

In Confidence

Office of the Minister for Biosecurity
Chair, Cabinet Economic Development Committee

DRAWDOWN OF BIOSECURITY TAGGED CONTINGENCY FUNDING

Proposal

1. This paper seeks Cabinet agreement to draw down \$31.333 million, being the adjusted tagged contingency set aside in Budget 2019: Vote Agriculture, Biosecurity, Fisheries and Food Safety for the *Impact of GST on Low Value Goods Policy on Operational Funding Requirements*.

Background

2. In September 2018, Cabinet decided that, from 1 October 2019, GST would be collected via an off-shore supplier registration scheme on low-value goods valued at or below \$1,000. The scheme will require offshore suppliers of imported goods valued at or below \$1,000 to register for, and return GST on, supplies of these goods to New Zealand consumers. This will contribute to levelling the playing field between domestic and off-shore goods suppliers by ensuring that GST is paid on the sales of both.
3. As part of the policy decisions on the GST on low-value goods, Cabinet also agreed that New Zealand Customs Service (Customs) and Ministry for Primary Industries (MPI) border cost recovery charges would no longer be collected on these goods. This was to lessen potential delays at the border by avoiding goods being held until duty or cost recovery fees are paid [CAB-18-MIN-0466.01 refers].
4. MPI collects the Biosecurity System Entry Levy (BSEL) on all imported goods with \$60 or more of Customs duty owing. This is currently equivalent to a consignment value of \$400. The policy on GST on low-value goods raises that threshold to \$1,000. This means that approximately 25 percent of current total BSEL revenue will now be forgone.¹ Continuing to fund border clearance operations is crucial to ensure the current level of biosecurity protection is maintained at the border.
5. Budget 2019 established a \$33.331 million tagged contingency to fund the revenue MPI will forgo from the policy on GST on low-value goods. The funding is for three years 1 October 2019 to 30 June 2022 [CAB-19-MIN-0174.01 refers].

1 The volume of goods triggering the BSEL forecast for 2019/20 is 1.83 million which would annually generate \$37.3 million in revenue. Of that, approximately 478,000 goods would no longer be subject to the BSEL, this equates to approximately \$9.7 million in revenue forgone.

6. The tagged contingency includes consequential funding (approximately \$2 million per annum) for additional biosecurity intelligence (risk profiling) and inspection staff at the border. The removal of the requirement to pay cost recovery fees at the border on consignments valued at, or under, \$1,000 is likely to reduce the incentive for importers or their agents to provide accurate information. Any reduction in the quality of information provided on goods could impact the quality of MPI's risk management at the border.
7. At Budget 2019, the implementation date of the policy on GST on low value goods was yet to be confirmed, as the Bill to implement the scheme was still before select committee and subject to change. The tagged contingency was established to allow the funding to be adjusted proportionately once implementation decisions were made.
8. Following report back of the Bill by the Finance and Expenditure Select Committee, Cabinet agreed to delay the implementation date by two months to 1 December 2019 and proportionally reduce the tagged contingency for 2019/20 by \$1.998 million [DEV-19MIN-0153 refers]. The remaining two years' tagged contingency funding remains unchanged (see table below).

Impact of GST on Low Value Goods Policy on Operational Funding Requirements - MPI	\$m - increase/(decrease)				Total
	2019/20	2020/21	2021/22	2022/23 & Outyears	
1 October implementation date	8.991	12.524	11.816	-	33.331
1 December implementation date (adjusted)	6.993	12.524	11.816	-	31.333

Comment

9. Now that the implementation date for the policy on GST on low-value goods has been confirmed and the 2019/20 funding adjusted, the conditions have been met to draw down the funds. Therefore I am seeking agreement to draw down the adjusted \$31.333 million to replace forgone BSEL revenue.
10. Drawdown of these funds is essential to allow the continued funding of border operations at the current level, ensuring biosecurity protection is maintained.

Consultation

11. The Treasury and the New Zealand Customs Service have been consulted on this paper. The Department of the Prime Minister and Cabinet has been informed.

Financial Implications

12. This paper seeks the drawdown of a tagged contingency. As the implementation date was delayed from 1 October to 1 December 2019, the tagged contingency has been reduced by \$1.998 million in year one. Years two and three remain unchanged.
13. There are no further financial implications.

Legislative Implications

14. This paper has no legislative implications.

Impact Analysis

15. This paper has no regulatory impacts.

Human rights, Gender, Implications and Disability Perspective

16. This paper has no human rights, gender or disability implications.

Publicity

17. This paper contains no proposal requiring further publicity.

Proactive Release

18. Following Cabinet consideration I intend to release of this paper in full.

Recommendations

The Minister for Biosecurity recommends that the committee:

1. **Note** that on 24 September 2018 Cabinet [CAB-18-MIN-0466.01 refers]:
 - a. **agreed** to implement an offshore supplier registration system for collecting GST on imported goods valued at or below \$1,000
 - b. **agreed** to change the *de minimus* to \$1,000 based on the value of the consignment (the GST policy), and to implement the GST policy on 1 October 2019

2. **Note** that on 15 April 2019 Cabinet [CAB-19-MIN-0174.01 refers]:
 - a. **agreed** to establish tagged operating contingency in Budget 2019 of up to the amounts as follows in Vote Agriculture, Biosecurity, Fisheries and Food Safety, to provide for the impact of the GST policy on operational funding:

	\$m – increase/(decrease)			
	2019/20	2020/21	2021/22	2022/23 & Outyears
Impact of GST on Low Value Goods Policy on Operational Funding Requirements - MPI	8.991	12.524	11.816	-

- b. **agreed** that the above contingency item be submitted to Cabinet for consideration at a later date
3. **Note** that the tagged contingency was established to allow the funding to be adjusted once final decisions were made around the implementation date for the GST policy
4. **Note** that on 12 June 2019 Cabinet [DEV-19-MIN-0153 refers]:
 - a. **agreed** to a 1 December 2019 implementation date for the GST policy
 - b. **agreed** to reduce the 2019/20 amount in the tagged contingency Impact of GST on Low Value Goods Policy on Operational Funding Requirements in Vote Agriculture, Biosecurity, Fisheries and Food Safety by \$1.998 million to \$6.993 million
5. **Agree** that, as the implementation date for the GST policy has been agreed, draw down of the tagged contingency can proceed

6. **Approve** the following changes to appropriations, in the table below, to provide for the decision in recommendation 5 above, with a corresponding impact on the operating balance -

Vote Agriculture, Biosecurity, Fisheries and Food Safety	\$m – increase/(decrease)			
	2019/20	2020/21	2021/22	2022/23 & Out years
Minister for Biosecurity				
Biosecurity: Border and Domestic Biosecurity Risk Management MCA				
Departmental Output Expense				
Border Biosecurity Monitoring and Clearance	6.993	12.524	11.816	-

7. **Agree** that the changes to appropriations for 2019/20 above be included in 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply
8. **Agree** that the expenses incurred under recommendation 6 be charged against the *Impact of GST on Low Value Goods Policy on Operational Funding Requirements – MPI* described in recommendation 2.

Authorised for lodgement

Hon Damien O'Connor
Minister for Biosecurity

/ / 2019