

The Treasury

Budget 2021 Information Release

August 2021

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Key to sections of the Act under which information has been withheld:

- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment
- [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
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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Treasury Report: Budget 2021: Treatment of the COVID-19-related Deficit in the Immigration Fees Memorandum Account

Date:	21 January 2021	Report No:	T2021/23
		File Number:	SH-2-0

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	<p>Note that “writing off” the COVID-19-related deficit in the immigration fees memorandum account is not expected to have additional fiscal implications</p> <p>Agree that this proposal would be best considered outside of the Budget 2021 process</p> <p>Send the attached letter informing the Minister of Immigration that the proposal will be considered by Cabinet in March 2021, outside of the Budget 2021 process</p>	25 January 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Richard Baird	Senior Analyst, Skills and Work	[39]	N/A (mob) ✓
Shannon Tyler	Acting Manager, Skills and Work		N/A (mob)

Minister’s Office actions (if required)

Return the signed report to Treasury.

Date, sign and send the attached letter

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Budget 2021: Treatment of the COVID-19-related Deficit in the Immigration Fees Memorandum Account

Purpose of Report

1. To seek your agreement to:
 - a withdraw your earlier invitation to the Minister of Immigration to submit a proposal for Budget 2021 to “write-off” the COVID-19-related deficit in the Immigration Fees Memorandum Account, and
 - b invite the Minister of Immigration to submit the proposal to Cabinet in March 2021 as part of the wider report-back from Border Ministers on the funding sustainability and cost recovery of the border system.

Context for Proposal

2. Border agencies, including Immigration New Zealand (within the Ministry of Business, Innovation and Employment (MBIE)) are substantively funded by third parties.
3. These agencies utilise memorandum accounts to facilitate the full recovery of costs of providing particular services from the users of those services. Memorandum accounts are a reporting and management tool to track the overall balance of spending and revenue over time, informing the periodic re-adjustment to fees required to return the balance to zero over the medium term.
4. COVID-19 has significantly reduced the revenue streams of border agencies due to border restrictions. Agencies have generally been unable to reduce spending to the same extent, resulting in some negative memorandum account balances. MBIE’s Immigration Fees Memorandum Account (the memo account) has deteriorated by \$156 million since the start of COVID-19, from a deficit of \$56 million to \$212 million as at 31 December 2020.
5. In order to continue to operate, border agencies have run down cash reserves and have sought capital injections from Cabinet, in lieu of revenue from third parties.
6. Cabinet agreed [CAB-20-MIN-0148 and CAB-20-MIN-0328.03 refer] to provide capital injections to these agencies, including \$306 million for MBIE (a combination of injections and contingency funding) to cover the cash shortfall in continuing to provide immigration services.
7. As at 31 December 2020, to cover the additional \$156 million deficit, MBIE has only drawn down \$110 million (enough of the capital injections to maintain liquidity), while running down cash reserves for the replacements of assets or held on trust for other memo accounts by \$46 million.
8. As there was no explicit decision that the capital provided by the Crown would need to be repaid, for fiscal management purposes the fiscal costs were managed against the COVID-19 Response and Recovery Fund, and the fiscal forecasts have assumed that the capital injection will not be repaid to the Crown.

9. However, without an explicit decision around the repayability of this funding, formalised through the “write-off”¹ of the COVID-19 related deficit, there is uncertainty as to whether future fee payers will face higher fees in the future to enable repayment.
10. In December 2020, the Minister of Immigration wrote to you seeking your invitation to submit a Budget 2021 initiative that would write-off the COVID-19-related deficit in the memo account. This would formalise the position from the capital injections that the Crown would bear these COVID-19-related costs, rather than future fee payers.
11. You agreed and communicated to the Minister your decision to invite the initiative through a letter on 21 December 2021. However, you also informed the Minister that the initiative may be deferred to later Budgets depending on the fiscal impacts.

Why Cabinet Consideration of the Proposal Would be More Appropriate

“Writing off” the COVID-19-related deficit is not expected to have further fiscal impacts...

12. After giving the proposal further consideration, the Treasury has concluded that “writing off” the COVID-19-related deficit in the memo account is a technical change and is not expected to have further funding or fiscal impacts.
13. In general, the expectation is that capital injections by the Crown to support memorandum accounts should be recovered from fee payers over time and repaid back to the Crown. As such, there are normally no fiscal management implications with these decisions.
14. However, when Cabinet originally approved the capital injections and tagged contingencies for the border agencies, the full costs and associated debt impacts were managed against the COVID-19 Response and Recovery Fund (CRRF). As funding has already been provided, and the fiscal forecasts assume capital injections will not be recovered, it is not necessary to provide further funding to “write-off” the COVID-19-related deficit from the memo account.
15. There remains a risk that further capital may be required, which would have further funding or fiscal impacts. MBIE’s current forecasts suggest that the \$306 million capital allocated should be sufficient to cover the anticipated COVID-19-related revenue shortfall of \$263 million by 30 June 2021. However, uncertain visa volumes or further immigration policy decisions – [33]
– could further increase the shortfall.

... and preparing and assessing this proposal through Budget 2021 is unlikely to add value to decision makers.

[33]

¹ This is not the write-off of an asset in the strict accounting sense, but rather applying the Crown capital injection to the memorandum account balance, reducing the size of the deficit

17. The Treasury's best practice guidelines for charges and cost recovery² includes the principles that payers are not over-charged for the cost of services received, and that to the extent possible cross-subsidisation across time is avoided – especially where the population of payers changes over time.
18. However, these principles must be balanced against:
 - a The general intent that the beneficiaries of these services pay the full cost
 - b The incentives placed on MBIE to operate the immigration system (including charges) effectively
19. Taken together, these considerations provide a possible rationale for “writing off” the COVID-19-related deficit, while also retaining the \$56 million memorandum account deficit that predated COVID-19.
20. Given the technical, non-fiscal nature of this issue, we do not consider there to be much benefit from MBIE producing an initiative proposal and Treasury assessing as part of the Budget 2021 process.
21. However, given the ambiguity that currently exists, we consider that the decision not to cost recover these COVID-19-related deficits from future fee payers is a significant policy matter that should be considered at Cabinet.
22. There is an opportunity for Cabinet to consider the proposal in March 2021 as part of the wider report-back from Border Ministers on the ongoing operation and funding of the border system. We understand that this is the approach being taken by other Ministers, and this will enable Cabinet to make consistent decisions across the system.
23. In addition, we expect MBIE to seek confirmation from Cabinet that it can use \$46 million of the total capital funding to replenish the cash reserves required for the replacements of assets or held on trust for other memo accounts.
24. We will provide you with advice on these proposals closer to Cabinet consideration.

Next Steps

25. If you agree, we recommend that you sign and send the attached letter to the Minister of Immigration to inform him of your decision on this matter, and your expectation that Cabinet will be consulted in March 2021.
26. Otherwise, we will confirm with MBIE as soon as possible that a bid submission is still required.

² <https://www.treasury.govt.nz/publications/guide/guidelines-setting-charges-public-sector>

Recommended Action

We recommend that you:

- a **Note** that Cabinet has provided the Ministry of Business, Innovation and Employment with capital injections of up to \$306 million to cover the anticipated shortfall of third-party immigration revenue in 2019/20 and 2020/21 due to COVID-19;
- b **Note** that the proposal to “write-off” the COVID-19-related deficit in the Immigration Fees memorandum account is not expected to have additional funding or financial implications;
- c **Note** that on 21 December you agreed to the Minister for Immigration’s proposal to invite a Budget 2021 initiative to “write-off” the COVID-19-related deficit in the Immigration Fees memorandum account;
- d **Agree** that it is most appropriate for Cabinet to consider this proposal outside of the Budget 2021 process, alongside similar requests from other Border Ministers, as part of the report-back expected in March 2021; and

Agree / disagree

- e **Send** the attached letter to the Minister of Immigration, informing him of your decision in ‘d’ above.

Agree to send / disagree.

Shannon Tyler
Acting Manager, Skills and Work

Hon Grant Robertson
Minister of Finance

Hon Grant Robertson

MP for Wellington Central

Deputy Prime Minister

Minister of Finance

Minister for Infrastructure

Minister for Sport and Recreation

Minister for Racing



Annex 1: Draft letter

X January 2021

Hon Kris Faafoi
Minister of Immigration
Parliament Buildings

Dear Kris

Further to my recent engagement on Budget 2021, my officials have informed me of a matter relating to the initiative for the *Treatment of COVID-19-related Memorandum Account Deficit* that I agreed to invite for submission for Budget 2021.

As Cabinet has already approved and accounted for the necessary capital injections to the Ministry of Business, Innovation and Employment, the decision to “write-off” COVID-19-related deficits is not expected to have further funding or financial implications. I therefore consider that the initiative should not be submitted for consideration through the Budget process as there is little benefit in further assessment.

However, I still consider that the decision not to cost recover these deficits from future fee payers is a significant policy matter that should be considered at Cabinet. This is an issue shared by other affected border agencies. I understand that there will be an opportunity for this consideration when Border Ministers report to Cabinet in March 2021.

Yours sincerely,

Hon Grant Robertson,
Minister of Finance