



# Fiscal Caps

A GIA Design Paper

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Te Manatū Ahuwhenua, Ngāherehere





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# Purpose

This paper describes how fiscal caps will be set for responses. Feedback from primary industry organisations has determined which option was chosen.

## Background

### WHAT IS A FISCAL CAP?

A fiscal cap is a pre-set contribution limit for a signatory for a response and may only be exceeded with permission from that signatory. The government is unlikely to set a fiscal cap, instead relying on an assessment of the cost to benefit ratio of each response, and so fiscal caps are expected to apply to industry signatories only.

The purpose of fiscal caps is to ensure that:

1. Producers are confident that their industry organisation will not commit them to investing more than they can afford.
2. Industry organisations know the maximum financial liability producers are willing to take on.
3. Industry members on Response Strategic Leadership have some guidance as to their industry's financial limits in the early stages of a response (before more detailed information on how much they are "willing to pay" is available).

*Fiscal caps are not set for readiness work because:*

- the costs are well understood before the activity is approved;
- there is a smaller risk of a cost over-run compared to responses; and
- if costs increase there is time to consider whether or not to continue the work.

*Assumptions:*

- fiscal caps are not kept confidential from other signatories; and
- signatories may withdraw from a response at key decision points, for example when new information on the spread of the pest or disease emerges or when the Business Case is presented (i.e. before fiscal cap is reached).

## KEY CONCEPTS RELEVANT TO FISCAL CAPS

### Willingness to pay

This is the amount of money that a signatory considers is worth spending to avoid future negative impacts from the pest or disease. This is usually determined by the expected impact of a pest or disease on that industry and therefore an industry's willingness to pay will vary between different pests and diseases. For example, the Government is likely to be willing to pay more for a response to red imported fire ant, which is expected to have \$100 million of impacts annually when fully established, compared to the yellow crazy ant which would have a much smaller impact.

A party is "willing to pay" if they would fund the activity in the absence of other funders.

## Ability to pay

This is the amount of money available to spend on the response.

## CONTEXT

It is proposed that when a response begins, each party would be required to meet its own costs arising from the Response Plan. Affected industries should try and meet cost sharing obligations up front but, where this is not possible, it is proposed that the Government would assist with these costs and then recover them over a period of up to ten years.

In addition to the fiscal cap for responses, signatories have control over their expenditure under GIA in the following ways:

- No expenses are incurred during a response without approval by the Response Strategic Leadership team (all contributing signatories are on the Leadership team).
- No expenses are incurred for a readiness activity until the budget is approved by the contributing signatories.
- Signatories have control over administration costs through the GIA Manager who manages the administration staff and reports directly to the Governance Group (made up of signatories).

Throughout a response, financial reporting will clearly show the response budget (approved by Response Strategic Leadership) in comparison to the fiscal caps of all signatories involved in joint decision making. Decision making during responses will then take into account the available funds of all signatories.

## FEEDBACK RECEIVED

A total of seven responses were received, the majority in favour of “Each signatory sets their own fiscal cap as they see fit”. A summary of the comments on this option are:

- Pros:
- The fiscal cap can be tailored to reflect the impacts of different pests and diseases.
  - The fiscal cap can be set to reflect the industry’s ability to pay.
  - Setting their own fiscal caps gives greater certainty over fiscal liability than a pre-set value.
  - This option removes the variability of annual fluctuations in value of production.
- Cons:
- Setting different fiscal caps for different pests and diseases may be cumbersome and unnecessarily time-consuming.
  - It might lead to disagreements between industry groups with shared interest in a pest or disease.

There was very little feedback on how to mitigate the risk that fiscal caps are set unrealistically low. There was one response in favour of written guidelines.

## EACH SIGNATORY SETS THEIR OWN FISCAL CAPS AS THEY SEE FIT

### Key features

Each signatory can set their own fiscal caps and different fiscal caps could be set for different risk organisms, or one fiscal cap can be set to cover all responses.

### Advantages and benefits

- Fiscal caps reflect how much each signatory is willing and able to pay – may give a greater level of assurance to producers.

### Disadvantages and costs

- Fiscal caps could be set at unrealistically low levels. This could:
  - create additional consultation burden when the cap is reached, which could slow down the response;
  - give other affected signatories low confidence in the commitment from other parties, creating instability in the Response Strategic Leadership team; and
  - set unrealistic expectations for growers/farmers.

### Mitigations

- guidelines for setting fiscal caps to assist industries set realistic values.

## NEXT STEPS

MAF will develop guidelines for setting fiscal caps and seek review and input from industry.