signalled its commitment to restart and reimagine a more sustainable tourism industry.
27. The Minister for Tourism has noted that he is considering this work alongside the other ITP work streams he is responsible for. It is therefore important that any proposed tourism interventions are considered within the wider industry strategy context.
28. [33]
29. The Government has established an industry-led Tourism Futures Taskforce which is expected to deliver draft recommendations this month, with the final report due April 2021. The recommendations will not be focused on any short-term COVID-recovery, rather advice on longer-term structural issues.

30. We consider this bid likely to be sufficiently high priority to be invited to submit a bid for Budget 2021.

[33]

*The Regional Strategic Partnership Fund – \$200 million (over x years)*

36. Regional economic development is mostly addressed in the Government's manifesto through the proposed "Regional Strategic Partnership Fund" (RSPF).
37. This \$200 million initiative will fund local development agencies to produce regional economic development plans, and fund projects arising from those plans. The PDU at MBIE and Treasury are currently working on RSPF policy design and potential reprioritisation options for funding, including out of the PGF.
38. It is likely that this initiative can be deferred given that MBIE has yet to complete detailed policy work.

**Cost pressures**

*New Zealand Screen Production Grants – \$140 million next year, further funding required in outyears*

39. New Zealand Screen Production Grants (NZSPG) domestic and international appropriations are currently funded at the level of \$12.5 million and \$50.33 million respectively to allow eligible screen productions to access a cash rebate. Actual spend on the grant has been significantly higher than these appropriations since 2016, and current annual expenditure on the international grant is more than three times higher than the baseline appropriation. This has resulted in annual

top ups to the appropriation in each Budget, and in some cases has required out-of-cycle cost pressure bids.

40. The NZSPG was identified as a Specific Fiscal Risk in Budget 2020. As a condition to receiving further funding for the NZSPG at last Budget, the Minister of Finance requested a joint report back be provided by the Minister for Economic and Regional Development and the Minister for Arts, Culture and Heritage on the fiscal sustainability of the NZSPG. Treasury is supportive of this work. The report back provides an opportunity to consider the prospective increase in spend in future years and should indicate options for strengthening fiscal control of the NZSPG.
41. MBIE have indicated that they would like to seek funding of \$0.5 million for improved monitoring and evaluation of the NZSPG.
42. We consider that this meets the definition of a critical cost pressure, as outlined in the Budget Strategy Cabinet paper, and recommend you invite a cost pressure bid for the NZSPG.

[33]

[33]

*MBIE corporate services*

50. Minister Nash is the Minister responsible for MBIE. As a result, MBIE-wide cost pressures are implemented through the Economic Development portfolio. These cost-pressures should be considered from an agency-wide perspective, rather than on a portfolio-by-portfolio basis.
51. Within the immigration portfolio, MBIE have indicated a critical cost pressure due to disruptions to third-party revenue as a result of COVID-19, particularly visa applications. An invitation to seek funding through Budget 2021 is being sought to support the delivery of core immigration services in 2021/22. The funding shortfall is estimated to be in the range of \$170-200 million. Minister Faafoi has commissioned a review of the INZ's funding model and intends to report back to Cabinet in mid-2021 with proposals for the future funding models.
52. MBIE have recently taken on additional responsibilities for MIQ, with funding being met within baselines. MBIE have indicated that the ability to absorb new functions and reprioritise from existing baselines is constrained. You may wish to ask Minister Nash how he intends to approach risks surrounding MBIE's broader funding model.
53. We recommend you discuss with the Minister that you expect them to deliver a reprioritisation proposal across MBIE's baseline in conjunction with bids for baseline funding.
54. We are not aware of any intention to submit corporate cost pressure bids.

## Annex One: Talking Points

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### ***General Budget 2021 talking points***

- The approach to Budget 2021 will require greater discipline. Given the constrained fiscal environment, there will be a high bar for new spending and it is important that spending is prioritised effectively and focus is placed on achieving value for money.
- To maximise progress on the change we want to deliver, we need to shift focus and resources towards targeting the drivers of wellbeing that matter most to New Zealanders.
- New spending is not the only lever for achieving the Government's objectives. Ministers should consider all the levers available before requesting new funding, including examining baseline expenditure, ensuring that your agencies are delivering on the significant investments we have already made, and progressing non-spending initiatives such as regulatory reforms.
- As agreed by Cabinet, the Priorities for Budget 2021 are:
  - Continuing the COVID-19 response,
  - Delivering priority and time-sensitive manifesto commitments
  - Supporting core public services through managing critical cost pressures and manifesto commitments, and
  - Continuing to deliver on existing investments.
- In contrast to previous Budget processes, only Ministers who the Minister of Finance has invited will be able to submit initiatives for consideration through Budget 2021. These initiatives will be limited to critical cost pressures and the highest priority manifesto commitments.
- There are three Budgets from which to meet commitments, so Ministers should make a strong case for invitation to submit bids for consideration through Budget 2021.

### ***Portfolio-specific talking points***

- MBIE have indicated the disruptions to third-party revenue due to COVID-19. You may wish to discuss with Minister Nash how he intends to approach risks surrounding MBIE's funding model.
- How is Minister Nash thinking about prioritisation within and the linkages between his tourism, economic and regional development portfolios in relation to COVID-19 response?
- What phasing or reprioritisation options are available for the Regional Strategic Partnership Fund and the Provincial Development Unit cost pressure that would avoid the need for Budget 2021 funding?

## Annex Two: Summary of anticipated initiatives

*Initial Vote Analyst comments are intended to be an early assessment against criteria outlined in Budget strategy documents, not a value-for-money assessment. Bids are not sufficiently developed to inform robust analysis.*

Portfolio	Bid type	Initiative	Indicative cost	Initial Vote team comment
[33]				
[33]				
Economic Development	Cost pressure	New Zealand Screen Production Grant – International	\$140 million next year, further funding required in outyears	We consider that this meets the definition of a critical cost pressure.
Economic Development	Cost pressure	37 <sup>th</sup> America’s Cup	[38]	We <b>do not</b> consider that this meets the definition of a critical cost pressure.
Cross-Government	Manifesto Commitment	Carbon Neutral Government Programme	\$10 - \$30 million opex, [33]	This initiative is addressed in our advice on the Climate ministers’ multilateral meeting.
Regional Economic Development	Manifesto commitment	Seed funding for the Regional Strategic Partnership Fund (RSPF)	\$200 million over forecast period	It is likely that this initiative can be <b>deferred</b> given that related policy work has yet to be MBIE is yet to be completed.

[33]

Portfolio	Bid type	Initiative	Indicative cost	Initial Vote team comment
Small Business	Manifesto commitment	Accelerating and strengthening Business Connect	[33]	We consider this bid to likely be sufficiently high priority to be invited to submit a bid for Budget 2021.
Small Business	Manifesto commitment	SME digital training scheme	[33]	We consider this bid to likely be sufficiently high priority to be invited to submit a bid for Budget 2021.
[33]				
Tourism	Manifesto commitment	[33]	\$30 million over two years	We consider it likely that this is sufficiently time-sensitive to necessitate funding through Budget 2021. Reprioritisation/scaling options available.
Tourism (Māori package – Minister Davis*)	Manifesto commitment	Māori tourism restart	\$15 million over two years	We consider this bid likely to be sufficiently high priority to be invited to submit a bid for Budget 2021.

*\* We are aware of a proposed Budget bid to support Maori Tourism seeking invitation through the Minister Davis' Maori Development portfolio. This is only indirectly related to the Minister Nash's portfolios through connection with tourism.*

## Annex Three: Background on the Provincial Growth Fund

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The previous Government used the Provincial Growth Fund (PGF) to pursue regional economic development. The PGF provides grants, loans and equity to public and commercial initiatives outside of major cities. It also funds major infrastructure projects and One Billion Trees.

\$3 billion was allocated to the PGF from:

- Counting new and existing Budget initiatives against the PGF where they aligned with PGF objectives.
- New funding appropriated through Budgets 2018-2020.

### ***The Provincial Development Unit***

The Provincial Development Unit (PDU) within MBIE oversees the PGF as both delivery agency and lead policy advisor. In 2020, PDU was assigned responsibility for delivering several further programmes, including:

- The Strategic Tourism Assets Protection Programme,
- A number of “shovel-ready” Infrastructure Reference Group projects,
- Regional components of the New Zealand Upgrade Programme.

PDU reports increasing cost pressures as a result of these responsibilities.

### ***PGF – Remaining Funding***

The total PGF fund is \$3,109.9m. The most recent aggregated PGF data is presented below:

	As at 28 October 2020 (\$m)
Committed	3,064.0
Approved	2,986.7
Contracted	2,335.4

*Committed funding:* The sum of approved projects (announced and unannounced), unspent allocations, contingencies, and operating expenditure.

*Approved funding:* Funding approved for specific projects.

*Contracted funding:* Funding for which legal agreements have been signed with counterparties.

### ***The Regional Strategic Partnership Fund***

Regional economic development is mostly addressed in the Government’s manifesto through the proposed “Regional Strategic Partnership Fund” (RSPF). This \$200 million initiative will fund local development agencies to produce regional economic development plans, and fund projects arising from those plans. PDU and Treasury are currently working on RSPF policy design and potential reprioritisation options for funding, including out of the PGF.