

Briefing to Incoming Minister Information Release

Release Document

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26 October 2017

Hon Grant Robertson
Minister of Finance
Parliament Buildings
Wellington



Briefing for the incoming Minister

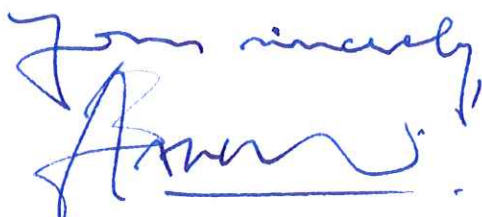
Congratulations on your appointment.

Attached is a briefing that introduces the Treasury, sets out an overview of your role and responsibilities and provides additional material to facilitate conversations with us over the coming weeks. The latter covers a range of domestic and international policy issues.

I have also included a short explanation of the Treasury's Living Standards Framework (LSF), along with a description of the financial/physical, natural, social and human capitals that are fundamental to intergenerational wellbeing. I am very keen to discuss with you our current work programme on the development of the LSF and its application to policy development.

You are taking up your role at a time when New Zealand's economy is in a relatively strong position. There is solid forecast growth, complemented by fiscal surpluses and a sustainable net debt position. And while international markets still present a number of risks and uncertainties, overall the global economy – as reflected in the IMF's recent outlook – presents opportunities for New Zealand to seize, in particular with Asia's ongoing growth. As Minister of Finance, you have a key role in shaping our international connections and the associated flows in trade, capital, people and ideas.

The Treasury looks forward to working closely with you and supporting you and the Government to deliver on your priorities.



Gabriel Makhoul

1 November 2017

Hon Dr David Clark
Hon David Parker
Hon Shane Jones
Hon James Shaw
Associate Ministers of Finance

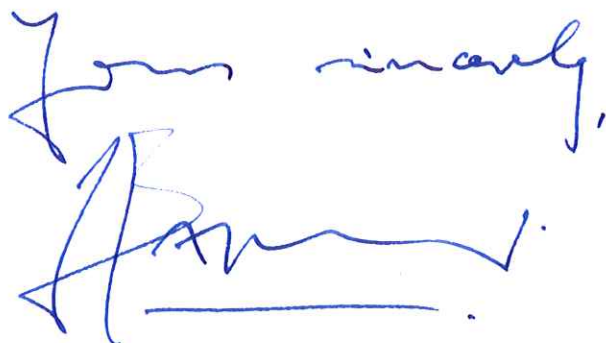


Briefing for the Incoming Minister of Finance

Congratulations on your appointment. I look forward to supporting you all as Associate Ministers of Finance and helping you achieve your priorities as an incoming Government.

The attached briefing was prepared for the Minister of Finance and gives a summary of that role, and the responsibilities and the processes that come with it. It also includes some information about the Treasury itself.

The Minister of Finance has agreed that it would be helpful to share this information with you as Associate Ministers of Finance.



Gabriel Makhlouf

Briefing for the Incoming Minister of Finance

October 2017

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1 Your Responsibilities

1.1 Overview

Part 1 of this briefing gives you a summary of your role, and the responsibilities and processes that come with it. Part 2 sets out how the Treasury can support you in your role, and provides some contextual information about us.

You hold one of the most important positions in the country. Your appointment as Minister of Finance means you have a key role in all aspects of the economy, extensive influence in government decision making and substantial responsibilities to represent New Zealand internationally.

Being the Government's lead Minister on financial and economic policy gives you a wide-ranging ambit. There are some specific responsibilities around leading the annual Budget cycle and associated requirements to be transparent about the Government's books. You are the Minister with responsibility for macroeconomic policy settings and banking supervision policy, and you also set the Government's economic strategy (with other Ministers).

This broad economic leadership role means that you have interests across other Ministers' portfolios – beyond just potential fiscal impacts – and through the Budget and related processes you have considerable influence over those portfolios. You have explicit levers such as financial decisions around spending and holding overall responsibility for the Crown's finances (including all revenue), plus less direct levers such as engagement with your ministerial colleagues. You also have the ability to veto any proposed bill, amendment or motion which would have more than a minor impact on the Government's finances.

You play a key part in projecting New Zealand's position in the world and shaping our international connections in trade, capital, people and ideas. The Minister of Finance is New Zealand's Governor at major international financial institutions including the IMF and World Bank. International investors, rating agencies and commentators will also look to you for a steer on New Zealand's economic direction and prospects. Specific policy responsibilities here relate to your role around overseas investment and your role in managing New Zealand's debt programme.

There are many other statutory roles, powers and duties for the Minister of Finance across a large number of other statutes. Details of the relevant statutes for your role are in Annex A.

We will support you in all your specific responsibilities and your broader role across government.

1.2 Organisations

You are responsible for the following organisations:

Departments	The Treasury
Crown entities	Government Superannuation Fund Authority Guardians of New Zealand Superannuation New Zealand Productivity Commission
PFA Schedule 4 organisations	New Zealand Government Property Corporation (the legal owner of New Zealand House in London)
Other organisations	Reserve Bank of New Zealand <ul style="list-style-type: none">• Power to appoint the Governor, fix targets for monetary policy Government Superannuation Appeals Board <ul style="list-style-type: none">• Power to appoint members Community Trusts <ul style="list-style-type: none">• Power to appoint members

1.3 Public Finance Act Roles and Responsibilities

The Public Finance Act 1989 (PFA) sets out your role in relation to the annual Budget and also gives you a number of functions, duties and powers. Many of these provisions entail a close working relationship between you and us. We also have responsibilities of our own under the PFA.

The Government's annual financial cycle

The Government must not incur expenses or capital expenditure or make capital injections without Parliament's approval, so your input is required throughout the year. As well as the main responsibility of delivering the Budget, your key requirements over the annual financial cycle are:

- to table in Parliament a *Half-year Economic and Fiscal Update* prepared by the Treasury (HYEFU) between 1 November and 31 December
- to publish the *Budget Policy Statement* (BPS) by 31 March
- to introduce the Appropriation (2017/18 Supplementary Estimates) Bill and present the 2017/18 Supplementary Estimates so the Bill can be passed before the end of the 2017/18 financial year

- to introduce the Appropriation (2018/19 Estimates) Bill and deliver the 2018 Budget by 31 July. On the same day you must present the Government's *Fiscal Strategy Report* (FSR), an *Economic and Fiscal Update* prepared by the Treasury (BEFU), and the Estimates and supporting information, and
- to arrange for the Government's monthly financial statements to be published and annual financial statements to be presented, plus sign a statement of responsibility for the annual statements.

To meet PFA deadlines, governments over the past 20 years have adopted the following practice:

- HYEPU and BPS published together in December.
- Appropriation (Estimates) Bill for financial year about to start introduced and Budget delivered on third or fourth Thursday in May (Budget day).
- Appropriation (Supplementary Estimates) Bill introduced and Supplementary Estimates for financial year about to end presented on Budget day.

Actual and forecast financial statements

Under the PFA, the Treasury prepares the Government's annual and monthly financial statements. You have overall responsibility for the integrity of these financial statements.

We also prepare economic and fiscal updates (often referred to as BEFU, HYEPU and PREFU) which include forecast financial statements. You have responsibility for aspects of those updates, in particular for the disclosure of government decisions.

Fiscal responsibility

Under the PFA, you will need to pursue your policy objectives in line with the principles of responsible fiscal management. If you depart from these principles the PFA requires you to state the reasons why, plus how and when you will return to them. There are reporting obligations during the year that hold the Government to account over the financial cycle, but there are others on top of these:

- A statement on the long-term fiscal position, which is prepared by the Treasury every four years. The next is due by 2020.
- An investment statement also prepared by the Treasury every four years. The next one, due by March 2018, will take a living standards' capitals approach to an appraisal of the Crown balance sheet.
- A pre-election economic and fiscal update (PREFU) prepared by the Treasury.
- Deciding what information should be left out of an economic and fiscal update because its inclusion would prejudice New Zealand's interests or result in a material loss to the Government.

Other matters relating to appropriations

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

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

Financial powers

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

Departments' strategic intentions

A department can be required to provide its Minister with new information on its strategic intentions at any time, and you can extend by one year the three-year period they have to provide that information.

Reporting by newly-established or disestablished entities

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

Bank accounts

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

1.4 Responsibilities for State-Owned Enterprises, Crown-owned Companies and Crown Entities

You have a range of powers in relation to Crown-owned companies and Crown entities. Some powers are specific to different roles you have: as Minister of Finance; as a shareholding Minister; and as responsible Minister for a particular entity. For example, the shareholding Ministers appoint directors and influence the strategic direction of a company through its *Statement of Corporate Intent* (for SOEs) and *Statement of Intent* (other companies and statutory entities). The Crown can also limit the role or power of a company by amending its constitution. Refer to Annex B for details.

Companies

The Crown's ownership in companies (including Crown entity companies) is shared between the Minister of Finance and another shareholding Minister, and they generally exercise their statutory powers jointly on behalf of the Crown.

Operational matters are left to be managed by each company's directors, whose duties include that the company remains solvent. The Crown is not liable for a Crown-owned company's debts or liabilities (except in rare, specific cases).

Annex B includes a table that summarises some of your key powers in relation to the various categories of Crown-owned companies. The table is not exhaustive; please let us know if you have any questions about specific powers or companies.

Crown entities (excluding companies)

Statutory entities

Statutory entities are governed by board members who have obligations under the Crown Entities Act 2004. A statutory entity generally must act to pursue an objective or functions set out in its empowering statute.

The Crown is not liable for the debts or liabilities of statutory entities, but in specific cases may choose to take these on. The Crown appoints board members, and influences the strategic direction of the entity through the *Statement of Intent*.

You have certain powers over statutory entities. Among other things, you can approve the entity investing, lending, borrowing, giving guarantees, giving indemnities or entering into derivatives; direct a net surplus be paid to the Crown; and require an entity to pay a capital charge. These powers do not apply to some statutory entities.

You also have powers and functions in relation to particular Crown entities (Accident Compensation Corporation, Housing New Zealand Corporation, New Zealand Productivity Commission, Public Trust), or types of Crown entity (District Health Boards and School Boards of Trustees), which are contained in legislation specific to those entities. That legislation is listed in Section 1.5 below.

In addition, there are other powers you have in relation to certain entities as the responsible Minister. Refer to Annex B for details.

1.5 Other Statutory Responsibilities

Reserve Bank of New Zealand Act 1989

This Act provides you with the following key powers and functions in relation to the Reserve Bank of New Zealand's (RBNZ) central bank and monetary policy functions (this is not an exhaustive list):

- On the recommendation of the RBNZ Board, appoint the Governor and agree terms and conditions of employment (including remuneration).
- Fix policy targets.
- Recommend Orders in Council to direct the RBNZ to formulate and implement monetary policy for different economic objectives.
- Request the RBNZ's policy advice on matters connected with its functions.
- Appoint members of the RBNZ Board and set their fees.

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

- the Reserve Bank of New Zealand Act 1989
- the Insurance (Prudential Supervision) Act 2010, and
- the Non-bank Deposit Takers Act 2013.

The RBNZ has prepared a briefing for you which will give you more detail.

Overseas Investment Act 2005

The Act requires overseas persons (including businesses 25% or more owned or controlled by overseas persons) to obtain consent for investments in sensitive land, significant business assets or fishing quota. You are responsible for deciding individual applications for consent and individual applications for exemptions, but may delegate these decisions. In some cases, the Minister for Land Information or Minister for Primary Industries will also be involved.

You also have the power to recommend regulations, including exemptions; delegate matters to the Overseas Investment Office (OIO); issue a ministerial directive letter to the OIO on a range of matters; and approve any OIO guidelines. The existing delegation letter and existing ministerial directive letter will remain in place unless you replace or revoke them.

Other statutory powers and roles

Annex C gives an indication of the breadth of your powers and responsibilities under a range of other Acts. The table is not exhaustive; if you have questions about particular entities, powers or legislation, we would be happy to provide further detail.

1.6 International Responsibilities

The Minister of Finance plays an important role in shaping our international connections and the associated flows in trade, capital, people or ideas – all of which contribute significantly to New Zealand’s wellbeing. You are among the highest authority representatives of New Zealand overseas, able to attract the ears of major trading partners, global institutions, international investors, rating agencies and commentators. They will look to you for a steer on New Zealand’s economic direction and prospects, as well as engage with you on mutually beneficial opportunities and issues of common interest.

Among your international responsibilities is to act as New Zealand’s Governor at the following International Financial Institutions:¹

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

We provide regular recommendations to you about possible travel – including to relevant meetings of these organisations. We consider the value proposition of each meeting alongside your international priorities in order to rank travel opportunities for you and outline tentative options for the next 18 months.

As Governor, you may also be asked to engage on capital increase requests, performance issues or on matters where New Zealand is changing a previous policy position.

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

¹ New Zealand is also a shareholder in the European Bank for Reconstruction and Development (EBRD). The Minister of Foreign Affairs is currently New Zealand’s Governor, which the Treasury recommends changing and aligning the arrangements with those for the other international financial institutions.

1.7 Delegations and Transfers of Your Responsibilities

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

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

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

Delegations to Associate Ministers

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

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

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

- performing the Minister of Finance role for Vote Finance proposals you make as appropriation Minister. We recommend a similar delegation remains in place
- full responsibility for decision making under the Overseas Investment Act 2005 on individual consent applications and individual exemption applications
- full responsibility regarding community trusts under the Community Trusts Act 1999, and
- shareholding Minister responsibilities.

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

To avoid confusion over what has been delegated, it is worth being as specific as possible. If it is helpful as a starting point, we can provide you with a list of potential powers to delegate or retain.

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

Transfers to other Ministers

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

By way of example, the following matters have previously been transferred on a standing basis:

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

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

Delegations to the Secretary to the Treasury

There are a number of delegations from the Minister of Finance to the Secretary to the Treasury. These are typically to enable us to carry out the more operational and day-to-day aspects of your functions and powers. The existing delegations will remain in place unless you amend or revoke them (noting that there are some delegations in place since 2005 which we rely on daily). We can provide further information on existing delegations if you would like. Some of the key ones are:

- incur expenditure against non-departmental appropriations and permanent legislative appropriations in Vote Finance
- guarantees and indemnities given by the Export Credit Office
- approve the acquisition of securities by school boards of trustees
- agree and administer loans given under the Public Finance Act 1989
- approve certain transactions relating to the International Monetary Fund
- vote on non-substantive matters at international financial institutions, and
- exercise functions relating to bona vacantia (ownerless property).

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

Appointment of borrowing agents

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

2 The Treasury: Our Key Functions and Operations

2.1 Our Story

We are the Government's lead economic and financial adviser. We provide advice to the Government on its overarching economic framework, on its fiscal strategy and on achieving value for money from its investments. We implement government decisions and are also responsible for the Financial Statements of the Government, for ensuring effective management of the assets and liabilities on the Crown's balance sheet and for publishing economic and fiscal forecasts.

Our vision is to be a world-leading Treasury working towards higher living standards for New Zealanders. We want to grow wellbeing through improving the country's human, social, natural and physical/financial capital. We work with others – across the government and non-government sectors, in New Zealand and overseas – to turn our vision into reality. We believe in applying rigorous analysis to the best available evidence, using our Living Standards Framework to guide us.

We embrace diversity and inclusion as they strengthen us, as individuals and as an organisation. Our values reflect our aspirations, for ourselves and for New Zealanders:

- *bold and innovative*, so that we understand how and when to take risks, learn from failures and build on successes
- *collaborative and challenging*, so that we work with others, collaborating but also challenging them and ourselves
- *adaptable and focused*, so that when the facts change, or ministerial priorities change, we don't delay and we maintain our standards, and
- *passionate and ambitious*, for our performance, for our people and for New Zealand.

We believe in the importance of a trusted, professional, public service: our stewardship responsibilities embody kaitiakitanga; we work to support the Treaty partnership between the Crown and Māori; and we are transparent, objective, impartial and free and frank in our advice.

2.2 Our Objectives and Functions

Our key business objectives are:

- fiscal, monetary and regulatory frameworks result in a stable and sustainable economic environment
- the Crown's finances and the financial and non-financial balance sheet are managed efficiently, effectively and sustainably, and
- institutional and regulatory settings support the State sector system to increase equitable, intergenerational wellbeing for New Zealanders.

The Treasury's core statutory and operational responsibilities include:

- lead economic and financial adviser to the Government and steward of the public sector financial management and regulatory systems
- manage State sector and public finances
 - manage the balance sheet
 - produce the Government's monthly and annual financial statements
 - produce economic and fiscal forecasts
 - produce the Long-term Fiscal Statement
 - produce the Investment Statement, and
 - tax strategy
- manage investment and asset performance
- provide commercial policy advice and execute commercial transactions
- manage government borrowing requirements and associated financial market activities – cash management, Crown lending, capital markets advice and risk management
- provide financial guarantees and trade credit insurance to promote and support New Zealand exports, and
- central agency role – alongside Department of the Prime Minister and Cabinet (DPMC) and the State Services Commission (SSC) – providing State sector leadership.

2.3 How We Support You

We are responsible for providing advice to you as the Minister of Finance to support your broad responsibilities for economic, fiscal and financial policy. We also support you to deliver your responsibilities under the PFA and other legislation as set out earlier in this briefing.

In addition, we provide you with strategic economic policy advice on how to advance the Government's priorities. The slides in Part 2 of this briefing are designed to help us understand where you would like our support in delivering on the objectives you have set out for your first 100 days.

Cabinet and Cabinet Committee processes

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

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

We will work with you and your office to ensure that these regular briefings are provided in a way that supports your effective engagement with your Cabinet colleagues.

Regular oral briefings

From our experience we think it would be useful to establish regular meetings between you and us, where we can brief you in person to supplement written briefings sent to your office.

In particular, we would recommend that we work with your office to establish:

- **a weekly meeting with the Secretary to the Treasury** for you to have a regular dialogue in person
- **a weekly Pre-Cabinet briefing** where we can brief you and Associate Ministers of Finance
- **a regular Fiscal Issues meeting** to help us support you in designing and delivering the Budget process across the year, and other core responsibilities under the PFA
- **a regular meeting to discuss strategic issues**, and
- **other meetings** as required to progress business.

Working with others

Collaboration, engagement and diversity of thought are central to the way we work. We get value from tapping into the expertise and perspectives of a broad range of stakeholders. It helps us deliver advice to you that is well informed and grounded in reality; demonstrates strong analysis and practical options; and shows good understanding of trade-offs, challenges and opportunities that enable choices to be made. Our way of working also supports the Government's Open Government Partnership commitments to greater openness, transparency and public participation. Some of the ways we engage include:

- working with others more at the front line of the policy process, to help us develop a better understanding of different sectors and the provision of services to the public
- connecting with the business community to support the delivery of economic strategy work, get more insight on the issues important to them and understand how we can strengthen New Zealand's international connections
- working closely with other agencies to drive State sector reform, delivery of public services and better outcomes for New Zealanders
- ongoing engagement at a regional level, including stronger engagement with iwi throughout New Zealand, representatives from across different parts of the community, local businesses and other government agencies working in the regions
- using many means of communication including speeches, articles, social media, proactive OIA releases, Monthly Economic Indicators and research papers to engage important stakeholders in policy making and contribute important facts and context to public discussions, and
- providing a platform for engagement with the academic community through our Guest Lecture and Working Paper series and active participation in conferences and symposia to stimulate thinking on economics and public policy.

2.4 Treasury Leadership

Executive Leadership Team

Our Executive Leadership Team (ELT) is made up of the Secretary and Chief Executive and five Deputy Secretaries and is our top-tier decision-making body. They are accountable for the strategic leadership of the Treasury with a focus on outward-facing and cross-cutting issues, where decisions are more likely to have a material impact on the outcomes, functions or reputation of the Treasury as a whole. ELT members are accountable for the delivery of the Treasury's organisational strategy.

Kaiurungi – 'The people who steer'

The Treasury's Chief Operating Officer chairs Kaiurungi, which consists of six Directors, Chief Financial Officer and Chief People Officer. They are responsible to ELT for delivering on the agreed organisational strategy and for ensuring the programme of work across all directorates will deliver on the Treasury's objectives and is well-aligned with strategy.

ELT members

Gabriel Makhoul

Secretary and Chief Executive



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

Gabriel's career was previously in the United Kingdom civil service where his responsibilities ranged from policy development on domestic and international tax and welfare policy issues through to large-scale, customer-focused, operational delivery. He was Chair of the world's main tax rule-making body – the Committee on Fiscal Affairs – at the OECD in Paris between 2000 and 2004, and was also responsible for the UK's Government Banking Service. He served as Principal Private Secretary to the Chancellor of the Exchequer.

Gabriel has a Bachelor of Arts (Honours) degree in Economics from the University of Exeter and a Master's degree (MSc) in Industrial Relations from the University of Bath, and is an alumnus of international business school INSEAD's Advanced Management Programme. The son of a United Nations official, Gabriel grew up in Africa, Asia and the Pacific and speaks French and Greek. He is married with one adult son.

Fiona Ross

Chief Operating Officer and Deputy Secretary, Corporate and Shared Services



Fiona has been at Treasury since 2011. As the Chief Operating Officer she helps to raise living standards by ensuring the Treasury operates effectively as an organisation. This includes leading the Corporate and Shared Services and the Director group that runs the Treasury.

Fiona has over 20 years' experience in the public service, with particular expertise in state sector reform. After initial positions at the Ministry of Education and the Ministry of Women's Affairs, Fiona joined the Treasury as a senior policy analyst in 2000. In 2002 she moved to the UK where she held various roles in the civil service, including leading major change initiatives focused on efficiency gains and service improvements. Fiona returned to the Treasury to lead the Better Public Services programme.

Fiona holds an Honours degree in Arts and a Master's degree in Public Policy, both from Victoria University of Wellington. She has been actively involved with a number of not-for-profit groups focused on the issues of sexual abuse and women's sport and fitness.

Bryan Chapple

Deputy Secretary, Macroeconomics and Growth



As Deputy Secretary, Macroeconomics and Growth Bryan's role is focused on ensuring a stable and sustainable macroeconomic environment, while at the same time promoting economic growth.

Bryan has an extensive background in economic policy and strategy. Prior to joining the Treasury in 2017 he was with the Ministry of Business, Innovation and Employment (MBIE) where he held roles as the Head of the Office of the Chief Executive, and General Manager Strategic Policy.

Bryan has also worked in a range of policy and economic functions at the Ministry of Economic Development, the De Nederlandsche Bank (Netherlands Central Bank) and the Reserve Bank of New Zealand.

Bryan holds a Bachelor of Commerce and Administration (Hons) in Economics from Victoria University of Wellington as well as a Bachelor of Business Studies from Massey University. He lives in Wellington with his wife and two children. He enjoys getting out into the hills around Wellington when he can, and supporting his boys' sports teams.

Jon Grayson

Deputy Secretary, Financial & Commercial



As Deputy Secretary, Financial & Commercial, Jon is responsible for Financial Operations, Commercial Operations and the Infrastructure and Housing Group.

Originally from Australia, Jon has held senior executive roles within the public and private sectors spanning over 25 years. Most recently, Jon had responsibility for driving a major public sector reform programme as Director-General, Department of the Premier and Cabinet with the Queensland Government.

Jon has a strong background in capital markets and investment in major infrastructure assets. As Chief Executive of Prime Infrastructure, he led the acquisition of one of the world's largest coal export terminals and the subsequent successful ASX listing of the investment fund. During his time as a senior executive of the Queensland Treasury Corporation, Jon was responsible for delivering the Suncorp-Metway merger and a major report to government on rail industry reform.

Throughout his career Jon has held a number of directorships including with the Australia and New Zealand School of Government and the Great Barrier Reef Marine Park Authority, and was a member of the Brisbane G20 Steering Committee and member of the Council of Australian Governments Senior Officials Group.

Jon holds a Bachelor of Commerce (Honours) from the University of Queensland, is a Fellow of the Australian Institute of Management and a Member of the Australian Institute of Company Directors.

During their spare time, Jon and his partner, Linda, enjoy running, including a recent Queenstown half marathon, swimming, hiking and travel.

Struan Little

Deputy Secretary, Budget & Public Services



Struan is an economist with over 30 years' experience in finance and public sector management.

Struan first joined the Treasury in 1987, after completing his postgraduate diploma in Economics at Otago University. He has held positions in macroeconomics, fiscal management, economic performance and strategy. Struan has led delegations representing New Zealand to the IMF, World Bank and OECD. Since then he has served in a range of leadership roles across government, including with the Ministry of Education and most recently as Inland Revenue's Deputy Commissioner of Policy & Strategy.

During his time at Inland Revenue, Struan worked with the senior management team to implement changes designed to modernise tax. This involved fundamental changes to both operations and technology. As part of this work, Struan was responsible for design of the future tax administration framework.

He has also held advisory roles in the Office of the Minister of Finance and at the World Bank in Washington DC.

Struan re-joined the Treasury in 2016 as Deputy Secretary, Budget & Public Services. In this capacity he leads the Treasury's work to raise living standards by:

- helping ensure the Government's finances are well managed
- overseeing advice in the areas of justice, security, health, welfare and public sector performance, and
- delivering the Government's annual Budget.

Struan is a tramping and fly fishing enthusiast who combines his love of travel with the opportunity to get into the outdoors.

Tim Ng

Deputy Secretary and Chief Economic Adviser



Tim Ng is the Treasury's Chief Economic Adviser. As a Deputy Secretary he is responsible for leading the development of the Treasury's economic capability, which underpins its work to raise living standards for all New Zealanders by promoting sustainable, inclusive economic growth and a stable macroeconomic environment.

A macroeconomist by training, Tim has extensive international experience as a thought leader on monetary, fiscal and financial system policy. His work has been published in a range of professional and academic journals.

Prior to his time at the Treasury, Tim was a manager and economist at the Reserve Bank of New Zealand, and a member of the Reserve Bank's monetary policy and financial stability advisory committees. Tim has also worked at the Bank for International Settlements in Switzerland, the Federal Reserve Bank of New York and the ANZ Bank.

In addition to his training in economics, Tim has a biochemistry degree.

Kaiurungi members

James Beard

Director, Economic System



James first joined the Treasury in 2004 and has held a number of management and analytical roles covering financial markets, tax strategy, international, economic strategy, business environment, defence and security, Trans-Tasman relations and APEC.

In 2011, James was seconded to serve as the Economic Counsellor to New Zealand's Permanent Delegation at the OECD in Paris. During this time he was appointed Vice-Chair of the OECD's Economic and Development Review Committee.

James' experience as an economist has spanned a range of areas including growth, regulatory policy, competition and utility regulation. He has particular expertise in trade and industry policy with a focus on developing countries. This work has included projects in China, Sri Lanka, Tanzania, Thailand, Uganda and Vietnam.

Prior to joining the Treasury James lived in Australia where he spent 10 years with Sydney-based consultancy firm, the Centre for International Economics and three years as Associate Lecturer at the Australian National University in Canberra.

James has a Master of Economics from the Australian National University and a Bachelor of Science with Honours from the University of Canterbury. He is married with three children and is an avid cricket fan.

Andrew Blazey

Director, Budget & Public Investment



Andrew was appointed a Director in 2014 after working in progressively larger roles in the Treasury over an 11-year period. The Budget & Public Investment Directorate focuses on increasing the efficiency and effectiveness of services in the State sector and the Crown balance sheet. An important part of the Directorate's function concerns the financial management of approximately 65% of government expenditure.

Andrew has been responsible for managing the development and first public listing as part of the Government's Mixed Ownership Model programme as well as leading the negotiations on the investment chapters of free trade agreements. Following two years working at the International Monetary Fund in Washington DC, Andrew continues to act as an expert consultant to the Fund. He has also worked at the Ministry of Justice.

Andrew holds a Bachelor of Management studies from the University of Waikato and a Master of Business Administration from the Chinese University of Hong Kong. He is a trustee of two investment trusts, including the Victoria University Students' Trust.

Grace Campbell-Macdonald

Director, Growth & Public Services



Grace Campbell-Macdonald heads the Growth & Public Services directorate. This group focuses on raising New Zealanders' living standards through policy advice on economic growth, natural resources and regulation. Grace's specific policy responsibilities include economic performance and strategy, regulation, Māori economic development, natural resources, education and skills, the labour market and immigration.

Since joining the Treasury in 2007, Grace has managed and worked in a range of teams. These roles have had a particular focus on public policy, including strategy, funding and regulation.

Significant achievements include leading the Treasury's advice on the establishment of Oranga Tamariki and the introduction of Communities of Learning in the schooling system. Prior to joining the Treasury, Grace held roles at the Ministry of Education and Ministry of Health. Her work for these agencies included the introduction of interest free student loans, the 2005 Tertiary Funding Review – which reallocated \$160 million per year across the tertiary system – and developing mechanisms to prioritise funding across the health system.

Grace holds an Honours degree in Arts and a Master's degree in Public Policy from Victoria University of Wellington. She and her husband have two sons, who keep them active around the hills and shores of Wellington.

Fiona Foster

Chief People Officer



Fiona Foster is the Chief People Officer for the Treasury. Fiona's role, alongside the Human Resources team, involves providing strategic and operational advice to the Treasury in regards to its people, ensuring the Treasury is able to deliver on its goal of being a world-leading organisation. In addition, the Human Resources team provides services to the Department of the Prime Minister and Cabinet and the State Services Commission.

Fiona has spent the majority of her career working in the United Kingdom and Australia, within the financial services, commercial property and consulting industries. She has held a variety of senior human resources roles, working alongside leadership teams with a strong focus on culture and change management. Fiona returned to New Zealand and joined the Treasury in her first public sector role in 2012.

Prior to her return to New Zealand, Fiona was part of the team who completed the largest financial services merger in Australia (at the time) of Suncorp & Promina. Before this, she held a variety of roles with Accenture in the United Kingdom, with a focus on learning and development supporting a number of clients, including the London Stock Exchange, JP Morgan and Marsh McLennan as well as Accenture itself.

Fiona holds a Bachelor of Business Studies from Massey University, as well as various industry qualifications in relation to human resources. She grew up in New Zealand; however, she has spent the majority of her adult life travelling and exploring the world.

Paul Helm

Head of Government Finance Profession and Chief Government Accountant



Paul Helm has a passion for strategic financial management and lifting the capability of finance teams across the public sector. He has held his current role – Head of Government Finance Profession and Chief Government Accountant – since October 2014. In this role, he is focused on skills development in strategic financial management across the public service and helping finance teams achieve their potential.

He has significant experience in public sector financial management, covering strategic budget management, including managing significant cash flows and borrowing facilities. Paul is experienced at transforming finance functions, procurement and commercial decision making, including working on large contracts for Public Private Partnerships, property and information technology to ensure the best outcomes for an organisation. He has worked across a range of government departments as CFO including the New Zealand Transport Agency, Ministry of Foreign Affairs and Trade, Ministry of Health and was a Director of Audit New Zealand.

Paul is also responsible for the Financial Statements of the Government in his role as Chief Government Accountant. These comprehensive financial statements include a full consolidation of all government agencies' statements. The team produces, and publishes monthly as well as annual accounts.

The Treasury team focused on improving financial analytics and insights across departments is another responsibility of the Chief Government Accountant. This team looks across the system to provide reports on items such as balance sheet sustainability and accuracy of forecast spending.

Paul is a Fellow of Chartered Accountants Australia New Zealand, CPA Australia and the Institute of Chartered Accountants of England and Wales. He was the "Public Sector CFO of the year" in 2013.

Glenn McStay

Chief Financial Officer



Glenn joined the Treasury in May 2016 and leads the Finance, Strategy and Performance function which includes procurement and enterprise risk management services for the Treasury and the provision of financial management services to the Department of the Prime Minister and Cabinet and the State Services Commission.

Glenn is passionate about improving financial management capability for non-financial managers and for the Treasury to be an exemplar for strategic financial management in the State sector. He leverages his considerable commercial and innovative expertise to streamline and automate business processes and simplify the delivery of information to support planning, performance reporting, decision making and the cost-effective allocation of resources that align with organisational strategy.

With over 20 years' experience as a chartered accountant, Glenn's career includes working in accounting firms both in New Zealand and overseas, 10 years' senior financial experience in the public sector including roles at the New Zealand Fire Service and Ministry of Justice. He returned to the public sector after eight years managing a successful Wellington-based IT company. He holds a Bachelor of Commerce and Administration from Victoria University and is a member of Chartered Accountants Australia New Zealand. Outside of work Glenn enjoys playing football, spending time with family and maintaining a lifestyle property.

Sarah Vrede

Director, Financial Operations and Head of the New Zealand Debt Management Office



Sarah has responsibility for the activities of the Treasury's New Zealand Debt Management Office (NZDMO). The NZDMO plays a critical role in the efficient functioning of the New Zealand economy. It oversees the New Zealand Government's borrowing requirements and associated activities, with a goal of managing debt in a way that minimises costs over the long term, while keeping risk at an appropriate level.

Sarah joined the Treasury in March 2013 as Head of Portfolio Management and from August 2014 has had responsibility for both the NZDMO and Export Credit Office. In July 2015 Sarah was appointed Director, Financial Operations in the Treasury's senior leadership team.

Sarah's background is predominantly in financial markets at Bank of New Zealand and DFC New Zealand. Previous roles have included: head of derivatives trading (BNZ), head of treasury information and technology (BNZ) and director – business delivery. She has Bachelor's and Master's degrees in Accounting and Finance from Victoria University of Wellington and London School of Economics.

Chris White

Director, Commercial, Infrastructure and Housing



Chris joined the Treasury in 2002 and has held a number of roles in the commercial area. He is the Director responsible for two groups – Commercial Operations, and Infrastructure and Housing. Commercial Operations oversees the performance of the Crown's portfolio of commercial and financial assets and leads the Public Private Partnerships (PPPs) programme. It also provides commercial advice on transactions and company restructurings. Infrastructure and Housing comprises the National Infrastructure Unit, the housing policy team and the asset transfer programme for social houses as part of the Government's Social Housing Reform Programme.

In 2009 Chris was seconded to the Department of the Prime Minister and Cabinet where he provided economic and fiscal policy advice to the Prime Minister, including on the Government's first three Budgets, the 2010 tax reform package, the collapse of South Canterbury Finance and other finance companies, and the development of the Mixed Ownership Model policy. Subsequent to that, Chris led the Initial Public Offerings (IPOs) of Meridian and Genesis and the sell-down of 20% of Air New Zealand. Prior to these transactions he led a number of work streams to enable the programme to proceed, including advising the Finance and Expenditure Select Committee on the necessary legislation and working extensively with Māori to resolve opposition to the programme.

Chris holds a Master of Business Administration with Distinction from Victoria University and a Bachelor of Arts (Honours) in English Literature from the University of Leeds. Early in his working life Chris was a professional actor, later merging his creative and business acumen in the worlds of PR and advertising.

2.5 Our Organisational Structure

Our teams and key contact information

DS Macro Economics and Growth	
Deputy Secretary, Bryan Chapple	[1]
Director Growth & Public Services, Grace Campbell-Macdonald Teams: Business Growth & Innovation, Matthew Gilbert, Manager Regulatory Quality, Matthew Gilbert, Manager Economic Strategy & Productivity, Simon McLoughlin, Manager Education & Skills, Diana Cook, Manager Labour Market, Immigration & Tertiary, Kristie Carter, Acting Manager Natural Resources, Alastair Cameron, Acting Manager	
Director Economic System, James Beard Teams: Macroeconomic & Fiscal Policy, Renee Philip, Manager Modelling & Research and Forecasting, Peter Gardiner, Manager Financial Markets & International, Dasha Leonova, Manager Tax Strategy, Mark Vink, Manager	
DS Strategy, Performance & Engagement, and Chief Operating Officer	
Deputy Secretary and Chief Operating Officer, Fiona Ross	[1]
Teams: People & Wellbeing, Fiona Foster, Chief People Officer Finance, Strategy & Performance, Glenn McStay, Chief Financial Officer Information & Technology, Tom Byrne, Chief Information Officer Legal, Facilities, Administration & Ministerial Advisory, Jeremy Salmond, Treasury Solicitor and Chief Security Officer Office of the Executive & Communications, Vicki Plater, Chief of Staff/Manager Engagement	

DS Financial and Commercial	
Deputy Secretary, Jon Grayson	[1]
Director Commercial, Infrastructure & Housing, Chris White Teams: Commercial Advice, Angela Graham, Manager Governance & Performance, Chris Gregory, Manager Strategy & Policy, Craig Weise, Manager Housing, Tom Hall, Manager National Infrastructure Unit, David Taylor, Manager Transactions Unit – Social Housing, Stacey Wymer, Head	
Director Financial Operations and Head of NZDMO, Sarah Vrede Teams: Accounting & Transactional Services, Charles England, Head Business Information, Dan Clayton, Head Portfolio Management, Murray Jones, Head Risk Policy & Balance Sheet, Andrew Hagan, Head NZ Export Credit Office (NZECO), Chris Chapman, Manager	
DS Budget and Public Services	
Deputy Secretary, Struan Little	[1]
Director Budget & Public Investment, Andrew Blazey Teams: Justice, Security & Government Services, Colin Hall, Manager Investment Management Asset Performance, Ben McBride, Manager Health, Carolyn Palmer, Manager Welfare & Oranga Tamariki, Kristie Carter, Acting Manager Fiscal & State Sector Management, Angela Mellish, Manager	
Head of Government Finance Profession and Chief Government Accountant, Paul Helm Teams: Strategic Performance Improvement, Sarah Hardy, Manager Fiscal Reporting, Nicola Haslam, Manager	
DS Chief Economic Adviser	
Chief Economic Adviser, Tim Ng	[1]
Teams: Economic Capability, Tony Burton, Deputy Chief Economic Adviser Analytics & Insights, Andrew Hunter, Manager	

2.6 The Treasury's Governance

The Secretary to the Treasury is responsible for the Treasury. As described earlier, the Treasury's leadership is delivered through the ELT and Kaiurungi. The Treasury uses a range of internal advisory boards to challenge its thinking and decision making. Members are appointed by the Secretary to the Treasury to provide a range of perspectives and expertise.

Details of each advisory body are given below:

- **The Treasury Board.** This external advisory group supports the Treasury's Secretary and ELT to ensure that its organisational strategy, capability and performance make the best possible contribution to the achievement of its goals. Current members of the Board are the Secretary to the Treasury (Gabriel Makhoul), the Chief Operating Officer (Fiona Ross), Sir Ralph Norris, Whaimutu Dewes, Cathy Quinn, Mark Verbiest, Harlene Hayne and John Fraser (Secretary to the Australian Treasury). The Board is classified as Group 4 Level 1 under the Cabinet Fees Framework with an exceptional fee.
- **The Risk and Assurance Committee.** This group is a sub-committee of the Treasury Board with an independent chair and three additional external members. It provides assurance and advice to the Secretary to the Treasury relating to the effectiveness and adequacy of internal control and risk management systems, processes and activities across the Treasury. Current members are Robin Oliver, Julia Raue, Scott Scoullar and Cathy Quinn (Chair). The Board is classified as Group 4 Level 1 under the Cabinet Fees Framework with an exceptional fee.
- **FSG Audit Committee.** This is an advisory committee that provides advice and observations to the Secretary to the Treasury relating to key issues and risks that affect the production and audit of the Financial Statements of the Government (FSG). The Committee is chaired by an independent chair – Ian Ball – and with two additional external members – Souella Cummings and Mike Blake. The Committee is classified as Group 4 Level 1 under the Cabinet Fees Framework with an exceptional fee.
- **Commercial Operations Advisory Board.** The Board supports the Deputy Secretary, Financial and Commercial through providing guidance on the strategic approach and work programme priorities of the Treasury's commercial operations portfolio. Current external members are Roger France, Marko Bogoevski, Mark Verbiest and Anne Blackburn. The Board is classified as Group 4 Level 2 under the Cabinet Fees Framework with an exceptional fee.

- **New Zealand Export Credit Office Technical Advisory Committee.** The Committee supports the Secretary to the Treasury with advice on a range of strategic and operational matters relating to the New Zealand Export Credit Office (NZECO). This includes assessing and advising on the risk and pricing of most NZECO transactions. Current members of the Technical Advisory Committee are Burke Steel, Tim Sole and Linda Robertson. The Committee is classified as Group 4 Level 1 under the Cabinet Fees Framework.

2.7 Additional Information

Organisations monitored by the Treasury

The entities monitored by the Treasury are listed below in alphabetical order.

Accident Compensation Corporation	Meridian Energy Ltd
AgResearch Ltd	Meteorological Service of New Zealand Ltd
Air New Zealand Ltd	Mercury NZ Ltd
Airways Corporation of New Zealand Ltd	National Institute of Water & Atmospheric Research Ltd
Animal Control Products Ltd	National Provident Fund
AsureQuality Ltd	The Network for Learning Ltd
Christchurch International Airport Ltd	New Zealand Forest Research Institute Ltd
Crown Asset Management Ltd	The New Zealand Institute for Plant & Food Research Ltd
Crown Infrastructure Partners Ltd (formerly Crown Fibre Holdings Ltd)	New Zealand Local Government Funding Agency Ltd
Crown Irrigation Investments Ltd	New Zealand Lotteries Commission
Dunedin International Airport Ltd	New Zealand Post Ltd
Earthquake Commission	New Zealand Railways Corporation
Electricity Corporation of New Zealand Ltd	New Zealand Venture Investment Fund Ltd
Genesis Energy Ltd	Ōtākaro Limited
Government Superannuation Fund Authority	Public Trust
Guardians of New Zealand Superannuation	Quotable Value Ltd
Hawke's Bay Airport Ltd	Radio New Zealand Ltd
Housing New Zealand Corporation	Research and Education Advanced Network New Zealand Ltd
Institute of Environmental Science & Research Ltd	Solid Energy New Zealand Ltd (Subject to Deed of Company Arrangement)
Institute of Geological & Nuclear Sciences Ltd	Southern Response Earthquake Services Ltd
KiwiRail Holdings Ltd	Tāmaki Redevelopment Company Ltd
Kordia Group Ltd	Television New Zealand Ltd
Landcare Research New Zealand Ltd	Transpower New Zealand Ltd
Landcorp Farming Ltd	

Annex A

Relevant statutes

Acts administered by the Treasury

Appropriation Acts

Bank of New Zealand Act 1988

Crown Entities Act 2004 (Part 4 only; the State Services Commission administers the other Parts)

Crown Forests Assets Act 1989

Crown Retail Deposit Guarantee Scheme Act 2009

Earthquake Commission Act 1993

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

Government Superannuation Fund Act 1956

Housing Act 1955

Housing Corporation Act 1974

Imprest Supply Acts

Infrastructure (Amendments Relating to Utilities Access) Act 2010

International Finance Agreements Act 1961

KiwiSaver Act 2006 (along with the Inland Revenue Department, and the Ministry of Business, Innovation and Employment)

National Provident Fund Restructuring Act 1990

New Zealand Government Property Corporation Act 1953

New Zealand Productivity Commission Act 2010

New Zealand Superannuation and Retirement Income Act 2001 (Parts 2 and 3 and Schedule 3 only; the Ministry of Social Development administers the other Parts)

New Zealand Railways Corporation Act 1981

New Zealand Railways Corporation Restructuring Act 1990

New Zealand Railways Staff Welfare Society Dissolution Act 1999

Overseas Investment Act 2005

Post Office Bank Act 1987

Public Audit Act 2001

Public Finance Act 1989

State-Owned Enterprises Act 1986

State-Owned Enterprises (AgriQuality Limited and Asure New Zealand Limited)
Act 2007

Rural Banking and Finance Corporation of New Zealand Act 1989

Utilities Access Act 2010

Acts administered by the Reserve Bank of New Zealand

Decimal Currency Act 1964

Finance Act 1988 (Part 2)

Insurance (Prudential Supervision) Act 2010

Non-bank Deposit Takers Act 2013

Reserve Bank of New Zealand Act 1989

Acts administered by the Department of Internal Affairs

Community Trusts Act 1999

Trustee Banks Restructuring Act Repeal Act 1999

Annex B

Powers in relation to Crown-owned companies and other statutory entities

Type of entity	Relevant legislation	Nature of your powers
Companies		
State-Owned Enterprises (SOEs)	State-Owned Enterprises Act 1986 Companies Act 1993 Various Acts specific to particular SOEs	Shareholding Minister
Mixed Ownership Model (MOM) companies	Public Finance Act 1989 (Part 5A) Companies Act 1993 Law applying to listed companies	Shareholding Minister
Air New Zealand Limited	Companies Act 1993 Law applying to listed companies	Shareholding Minister
Public Finance Act companies (Schedule 4A companies)	Public Finance Act 1989 (Part 5AAA) Crown Entities Act 2004 Companies Act 1993	Shareholding Minister
Crown entity companies	Crown Entities Act 2004 Companies Act 1993	Shareholding Minister
Crown Research Institutes (CRIs)	Crown Research Institutes Act 1992 Crown Entities Act 2004 Companies Act 1993	Shareholding Minister
Airports in which the Crown holds shares: Christchurch International Airport Limited (25%), Dunedin International Airport Limited (50%), Hawke's Bay Airport Limited (50%)	Companies Act 1993	Shareholding Minister
Other Crown entities		
Statutory Crown entities (ie, Crown agents, Autonomous Crown entities (ACEs), Independent Crown entities (ICEs))	Crown Entities Act 2004 Various Acts specific to particular Crown entities	Minister of Finance Responsible Minister in relation to specified entities
School Boards of Trustees (SBoTs)	Crown Entities Act 2004 Education Act 1989	Minister of Finance
Tertiary Education Institutions (TEIs)	Crown Entities Act 2004 Education Act 1989	Minister of Finance
District Health Boards (DHBs)	Crown Entities Act 2004 New Zealand Public Health and Disability Act 2000	Minister of Finance

Type of entity	Relevant legislation	Nature of your powers
Other statutory entities		
National Provident Fund	National Provident Fund Restructuring Act 1990	Minister of Finance
Reserve Bank of New Zealand	Reserve Bank of New Zealand Act 1989	Minister of Finance (see Section 1.5)
Community Trusts	Community Trusts Act 1999	Minister of Finance

Crown-owned companies

Type of Crown-owned company	Powers exercised as shareholding Minister (typically exercised by both shareholding Ministers acting in agreement)	Powers exercised as Minister of Finance under the Crown Entities Act 2004
State-Owned Enterprises (SOEs)	<p>Appoint directors and chairperson, approve directors' fees, and remove directors.</p> <p>Set content of <i>Statement of Corporate Intent</i> (SCI) – boards must act in accordance with the SCI.</p> <p>Direct a dividend be paid, after consulting with the Board.</p> <p>Amend company constitution.</p> <p>Approve or reject resolutions put to shareholders (eg, major transactions).</p> <p>Request information from the SOE, after consulting with the Board (may be done by one shareholding Minister).</p>	None.
Crown entity companies (other than Crown Research Institutes) Public Finance Act (PFA) Schedule 4A companies	<p>Appoint directors and chairperson, approve directors' fees and remove directors.</p> <p>Set content of <i>Statement of Intent</i> (SOI) and <i>Statement of Performance Expectations</i> (SPE) – boards must act in a manner consistent with the SOI and SPE.</p> <p>Amend company constitution.</p> <p>Approve or reject resolutions put to shareholders (eg, major transactions).</p> <p>Depending on the company and which financial activity restrictions under the Crown Entities Act 2004 apply to it: approve the company investing, lending, borrowing, giving guarantees, giving indemnities or entering into derivatives.</p> <p>Request information from the company.</p>	<p>With Minister for State Services, give directions to support a whole-of-government approach.</p> <p>For Crown Irrigation Investments Limited only – direct a net surplus be paid to the Crown, after consulting with the company and other shareholding Minister.</p>
Crown Research Institutes, which are a sub-category of Crown entity companies	As above, but there is no <i>Statement of Performance Expectations</i> (SPE), and the financial activity restrictions and approvals under the Crown Entities Act 2004 do not apply.	With Minister for State Services, give directions to support a whole-of-government approach.

Type of Crown-owned company	Powers exercised as shareholding Minister (typically exercised by both shareholding Ministers acting in agreement)	Powers exercised as Minister of Finance under the Crown Entities Act 2004
Mixed Ownership Model companies (Genesis, Mercury and Meridian) and Air New Zealand Limited	<p>Vote at annual shareholder meetings – this provides the opportunity to appoint or remove directors.</p> <p>Vote on any resolutions put to shareholders (eg, approve major transactions or changes to the constitution).</p> <p>Dealing with listed companies also comes with legal risk, and there is the potential for Ministers to personally commit offences. We suggest you always first seek advice on how to deal with information that could materially change a share price. There is further guidance in CO (12) 7: Guidelines for Dealing with Inside Information About Public Issuers, and we can provide further advice.</p>	None.
<p>Other companies in which the Crown holds shares:</p> <ul style="list-style-type: none"> • Christchurch International Airport Limited (25%) • Dunedin International Airport Limited (50%) • Hawke's Bay Airport Limited (50%) 	<p>Vote on any resolutions put to shareholders (eg, approve major transactions or changes to the constitution).</p> <p>Christchurch: appoint two directors (currently six in total), and remove Crown-appointed directors.</p> <p>Dunedin and Hawke's Bay: appoint half the directors, and remove Crown-appointed directors.</p>	None.

Other statutory entities

Entity	Power
Guardians of New Zealand Superannuation (the Guardians)	<p>Approve the Guardians borrowing money in respect of the New Zealand Superannuation Fund, mortgaging or charging property of the Fund or holding any financial instrument that places or may place a liability or a contingent liability on the Fund or the Crown.</p> <p>Appoint and remove board members and chairperson.</p> <p>Set content of <i>Statement of Intent</i> (SOI) and <i>Statement of Performance Expectations</i> (SPE) – the Board must act in a manner consistent with the SOI and SPE.</p>
Government Superannuation Fund Authority (GSFA)	<p>Approve the GSFA borrowing money, mortgaging or charging property of the Government Superannuation Fund, or entering into derivatives.</p> <p>Appoint and remove board members and chairperson.</p> <p>Set SOI and SPE.</p>
New Zealand Productivity Commission	<p>Setting terms of reference for Productivity Commission inquiries, along with other relevant portfolio Ministers.</p> <p>Appoint and remove board members and chairperson.</p> <p>Set SOI and SPE.</p>

Annex C

Other statutory powers and roles

Legislation	Powers and roles
Accident Compensation Act 2001	<p>Require ACC to provide information in relation to the amount of money that ACC expects to receive from the Crown.</p> <p>Approve ACC's procedures for borrowing money, giving security and issuing guarantees and indemnities.</p>
Climate Change Response Act 2002	Direct the Registrar of the Emissions Trading Register on various matters.
Community Trusts Act 1999	Recommend Orders in Council to adjust boundaries of, amalgamate or split up community trusts.
Crown Forest Assets Act 1989	With the Minister for State-Owned Enterprises, grant Crown forestry licences, deal with protective covenants and public access easement on licensed land and transfer Crown forestry assets.
Earthquake Commission Act 1993	<p>Confer additional functions on EQC (that are consistent with EQC's objectives).</p> <p>Determine a dividend, after consultation with EQC.</p> <p>Direct EQC to pay into a Crown bank account amounts in lieu of paying income tax (as EQC is exempt from paying income tax).</p> <p>Determine a fee EQC pays to the Crown for the Crown guarantee of payments from the Natural Disaster Fund.</p> <p>Recommend Orders in Council setting aspects of EQC cover, including setting rates of EQC premiums.</p>
Education Act 1989	<p>In relation to School Boards of Trustees:</p> <ul style="list-style-type: none"> • agree to the Minister of Education approving the writing off of certain debts • agree to the Minister of Education approving the granting of loans to the proprietor of any State integrated school, and • approve boards undertaking financial activities by a board, (eg, the acquisition of securities, borrowing, giving guarantees and indemnities, using derivatives (exercised jointly with the Minister of Education)).
Health Sector (Transfers) Act 1993	With the Minister of Health, agree to transfer assets and liabilities between certain government agencies in the health sector, and transfer assets and liabilities from or to the Crown.

Legislation	Powers and roles
Housing Corporation Act 1974	Request that HNZN loan money or give any guarantee or indemnity, which would then be guaranteed by the Crown. There is also a number of powers and functions that the Minister of Finance exercises jointly with the Minister of Housing, including powers to transfer assets of HNZN.
KiwiSaver Act 2006	Various powers.
National Provident Fund Restructuring Act 1990	Various powers relating to the National Provident Fund Board, including the power to appoint and remove members of the Board, including the Chair.
New Zealand Public Health and Disability Act 2000	With the Minister of Health, give directions to DHBs. Request from DHBs economic or financial forecasts, or other economic or financial information. Consent to persons lending money to a DHB.
New Zealand Productivity Commission Act 2010	Set terms of reference for Productivity Commission inquiries, along with other relevant portfolio Ministers.
Public Audit Act 2001	Agree to the transfer of Crown assets and liabilities to the Auditor-General, or agree to the management of Crown assets and liabilities by the Auditor-General.
Public Trust Act 2001	Consent to the Public Trust borrowing or renewing a loan made to the Public Trust. Advance any sum necessary to ensure the Public Trust can meet its liabilities and commitments (money is paid out of a Crown bank account under a permanent legislative authority). There is also a number of other powers and functions that are exercised by the Minister of Justice with the agreement of the Minister of Finance.
Utilities Access Act 2010	Approve the National Code of Practice for Utility Operators' Access to Transport Corridors.



Progressing your priorities

Briefing to the incoming
Minister of Finance

October 2017

Purpose and contents of this briefing

This slide pack aims to support your early engagement with the Treasury. In particular, it sets out how we can help you to progress your priorities and responsibilities, and identify what you would like to focus on over the next few months. The opening slides provide context: a short explanation of the Living Standards Framework approach that sits behind our advice, as well as a description of the social, natural, human, and financial and physical capitals that are fundamental to wellbeing. The slide pack is our initial assessment of your priorities and does not cover all areas of importance; for example, it does not include Health, the NZ Superannuation Fund (NZSF) or Accident Compensation Corporation (ACC). We can provide you with additional briefings on the topics below as well as areas not currently included.

Where you can find your priorities in this briefing...

For areas most closely related to your Minister of Finance role:

Macroeconomic policy frameworks	Slide 8
Monetary policy	Slide 9
Financial stability	Slide 10
Fiscal policy	Slides 11–13
Budget and fiscal management	Slide 14
Crown balance sheet	Slide 15
Government debt	Slide 16
Government revenue and tax policy	Slides 17,18
Public sector management	Slide 19
Regulatory management	Slide 20
International	Slide 21

For areas where there are likely to be strong connections:

Housing	Slide 22
State housing	Slide 23
Infrastructure	Slide 24
Transport	Slide 25
Regional economic development	Slide 26
Environment, natural resources and planning	Slide 27
Freshwater	Slide 28
Climate change	Slide 29
Immigration	Slide 30
Skills and the labour market	Slide 31
Addressing poverty	Slide 32

Progressing your priorities and responsibilities

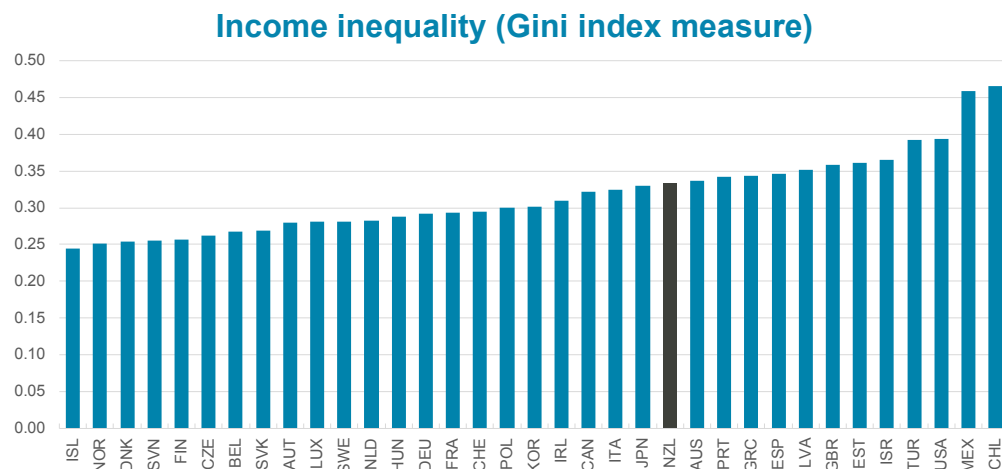
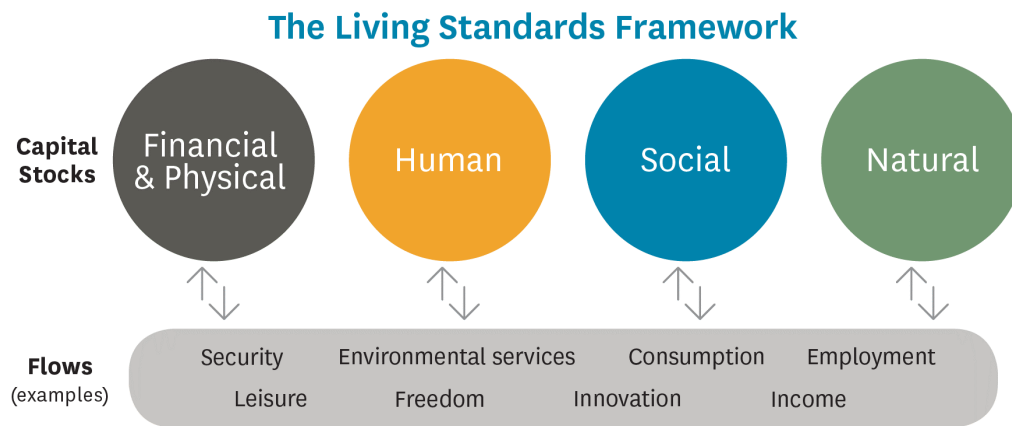
- **Slides 8 to 21** cover areas most closely related to your Minister of Finance role. These are typically the areas where you have relatively more direct levers (for example, fiscal strategy and the Budget).
- **Slide 21** focuses on your international representation responsibilities and your role in shaping New Zealand's international connections, trade and overseas investment.
- **Slides 22 to 32** cover areas where there are likely to be strong connections to your role but the levers are less direct. The topics also have strong connections to the Treasury's role. For example, climate change has economic and fiscal dimensions. Based on the current economic outlook, important issues in the near-term forecasts are around immigration and residential housing. In the medium term, issues around infrastructure, climate change, skills and welfare will have important effects on wellbeing.

We will work with you on priorities and responsibilities such as fiscal strategy, budget, tax and macroeconomic policy frameworks. In many areas we work jointly with other agencies (for example, in housing and natural resources).

Treasury's Living Standards Framework

Treasury policy advice utilises a Living Standards Framework. The framework is based on four types of “capital” (see diagram). Households, businesses and the Government combine the capitals in various ways to generate flows of both goods and services, and the other factors that enhance wellbeing. In turn, the capitals represent a store of value for creating wellbeing in the future. Intergenerational wellbeing relies on the growth, distribution and sustainability of these capitals. This approach to policy advice allows us to keep you informed on the wider set of opportunities and challenges affecting current and future wellbeing.

Wider wellbeing outcome measures generally show New Zealand as being one of the best places in the world to live. Yet wellbeing is lowered by inequalities, particularly for some Māori and Pacific populations. We are developing wellbeing measures for New Zealand.



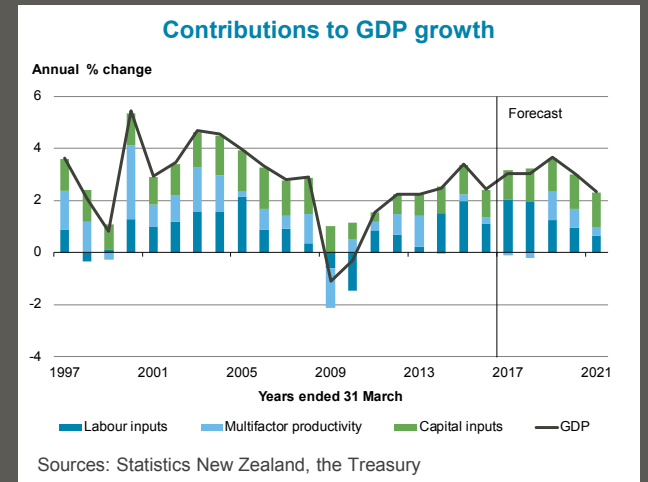
Source: OECD (2017), OECD Economic Survey of New Zealand

Capitals and wellbeing

Financial and physical

Financial and physical capital includes the buildings, machines and equipment that contribute to the production of the goods and services that support people's material living conditions.

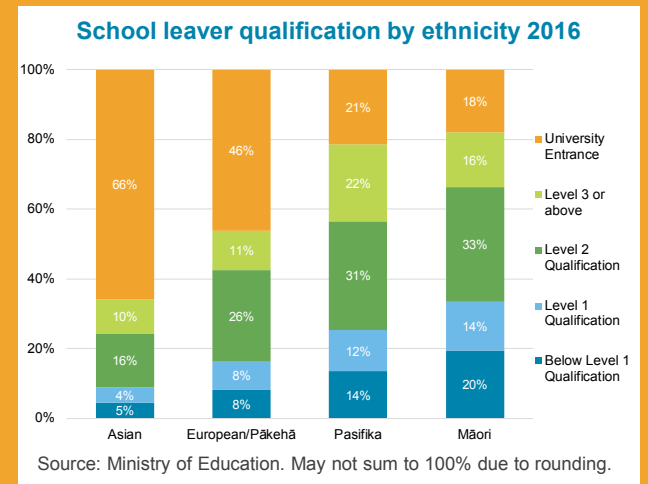
New Zealand's flexible macroeconomic settings have supported sustained real GDP growth since the global financial crisis and Canterbury earthquakes. Low productivity is a longstanding and unresolved challenge that involves a wide range of factors. Some of these are acknowledged in this slide pack (eg, macroeconomic stability, tax settings, international connections, housing, infrastructure and skills).



Human

Human capital includes the skills, competencies and health of individuals. Human capital combines with other capitals in contributing to material living standards. It is a key source of technical knowledge, and the creativity and skills of entrepreneurs and managers.

New Zealand's educational performance is above the OECD average and NCEA qualification rates are increasing. But performance in international studies has declined over the last decade; while ethnic and social disparities are narrowing, there is still a substantial gap. Overall health outcomes are comparable with other developed countries, but in health too there are marked ethnic and social disparities.



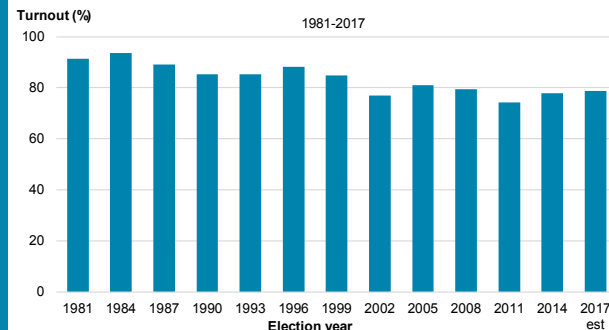
Capitals and wellbeing

Social

Social capital includes the cooperative norms and institutions that maintain wellbeing, such as trust, culture, the sense of community and the rule of law.

Generally, New Zealanders feel they can rely on each other, are active with their local community and have relatively high confidence in government institutions; yet high levels of incarceration and lack of access to some services suggest the benefits of relatively high social capital are not evenly distributed.

Voter turnout of enrolled voters at general elections



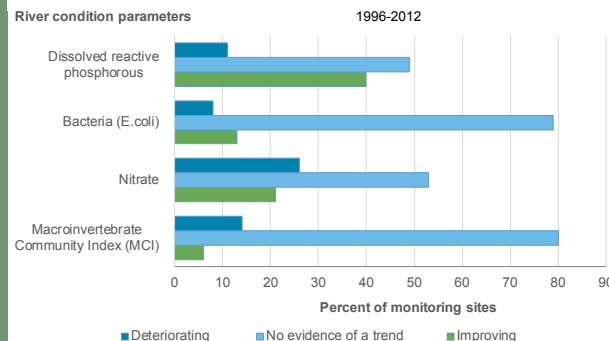
Source: Electoral Commission

Natural

Natural capital includes the aspects of our environment that improve wellbeing, including land, soil, water, biodiversity, minerals, energy resources and ecosystem services.

New Zealand's natural resources underpin our economic, social and cultural activities. Some aspects of our natural capital are currently in decline; there are opportunities to improve the allocation and management of these resources to increase their value across generations.

River condition trend [1]



Source: Ministry for the Environment

[1] Trends were calculated using data collected from 1999 to 2012. An improving or deteriorating trend is one that is statistically significant, and ecologically meaningful. Improving means the trend is towards a more natural state, deteriorating towards a more modified state.

Key information sheet

Key statistics for the year ended June 2017	
Population	4,793,700
Nominal GDP (\$million)	268,101
Nominal GDP growth (%)	5.9
Nominal GDP per capita (\$)	56,482
Real GDP (\$million)	231,718
Real GDP growth (%)	2.7
Real GDP per capita (\$)	48,817
Real GDP per capita growth (%)	0.6
CPI inflation (%)	1.7
Unemployment rate (%)*	4.8
Current account (\$million)	-7,490
Current account (% of GDP)	-2.8

Nominal GDP (\$million)	
Private consumption	154,416
Public consumption	49,701
Residential investment	19,932
Non-residential investment	42,262
GROSS NATIONAL EXPENDITURE	266,567
Exports	71,998
Imports	70,463
EXPENDITURE ON GDP	268,101
Core Crown tax revenue (\$million)	75,644
Core Crown expenses (\$million)	76,339
OBEGAL (\$million)	4,069
Net worth attributable to the Crown (\$million)	110,532
Net debt (\$million)	59,480
Net debt (% of GDP)	22.2

* We note that the Government is planning to review official measures for unemployment to ensure they accurately reflect the workforce of the 21st century.

Macroeconomic policy frameworks

Monetary, financial stability and fiscal policy frameworks support living standards by underpinning the stability and sustainability of the economy. While these policy frameworks have different objectives, there are interactions between them that need to be taken into account in decisionmaking.

Monetary policy

The Reserve Bank of New Zealand (RBNZ) operates monetary policy to maintain price stability, defined as low and stable inflation, while supporting the economy to operate close to full employment. Price stability is defined by the Policy Targets Agreement (PTA), which is an agreement between you and the Governor of the RBNZ. The current PTA provides for a flexible inflation targeting framework that requires the RBNZ to take account of the impact of monetary policy on output stability (and other macroeconomic economic variables) when pursuing the price stability objective. The RBNZ has operational independence for monetary policy, which is set through changes to the Official Cash Rate (OCR).

Financial stability policy

The RBNZ Act 1989 sets out the framework for financial stability policy, which is directed at promoting a sound and efficient financial system. The Act empowers the RBNZ to regulate and supervise banks and requires it to monitor the soundness and efficiency of the financial system through six-monthly financial stability reports. The RBNZ can use macro-prudential tools to improve financial sector resilience; the objectives and tools of macro-prudential policy are set out in a Memorandum of Understanding (MoU). The RBNZ also supervises insurers and non-bank deposit taking entities. Following the global financial crisis there has been significant growth in the scope of prudential regulation in New Zealand, partly in response to changes in international standards.

Fiscal policy

New Zealand's fiscal responsibility provisions are set out in the Public Finance Act 1989. The provisions specify a set of principles of responsible fiscal management to guide the conduct of fiscal policy so that it underscores the sustainability of the macro economy. While monetary policy operates as the main tool to stabilise the economy, there may be a role for discretionary fiscal policy (ie, outside of automatic changes such as increases in the number of people on the unemployment benefit) in assisting the economy to return to full employment in a downturn if monetary policy is constrained when official interest rates reach very low levels.

As discussed on slides 12 and 13, the Government is required to publish a Budget Policy Statement and Fiscal Strategy Report every year so that the operation of fiscal policy is transparent. Additionally, we are required to prepare regular Economic and Fiscal Updates, the Financial Statements of the Government, a Long-term Fiscal Statement, and an Investment Statement.

Monetary policy

Strategic assessment

You have signalled some significant monetary policy priorities.

The resetting of the PTA provides an early chance to reconsider how monetary policy objectives are specified. You are required to sign a new PTA for monetary policy before appointing the next Governor of the RBNZ by 26 March 2018. You have an option of signing a new PTA with Acting Governor Grant Spencer, although you are not required to do so. We would recommend working towards agreeing a new PTA with the incoming Governor, and leaving the current PTA with the Acting Governor in place until then.

You have said you intend to review the Reserve Bank Act 1989 to broaden the RBNZ's objectives to include consideration of full employment and to formalise a committee decision-making structure. There are options for the scope of such a review. However, a review of the Act would also be an opportunity to consider the suitability of the statutory framework for financial stability policy (see next slide).

We also understand you want to review various aspects of monetary policy operation. As Minister of Finance you have several operational roles in respect of the RBNZ. You will need to appoint a new member of the Reserve Bank Board as soon as possible and subsequent member(s) mid-2018.

Strategic policy directions

You will need to appoint a new Reserve Bank Governor by 26 March 2018 and agree a new PTA with that person prior to that appointment.

Given your intention to review aspects of the RBNZ framework, this may be a good time to consider broader issues about governance and decision-making structures for monetary and financial stability frameworks in the Reserve Bank Act 1989.

Financial stability

Strategic assessment

A recent assessment by the International Monetary Fund (IMF) concluded that our financial system is sound. However, the IMF highlighted that the effectiveness of New Zealand's financial stability policies require review to address or better manage vulnerabilities. The financial system could be exposed on account of high household debt, changes in the housing market, the concentration of the banking sector in four key banks, and its dependence on funding from offshore lenders.

Since the passing of the Reserve Bank Act 1989, prudential policy in New Zealand has developed from a light-handed regulatory approach with a strong emphasis on disclosure requirements, to a more prescriptive regulatory regime. This change reflects developments in international standards and increased understanding of financial stability risks following the global financial crisis. Over recent years prudential policy has also put more focus on assessment and mitigation of systemic financial stability risks, particularly through the development of macro-prudential policy and monitoring.

Further change will be needed to ensure we can respond to emerging financial risks. The growth in the scope of prudential policy over recent years makes it timely to stand back and consider whether the statutory framework is fit for purpose, particularly given there are aspects of our approach that differ from international norms.

Strategic policy directions

A review of the statutory framework for financial stability policy would provide a chance to consider:

- the implications of the IMF's recent recommendations for the regulatory and legislative framework
- the powers the Government or Reserve Bank may need to manage crises
- strengthening the macro-prudential framework as part of the review of the MoU scheduled for 2018
- taking forward the substantial amount of work done on the failure and crisis management regime including depositor protection.

We recommend that the proposed review of the Reserve Bank of New Zealand Act also considers the effectiveness of New Zealand's prudential regime. A review would provide an opportunity to focus on clarity of objectives, clarity of roles and responsibilities, and a balance of regulatory powers with appropriate democratic oversight and scrutiny.

Fiscal policy framework

Public Finance Act 1989 (PFA)

- The PFA is the key piece of legislation that underpins New Zealand's public finance management system.
- It sets out the principles of responsible fiscal management that the Government must follow. These include reducing and maintaining debt to prudent levels and, once those levels have been reached, running operating surpluses, managing fiscal risks, having regard for the impact on present and future generations and ensuring that the Crown's resources are managed effectively and efficiently.
- The PFA has increased parliamentary scrutiny of government expenditure and improved transparency by placing reporting obligations on both Ministers and departments.

Fiscal strategy

- The Government outlines its fiscal strategy through the annual Fiscal Strategy Report (FSR).
- This sets out the Government's fiscal strategy in areas such as operating balance, revenues, expenses, net worth, debt and balance sheet management.
- The fiscal strategy and policy should be consistent with the principles of responsible fiscal management outlined in the PFA.
- See slide 13.

Fiscal Management Approach

- This Fiscal Management Approach is a set of established rules and processes designed to help the Government achieve its fiscal strategy. Variants of this approach have been in place since the mid-1990s.
- See slide 14.

The Public Finance Act 1989

- The PFA is the key piece of legislation which governs our fiscal management system and outlines your role in relation to fiscal matters.
- The most pressing requirements in the next two months are to publish an Economic and Fiscal Update and to formulate your Budget Policy Statement. The following table provides more detail on these immediate requirements:

PFA requirement	Description	Timing
Half-year Economic and Fiscal Update	The Half-year Economic and Fiscal Update (Half-year Update or HYEPU) provides the Treasury's latest economic forecasts, risk analysis and forecast financial statements of the Government, including the implications of government financial decisions.	Must be published by 31 December
Budget Policy Statement	The Budget Policy Statement sets out the overarching policy goals that will guide the Government's Budget decisions and the Government's priorities for the forthcoming Budget.	Traditionally published alongside the HYEPU but must be published before 31 March

- Section 1.3 of the briefing on your roles and responsibilities as Minister of Finance gives more detail about the range of your obligations under the PFA. There are other requirements related to the Budget cycle including the Supplementary and Main Estimates Bill, the Fiscal Strategy Report and the Financial Statements of the Government. We will engage with you regularly as these arise throughout the Budget process.

Fiscal strategy

Strategic assessment

The fiscal outlook provides choices around the pace of debt reduction, contributions to the NZSF and levels of future revenue, operating expenditure and investment.

Your fiscal plan has five budget responsibility rules, including to deliver a sustainable operating surplus and declining net core Crown debt. You are also required to publish some additional detail on your fiscal strategy, primarily your objectives for debt, the operating balance, operating expenses, operating revenues and net worth for at least 10 years.

As you further develop your fiscal strategy we recommend considering the principles and factors below.

Reducing net core Crown debt helps to rebuild fiscal buffers and ensure fiscal policy can support the economy following a shock. We see value in some further reductions in net debt while the economy is strong. This provides a buffer for net debt to rise following a negative shock to government finances, cushioning the economic impact and avoiding the need for immediate spending cuts or tax increases. An operating surplus of 1%-3% of GDP should achieve falling net debt as a share of GDP after NZSF contributions and new capital spending.

An ageing population will place upward pressure on some areas of government spending such as superannuation and health over the next few decades. While adjustments to policy settings will be needed to achieve a sustainable fiscal position over time, keeping net debt low in the next decade can help prepare for these rising costs.

Automatic stabilisers help dampen the economic cycle by increasing revenue and reducing spending in an economic upturn (and vice versa in a downturn). This can help monetary policy to support stability in interest rates, exchange rates and employment. To avoid increasing the economic cycle, unexpected increases in revenue that are driven purely by an upswing in the cyclical position of the economy should be used to reduce debt further, and cyclical falls in revenue in downturns should be looked through by allowing a higher debt path.

Our initial view is that progress toward your Budget Responsibility Rules can be achieved with greater increases in operating and capital expenditure than in previous Budgets, as indicated in your Fiscal Plan. Alongside higher spending on public services and infrastructure, the opportunity could also be used to assess policy and institutional settings and improve accountability and performance.

Budget and fiscal management

Choices and options

To help achieve your fiscal strategy and manage expectations, there are several choices you can consider for Budget 2018:

- Setting clear expectations around Budget priorities (for example, through a Cabinet paper on the strategy for Budget 2018).
- To give effect to decisions with fiscal or legislative impacts indicated in your 100 Day Plan, you may wish to progress these commitments ahead of Budget and take a co-ordinated approach.
- The Budget is usually delivered in May, but there is an option to delay the Budget any time up to 31 July. This will provide more time to understand sector priorities and pressures.
- There are some choices around the assessment and decision-making process which can help you in making informed and collective decisions including ministerial engagements, the categorisation of initiatives through work streams and Treasury advice and support.

One of the decisions you will need to make is whether to keep the current Fiscal Management Approach. The Fiscal Management Approach is the main lever through the Budget process to achieve your fiscal strategy. It is a set of rules and processes designed to help the Government manage expenditure and put its fiscal strategy into action (for example, Budget allowances and contingencies). We are currently reviewing aspects of the Fiscal Management Approach and can talk to you about this.

The Budget process considers initiatives that are funded through Appropriations. Appropriations are the basis on which Parliament authorises the Government to incur expenses and capital expenditure. Appropriations are administered and grouped together into “Votes” which reflect key portfolios (for example, Vote Social Housing and Vote Environment).

Why the Fiscal Management Approach and Budget process are important

- Under the current Fiscal Management Approach, agencies have fixed nominal baselines. For the majority of expenditure, no automatic adjustments are made to this baseline for inflation and other pressures. The Budget process and allowances are therefore the main mechanism for managing marginal expenditure, which is generally a mix of maintaining existing services and new spending ideas.
- Allowances ensure that spending choices are compatible with your fiscal strategy and are a tool for expenditure prioritisation across spending choices. Allowances are included in the forecasts to increase the transparency/credibility of government expenditure.
- Each Budget, agencies submit a large volume of initiatives. A significant proportion of initiatives seek to maintain the level of existing services and respond to changes such as population growth and inflation. The Budget assessment and decision-making process is therefore critical to ensure expenditure is managed within a fiscal constraint and to allow the Government greater flexibility to pursue specific priorities.

Crown balance sheet

Strategic assessment

The Crown has a large balance sheet with a wide range of assets – from schools and hospitals through to State-owned enterprises (SOEs) and financial assets such as the NZSF. It is important these assets are used in a way that produces as much value (broadly defined) as possible for New Zealanders.

The Crown balance sheet continues to grow. Improvements in the fiscal position have strengthened the Crown balance sheet, increasing net worth, reducing net debt and supporting New Zealand's strong credit rating.

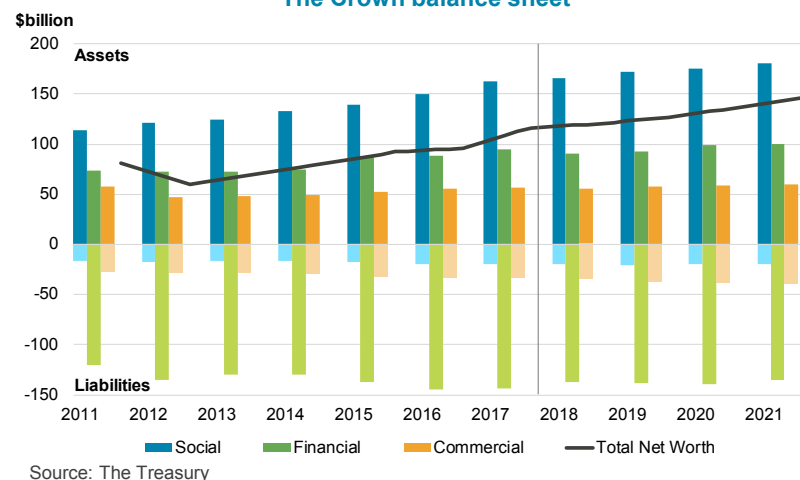
Reducing debt or increasing liquid assets generally strengthens the fiscal position, providing greater flexibility to deal with unexpected shocks. Building up asset funds, such as the NZSF, can support specific fiscal management objectives.

NZSF contributions are a way of smoothing the transition to higher superannuation costs in the future. Changes in long-term projections have altered the forward profile of NZSF contributions and withdrawals compared to when the NZSF was established. You have indicated that NZSF contributions should re-start from the current fiscal year. We also recommend establishing a review of the NZSF's contribution and withdrawal formula to ensure that settings support the objectives for the NZSF, including intergenerational fairness.

Stronger expectations and incentives on agencies to improve planning and the management of existing capital have increased the visibility and quality of the pipeline of capital proposals. A similar performance focus is being applied to the commercial and financial segments of the balance sheet, as well as the impact of shocks and balance sheet risks on the fiscal position.

We have a statutory obligation to produce an Investment Statement every four years which focuses on Crown assets and liabilities. This has concentrated on financial and physical capital, but we intend to broaden the focus to other capitals, starting with natural capital in the next Investment Statement (due March 2018).

The Crown balance sheet



Social: Social assets are mainly managed by government departments and Crown entities. They are held to support the delivery of core public services and to achieve government outcomes. Examples include schools, social housing, state highways, hospitals, the conservation estate and tax due to the Crown. There are also a few liabilities, such as accounts payable, mainly as a result of government department or Crown entity business operations.

Financial: The Crown's financial assets serve a management purpose, such as funding liabilities associated with contractual obligations and policy commitments, and/or to build buffers against adverse events. Liabilities represent borrowing by the Crown to fund investment or operating deficits, insurance obligations or other contractual obligations. Examples of financial assets and liabilities include the NZSF, ACC, RBNZ's foreign currency assets and New Zealand Government Bonds.

Commercial: The Crown's commercial portfolio includes a range of businesses that are expected to be as profitable and efficient as comparable non-Crown businesses. The portfolio consists of listed companies (eg, Air New Zealand, Mighty River Power, Meridian Energy) and commercial priority entities (eg, all SOEs, TVNZ, Public Trust).

Government debt

Operational assessment

The annual domestic borrowing programme funds any shortfall between revenue and the Government's operating, investing and financing activity. A well-run programme also makes it cheaper for New Zealand households and businesses to borrow. The programme is reviewed regularly as part of the BEFU/HYEFU process to accommodate any changes to economic forecasts and amendments to fiscal policy. We manage the operational aspects of fulfilling the funding programme by selling NZ Government securities. These activities are undertaken within legal delegations and warrants granted by you. We advise your office ahead of these processes and any associated media releases. We need your approval for each year's bond programme at the time of economic and fiscal updates, any interim updates to the bond programme, the establishment of new bonds and changes to internal policies for debt management operations.

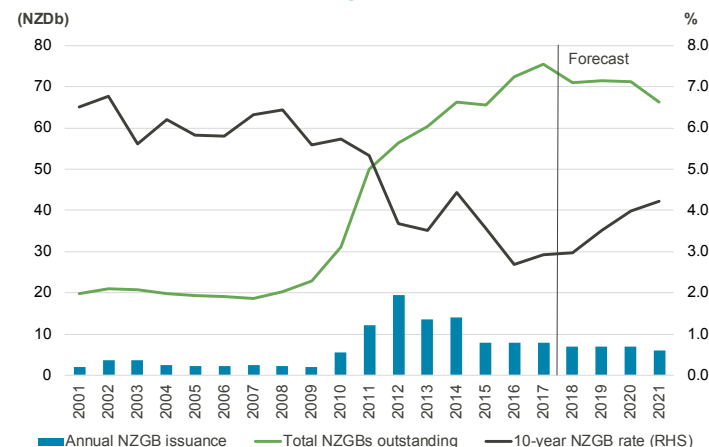
The borrowing strategy aims to minimise the Crown's borrowing costs over the long term, with due consideration to risk. Borrowing costs are largely a function of global market conditions and domestic economic and fiscal policy settings. At Budget 2017, the annual bond programme was announced at \$7.0 billion. The intention to launch a new 20 April 2029 Nominal Bond before 31 December 2017 was also announced.

Our advice is to maintain the level of NZ Government Bonds (NZGB) on issue at not less than 20% of GDP to maintain a sustainable market across a range of fiscal outcomes, which supports resilient access to funding for the Crown. The current debt portfolio is composed of Nominal Bonds (\$59 billion), Inflation-Indexed Bonds (\$14 billion) and Treasury Bills (\$4 billion). Nominal and Inflation-Indexed Bonds are issued over 13 maturities creating a New Zealand bond curve out to 20 years. Treasury Bills are issued for short-term funding requirements. We also administer the Kiwi Bond programme (~\$200 million), which is targeted at retail investors.

Non-resident investors currently hold around 65% of government bonds on issue. Given the importance of the investor base, we manage a wide range of banking and investor relationships with both offshore and domestic financial institutions.

Rating agency	Domestic currency	Foreign currency	Latest update
Moody's Investors Service	Aaa (stable outlook)	Aaa (stable outlook)	12 October 2017
Standard and Poor's	AA+ (stable outlook)	AA (stable outlook)	20 January 2017
Fitch Ratings	AA+ (stable outlook)	AA (stable outlook)	17 February 2017

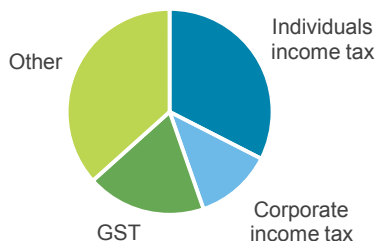
Annual borrowing and indicative cost



Source: New Zealand Debt Management Office, the Treasury

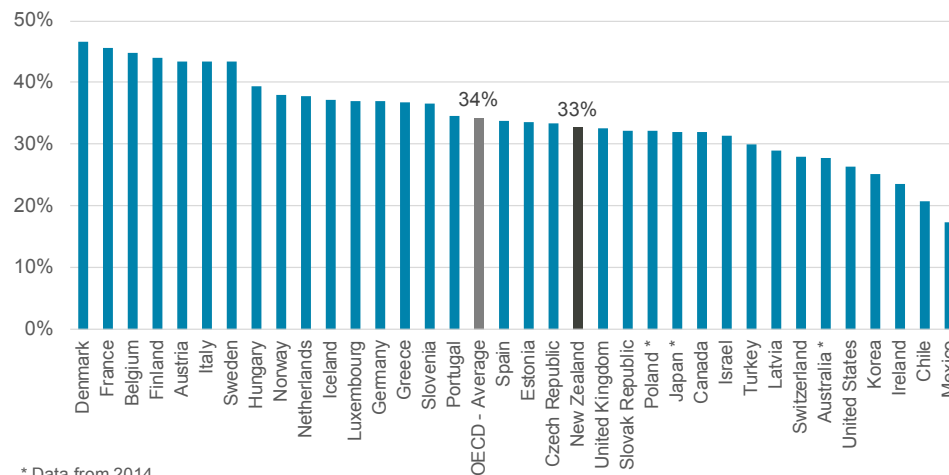
Government revenue

Total Crown revenue, 2017	\$m	% total
Individuals' income tax	33,910	32.5
Corporate income tax	12,629	12.1
Other direct income tax	2,215	2.1
GST	19,508	18.7
Road user charges	1,469	1.4
Petroleum fuels excise	1,908	1.8
Alcohol excise	985	0.9
Tobacco excise	1,677	1.6
Other customs duty	152	0.1
Gaming duties	229	0.2
Motor vehicle fees	223	0.2
Approved issuer levy and cheque duty	37	<0.1
Energy resources levies	24	<0.1
Other indirect tax	7	<0.1
ACC levies	2,882	2.8
Fire Service levies	392	0.4
EQC levies	283	0.3
Child support and WFF penalties	262	0.3
Court fines	105	0.1
Other sovereign revenue	1,157	1.1
Sales of goods and services	16,871	16.2
Interest revenue	2,727	2.6
Dividends	871	0.8
Other revenue	3,704	3.6



- Total Crown revenue was \$104 billion in 2017. Of this, \$75 billion is tax revenue, \$5 billion is other sovereign revenue (including levies and fines), \$17 billion is from sales of goods and services (mainly by SOEs) and \$7 billion is other revenue (including interest revenue and dividends).
- Most tax revenue is collected from three sources: individuals' income tax, corporate income tax and GST. Other revenue sources include hypothecated revenues such as road user charges, petrol excise, ACC and Earthquake Commission levies, which are directed to specific purposes.
- Central government tax revenue is around 28% of GDP. In addition, local government has its own revenue base from rates, development contributions, fees and charges. Local government revenue is around 4% of GDP.
- New Zealand's total tax revenue (from central and local government) as a percentage of GDP is close to the OECD average.

Tax revenue as a percentage of GDP, 2015



* Data from 2014

Source: OECD

Revenue and tax policy

Strategic assessment

Being Minister of Finance gives you overall responsibility for the Crown's finances, including all revenue. The Ministers of Finance and Revenue are jointly responsible for tax policy. New Zealand's tax system is relatively simple and efficient by international comparison. The tax policy work programme in recent years has focused on addressing strategies used by multinationals to report low taxable profits (Base Erosion and Profit Shifting) and Inland Revenue's Business Transformation programme.

The tax system will continue to face challenges from a changing economy and increased international mobility of people, capital and businesses. Against that background, strategic issues for tax policy include:

- the efficiency and fairness of the balance of taxation of labour income, capital income, consumption and assets
- distortions arising from the effective tax treatment of different types of investment
- improving the system of personal income tax, tax credits and benefits
- the role of the tax system in supporting environmental objectives.

We will support the Government to develop a coherent revenue strategy and tax policy work programme to support your objectives. You have indicated a range of specific tax policy priorities relating to family incomes, housing, research and development (R&D), multinational taxation, secondary tax, penalties for tax evasion and specific levies. In addition, we understand the Government intends to establish a Tax Working Group to review the tax system (see below).

You may also wish to consider other options focused on business investment. The global trend is for lower corporate income tax rates. New Zealand's 28% company tax rate is above the OECD median. However, significant misalignment between personal and company tax rates could put pressure on the integrity of the revenue base. There are options to reduce effective tax rates on business investment, such as modifications to depreciation rules, without reducing the statutory company tax rate.

Tax Working Group

We will work with Inland Revenue to help Ministers determine the membership, terms of reference and secretariat for the Working Group by December 2017.

Your policy indicates that the Working Group will particularly need to consider the treatment of capital gains (excluding the family home) relative to other sources of income. We recommend the Working Group's scope include the treatment of capital income and assets in the tax system, allowing for consideration of a wide range of options.

The indicated scope and timeframe of the Working Group, with a final report due in February 2019, mean it will not be able to undertake a comprehensive assessment of all aspects of the tax system. A longer timeframe could enable a broader and more comprehensive review. Alternatively, further targeted reviews of strategic issues in the tax system could be established in the future.

Public sector management

Strategic assessment

The current public sector management system has enabled the Government to control costs and deliver a range of services for New Zealanders. However, some citizens have complex and multiple needs that span several sectors (eg, mental health). The public sector is not meeting the needs of these New Zealanders as well as it could. These issues are also outlined in the State Services Commission's briefing to the incoming Government.

The public sector has made some progress addressing these challenges by:

- taking a longer term perspective, and a more proactive approach to the monitoring and maintenance of existing policy and regulatory systems
- improving collaboration across agencies and with non-governmental organisations, the private sector, and with iwi, hapū and Māori
- considering ways to be more adaptive, innovative and make better use of evidence
- assessing how effectively current resources could improve outcomes for New Zealanders
- focusing on addressing the needs of the most vulnerable New Zealanders.

Strategic policy directions

There are opportunities to improve incentives, performance and reporting arrangements to support the development of a public sector that can respond to these challenges. We will focus on:

- **Value creation and innovation:** Provide advice on how resources within the public sector can be more effectively directed to achieve government objectives. For example, we are developing an Investment Statement for 2018 that will explore ways to manage the Crown's balance sheet in a way that increases the wellbeing of all New Zealanders.
- **Public sector-wide action:** Better incentivise and enable the public sector to work together on collective solutions for problems that cross agency boundaries. For example, we are currently looking at the funding barriers and enablers to cross-agency collaboration.
- **Long-term sustainability and resilience:** Consider the incentives within the system to encourage agencies to focus on sustainability, resilience and long-term outcomes in order to promote intergenerational wellbeing. For example, we are working with social sector agencies to encourage the development of interventions that will improve the long-term wellbeing of the most vulnerable New Zealanders.
- **Strategic accountability:** Create greater capacity and capability to understand the long-term challenges public sector agencies face. For example, we are considering how we can simplify reporting requirements to enable agencies to focus on strategic issues.

Regulatory management

Strategic assessment

Effective regulation is essential to achieving the Government's goals in almost every policy area, but getting it right is a challenge. It requires smart and robust regulatory design, delivery informed by an excellent understanding of those being regulated and continuous attention to the risks of unintended consequences, unnecessary costs and failing to keep pace with technological and social change.

The Regulatory Management System exists to support and encourage good practice in the design, delivery and maintenance of government regulation. Current system processes and tools promote care in analysing options for proposed regulatory change, and a proactive, collaborative approach to the monitoring and maintenance of our key regulatory regimes or systems. To get proper attention from government agencies, however, the Regulatory Management System needs ongoing engagement and support from Ministers and central agencies.

The Treasury is responsible for strategic oversight and coordination of the Regulatory Management System. We work closely with key regulatory agencies to promote more sustained attention to the health and performance of government regulation right across its lifecycle. This “stewardship” approach is built around:

- a focus on “regulatory systems” rather than individual regulatory instruments, since most government goals require a set of connected interventions
- regulatory systems viewed as public assets because, like other assets, they exist to provide a stream of benefits exceeding costs over time
- a view that, like other assets, regulatory systems need ongoing care and attention to keep delivering effectively over time
- a view that effective stewardship of a regulatory system requires collaboration between the different regulatory agencies involved.

Strategic policy directions

- Continuing to embed regulatory stewardship across government.
- Enhancing the quality of agency analysis and free and frank advice to Ministers on the potential impacts of proposed regulatory changes.
- Ensuring regulatory settings are in place that minimise the risks and maximise the opportunities from disruptive innovation and new technology.

International

Strategic assessment

International connectedness is vital to New Zealand's wellbeing. Our ability to take advantage of the opportunities created by a growing Asia-Pacific region depends on being more linked to global flows of trade, capital, people and ideas. These flows are closely connected. More trade also tends to lead to greater investment flows. And flows of trade, capital and people are all vehicles for exposure to new ideas and technology, which is one of the most important ingredients for economic growth.

As Minister of Finance, you have a key role in positioning New Zealand in the world, particularly in terms of our financial and economic story. You also play a key role with your ministerial colleagues to ensure that our work on trade policy is focused on the areas of most benefit to New Zealanders. The system-wide perspective that a Minister of Finance brings to these policy areas is important.

In a variety of ways, your role supports international connectedness. Ensuring that exporters have seamless access to offshore markets has flow-on effects for jobs and incomes across New Zealand's regions. It also allows our firms to grow and expand beyond the domestic market – supporting innovation and productivity. Looking ahead, there are opportunities to support other Ministers to focus more on modern trade issues, including non-tariff barriers, services trade and digital trade.

In terms of international engagement:

- You will have the opportunity for regular meetings with your international counterparts, including through processes such as APEC Finance Ministers' meetings, to share insights on current issues facing the world economy.
- You have a particular role in leading our interaction with international financial institutions such as the OECD, World Bank, Asian Infrastructure Investment Bank (AIIB) and Asian Development Bank (ADB), as noted in Part 1 of our briefing.
- You will have a role with international investors looking to make investments into New Zealand as they seek to understand our economic prospects and direction.
- Your insights about the performance of the New Zealand economy will be important for informing ratings agencies and others involved in supporting our borrowing programme.

Overseas investment

You also have a role in New Zealand's overseas investment settings – you are responsible for investment policy and for administering the Overseas Investment Act.

You have indicated that you intend to ban overseas speculators from purchasing existing houses. We are ready to provide you with advice on this issue, and review whether the Overseas Investment Office has the appropriate level of enforcement resources.

Housing

Strategic assessment

Housing has become increasingly unaffordable in our main cities, particularly Auckland. This detracts from people's wellbeing, fairness across and within generations and economic growth. Lower house prices in real dollar terms are needed to reduce these harms.

Policy decisions have caused housing prices to rise. The most important policy decisions are limitations on the supply of serviced land for housing in growing cities – through both direct regulation of the urban land supply and policies that make the timely provision of infrastructure for housing difficult. A 2017 study by Superu estimated that the costs of the urban planning system and infrastructure provision in Auckland were \$530,000 for an average home.

In a context of unresponsive supply, policy decisions that influence demand – for example, immigration and taxation settings – also influence housing prices.

In addition, productivity in the construction sector is low and significant scaling-up will be difficult.

High housing prices also have direct fiscal implications for the Government. In 2017/18, \$1.5 billion is forecast to be spent on Accommodation Supplement and Temporary Additional Support, and the costs associated with state housing are outlined in the next slide.

Strategic policy directions

Restricting housing purchases by foreigners and extending the Bright Line Test to five years would reduce demand for housing, although the impact on prices from these measures is unknown.

Policies to increase the supply of land for housing, encourage the provision of housing-related infrastructure and boost construction sector productivity are at the core of reducing house prices.

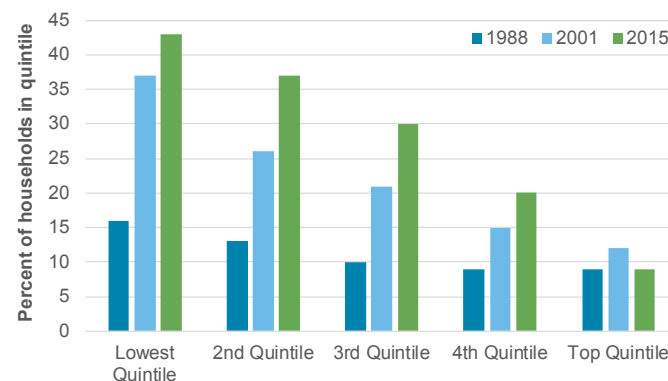
KiwiBuild can directly increase housing supply, and motivate and accelerate shorter and longer-term supply-side reforms, both to enable the programme to achieve its goals and for the benefit of the wider housing market.

Other shorter term policies consistent with increasing housing supply include:

- removing rural-urban boundaries
- expanding Crown Infrastructure Partnerships
- investigating new models to pay for infrastructure like Municipal Utility Districts and bonds backed by revenues from new developments.

Longer term, deeper reforms to the legislation, entities and policies that deliver housing are also needed. Work is underway to develop and recommend fundamental reforms to the urban planning and housing supply systems.

Share of households with housing costs greater than 30% of income (by income quintile)



Source: Ministry of Social Development, 2016. Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2015

State housing

Strategic assessment

Housing New Zealand (HNZ) and Community Housing Providers (CHPs) provide 65,000 homes to households with serious housing need. The cost of income-related rent subsidies (IRRS) for 63,000 of those households is forecast at \$0.9 billion in 2017/18. The remainder of the houses are temporarily vacant or provided to qualifying tenants who pay a market rent. IRRS are forecast to increase to over \$1.1 billion by 2021. These subsidies are increasingly targeted to people with complex needs, rather than those simply unable to afford housing.

In the June 2017 quarter the Ministry of Social Development's (MSD) Housing Register (the waiting list of people eligible for state housing) grew by 38% over the June 2016 quarter. At August 2017 there were 5,750 qualifying applicants waiting on the Housing Register. The funding of transitional housing, and promotion of special needs grants for emergency housing, have made inroads into unmet demand, but the full picture of unmet demand is unknown. Building more social houses to reduce waiting times for social housing will involve significant fiscal cost.

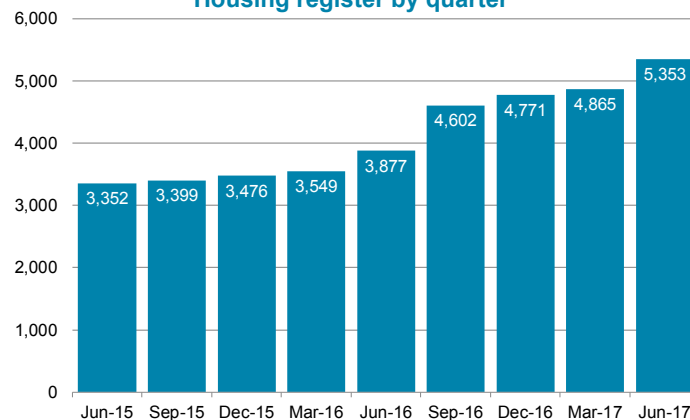
HNZ estimates that approximately 46,000 (75%) of its houses will require replacement or substantial refurbishment in the next 20 years. It intends to renew 1,800 per annum. Current rental income is not sufficient to both maintain and renew the current stock (current spend \$500 million per annum), while increasing overall state housing numbers. New state houses are currently being funded through a combination of rental income cash flow, the proceeds of sales of state housing and land and increasing HNZ's debt.

Barriers to achieving goals in state housing are fundamentally linked to housing unaffordability more generally. Housing costs affect the cost of, and demand for, state housing. People facing high housing costs, as well as other barriers to securing a private house, are more likely to need a state house. Policies to reduce housing costs therefore have a strong bearing on most objectives for state housing.

Strategic policy directions

- Take a whole-of-government approach to improving outcomes for state housing tenants.
- Clarify the role and expectations of HNZ, MSD, the community housing sector and council housing.
- Confirm institutional changes to HNZ, MSD, the Ministry of Business, Innovation and Employment (MBIE), and the establishment of a Housing Commission.
- Ensure that funding for state housing is at a level, and in a form, that enables HNZ and the community housing sector to meet government expectations.

Housing register by quarter



Source: Ministry of Social Development

Infrastructure

Strategic assessment

For the period of 2016 to 2025, total infrastructure spending is estimated to be \$100.9 billion. Over this period local government is projected to spend \$51.2 billion (local roads, public transport, water and civic infrastructure), central government \$40.5 billion (state highways, major public transport, schools, hospitals and prisons) and SOEs and the private sector \$9.2 billion (KiwiRail, Transpower, electricity generators, ports and airports). Central government is largely funded by taxes and local government by rates. Both sectors also have a variety of user charging mechanisms.

Strategic policy directions

New Zealand has a good national infrastructure base bolstered by the expenditure on infrastructure in recent years. Increased expenditure pressures reflect population growth, increasing regulatory requirements and that much of our infrastructure is coming up for renewal or replacement. Further challenges to delivering infrastructure include affordability constraints both in areas that are growing and declining, climate change and increased pressure on natural resources. Opportunities remain to utilise technological change and support the growing role of the Māori economy.

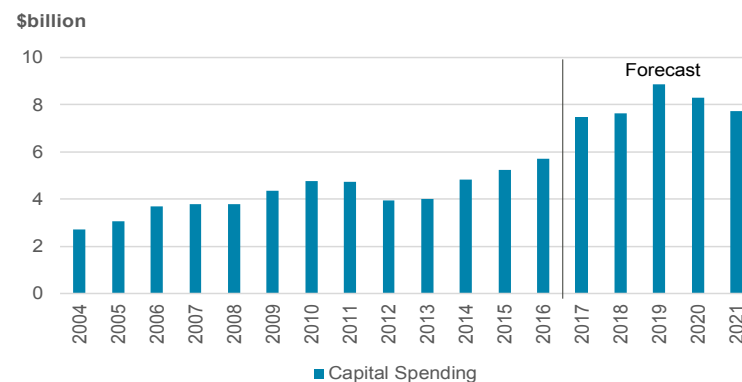
To meet these challenges, it is important that we take a system approach to infrastructure planning, rather than just a project-by-project approach. We need a more integrated infrastructure system that moves beyond the traditional focus on just building more. This would require a better understanding of the levels of service we want to deliver, improve our asset management practices and use of data and more effective decision making that considers non-asset solutions. This approach would help infrastructure providers to:

- better define the outcomes they are trying to deliver
- make evidence-based decisions and achieve value for money for New Zealanders
- use alternative approaches to delivery that maximise benefits, such as by managing demand through user pricing.

Such changes would be best supported by well-functioning regulatory systems with governance, funding and delivery models that respond quicker and lead to smarter investment choices. There are several opportunities that would help to deliver your infrastructure programme. These include:

- reforming the requirements and incentives within central government to lead to smarter investment choices
- reforming the planning system, especially to support urban infrastructure in high growth areas and unlock housing supply
- using different funding and financing models, including those that incentivise the use of private capital
- potentially making large savings by improving how we manage and procure, design and build large infrastructure projects in a tight construction market
- investing in construction and engineering skills and labour to ensure we can deliver on a growing pipeline of work (across transport, health, water and other sectors)
- improving the performance and sustainability of the three waters sector for communities.

Historical and forecast infrastructure investment



Source: The Treasury

Transport

Strategic assessment

New Zealand's transport needs are met by a mix of central government, local government and privately provided infrastructure and services, such as rail, shipping, air services, road transport and public transport. Every three years, the Minister of Transport produces the Government Policy Statement on Land Transport, which sets out the Government's priorities for expenditure under the National Land Transport Programme (NLTP) through the National Land Transport Fund (NLTF), administered by the NZ Transport Agency. The NLTF funds state highways, 50% of roads and public transport administered by territorial local authorities and contributes to other activities, like policing, road safety and walking and cycling networks. It is primarily funded via road user charges and fuel excise duty.

For the period of 2016-25, total transport infrastructure spending is estimated to be up to \$40.6 billion. Local government is projected to spend \$20.3 billion (local roads and public transport), central government \$14.8 billion (state highways and public transport) and SOEs and the private sector \$5.4 billion (mainly the rail, aviation and maritime sectors).

Total transport expenditure in Auckland over the period 2018-28 is estimated to be \$25.9 billion, with about \$20 billion available through current government and council funding sources. The estimated \$5.9 billion funding gap does not include forecast expenditure of \$770 million on rail track infrastructure.

Strategic policy directions

Your transport policies demonstrate a desire for:

- reconsidering the scope of what is funded through the NLTF
- accelerating urban transport infrastructure, such as the Auckland light rail and bus rapid transit commitments
- introducing regional fuel tax
- considering increased regional rail services, where viable.

We are ready to provide you with advice on these issues.

Regional economic development

Strategic assessment

The central government can actively partner with regions to enable them to fulfil their economic potential. Collaborating for regional economic development and focusing on regional needs can improve growth, resilience and economic inclusion. A regional lens also improves the quality of policy decisions and spending in health, education, infrastructure and other government spending areas.

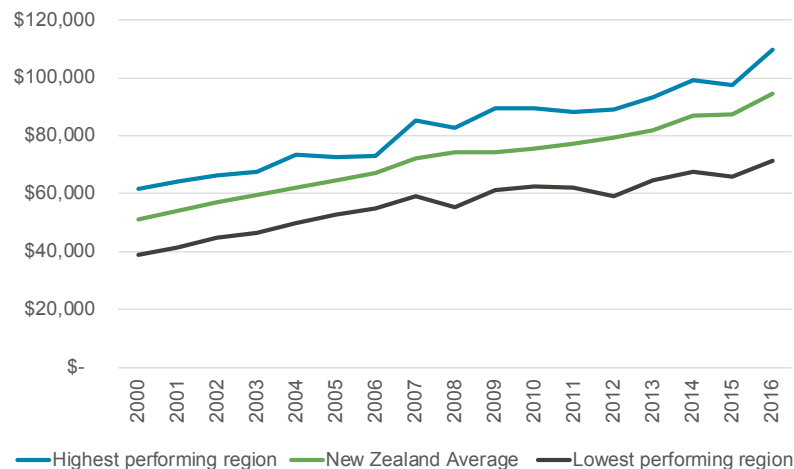
Strategic policy directions

The establishment of the \$1 billion per annum Regional Development (Provincial Growth) Fund provides an opportunity to set the strategic direction of regional economic development and to support decision making. Regional leadership can complement government direction by setting out:

- the types of regions the Government will focus on
- clear statements on the outcomes we are seeking, how success is measured and how these link to national-level policy
- how we can focus on the right set of interventions
- expectations that regions explore a range of local funding options, from private investment to targeted rates
- encouragement to leverage local underutilised skills and assets to increase economic opportunity
- processes that ensure projects are developed and delivered at the appropriate decision-making level where the economic benefits and costs of the intervention are predominantly captured
- guidance for aligning central government funding and policy.

Incorporating success measures and robust evaluation can assist with policy direction. The Treasury has a role assisting other agencies with strategic thinking and embedding the agreed prioritisation process and funding requirements.

Regional household income



Sources: MBIE, Statistics New Zealand

Note: Data indicate average annual household income.

The highest performing region alternates between Auckland and Wellington over the time period. The lowest performing region alternates between Northland, the West Coast, Gisborne and Manawatu-Whanganui over the time period.

Environment, natural resources and planning

Strategic assessment

It is vital for intergenerational wellbeing to manage our natural resources and the effects of their use well. The environmental management and planning system (the 'planning system'), which includes the Resource Management Act (RMA), is critical for land, coast, water and air resources. Management regimes for petroleum and minerals, the conservation estate and the marine environment are also important. This slide focuses on the planning system, but there would be value in assessing the effectiveness of other allocation regimes too. Freshwater and climate change are covered separately.

The planning system is often slow to respond to increasing scarcity from fast population growth and society's changing demands for resources and services (see graph). It is also failing to take into account indirect and cumulative effects of activities. It suffers from unclear objectives, mixed recognition of Māori rights and interests, implementation issues, mixed performance in monitoring and enforcement and a lack of national direction. Rising housing costs, infrastructure supply shortfalls and freshwater pressures are urgent symptoms of the planning system's failures.

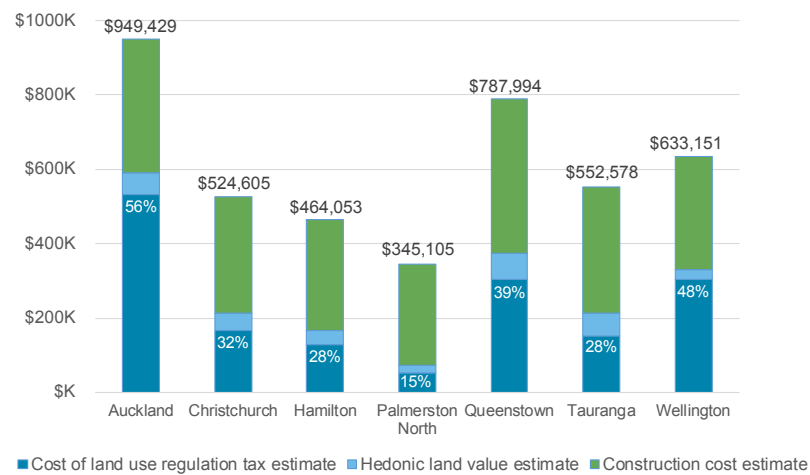
There is consensus emerging across diverse sector groups, the OECD and policy makers that the planning system is failing. In addition to addressing urgent urban issues, it requires fundamental reform.

Strategic policy directions

We understand you wish to improve the RMA, including how it encourages meaningful community participation. We recommend reform that focuses on urban planning initially (see also slide 22 on Housing), and use this to inform a longer term fundamental review of the planning system to address non-urban allocation mechanisms and institutions.

There are also opportunities to improve environmental outcomes by integrating environmental and economic priorities through ministerial and sector leadership arrangements. We recommend engaging with your ministerial colleagues to ensure that environmental and natural resources objectives are integrated into economic strategy. We will support you in any discussions.

2015 estimates of the cost of land use regulation



Source: Sense Partners (2017)

Note: The current title differs from the original Sense Partners title.

Freshwater

Strategic assessment

Building on the previous slide, a particular natural resource that needs attention is freshwater. Freshwater is important to New Zealanders, and there are opportunities to improve how it is used and managed. Freshwater quality is degrading in many catchments – with major contributors to waterway and ecosystem damage being agricultural and urban stormwater run-off. These issues are being exacerbated by the over-allocation of several catchments. Population growth, irrigation expansion and climate change will increase pressures further. Regional councils are asking for better tools, including economic instruments, to improve the allocation of freshwater resources and incentivise their use.

The current issues with freshwater are symptomatic of the broader planning system's inability to respond to emerging issues. In particular, the first-in-first-served approach prevents resources from going to their highest value use and doesn't deal well with new information or competing uses (such as recreation versus agriculture).

Strategic policy directions

We understand your freshwater priorities include faster progress on improving its quality, and introducing a royalty on exported bottled water. A royalty could both raise revenue and encourage highest value use of water, but so could other mechanisms – such as market-based allocation systems, which are being adopted in some regions. You may like to consider how a water royalty can be used, together with such mechanisms, to improve the broader water management system, including to address over-allocation and water quality. This could be achieved through, or alongside, reforms of the RMA for non-urban issues (referred to on the previous slide).

You intend to introduce a new National Policy Statement for Freshwater Management with strengthened standards for water quality. You may like to consider how to balance stronger national standards with the objective of allowing communities to set standards on water quality that reflect their values.

We recommend using your proposed Clean Waters Summit to explore the questions above and progress resolution of Māori rights and interests in freshwater.

Climate change

Strategic assessment

Addressing climate change – both reducing emissions and adapting to a changing climate – requires a shift in New Zealand's economic strategy, an eye on future global demand drivers and a longer term consideration of opportunities.

New Zealand's Paris Agreement target is to reduce greenhouse gas emissions by 30% below 2005 levels by 2030. Growing the economy while meeting emission reduction ambitions requires a focus on productivity, innovation, technology uptake and better environmental management. While New Zealand has reduced its emissions per unit of output, emissions have risen overall since 1990. Existing emissions targets get much more stringent after 2030 (see graph). Meeting long-term emission reduction targets will require new technology in the land sector and fundamental structural changes to the economy. There are opportunities for New Zealand to lead the way in agriculture, recognising our current strength as a highly efficient global food producer.

Planning for change now, including by building resilience into communities and infrastructure that underpins the economy, will open up new development opportunities and reduce long-term costs.

Realising opportunities will require the Government to integrate climate change with other environmental and economic policy. This would include measures to improve Emissions Trading Scheme settings, a regime for freshwater allocation and a review of the wider planning system.

Strategic policy directions

We understand your key priorities are to:

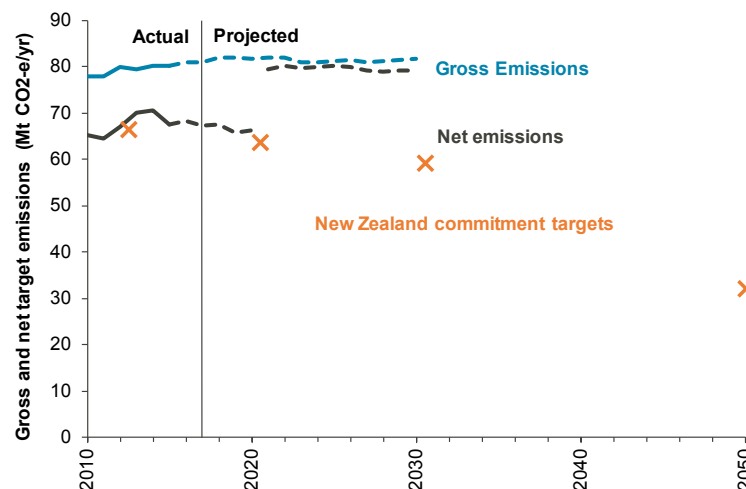
- establish a Zero Carbon Act, with a target of net zero emissions by 2050 and a framework for a just transition to a low carbon economy
- establish an independent Climate Commission to provide transparent and credible advice on measures to transition the economy
- bring agriculture into the Emissions Trading Scheme with 95% free allocation and phase in carbon prices to their optimal level
- use greater central government direction and leadership to help local communities address the consequences of the changing climate, including a working group led by you on the economic and fiscal implications of sea level rise.

Achieving your objectives for climate change and a just transition will require cross-portfolio Ministerial and agency objective setting and coordination to integrate economic and environmental policy making. We can help you with Ministerial arrangements to ensure agencies work effectively together.

Good information is needed to support policy decisions with distributional consequences and difficult trade-offs. You may want to consider establishing the Climate Commission to build from existing work to establish a strong evidence base, including work by the Productivity Commission and agriculture and forestry working groups.

There will be significant fiscal implications from legislating a target, and options for how to share responsibilities. We would welcome an early discussion with you on establishing transparent and credible indicators and on policies to achieve more ambitious targets.

New Zealand's gross and net target emissions



Source: The Treasury

Immigration

Strategic assessment

Immigration supports a range of different (and at times competing) objectives, including meeting international and humanitarian commitments, and enabling families to be reunited. It supports economic growth by encouraging diversity of ideas, innovation, entrepreneurship and addressing short-term skill shortages. The composition of migrants is important because highly skilled migrants are more likely to complement local labour and capital and make a greater fiscal and economic contribution to New Zealand.

Effective labour market immigration should integrate with the broader skills and welfare systems to ensure that skill shortages also create opportunities for New Zealanders. Current settings place limited expectations on employers and sectors to attract, train or upskill locals, and limit incentives to invest in technological change.

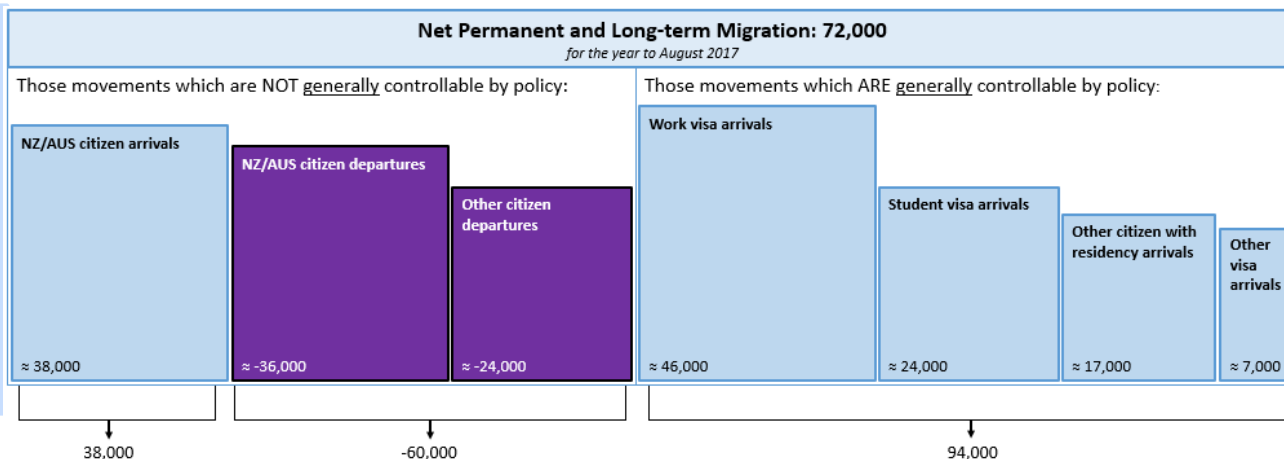
The impacts of immigration vary by region and sector. High immigration is placing additional pressures on housing and infrastructure in our main cities.

The concentration of migrants in occupations and industries categorised by lower wages and productivity, and falling earnings of skilled migrants suggest that skill levels have dropped. Recent changes to Essential Skills and Skilled Migrant Category visas have begun to respond to these trends, but it is too soon to see any impact on the number or skill profile of immigration.

The Government has limited control over net migration. More than half of the total movements are not generally controllable.

Net immigration can primarily be controlled by restricting immigrant arrivals. The Government can also influence an increase in departures by tightening rules to renew visas or transfer to other visas, including residence.

Permanent and long-term migration is a blunt measure of long-term people movements. It does not capture short-term temporary migrants, many of whom stay long term.



Strategic policy directions

We understand your immigration policy priorities are to: reduce total immigration by 20,000 to 30,000 by reducing low-level student and post-study work visas, and tightening access to work visas; and to target migrants with particular skills through Exceptional Skills and KiwiBuild visas. In delivering on these priorities you may wish to consider:

- how immigration settings integrate with the broader skills and welfare systems (including the roles and responsibilities of Government, employers, industries and tertiary institutions) to ensure that skill shortages also create opportunities for New Zealanders (particularly the young or unemployed)
- the impact of changes on tertiary education providers. Export education is our fourth largest export. In 2016, fees paid by international students comprised 11% of total income for New Zealand universities and 16% for polytechnics, with one as high as 28% and four above 20%
- a significant reduction in migrant numbers is likely to have a harder impact on particular industries (eg, hospitality, agriculture) and regions (eg, Marlborough, Tasman, Otago). Predicting the size and distribution is a challenge. Clear signalling and allowing time for adaptation would reduce any adverse consequences.

Skills and the labour market

Strategic assessment

Overall, the skills and labour market systems are working well. New Zealand has above average school performance and adult skills, relatively high rates of labour force participation and low levels of long-term unemployment. Foundational and higher skills will grow in importance as technological change reshapes work towards higher skilled and hard to automate jobs, and non-standard work arrangements. Resilience could be increased by ensuring the skills and labour market systems support:

- More people gaining foundational academic, social and emotional skills. Educational achievement is above the OECD average and NCEA qualification rates are increasing. However, maths and science achievement is slipping on international comparisons. Achievement varies by ethnicity and socioeconomic status, and there is a small but significant group whose early learning environment means they start school behind their peers.
- More people gaining higher, more relevant skills. Improving the performance and equity of early learning and schooling will support higher skills. High-quality tertiary education that links well with employer requirements is crucial to meeting the needs of both learners and job providers. Some low level (certificate) courses are poor quality and lack relevance.
- People using their skills to greatest benefit. While labour market participation is high, some evidence suggests that New Zealand has high rates of mismatched labour (where worker characteristics differ from job requirements, particularly the level of qualification).
- Ensuring policies maintain minimum protections for workers (eg, non-standard working relationships, minimum wage).
- Transitions between the skills, labour market and welfare systems. Flexible labour market settings and accessible tertiary education have supported high employment and helped the unemployed to re-enter work rapidly. However, when workers are displaced (particularly those from vulnerable groups) it affects future earnings and job quality.

Strategic policy directions

The Government has indicated a range of policy priorities that will support increased resilience in the skills and labour market systems, and ensure everyone has the opportunity to fully contribute to our economy and society. These policy priorities include:

- increasing tertiary education participation (eg, fees-free tertiary education, increasing student allowances and living cost loans)
- maintaining fair work conditions for all (eg, lifting the minimum wage, introducing fair pay agreements)
- initiatives in education (eg, increased funding for ECE centres with 100% qualified teachers, extra funding for schools that do not ask for donations, school leavers toolkit, developing a 30 year strategic plan)
- initiatives in social development that have skills and labour market dimensions (eg, piloting the Youth Education, Training and Employment Initiative; introducing programmes for long-term unemployed to improve work readiness).

We will continue to work with MBIE to support these objectives within the context of the changing nature of work.

Addressing poverty

Strategic assessment

You have said that you want to set targets to reduce child poverty. There is a range of options on how to report against a child poverty target in the Budget documentation, including using the Fiscal Strategy Report or through a tailored document. We will work together with MSDnt to develop the legislation and identify appropriate targets.

Poverty, disadvantage and hardship are multidimensional and can have different trends at different levels. Therefore the use of multiple-measures and multiple-levels including income (absolute and relative), material deprivation and housing are necessary to capture the complexity of hardship.

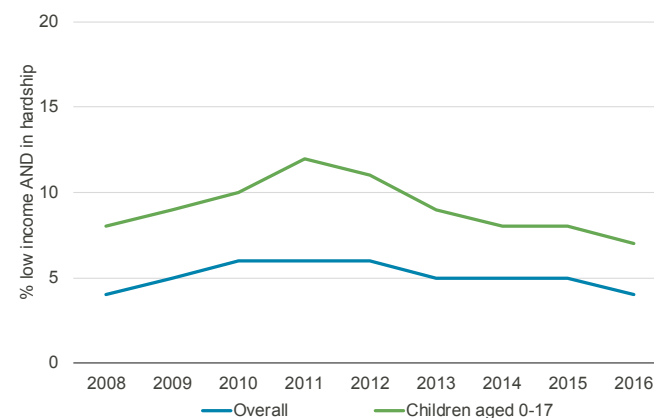
Children facing material deprivation are disproportionately in families on a benefit, sole parent families, families in regions with higher rents and larger families.

Over the longer term, education is key to reducing the intergenerational transmission of poverty.

Adjustments through the Families Package, including the Winter Fuel Payment, Best Start and changes to Paid Parental Leave will contribute to reducing hardship for families.

Across the labour market, tax and welfare systems the Government has many options for raising low incomes. There are a number of policy options you could use to lift incomes whilst balancing the trade-offs between cost, income levels and work incentives, as shown in the table.

Income poverty and hardship trends



Source: MSD 2017 Household Incomes in New Zealand

Low income is defined as 60% (after housing costs) of median income and hardship is based on material wellbeing index ≤ 9 (moderate to severe deprivation).

	Option	Who it targets	Does it reach deprived children?	Does it reduce work incentives?	Fiscal costs
Labour market	Raise minimum wages (including living wage proposals)	Disproportionately 16-24 year olds and part-time workers	Not effective	No	Low
Tax	Tax free threshold	Everyone but particularly helps students and retired people	Not effective	No	High
	Lower rate on bottom tax bracket (under \$14,000)	Everyone but particularly helps students and retired people	Not effective	No (depends on EMTRs)	High
	Lift the threshold on middle incomes (now \$48,000)	Reaches working families but also retired people	Not effective for children on benefits	No (depends on EMTRs)	Moderately high
	Working for Families: Family and in-work tax credits	Mainly low and middle income families	Yes, depends on design	Yes by creating high EMTRs	High but scalable
Welfare	Increase main welfare benefits	All welfare recipients (about two-thirds do not have children)	Depends on design	Yes	High but scalable
	Increase the Accommodation Supplement	Those in housing hardship (about 60% do not have children)	Good for addressing regional issues	Yes	Moderate; depends on targeting