



COVERSHEET

Minister	Hon Ginny Anderson	Portfolio	Small Business, Police, Justice
Title of Cabinet paper	Fog Cannon Subsidy Scheme – In Principal Expense Transfer and additional crown funding to allow more fog cannons to be subsidised	Date to be published	20 October 2023

List of documents that have been proactively released

Date	Title	Author
May 2023	Fog Cannon Subsidy Scheme – In Principal Expense Transfer and additional crown funding to allow more fog cannons to be subsidised	Minister for Small Business and Police
29 May 2023	Fog Cannon Subsidy Scheme – In Principal Expense Transfer and additional crown funding to allow more fog cannons to be subsidised: CAB-23-MIN-0200 Minute	Cabinet Office
1 December 2022	Briefing: Fog Cannon Subsidy scheme – Initial decisions on scope and delivery approach	MBIE
8 December 2022	Joint Briefing: Fog Cannon Subsidy Scheme and Retail Crime Prevention Programme – further decisions	MBIE and Police
14 December 2022	Briefing: Fog Cannon Subsidy Scheme: Selection of fog cannon providers, implementation timeline and funding	MBIE
2 March 2023	Aide Memoire: Adjustment to Fog Cannon Subsidy Appropriation	MBIE
21 April 2023	Briefing: Fog Cannon Subsidy Scheme: Managing the remaining funding and decisions about the provider panel	MBIE
18 May 2023	Briefing: Fog Cannon Subsidy Scheme – Cabinet paper seeking additional funding	MBIE
26 May 2023	Briefing: Fog Cannon Subsidy Scheme – Options for aligning with the Retail Crime Prevention Programme	MBIE
1 June 2023	Briefing: Fog Cannon Subsidy Scheme – new requirements for fog cannons and providers	MBIE

Information redacted

YES

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of privacy of natural persons, confidential advice to government, maintenance of the law, legal professional privilege, confidential advice entrusted to government, free and frank opinions.

Office of the Minister for Small Business and Minister of Police
Cabinet

Fog Cannon Subsidy Scheme – In Principal Expense Transfer and additional Crown funding to allow more fog cannons to be subsidised

Proposal

- 1 I seek Cabinet's agreement to continue the Fog Cannon Subsidy Scheme (FCSS) through 2023/24 by:
 - Using \$11 million from either a combination of the Between Budget Contingency and Proceeds of Crime Fund, or solely from the Between Budget Contingency; and
 - reallocating \$650,000 from the Ministry of Business, Innovation & Employment's (MBIE) 2022/23 fog cannon subsidy administration budget.

Executive Summary

- 2 The FCSS was announced by the Government on 15 December 2022 and went live on 1 February 2023. It helps small retailers meet the cost of installing a fog cannon through a subsidy of up to \$4,000 (including GST)¹.
- 3 The scheme is market-led. MBIE provides eligible retailers with a voucher they can use with a provider on an MBIE-approved panel to supply and install a fog cannon. The retailer then has six months to organise for a fog cannon to be installed. Once the work is complete, the provider can redeem the voucher by billing MBIE for up to \$4,000.
- 4 As of Monday 22 May 2023, 1,576 retailers had been issued with a voucher. The scheme's funding allows for around 1,700 vouchers to be issued. At this rate, therefore, MBIE is likely to commit the rest of the available voucher funding by 29 May 2023. At that point, the FCSS will need to waitlist new retailer applications.
- 5 I do not envisage that Cabinet expected the FCSS's funding to be used up so quickly. In order to make sure as many small retailers as possible can benefit from the scheme, I have instructed MBIE to find savings in its administration budget. MBIE has identified up to \$650,000 that it can reallocate from administration costs to fog cannon vouchers, and I seek Cabinet's agreement to do this, via an In Principle Expense Transfer.
- 6 The savings MBIE can offer, however, will only be sufficient for a few weeks. If Cabinet wants retailer applications to remain open for longer, it will need to approve additional funding.
- 7 In my capacity as Minister of Police and for Small Business, I have seen first-hand the positive difference that the FCSS is making. It is serving the community well and should remain open. I therefore recommend that Cabinet agree to allocate \$11 million

¹ MBIE recovers the GST component of the provider's invoice, so all calculations and forecasts in this paper are based on GST exclusive figures.

from either a combination of the Between Budget Contingency and Proceeds of Crime Fund, or solely from the Between Budget Contingency, and approve the additional \$650,000 in IPET transfer. This should enable retailer applications to remain open through to the end of 2023.

- 8 I also seek authority as Minister of Police and Small Business to make design decisions to ensure the FCSS aligns with Police's Retail Crime Prevention Programme (RCPP). I will notify Cabinet of any substantive changes to the FCSS's design, and further to this, will report back on FCSS outcomes alongside a report back on the RCPP scheduled for November.

Background

- 9 On 28 November 2022 Cabinet agreed to subsidise small retail businesses (with up to five employees and a street frontage) up to \$4,000 for the purchase and installation of fog cannons [CAB-22-MIN-0548]. The FCSS became operational on 1 February 2023.

- 10 The FCSS works as follows:

- Retailers apply to MBIE for a voucher – which can be spent purchasing a fog cannon from any provider on an MBIE-approved panel. The voucher can only be redeemed once and is valid for six months.
- The retailer shops around the approved providers, selects one, and instructs them to install a fog cannon.
- The fog cannon provider completes the installation, then seeks reimbursement from MBIE for up to \$4,000 inc. GST (\$3,478 exclusive of GST) using the retailer's voucher.

- 11 The key metrics, therefore, are the number of retailer vouchers issued, the number of installations completed, and the installation rate (the proportion of vouchers issued against installations completed). Note that all calculations in the paper are based on the \$3,478 GST exclusive cost of a voucher.

Demand for fog cannon subsidies has been higher than budgeted for

- 12 As of 22 May 2023, MBIE had issued 1,576 retailer vouchers, averaging roughly 110 approvals per week in April and May. Around 1,000 fog cannon installations have been completed or are booked.
- 13 When the initial budget for this initiative was established, the likely level of demand was unclear, and Cabinet appropriated a conservative amount. For the non-departmental output appropriation, \$2.250 million was allocated to 2022/23, and \$3.750 million to 2023/24. One million of the 2023/24 budget has already been moved to FY 2022/23 (with any underspend to be transferred back again) to help meet demand. But this was an interim solution, and a decision now needs to be made about the scheme's future.

If demand stays steady, the FCSS will need to waitlist new retailer applications

- 14 Forecasting exactly when the current budget will be fully utilised with precision is challenging, because a number of independent variables come into play. But rough

estimates can be made, based on demand to date. Confidential advice to Government

- 15 There is not enough funding in the available budget to allow this, however, so in order to stay within appropriation MBIE will need to stop issuing new vouchers and start waitlisting voucher applications. MBIE estimates that this will need to happen from Monday, 29 May 2023. Unused vouchers will begin to expire in August, and MBIE will reallocate these as they become available. There will not be enough of these, however, to meet retailer demand.

There are good grounds to continue funding the FCSS

- 16 Fog cannons can help deter ram raids and burglary, and reduce the risk of people being harmed when an aggravated robbery is committed. The dense cloud of fog that they emit makes it difficult for criminals to see their way around and target cash, certain items of stock, or at worst, people.
- 17 While no formal cost/benefit analysis has been undertaken, small retailers have told me that the scheme is working well. For many small retailers, the upfront cost of a fog cannon is well beyond their discretionary budget, particularly when they do not own the premises. But they do value the extra protection these devices offer. The FCSS lowers small retailers' costs to the point where it is viable for them to have one installed, as the normal cost of a fog cannon installation is around \$4,000.

I seek Cabinet's agreement for MBIE to reallocate some of its administration budget via an In Principle Expense Transfer (IPET)

- 18 As the Minister responsible for the FCSS, I have instructed MBIE to come up with savings that it can put towards its continued operation. It advised me that it can reprioritise up to \$650,000 from the 2022/23 administration budget for this purpose. This can be achieved via a fiscally neutral expense transfer, and I seek Cabinet's endorsement of that.
- 19 MBIE's savings largely derive from administrative efficiencies it has achieved by leveraging the Business Connect platform (which is owned and operated in-house) to host the online retailer application process, and seconding existing MBIE staff to the service delivery team rather than using contractors.

Further Crown funding from the Between Budget Contingency will also be required

- 20 MBIE forecasts imply, however, that the \$650,000 savings it has been able to make will only be sufficient for the FCSS to remain open to retailer applications for approximately eight more days than it would otherwise (ie early-June). If Cabinet prefers to keep the FCSS operating for longer, a further and more substantial funding boost will be required. I propose setting aside sufficient funding now to keep the FCSS running for the remainder of 2023.
- 21 To permit this, I seek Cabinet's agreement to either:

21.1 set aside an additional \$7.667 million from the Between Budget Contingency and \$3.333 million from the Proceeds of Crime Fund; or

21.2 set aside the entire \$11 million from the Between Budget Contingency;

which together with the proposed IPET will enable at least 3,350 fog cannons to be subsidised.

22 The Ministry of Justice has been consulted and recommends against drawing funding from the Proceeds of Crime Fund (PoCF). They advise:

22.1 The purpose of the PoCF is to address organised crime and drug-related harm, to test innovative solutions and to enable agencies to build an evidence base of work that is addressing crime-related harm. Funding for initiatives is one-off support, and the PoCF is not expected to be used to fund ongoing programmes. If the initiatives are successful agencies are expected to secure or reprioritise funding to continue operations. In this case, the fog cannons initiative has already been funded once from the PoCF and we do not recommend a second round of funding which would not be in line with the Act.

22.2 The current balance of the Proceeds of Crime Fund (PoCF) is \$7.649 million. The PoCF is required to reimburse costs for Police (via a Cabinet agreement) and MBIE (via statute). Combined estimated costs are estimated to be \$9 million - around \$5.5 million for Police and around \$3.5 million for MBIE. Both agencies have indicated to the Secretariat that they will require the funding within the next month. The PoCF is drawn from revenue received from the proceeds of criminal activity, it is essentially a cash fund, and cannot be operated with a deficit balance.

22.3 Revenue into the PoCF is unpredictable, as it is based on completion of prosecutions and the sale of physical assets. The dual impact of COVID-19 and the global economic downturn have significantly reduced the flow of money into the PoCF. COVID-19 has had a major impact on actual and projected revenue due to significant delays in both national and international justice systems and markets. The global economic downturn has also slowed down asset disposal and reduced asset values.

Authorisation for further design decisions

23 When the FCSS was established, Cabinet authorised Joint Ministers (Ministers of Finance, Correction, Police, Small Business and Justice) to make design decisions. Now that the scheme's high-level parameters have been established, this level of shared responsibility for detailed design decisions is no longer required.

24 I propose that Cabinet authorise me as Minister of Police and for Small Business to make further design decisions about the FCSS. As any further design decisions will require matters of detail to be worked through, these would be most efficiently managed at ministerial rather than Cabinet level.

25 The design changes I am contemplating would aim to bring about closer alignment between the FCSS and Police's Retail Crime Prevention Programme (RCPP). It is

important that these two schemes work well together, and ideally, fog cannon providers and their products should meet the same standard regardless of which scheme they are participating in.

26 In order to achieve this alignment, and to ensure that the FCSS makes best use of the additional investment in it, I have sought advice from MBIE on whether to:

- reduce the validity period of retailer vouchers, so unused vouchers become available for other retailers to use with less delay;
- adjust the eligibility criteria for retailers, to target the subsidy to those who are most in need;
- reduce the subsidy rate, so retailers have more 'skin in the game';
- require that all fog cannons subsidised under the FCSS have specified functionality to ensure they are fit for purpose across a range of retailers, and are installed in a way that enables cost-effective integration with other security systems;

Confidential advice to Government

27 I will notify Cabinet of any substantive changes to the FCSS's design. Further to this, I will report back on the effectiveness of the FCSS alongside a scheduled report back on the RCPP in November.

Legislative Implications

28 There are no legislative implications.

Impact Analysis

29 The regulatory impact analysis requirements do not apply to this paper.

Climate Implications of Policy Assessment

30 None have been identified.

Human Rights

31 MBIE considers that the proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

The Treasury and Police was consulted, and DPMC was informed.

Communications

32 I will work with the Prime Minister's Office on a suitable communications plan.

Proactive Release

- 33 I intend to release this paper, with appropriate redactions consistent with the Official Information Act 1982, within 30 business days of decisions being confirmed by Cabinet and announced.

Recommendations

The Minister of Small Business recommends that the Committee:

The Fog Cannon Subsidy Scheme requires more funding if it is to keep operating

- 1 **Note** that on 28 November 2022, Cabinet agreed to establish a Fog Cannon Subsidy Scheme (FCSS) for small retailers [CAB-22-MIN-0548]
- 2 **Note** that Cabinet authorised the Ministers of Finance, Correction, Police, Small Business and Justice (Joint Ministers) to agree the level of funding and funding source for the FCSS
- 3 **Note** that, in line with this authorisation, Joint Ministers agreed to establish and fund appropriations for the FCSS as set out in the table below [BR 2223-2178, 14 December 2022]:

Vote Business, Science and Innovation Minister of Police	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & outyears
Non-departmental Output Expense: Retail Crime Subsidy Scheme	2.250	3.750	-	-	-
Departmental Output Expense: Administration of the Retail Crime Subsidy Scheme (funded by Revenue Crown)	1.263	1.105	-	-	-
Total Operating	3.513	4.855	-	-	-

- 4 **Note** that retailer demand for fog cannons has been strong, and as at 22 May 2023, MBIE had issued 1,576 retailer vouchers (worth up to \$4,000 each), averaging roughly 110 approvals per week in April and May;
- 5 **Note** that MBIE has already brought forward \$1.000 million from the 2023/24 Non-departmental budget to the 2022/23 Non-departmental budget through the Budget 2023 In Principle Expense Transfer (IPET) process in order to help meet demand for fog cannons this Financial Year (FY);
- 6 **Note** that without additional funding, the FCSS will need to waitlist new retailer applications within a fortnight;

Administration savings can be used to fund more fog cannons for a short period

- 7 **Note** that I have instructed MBIE to make savings from its administration budget, so that these funds can be used to extend the duration of the FCSS;

- 8 **Note** that MBIE has identified savings of up to \$650,000 that it can transfer from its administration budget for this purpose, and this will require an in-principle transfer of up to the following maximum amounts of operating from 2022/23 to 2023/24;

Vote Business, Science and Innovation Minister of Police	\$m – increase/(decrease)			
	2022/23	2023/24	2024/56	2025/26 & Outyears
Departmental Output Expense: Administration of the Fog Cannon Subsidy Scheme (funded by Revenue Crown)	(0.650)	0.650	-	-
Total Operating	-	-	-	-

- 9 **Authorise** the Minister of Finance and the Minister of Police jointly to agree to the final amount to be transferred, following completion of the 2022/23 audited financial statements, with no impact on the operating balance across the forecast period;
- 10 **Authorise** the Minister of Finance and the Minister for Police to approve a fiscally-neutral adjustment from the *Administration of the Fog Cannon Subsidy Scheme* appropriation to the *Fog Cannon Subsidy Scheme* appropriation in 2023/24;
- 11 **Note** that, on current levels of demand, these savings will be sufficient to keep the FCSS open to new retailer applications for less than a fortnight;

New Crown funding is required for the FCSS to operate through 2023/24

- 12 **Note** that small retailers have informed me in my capacity as Minister of Police and Minister of Small Business that they value the additional protection for themselves, their families and their workplaces that fog cannons provide;
- 13 **Note** that my preference is to fund the FCSS for the duration of the 2023 calendar year;
- 14 **Note** that MBIE estimates that a \$11.650 million funding boost will enable the FCSS to remain open to new retailer applications through to the end of the 2023 calendar year;
- 15 **Agree** to provide:
- 15.1 \$7.667 million from the Between Budget Contingency and \$3.333m from the Proceeds of Crime Fund;
- OR**
- 15.2 \$11 million from the Between Budget Contingency;
- which together with the proposed \$650,000 IPET will fund an additional 3,350 fog cannon vouchers;

- 16 **Approve** the following changes to appropriations to give effect to the policy decision in recommendation 15 above, with a corresponding impact on the operating balance and net debt:

Vote Business, Science and Innovation Minister of Police	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & outyears
Non-departmental Output Expense: Retail Crime Subsidy Scheme	-	11	-	-	-
Departmental Output Expense: Administration of the Retail Crime Subsidy Scheme (funded by Revenue Crown)	-	-	-	-	-
Total Operating	-	11	-	-	-

- 17 **Agree** that the changes to appropriations above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 18 **Agree** that expenses incurred in recommendation 17 be charged against the between-Budget contingency established as part of Budget 2023 and/or the Proceeds of Crime Fund;

Authorisation for further design decisions

- 19 **Note** that on 28 November 2022, Cabinet authorised the Ministers of Finance, Correction, Police, Small Business and Justice (Joint Ministers) to support the implementation of Cabinet’s decision to establish the FCSS [CAB-22-MIN-0548, Recommendation 7];
- 20 **Rescind** the decision referred to above;
- 21 **Authorise** the Minister of Police and Minister for Small Business to make any further design decisions required in respect of the FCSS to ensure it remains fit for purpose;

Further updates for Cabinet

- 22 **Invite** the Minister for Small Business and Police to:
- 22.1 notify Cabinet of any substantive changes to the FCSS’s design before they are implemented;
 - 22.2 keep Cabinet updated on FCSS outcomes alongside report backs on the RCPP.

Authorised for lodgement
Hon Ginny Andersen