

The Treasury

Budget 2018 Information Release

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[2]	to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government	6(b)(i)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
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[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	not in scope	
[41]	that the making available of the information requested would be contrary to the provisions of a specified enactment	18(c)(i)
[42]	information is already publicly available or will be publicly available soon	18(d)

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Chair
Cabinet

Budget 2018 and Fiscal Strategy

Purpose

1. The purpose of this paper is to confirm the Government's Fiscal Strategy for announcement as part of the Budget Policy Statement in December and set out the strategy, process and key expectations for Budget 2018 to ensure we deliver on our commitments. Both of these will be critical to reinforce to New Zealanders and international markets the credibility of the Government's spending commitments.
2. The Half Year Economic and Fiscal Update (HYEFU) will reflect decisions associated with our 100 Day Plan and set the key expenditure parameters for Budget 2018 and future Budgets.

Executive Summary

3. We have committed to building a sustainable, inclusive and strong economy. This requires that the Government's fiscal position is robust and able to withstand future economic shocks. This Budget will confirm our commitment of putting child well-being at the heart of what we do, which will lift the well-being of all New Zealanders. It will also confirm our commitment to deliver strong public services across health, education, housing and police, and to grow our regions.
4. The Budget Strategy is an opportunity to re-emphasise our commitment to our fiscal objectives, with the Budget process as a key mechanism to prioritise expenditure to remain consistent with these objectives.
5. The key short-term anchor for our fiscal strategy is to reduce the level of net debt to 20% of GDP within 5 years. This will provide allowances of \$2.55 billion operating and \$3.4 billion capital in Budget 2018. These allowances are tight and will need to accommodate:
 - a. significant operating and capital pressures in key sectors such as Health, Education and Justice,

- b. other fiscal risks on the horizon such as pay equity settlements,
 - c. spending commitments set out in our Fiscal Plan, Coalition agreement and Confidence and Supply agreement, and
 - d. any variances to the cost of policies in the Fiscal Plan as they are worked up in more detail.
6. Once the Government's spending commitments are accommodated, there is very little room for any additional spending in order for us to meet the Government's net debt target. This means that, for Budget 2018 and future Budgets, there will be a greater focus on identifying baseline reprioritisation options for low value activities and those not aligned with Government priorities.
7. To ensure expenditure can be managed, I also seek Cabinet approval that no new initiatives are submitted in Budget 2018 outside of our existing commitments. It is imperative that we maximise value with the commitments that we have made to New Zealanders, these are implemented effectively and success is measured. To ensure we get the best possible outcome, I recommend that any commitments which progress through the Budget 2018 process are subject to the same information requirements as Budget initiatives. These initiatives will need to be submitted to the Treasury on Friday, 26 January 2018.
8. I am aware of significant cost pressure initiatives across key sectors which will need to be prioritised in order to remain within the allowances. To support this prioritisation, I expect to see better information on the underlying cost drivers, assumptions and impact of these cost and volume pressures. These initiatives will need to be submitted to the Treasury on Friday 8 December.

The Government's Priorities

9. We have committed to building a sustainable, inclusive and strong economy. This requires that the Government's fiscal position is robust and able to withstand future economic shocks. This Budget will confirm our commitment of putting child well-being at the heart of what we do, which will lift the well-being of all New Zealanders. It will also confirm our commitment to deliver strong public services across health, education, housing and police, and to grow our regions.
10. There is already significant progress underway in the 100 Day Plan across housing, health, education, families, the environment and other priority areas. Budget 2018 will continue this momentum to ensure that all New Zealanders have equality of opportunity and have the resources they need to deliver on their potential, wherever they live.
11. This Government knows that the economy cannot be looked at separately from its impacts on the environment and society. Budget 2018 will make progress on a wide-range of priorities, including:

- a. providing quality public services for all New Zealanders and improving access to core services such as health and education,
 - b. taking action on child poverty and homelessness,
 - c. supporting families to get ahead and sharing the wealth generated by our economy with a wide range of New Zealanders,
 - d. sustaining economic development and supporting the regions, and
 - e. managing our natural resources and taking action against environmental challenges such as climate change.
12. I expect Ministers to use these priorities to inform strategic alignment judgments of existing policy settings and initiatives for new funding.
 13. Over time our economic strategy will focus on how we improve the wellbeing and living standards of all New Zealanders across multiple dimensions. This involves developing a comprehensive set of environmental, social and economic sustainability indicators to measure success.

The 100 Day Plan

Treatment of our 100 Day Plan in the Budget Policy Statement

14. We are making changes for New Zealanders in our first 100 days in office and significant progress is being made across a range of policy areas. The specific commitments included in our 100 Day Plan are set out in Annex 1.
15. Once we have implemented the 100 Day Plan, the Government will have spent \$13.9 billion towards re-building our core public services, reducing inequality and poverty and investing for the long term benefit of New Zealand. The operating impact of the 100 Day Plan is broadly fiscally neutral as a large portion of these commitments are funded by reversing the National Party's tax cuts.
16. Significant work is underway to deliver on our 100 Day Plan commitments by lead Ministers and their agencies.

Restarting Contributions to the New Zealand Superannuation Fund

17. We are also meeting our commitment to restart contributions to the New Zealand Superannuation Fund (NZSF) and I propose that Cabinet agrees to the necessary detailed changes to appropriations to give authority to incur this expense in this paper.
18. Consistent with the Fiscal Plan I propose the following annual contributions to the Fund over the next 5 years:

Table 1: Fiscal implications of contributions to the New Zealand Superannuation Fund

Fiscal year ended June	2017/18	2018/19	2019/20	2020/21	2021/22
Government's stated NZSF contributions (\$m)	500	1,000	1,500	2,200	2,500

19. The Treasury intends to spread these annual contributions into smaller, regular payments throughout a given year, which was the practice before contributions stopped in 2009. The first contribution will begin the day after the Budget Policy Statement (BPS) is released, with subsequent contributions to be made monthly from 31 January 2018.
20. The New Zealand Superannuation and Retirement Income Act 2001 requires the Government to make certain disclosures if it intends to pay less into the Fund than would be implied by the Fund's contribution formula. As this will be the case, we intend on making these disclosures in the BPS. The Treasury model used to calculate the contribution implied by the formula has previously been published alongside each Economic and Fiscal Update and this practice will continue in the Treasury's upcoming Half Year Economic and Fiscal Update.

Next Steps on 100 Day Plan commitments

21. The 100 Day Plan commitments were based on the Treasury's Pre-Election Economic and Fiscal Update (PREFU) and our best available information. The table below sets out the current cost estimates of the 100 Day Plan commitments compiled by the Treasury. The variance compared with previous costings has been netted off the unallocated funding in the Fiscal Plan and we have set the Budget allowances with the remaining funding available, consistent with the Budget Responsibility Rules.
22. Any additional variances to the 100 Day Plan commitments will be managed as a precommitment against the Budget 2018 allowances.

Table 2: Net fiscal impact of 100 day plan commitments (family package numbers still need to be confirmed)

(\$ million)	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Gross operating expenditure	165	1,722	1,853	2,020	2,108	7,868
Operating savings	(486)	(1,896)	(1,896)	(1,976)	(2,059)	(8,313)
Net operating expenditure of 100 Day Plan	(321)	(174)	(43)	44	49	(445)
Net capital expenditure of 100 Day Plan	1,050	2,103	2,180	198	516	6,047
Impact on net core Crown debt (accumulated)	729	2,659	4,796	5,037	5,602	

23. Our “mini-Budget” will consist of progressing the policy commitments in the 100 Day Plan. These will be approved by Cabinet and reflected in the Government’s Budget Policy Statement and the HYEPU, both of which will be released before Christmas.
24. I will make a speech prior to the release of the Budget Policy Statement to reinforce to New Zealanders and international markets what we are doing and the credibility of the Government’s spending commitments.

Fiscal Strategy

25. I intend to publish a BPS alongside the HYEPU. The BPS is usually where the Government sets out their intended allowances. In addition, the Public Finance Act (PFA) 1989 requires the BPS to state the overarching policy goals that will guide the Government’s budget decisions, the policy areas the Government will focus on in 2018, and to include a fiscal strategy.
26. The fiscal strategy must include short-term intentions covering the next 3 years and long-term objectives covering the next 10 years for the main fiscal aggregates (expenses, revenue, the balance of expenses and revenue, debt and net worth) that accord with the principles of responsible fiscal management.
27. I propose we base our fiscal strategy on the Budget Responsibility Rules:
 - a. The Government will deliver a sustainable operating surplus across an economic cycle.
 - b. The Government will reduce the level of net core Crown debt to 20 per cent of GDP within five years of taking office.
 - c. The Government will prioritise investments to address the long-term financial and sustainability challenges facing New Zealand.
 - d. The Government will take a prudent approach to ensure expenditure is phased, controlled, and directed to maximise its benefits. The Government

will maintain its expenditure to within the recent historical range of spending to GDP ratio.

- e. The Government will ensure a progressive taxation system that is fair, balance, and promotes the long-term sustainability and productivity of the economy.
28. The key short-term anchor for our fiscal strategy is to reduce the level of net debt to 20% of GDP within 5 years. Over the long-run, our objective is to run a sustainable surplus across the cycle alongside prioritising responsible investments that enhance the long term wellbeing of New Zealanders.
29. I will be seeking delegated authority to finalise any details of the short-term and long-term fiscal objectives for inclusion in the Budget Policy Statement.

Setting Budget Allowances

30. Budget allowances provide a self-imposed cap on expenditure to ensure we can meet the fiscal objectives set out above. The proposed allowances for Budget 2018 and future Budgets discussed below take into consideration the spending and revenue set out in Labour's Fiscal Plan, Coalition and Confidence and Supply agreements, and the HYEPU preliminary economic and fiscal forecasts.
31. The allowances do not include expenditure related to the 100 Day Plan as these will be decided and reflected in HYEPU forecasts.

Preliminary Economic and Fiscal Forecasts

32. In the lead up to the release of the Half Year Economic and Fiscal Update the Treasury has prepared preliminary forecasts which incorporate data releases since the Pre-Election Update and policy costings set out in the Labour Fiscal Plan.
33. The Treasury's preliminary forecast show a positive outlook for New Zealand's economy and the Government's books. Economic growth is expected to be solid over the next five years. Household consumption (supported by high net migration inflows and low interest rates), business investment and a recovery in exports see GDP growth pick up in 2017/18. Growth is expected to peak in the 2018/19 year as the stimulatory impact of the Families Package and higher government spending flows through the economy, in part via higher household spending. Thereafter, economic growth is expected to be lower as population growth slows and as monetary policy tightens in response to higher inflationary pressures. The unemployment rate is expected to remain flat over the coming year, before falling due to above average economic growth.

34. The Government's operating balance before gains and losses (OBEGAL) over the next 5-years are expected to gradually increase and reach \$7.7 billion (or 2.3% of GDP) by June 2022. It is important that the Government is able to run surpluses at this level to help fund capital expenditure (such as contributions to the New Zealand Superannuation Fund) and ensuring net core Crown debt reduces as a share of GDP. The preliminary forecasts show that net core Crown debt is expected to fall from 23% of GDP towards our target of 20% of GDP within 5 years.
35. New operating and capital budget allowances have been included in the preliminary HYEPU forecasts at levels signalled in the Fiscal Plan.

Setting Operating and Capital Allowances

36. To retain some flexibility to make alterations to the timing of expenditure, as well as acknowledging that cost estimates may change, I consider there would be benefits in translating the Fiscal Plan into a general operating and capital allowance. The allowance will form a self-imposed cap on expenditure growth to ensure we can meet our fiscal objectives.
37. The fiscal implications of the 100 Day Plan will not form part of the general operating and capital allowances and instead will form part of the mini-budget.
38. This translation of the Fiscal Plan also allows us to rephase allowances to broadly reflect the timing of the remaining commitments in the Fiscal Plan, Coalition agreement and Confidence and Supply agreement. Rephasing will also help to spread any remaining headroom evenly over each Budget to meet any additional pressures.
39. Table 3 below presents this the rephased operating allowances of \$2.55 billion for Budget 2018 and \$1.8 billion thereafter.

Table 3: Recommended Rephased Operating Allowances (Budgets 2018 – 2021)

\$ million	2018/19	2019/20	2020/21	2021/22	Total
Budget 2018	2,550	2,550	2,550	2,550	10,200
Budget 2019	-	1,800	1,800	1,800	5,400
Budget 2020	-	-	1,800	1,800	3,600
Budget 2021	-	-	-	1,800	1,800
Total	2,550	4,350	6,150	7,700	21,000

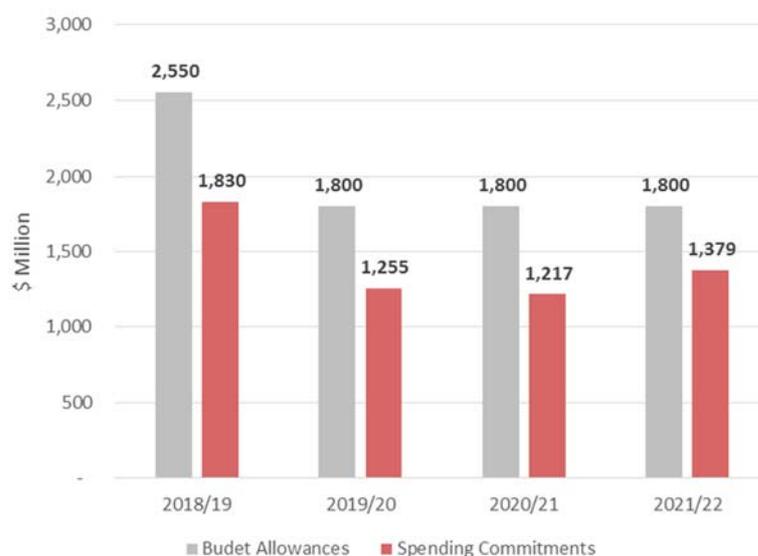
40. We have made two specific capital commitments related to Kiwibuild and NZSF contributions. These total around \$5.3 billion across the forecast period. After removing these specific commitments, there is around \$10.1 billion of unallocated capital funding to meet commitments set out in the Fiscal Plan, Coalition and Confidence and Supply agreements, tagged contingencies¹ and cost pressures. The \$1 billion Provincial Growth Fund will be managed through this capital allowance, alongside some operating funding and reprioritisation.
41. As per the approach taken on operating allowances, I propose to rephase capital allowances so as to provide \$3.4 billion in Budget 2018 and Budget 2019, \$3.1 billion in Budget 2020 and \$2.7 billion in Budget 2021.

What needs to be managed through the allowances?

42. Our Budget Responsibility Rule of reducing net core Crown debt to 20% of GDP within 5 years will be a key anchor for decision-making in Budget 2018 and future Budgets. The allowances set out above provide a cap on expenditure to ensure we continue to meet this target.
43. Although the allowances appear significant (particularly for Budget 2018), there are a number of large commitments outlined in the Fiscal Plan, Coalition agreement and Confidence and Supply agreement across areas such as Housing, Regional Development, and Welfare. There are a number of pressures and risks that exist in addition to these commitments.
44. Figure 1 below compares the rephased operating allowance for Budgets 2018 – 2021 against the spending commitments included in the Fiscal Plan (excluding costs of the 100 Day Plan). The available headroom within these allowances is tight and will need to accommodate:
 - a. coalition agreement and Confidence and Supply agreement commitments that are not currently reflected in the Fiscal Plan;
 - b. significant cost pressures across key sectors;
 - c. other unquantified and potentially significant fiscal risks; and
 - d. any cost variances from the estimates set out in the Fiscal Plan.

¹ The tagged contingencies total \$1.7 billion and include funding for Waikeria Prison and State Highway 1 repairs.

Figure 1: Rephased operating allowances and spending commitments



Operating and Capital Pressures

45. There are significant operating and capital pressures for Budget 2018. These are estimated at \$1.8 billion per annum for operating and nearly \$18 billion of capital pressures and are primarily driven by volume, wage and price increases across key sectors. The table below summarises the main operating and capital cost pressures. Our Fiscal Plan specifically allocates funding for Health and Education, which I expect should be sufficient to manage the pressures set out below for these sectors.

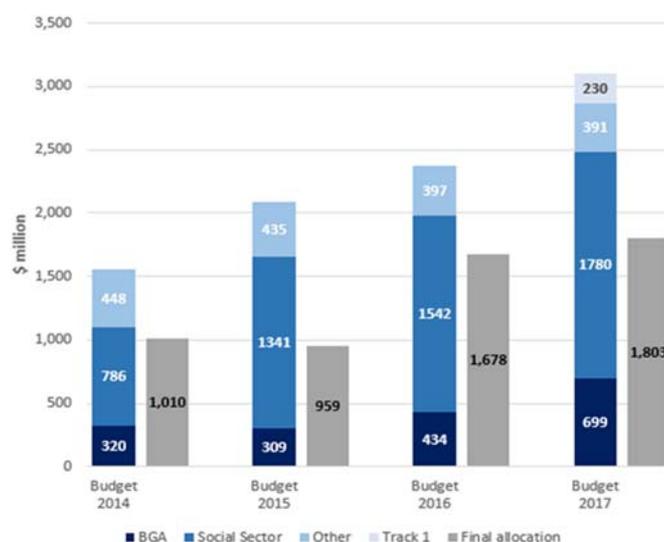
Table 4: Indicative operating and capital cost pressures for Budget 2018 across key sectors

Sector	Operating	Capital
Health	District Health Board pressures covering demographic, wage and price changes. Pressures around national bowel screening programme, [36] and air ambulances.	Additional investment required to replace Dunedin hospital and [36] other replacements are in the pipeline. Other drivers include major rebuilds and ongoing redevelopment work.
Education	Forecast changes to ECE, teachers' salaries and school operations as a result of volume and price increases. Pay equity and collective bargaining pressures.	Additional investment reflects roll growth classrooms, new schools and expansions. Funding required for last tranche of Christchurch schools rebuild.
Justice	Pressures mainly driven by rising prison population and wage round costs.	Investment required to expand capacity in response to rising prison population.

Sector	Operating	Capital
Defence	Defence White Paper operating costs and future air surveillance capability.	Investment reflects projects implementing the Defence White Paper including replacement surveillance and transport aircraft.
Social Development	General departmental and wage pressure as well as extension to funding for security guards. There are also increased pressures around social housing, including front line staffing.	Continued capital investment in resilience of critical IT systems. Pressures related to transitional housing and Tamaki regeneration.

46. These pressures reflect information that the Treasury is currently aware of and are indicative only. I expect portfolio Ministers to be engaging with their relevant departments on the key cost drivers, options to manage pressures, and resulting risks and implications. This includes looking into options to reprioritise low value expenditure not aligned to Government priorities. The process and expectations for baseline reprioritisation in Budget 2018 are set out in more detail in the sections below.
47. In addition to the pressures outlined above, there are a number of unquantified fiscal risks which may need to be managed through Budget 2018. This includes pay equity claims across the public sector that have been lodged or indicated by parties, collective bargaining, continuing Official Development Assistance funding and providing additional support to District Health Boards with large deficits.
48. As shown in Figure 2 below, it is not unusual for agencies to be submitting a large volume of initiatives (including significant pressures) and this is similar to what comes through each Budget. The Budget decision-making process will be critical in prioritising initiatives and setting out key choices and options.

Figure 2: Total funding sought and final Budget allocations, average per annum



Expectations for Budget 2018

49. There are significant pressures being signalled, however minimal room for any additional spending in the allowance after taking into consideration commitments in the Fiscal Plan, the Coalition agreement, and Confidence and Supply agreement. These pressures are likely to persist in future Budgets, absent any changes to policy settings.
50. I therefore expect that for Budget 2018:
 - a. Ministers work with agencies to identify expenditure that can be reprioritised to help offset pressures and new spending commitments and ensure we can remain within the set allowance;
 - b. There are no new initiatives submitted outside of the commitments in the Fiscal Plan, Coalition agreement and Confidence and Supply agreement.
 - c. Initiatives to deliver on Government commitments will be subject to similar information requirements as standard Budget initiatives.
 - d. Cost pressure initiatives are supported with high quality information to support the prioritisation and decision-making process.
51. I am committed to ensuring that all initiatives in Budget 2018 are managed within the operating and capital allowances of \$2.55 billion and \$3.4 billion, respectively. This will involve decisions around prioritisation, phasing of commitments and reallocation of baseline spending.

Figure 3: Overview of Budget 2018 Scope and Process

	OPERATING ALLOWANCE (\$2.55 billion)		CAPITAL ALLOWANCE (\$3.4 billion)
TRACKS	Manifesto	Cost pressures	Capital and near-capital initiatives
SCOPE	Supports investment in commitments outlined in the Fiscal Plan, Coalition agreement and Confidence and Supply agreement.	Supports cost pressure initiatives associated with business-as-usual activity. In particular, where there are volume, price, wage or other pressures which have significant implications if not funded.	Covers all investments and capital projects identified in the Fiscal Plan, Coalition agreement and Confidence and Supply agreement. Includes investments required to manage increasing demand.
TREATMENT	Initiatives will be treated within the operating allowance. They will be subject to similar information requirements as Budget initiatives to maximise value and measure success.	Initiatives will be treated within the operating allowance. Cost pressure initiatives will be subject to specific information requirements around cost drivers, assumptions and expected impacts.	Capital initiatives will be treated within the capital allowance. Capital initiatives are subject to the standard assessment criteria – including assessment of the strategic alignment and value-for-money of proposals.
SUBMISSION DATE	Friday 26 January. In order to accommodate further policy development and finalisation of costs.	Friday 8 December. This date is unchanged and reflects that agencies should already have a robust understanding of these pressures.	Friday 26 January: Capital commitments set out in the Fiscal Plan and other agreements Friday 8 December: Capital pressures

Baseline Reprioritisation

52. I recommend there is a focus on baseline reprioritisation in Budget 2018 and future Budgets in order to:
- a. help manage the risks and pressures that exist for Budget 2018 and to provide some headroom beyond 2018;
 - b. meet manifesto commitments outlined in the Fiscal Plan, Coalition agreement and Confidence and Supply Agreement; and
 - c. remain consistent with our Budget Responsibility Rules.
53. Once we have delivered on our commitments in Budget 2018, we will need access to funding to reinvest in our key priorities in subsequent budgets. There is an opportunity early in the life of the new Government to reprioritise existing spending, remove spending that does not align with the priorities of the Coalition Government, and in doing so freeing up savings for new priorities and higher value policies. This will require ongoing scrutiny overall spending, including in both departmental and non-departmental baselines. It is my strong expectation that Ministers work with their agencies to identify savings to help deliver the Government’s agenda over the next three years, including for Budget 2018.

54. In the short-term, I will be looking line-by-line through the unallocated tagged contingencies set up through the previous Government with a specific focus of reallocating contingencies not aligned to Government priorities. Departments should not seek joint minister approval to draw down these tagged contingencies in the meantime. I will engage with portfolio Ministers on the outcome of this over the coming weeks. A Cabinet decision will be required before any contingencies are reallocated.
55. Reallocating tagged contingencies is likely to provide only a small amount of headroom for Budget 2018. Therefore, I recommend that Cabinet agree to a baseline reprioritisation process. The objective of this process will be to realign overall spending with the new Government's priorities, and create additional headroom within allowances for Budget 2018 and future Budgets, to help manage pressures, fiscal risks and commitments.
56. In the first instance the focus should be on ensuring current spending in agencies baselines align with the Government's priorities, and after that looking at current spending that is not generating value-for-money. The Treasury will be in touch with each departmental chief executive to provide guidance on the Government's expectations for a rebalancing of spending priorities, the release of savings, and the process for meeting these expectations.
57. Whilst the focus is currently on Budget 2018, I will also be looking at how the approach to future budgets can be improved to ensure spending better reflects our Government's priorities of improving living standards for New Zealanders. This has the potential to significantly enhance how Budgets support an improvement in New Zealanders' living standards and funds released through reprioritisation will further realise that potential by being available to spend on worthwhile initiatives. Savings identified early in the process for Budget 2018 will be taken into account in those future budget rounds.

Manifesto Initiatives

58. Manifesto commitments proposed through the Fiscal Plan, Coalition agreement and Confidence and Supply agreement should be developed by agencies for consideration in Budget 2018. Budget 2018 will not be considering any new proposals in addition to this.
59. I propose that all manifesto initiatives are subject to similar information requirements as Budget initiatives, including cost benefit analysis and expert panel assessments (where relevant). We have already committed to these initiatives, however it is important to ensure that they are cost effective, are implemented effectively and deliver intended outcomes. There may also be options around phasing some of this expenditure over the next three Budgets.
60. To provide agencies with more time to develop these proposals and confirm costings, the submission date for manifesto initiatives will be later than cost pressures on Friday 26 January.

Cost Pressure Initiatives

61. Cost pressures cover existing services and outputs which are facing wage, price, volume and/or other pressures and where an agency considers it cannot continue to deliver the same level or quality of service with existing funding.
 - a. **Volume pressures:** these can arise from population growth, changes in population characteristics, or changes in the economic environment. They are client driven.
 - b. **Personnel and wage pressures:** this includes pressures associated with bargaining and remuneration outcomes and/or due to progression.
 - c. **Price pressures:** these not only include changes in cost of inputs (e.g. as a result of inflation), but also changes in capital-related operating expenditure resulting from increases in the value of capital assets.
62. Ministers should only submit initiatives as cost pressures if they meet the criteria above, there are significant service delivery or policy implications if no funding is provided and all other sources of funding/reprioritisation have been exhausted. I will be looking specifically at what provisions have been made in agency four year plans to manage these pressures and why new funding is required.
63. I expect that portfolio Ministers will engage with agencies ahead of submitting initiatives to understand what is driving the pressures in their sector as well as the associated trade-offs and options that exist to manage them (including potential scaling and phasing). This may well involve a discussion on the current policy settings and implications of changing these settings.
64. Cost and volume pressures have typically made up a large proportion of the allowance and I would like to see better quality information and analysis on these pressures to inform decision-making. For Budget 2018, I expect cost pressure initiatives to demonstrate:
 - a. an understanding of the significant cost drivers creating the pressure or risk of service failure and the assumptions underpinning this;
 - b. what funding has already been provided in past Budgets to manage these pressures and why they cannot be managed within existing baselines;
 - c. what will need to be stopped or how the services delivered by the agency would need to change in order to manage the pressures;
 - d. the impact or benefit of the initiative compared to receiving no additional funding; and
 - e. how these pressures align with the agency's medium to long-term strategic priorities.

Cost Benefit Analysis

65. Any government decision to allocate funding will involve a trade-off. Understanding the trade-offs between vastly different proposals is difficult. One way of helping to evaluate different proposals is to conduct a Cost-Benefit Analysis (CBA). CBA helps to identify the value-for-money (VFM) / effectiveness of a proposal and a completed CBA template is required of all budget bids.
66. To help agencies complete a CBA, the Treasury has developed a spreadsheet model called CBAX which applies a consistent framework of assumptions for monetising outcome values (both fiscal and well-being) and applying discount rates.
67. Budgets 2016 and 2017 required proposals to complete a CBAX where fit-for-purpose (i.e. predominantly in the social sector). The CBAX outputs (societal and governmental return-on-investment and net present value) have been used to inform VFM advice on initiatives, with consideration given to the quality of the evidence underpinning those outputs.
68. To inform Budget decisions I expect manifesto and cost pressure initiatives to complete a CBA that outlines the rationale for investment and the cost and benefits of potential options. I expect social sector cost pressure initiatives to complete a CBA using CBAX unless exempt.
69. Beyond Budget 2018, I will be looking at how the living standards framework can be used as a part of the budget process.

Further guidance

70. Further guidance will be provided to agencies on by the end of November, covering:
 - a. more detail on the requirements for cost pressures and manifesto initiatives;
 - b. Budget initiative templates; and
 - c. information on the assessment and decision making process, including ministerial engagement and groupings to support the development of the Budget package once initiatives are submitted.

Communication

71. The communication of policy decisions, the Budget Policy Statement and Budget Strategy will be coordinated through the Prime Minister's office.

Consultation

72. This paper was prepared by the Treasury. The Department of Prime Minister and Cabinet was informed.

Financial Implications

73. This paper seeks agreement to appropriate funding to restart contributions to the NZSF. Additional funding (from what was included in the PREFU forecasts) will be reflected in HYEPU as part of the 100 Day Plan commitments.
74. There are no additional financial implications in this paper. The recommended Budget operating and capital allowances will be used to manage expenditure from this point forward. The allowances are consistent with our Budget Responsibility Rules and our short-term objective of reducing net debt to 20% of GDP within 5 years.

Human Rights

75. There are no human rights implications arising from this paper.

Legislative Implications

76. There are no legislative implications associated with this paper.

Regulatory Impact Analysis

77. There are no regulatory implications associated with this paper.

Gender implications

78. There are no gender implications associated with this paper.

Disability perspective

79. There are no disability implications associated with this paper.

Publicity

80. The communication of policy decisions, the Budget Policy Statement and Budget Strategy will be coordinated through the Prime Minister's office.

Recommendations

81. I recommend that Cabinet:

Government Priorities

- 1 **note** that the Government is committed to building a sustainable, inclusive and strong economy which requires that the Government's fiscal position is robust and able to withstand future economic shocks;
- 2 **agree** Budget 2018 will make progress on a wide-range of priorities, including:
 - a. providing quality public services for all New Zealanders and improving access to core services;
 - b. taking action on child poverty and homelessness;
 - c. supporting families to get ahead and sharing the wealth generated by our economy with a wide range of New Zealanders;
 - d. sustaining economic development and supporting the regions; and
 - e. managing our natural resources and taking action against environmental challenges such as climate change;
- 3 **note** over time our economic strategy will focus on how we improve the wellbeing and living standards of all New Zealanders across multiple dimensions;

100 Day Plan

- 4 **note** that the recommended Budget allowances have been set taking into consideration the updated estimates of the 100 Day Plan commitments;
- 5 **agree** that any additional variances associated with the 100 Day Plan commitments are charged against the Budget 2018 operating and capital allowances;

Restarting Contributions to the New Zealand Superannuation Fund

- 6 **agree** to restart contributions to the New Zealand Superannuation Fund in accordance with the 100 Day Plan;

7 **agree** to re-establish the following appropriation:

Vote	Appropriation Minister	Title	Type	Scope
Finance	Minister of Finance	NZ Superannuation Fund - Contributions	Non-departmental Capital Expenditure	This appropriation is limited to capital contributions to the New Zealand Superannuation Fund, for the present and future cost of New Zealand Superannuation.

8 **agree** that an initial contribution to the New Zealand Superannuation Fund will be paid on the day after the Budget Policy Statement is released;

9 **agree** that subsequent payments will be made monthly from 31 January 2018;

10 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 6 above, with a corresponding impact on net debt:

	\$ million – increase/(decrease)				
Vote Finance Minister of Finance	2017/18	2018/19	2019/20	2020/21	2021/22
Non-departmental Capital Expenditure: NZ Superannuation Fund - Contributions	500	1,000	1,500	2,200	2,500

11 **agree** that the capital expenditure incurred under recommendation 10 above be managed against the capital spending that will be reflected in the Half-Year Economic and Fiscal Update;

12 **note** that, consistent with its Budget Responsibility Rules, the Government will ensure that it is delivering a sustainable operating surplus across an economic cycle and reducing the level of net core Crown debt to 20% of GDP within the next five years;

13 **agree** that the proposed change to appropriations for 2017/18 above be included in the 2017/18 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

Fiscal Strategy

14 **agree** that the short-term focus for the Government's fiscal strategy should be to reduce the level of net debt to 20% of GDP within 5 years;

- 15 **agree** that the long-run focus of our fiscal strategy should be to run a sustainable surplus across the cycle alongside prioritising responsible investments that enhance the long-term wellbeing of New Zealanders;
- 16 **agree** to the following operating and capital allowances for Budgets 2018-2021 for announcement as part of the Budget Policy Statement;
 - a. *Operating Allowance*: \$2.55 billion for Budget 2018 and \$1.8 billion thereafter for Budgets 2019-2021;
 - b. *Capital Allowance*: \$3.4 billion for Budget 2018 and Budget 2019, \$3.1 billion for Budget 2020 and \$2.7 billion for Budget 2021;
- 17 **authorise** the Minister of Finance to finalise the 2018 Budget Policy Statement, including the short-term fiscal intentions and long-term fiscal objectives and the level of allowances in line with this fiscal strategy;

Expectations for Budget 2018

- 18 **note** that there are a number of pressures and risks that need to be managed within allowances in addition to the commitments set out in the Fiscal Plan, Coalition agreement and Confidence and Supply agreement;
- 19 **note** that the Government is committed to ensuring that all expenditure in Budget 2018 is managed within allowances and that this will require agencies to reprioritise expenditure;
- 20 **agree** that Ministers will work with their chief executives to reprioritise baselines with a focus on expenditure that is not aligned to the Government's priorities or is low-value with the expectation that agencies will identify potential savings for Budget 2018 and future Budgets;
- 21 **note** that the approach to future budgets will be improved to ensure spending better reflects our Government's priorities of improving living standards for New Zealanders;
- 22 **agree** that no new initiatives should be submitted in Budget 2018 outside of the Government commitments outlined in Labour's Fiscal Plan, Coalition agreement and Confidence and Supply agreement;
- 23 **note** that there will be an expectation that cost pressures are supported by quality information around cost drivers and assumptions to support the decision-making process;
- 24 **agree** that all manifesto commitments are subject to the same information requirements as Budget initiatives to help ensure these commitments are value-for-money, implemented effectively and measure outcomes;

- 25 **agree** the following submission dates for Budget initiatives:
- a. Cost pressures: Friday 8 December
 - b. Manifesto initiatives: Friday 26 January
- 26 **note** that the Treasury will be releasing further guidance to agencies on process and requirements for Budget 2018 before the end of November;

Hon Grant Robertson
MINISTER OF FINANCE

Date: 17 November 2017

Annex 1: List of 100 Day Plan Commitments

Commitment	Portfolio(s)
Make the first year of tertiary education or training fees free	Tertiary Education, Social Development
Increase student allowances and living cost loans by \$50 a week	Tertiary Education, Social Development
Pass the Healthy Homes Guarantee Bill, requiring all rentals to be warm and dry	Housing
Ban overseas speculators from buying existing houses	Housing, Foreign Affairs, Trade
Issue an instruction to Housing New Zealand to stop the state house sell-off	Housing
Begin work to establish the Affordable Housing Authority and begin the KiwiBuild programme	Housing
Legislate to pass the Families Package, including the Winter Fuel Payment, Best Start and increases to Paid Parental Leave	Tax, Social Development
Reverse the previous Government's tax cuts	Tax
Set up a Ministerial Inquiry in order to fix our mental health crisis	Health
Introduce legislation to make medicinal cannabis available for people with terminal illnesses or in chronic pain	Health
Resume contributions to the New Zealand Superannuation Fund to help safeguard the provision of universal superannuation at age 65	Finance
Introduce legislation to set a child poverty reduction target and to change the Public Finance Act so the Budget reports progress on reducing child poverty	Finance, Child Poverty Reduction
Increase the minimum wage to \$16.50 an hour, to take effect from 1 April 2018, and introduce legislation to improve fairness in the workplace	Employment
Establish the Tax Working Group	Tax
Establish the Pike River Recovery Agency and assign a responsible Minister	Pike River Re-entry
Set up an inquiry into the abuse of children in state care	Children
Set the zero carbon emissions goal and begin setting up the independent Climate Commission	Climate Change
Introduce Waka Jumping legislation	Justice