

The Treasury

Budget 2018 Information Release

Release Document August 2018

<https://treasury.govt.nz/publications/information-release/budget-2018-information-release>

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Chew session: Budget 2018 Scene Setter

Thursday 25 January 2018, 1.30-2.30pm

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Overview

The purpose of this slide pack is to:

- Confirm any outstanding matters in relation to the rules, timing and work preferences for Budget 2018, and
- Provide a refresher of the Budget process and treatment of operating and capital expenditure against allowances.

At our chew session on Thursday 25 January we would like to focus on confirming process related matters (parts I to III) to ensure we are well placed for the decision-making phase from February to April.

Executive Summary

Process elements	Description & Treasury recommendation	Key decisions required
<i>Workstream and ministerial meetings</i>		
Budget workstreams	<p>The following five workstreams were discussed in 2017: social wellbeing, natural resources, economic development, infrastructure and other. These will be used to categorise initiatives to support the Budget prioritisation process.</p> <p><i>We recommend each of the workstreams cover operating and capital cost pressure initiatives, manifesto commitments as well as reprioritisation submissions.</i></p>	<p>Note these workstreams are broadly aligned with the new Cabinet committee structure apart from infrastructure. Given the volume and variety of initiatives submitted, it is valuable to keep infrastructure as a separate workstream to ensure initiatives receive sufficient scrutiny.</p> <p>Note each workstream will cover both operating and capital initiatives.</p> <p>Confirm which workstreams you would like to use for Budget 2018 to support the decision-making process.</p>
Assigning initiatives to workstreams and ministerial groupings	<p>There are choices around whether whole portfolios are assigned to each workstream (similar to the Cabinet committees) or initiatives are assigned to workstreams individually based on best fit.</p> <p><i>We recommend the workstreams are based on whole portfolios but individual initiatives are assigned to different workstreams where this would add significant value to the discussion.</i></p>	<p>Confirm you would like to use the Cabinet committee structure as a guide for which ministers (and initiatives) should be assigned to each workstream where relevant.</p> <p>Note there may be instances where judgement will need to be applied when assigning initiatives to ensure best fit.</p>
Ministerial meetings	<p>Meetings with individual or groups of portfolio ministers provide an opportunity to better understand Budget initiatives, key trade-offs and risks. There are two sets of meetings currently set up which will be led by Minister Clark.</p> <p><i>We recommend these meetings are used to discuss initiatives and sector context rather than used as a decision-making mechanism. We also recommend having a third set of meetings in mid-late March for complex areas (which are led by the Minister of Finance or jointly led alongside Minister Clark).</i></p>	<p>Note Minister Clark will lead the first two sets of meetings with portfolio and workstream ministers.</p> <p>Discuss with officials:</p> <ul style="list-style-type: none"> - The level of involvement and oversight you would like to have on these discussions. Budget Matters meetings can be used as a weekly check-in point. - Setting up further meetings with portfolio Ministers which are led by you in complex areas such as Health, Education and Foreign Affairs. - Engagement with your coalition partners. - Support from the Treasury for these meetings and sharing assessments with agencies.

Executive Summary

Elements of the Budget process	Description & Treasury recommendation	Key decisions required
<i>Budget Ministers</i>		
Budget Minister meetings	<p>Budget Ministers meetings are the key decision making mechanism for Budget 2018. Four meetings have been scheduled from 13 February to 3 April. The purpose of these meetings is to make decisions on the overall Budget package, fiscal strategy and allowances.</p> <p><i>Typically these meetings have been led by the Minister of Finance. The Treasury will provide support and prepare material ahead of each meeting.</i></p>	<p>Note the meetings will consist of the Prime Minister, Deputy Prime Minister, Minister of Finance and Associate Minister of Finance.</p> <p>Note the Treasury will prepare a slide-pack for each of these meetings and engage with you to refine and finalise material prior to the meetings.</p> <p>Confirm you would like to lead these meetings.</p>
<i>Budget production</i>		
Budget 2018 products and communication	<p>There are a selected number of documents that are required to be published on Budget Day under legislation (e.g. Fiscal Strategy Report, BEFU and Estimates). Typically, additional documents are also released to communicate the Budget package in an accessible way to the public.</p> <p><i>The Treasury will need an early indication of any significant changes to these products or new products. We can also tailor existing products to meet any specific requirements.</i></p>	<p>Note there are a number of documents that are required to be published under legislation.</p> <p>Discuss with officials the suite of products available to help communicate the Budget package and provide an indication of any changes or additions.</p> <p>Note there is only a five week window for the production phase following Cabinet approval of the Budget package and an early indication of changes can help to manage risks.</p>
<i>Budget timetable</i>		
Key dates	<p>The timetable brings together key dates for decision making on the Budget package, meetings with portfolio ministers and finalisation of forecasts/fiscal strategy.</p>	<p>Note the Treasury will provide any updates to key dates and inform you of next steps in the process at our weekly Budget Matters meetings.</p>
<i>The Fiscal Management Approach</i>		
Treatment of allowances	<p>This slide-pack includes information for you on the purpose of the Fiscal Management Approach and treatment of operating and capital allowances.</p>	<p>For your information only. The Treasury can provide further detail if required.</p>

Summary of proposed Budget process

February

Treasury to provide advice on cost pressure submissions following Vote team assessments and a high level overview of manifesto and reprioritisation submissions
Around 5 February

- Assessments of individual cost pressure initiatives. Themes within cost pressure submissions and key choices and trade-offs.
- High level overview of received manifesto and reprioritisation submissions.
- Recommendations for key areas to address
- **CHECK POINT 1:** Opportunity for you to discuss cost pressure assessments and impact of submissions against current allowances ahead of Budget Ministers 1.

Budget Ministers 1
13 February

- Led by the Minister of Finance.
- Discuss high level overview of cost pressure, manifesto and reprioritisation submissions.
- Discuss Treasury's advice on cost pressure submissions (noting that Treasury will not yet have completed manifesto and reprioritisation assessments).
- Confirm overall Budget process, timeframes and major fiscal parameters.

Scene setting meetings with portfolio Ministers
13-21 February

- Led by Minister Clark.
- A mixture of individual and group 15 minute meetings with portfolio Ministers to discuss an aggregated view of initiatives received.
- Opportunity to outline expectations to manage initiatives within fiscal parameters.
- Treasury will provide portfolio Ministers (and Finance Ministers) with a 'Budget 101' slide pack ahead of the meetings to prepare them for the discussion.

Treasury to provide early draft package options by workstreams (initial Vote team assessment)
Around 23 February

- To prepare you for your meetings with portfolio Ministers by workstream, Treasury will provide you with early draft package options based on initial Vote team assessments. This will be your first opportunity to see what your Budget package could look like (by workstream) and what decisions/trade-offs may need to be made
- **CHECK POINT 2:** Opportunity for you to discuss the early draft package options against the allowances

February-March

Recommended meetings with key portfolio Ministers
Mid-late March

- The Treasury highly recommends that further meetings between you (Minister Robertson and/or Minister Clark) and key portfolio Ministers be held to assist you in your decision making in complex areas of expenditure (Health, Education, Foreign Affairs).
- If established, we recommend that these be led by the Minister of Finance/Minister Clark.

Budget Ministers 2
19 March

- Led by the Minister of Finance.
- Discuss draft Budget packages and significant choices and trade-offs to remain within the allowances.
- An opportunity to make some initial decisions if desired and consider further engagement with portfolio Ministers.

Treasury to provide draft Budget package and finalised Vote team assessments
Around 5 March

- Treasury will provide you with an updated draft package, following Treasury moderation of initiatives, the previous Ministerial meetings and your feedback from Check Point 2.
- **CHECK POINT 3:** Opportunity for you to discuss the package and to raise any concerns ahead of Budget Ministers 2.

Portfolio Minister meetings grouped by Workstream
27 February-5 March

- Led by Minister Clark.
- High level 1 hour discussions with Ministers grouped by workstream.
- Opportunity to discuss the draft package by workstream to identify priorities and cross-portfolio implications.

March-April

Treasury to provide updated package and the Treasury Report on Fiscal Strategy
Around 23 March

- Updated package following Ministerial meetings and decisions made at Budget Ministers 2.
- The Fiscal Strategy report provides Treasury's overall recommendations on fiscal strategy and budget allowances, informed by preliminary forecasts and medium term projections.
- **CHECK POINT 4:** Opportunity for you to discuss the updated package and to raise any concerns ahead of Budget Ministers 3.

Budget Ministers 3
26 March

- Led by the Minister of Finance.
- Make decisions on the Budget package informed by the Fiscal Strategy report in light of preliminary forecasts.
- Given that Easter weekend falls between Budget Ministers 3 and Budget Ministers 4, it would be preferable to confirm the majority of the package at this meeting.
- Opportunity to discuss whether allowances need to be (or can be) adjusted.

Treasury to provide a near final Budget package
29 March

- Treasury to provide advice following up on any outstanding matters from Budget Ministers 3.
- Treasury to provide a near final Budget package ahead of Budget Ministers 4 and Cabinet decisions on the significant Budget package.

Budget Ministers 4
3 April

- Led by the Minister of Finance
- Resolve any outstanding issues in order for the package to be taken to Cabinet on 9 April.
- Final opportunity for decisions to be made
- This is an opportunity to clarify and/or confirm any final matters. We don't recommend significant decisions be left to this meeting.



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Workstreams and Ministerial Meetings

Workstreams

Workstreams for Budget 2018

- As discussed with you in late 2017, we recommended the establishment of the following five workstreams to categorise Budget initiatives to help with the decision making process, and to consider initiatives dealing with similar issues or sectors together.
 - Natural Resources, Economic Development, Social Wellbeing, Infrastructure, Other
- These workstreams were created to incorporate the Living Standards Framework and the Government's priorities. They do not limit how you present your Budget package on Budget day, but are instead designed to help with the decision making process.
- We can provide you with draft packages for each workstream, as well as overall operating and capital packages. Each workstream will also include cost pressure, manifesto and reprioritisation submissions (with both capital and operating expenditure) so that they can be considered together. ***We recommend ministerial groupings (for the discussion of Budget initiatives) are set up consistent with the above workstreams.***

Workstream alignment with Cabinet Committees

- The above workstreams are broadly aligned with the new Cabinet committee structure apart from infrastructure, which is part of the Economic Development Cabinet Committee. ***Given the volume and variety of initiatives submitted, we recommend keeping infrastructure as a separate workstream for Budget 2018 to ensure initiatives receive sufficient scrutiny.***
- In the final stages of the decision-making process all workstreams will come together and be considered as an overall Budget package.

Workstreams

Workstream options

- You have options on which initiatives sit in each workstream, and therefore which Ministers would be involved with each workstream.
 - One option is to put whole Votes/Portfolios in workstreams, and to broadly align these with the Cabinet committee structures. This has the advantage of most Ministers needing to attend only one workstream meeting, and is logistically easier.
 - The other option is to split the Votes/Portfolios where appropriate, and to classify key individual initiatives within workstreams according to the best fit. This has the advantage of allowing like initiatives to be considered together (such as large procurement bids in Defence, Corrections, Health, Education and Housing sectors) but will require some ministers to attend multiple workstream meetings.
 - ***We recommend establishing workstreams and ministerial groupings based on whole portfolios consistent with the Cabinet committee structures but assigning individual initiatives to different workstreams where this would add significant value (for example, the infrastructure workstream would include large procurement initiatives in areas such as Corrections, Health and Housing in the infrastructure workstream rather than in social wellbeing).***

Workstream Ministers going forward

- You have options on how you would like to use workstream ministerial groupings going forward. We recommend having workstream minister groups meet on a regular basis throughout the year, like Investment Ministers to ensure that ministers are up to date on key policy, strategic and fiscal decisions and options in their sector. While these groups are likely to be meeting regularly due to the close alignment of the workstreams with Cabinet committees, this could be an opportunity to focus on the fiscal and economic decisions for these ministers. It will also mean that the groups could be ready to assist in the decision making process for Budget 2019 and longer-term baseline reprioritisation work.

Meetings with Portfolio Ministers

Meetings with portfolio Ministers (multilateral or bilateral) led by Minister Clark

The overall purpose of these meetings is to engage portfolio Ministers to better understand key cost pressures, manifesto initiatives and reprioritisation options in their portfolios, and for Minister Clark to provide an overview of the Budget process and economic and fiscal context.

Minister Clark currently has two rounds of meetings scheduled in February and March with portfolio Ministers:

13 - 21 February 2018: 15 minute meetings with individual and groups of portfolio ministers

- **Purpose:** To provide individual portfolio Ministers with an aggregated oversight of all submitted initiatives (including cost pressures, baseline reprioritisation and manifesto commitments) and outline expectations to manage fiscal pressures in Budget 2018.
- **Timing:** Treasury Vote teams will not have completed initial assessments of all initiatives by 13th February, so the briefing material for these meetings will be high level and aggregated. The Budget team will also be providing a 'Budget 101' slide pack to Minister Clark and portfolio Ministers and offering to meet with ministers ahead of these meetings (if required) to ensure a good understanding of the Budget process.

27 February – 5 March 2018: 60 minute meetings with workstream ministers

- **Purpose:** Sector Ministers to discuss complex initiatives – identifying priorities/cross-portfolio implications within the five workstreams; Natural Resources, Economic Development, Social Wellbeing, Infrastructure and Other.
- **Timing:** Treasury will be able to provide more detailed information on our Vote team assessments of initiatives for these meetings. This advice could also include a draft Budget package for each workstream building off Treasury advice and moderation. Draft packages across all workstreams will be brought together to form an overall package for discussion at Budget Ministers 2.

Meetings with Portfolio Ministers

Options for how to use meetings with portfolio Ministers

- The previous Labour-led Government used these meetings as a decision making platform for initiatives, however this was when there was a more defined allocation of funding to certain sectors like Health or Education. More recently, these meetings have been used as a platform to better understand initiatives and the context of sectors, which then fed into decisions made by Budget Ministers.
- ***You have options about whether you would like the meetings to be discussion or decision oriented. We recommend using these meetings as discussions to gain a better understanding of complex initiatives and sector context to help inform your decision making at with Budget Ministers. This is primarily due to time constraints in the 2nd meetings (workstreams) to work through initiatives on a line by line basis. It also allows you to make key decisions as a Budget Ministers group.***

Sharing assessments with agencies

- Through the decision making process, Treasury Vote team assessments are developed, followed by a moderated Treasury assessment, and then recommended packages drafted by Treasury in consultation with Ministers.
- ***How comfortable are you with the Treasury sharing assessments of initiatives and ongoing developments with agencies? We recommend sharing assessments of initiatives and providing strong feedback to agencies throughout the process, while caveating the assessments as initial. This has the advantage of agencies and the Treasury providing aligned briefing material for meetings, and can be valuable for discussions about initiatives. It also helps to manage expectations with agencies for initiatives that may not be supported. However, should you wish to have the Treasury assessments solely feed into the advice to Budget Ministers, and to retain greater flexibility in your decision making, we can amend this approach.***

Meetings with Portfolio Ministers

Your involvement in meetings

- Minister Clark has been delegated responsibility for leading the portfolio Minister meetings as part of the Budget process.
- Traditionally the Minister of Finance has led Budget Minister Meetings.
- You have options about the areas that you may wish to have greater visibility over or involvement in. **We recommend that you have involvement in areas of high complexity and large expenditure, such as Education and Foreign Affairs, and for the Health portfolio** where Minister Clark may have a perceived conflict as the Minister of Health. While you will receive briefings for these areas, it may be beneficial to have an in-depth understanding of the key issues for Budget Ministers, and when presenting the Budget.
- We are keen to test how you would like to approach responsibility between yourself and Minister Clark for ad-hoc Budget meetings with portfolio Ministers, and how you would like Treasury to work with Minister Clark's office on developing the Budget package.

Optional additional meetings with selected portfolio Ministers

- In recent Budgets, the Minister of Finance has met with selected portfolio Ministers to discuss initiatives in Votes with large and complex areas of expenditure. These meetings have been used to gain a more detailed understanding of initiatives and trade-offs in sectors to feed into the decision making process. Previously, both the relevant agency officials and the Treasury have also attended to assist in the details of the initiatives which has been useful.
- If desired, you (and/or Minister Clark) could hold additional bilateral meetings with the selected portfolio Ministers as listed above in mid-late March to assist you in your decision making ahead of the 3rd Budget Ministers meeting on 26th March 2018.
- **We recommend scheduling these meetings in addition to the 1st and 2nd rounds of portfolio Minister meetings** as the currently scheduled meetings won't provide you with an opportunity to get a granular level of detail in these large areas.

Engagement with coalition partners

- We are keen to understand how you would like to run your engagement with your coalition and confidence and supply partners throughout the Budget process so that we can ensure that enough time for consultation is built into the process.
- **We recommend setting up additional multi/bilateral meetings ahead of finalising the Budget package to engage with your colleagues.** This could be part of the 3rd round of bilateral meetings mentioned above and ahead of Budget Ministers 3.

Budget Ministers

We recommend using four Budget Ministers meetings as the key decision-making mechanism for Budget 2018.

Membership: Budget Ministers have been confirmed as the Prime Minister, the deputy Prime Minister, the Minister of Finance and the Associate Minister of Finance, David Clark.

Meeting format: We recommend that you use slide packs to take the other Budget Ministers through the material and that the Treasury attend the meetings for support.

Frequency of meetings: Four Budget Ministers meetings have been scheduled between 13 February and 3 April. The following slides outline the objectives of each of these meetings.

Treasury support: We recommend that we prepare the slide packs and engage with you and your office in the week leading up to each meeting to refine and finalise the material for the meetings.

Budget Ministers (continued)

Budget Ministers 1: Scene Setting (13 February)

Purpose is to give Budget Ministers an initial overview of how the allowances compare to the initiatives submitted by departments across cost pressures, manifesto initiatives and reprioritisation options as well as any emerging fiscal risks. We will be looking to get an initial indication around the prioritisation of cost pressures vs. manifesto commitments.

To establish the fiscal parameters of Budget 2018, Budget Ministers will be provided with an overview of the economic and fiscal context.

We will then detail the process for managing these initiatives through the use of prioritisation tools such as ministerial engagements, workstream moderation, expert panels, CBAX and strategic alignment before establishing the key decision points going forward.

Budget Ministers 2: Consideration of draft package (19 March)

The Minister of Finance will present a draft package to Budget Ministers which fits within the allowances and brings together:

1. Recommended funding for cost pressures across portfolios
2. Funding for manifesto commitments recommended to be progressed through Budget 2018
3. Feasible reprioritisation options to discuss with portfolio ministers

This draft package will be used to inform a discussion on the significant choices and trade-offs Budget Ministers have to remain within the allowances and the Government's fiscal objectives as well as any key risks.

Budget Ministers (continued)

Budget Ministers 3: Consideration of near-final package (26 March)

An updated draft package is presented to Budget Ministers reflecting the feedback from Budget Ministers 2 and ministerial engagements in March.

This package will be organised by work streams and the key themes, initiatives and risks in each will be drawn out as demonstrated in figure 1. The Treasury will seek Budget Ministers' agreement on particular initiatives in each package.

Given the Easter holiday, it will be preferable to confirm the majority of the Budget package at this meeting.

Information on the preliminary economic and fiscal forecasts for BEFU will be provided to support Budget Ministers discussion on whether allowances need to be (or can be) adjusted.

Social Wellbeing Package

EXAMPLE ONLY

Social Wellbeing	Average per annum
Education	300
Health	600
Social Development	200
Justice Sector	200
Vulnerable Children	50
Other	50
Precommitments	0
Balance	1,400.0

The emerging social wellbeing package includes funding of \$800 million for cost pressures, responding mainly to volume and wage growth in key areas. It also includes around \$600 million for manifesto initiatives such as...

If the package is reduced further this will likely involve a decrease in discretionary (but high value) expenditure and further scaling of departmental and service cost pressures. There are a number of risks associated with these options such as...

The following recommendations require agreement from Budget Ministers and form the total Social Wellbeing package of **\$1.4 billion** for Budget 2018:

Agree to invest \$300 million on average per annum for Education initiatives	AGREE / DISAGREE
Agree to invest \$600 million on average per annum for Health initiatives	AGREE / DISAGREE
Agree to invest \$200 million on average per annum for Social Development initiatives	AGREE / DISAGREE

Budget Ministers 4: Final Budget Package (3 April)

To be used to resolve any outstanding issues in order for a paper to be prepared for Cabinet's approval of the package in early-April. We don't recommend any significant decisions are left to this point.

Support from the Treasury

Budget Ministers' discussions will be supported by weekly Budget Matters meetings and other engagements with the Treasury when necessary.

Budget Matters: We will continue to use these sessions to discuss and provide updates on the Budget decision-making process and any other emerging Budget issues.

Other engagements: Where useful, the Treasury is also available to meet with you and/or Minister Clark on an ad-hoc basis.

- **With Vote Analysts:** Once a draft package is pulled together you may wish to go through initiatives line-by-line in more detail, with the option of inviting Vote Analysts to provide key context on their assessments and answer any detailed question on initiatives. This has been very useful in past Budgets and will help to build your understanding of the draft package ahead of ministerial engagements.
- **With the Budget team:** The Budget team are available to discuss any issues that don't require a large meeting. March and April tend to be very busy for decision making and processes, so the team are happy to meet as needed.



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Budget Products and Presentation

Budget 2018 Products and Presentation

The following Budget documents are required under legislation.

Product	Owner	Description
Fiscal Strategy Report	Minister of Finance	The Fiscal Strategy Report (FSR) is required under the PFA, designed to ensure transparency about the government's fiscal strategy.
Budget Economic and Fiscal Update	The Treasury	<p>The Budget Economic and Fiscal Update (BEFU) is required by the Public Finance Act (PFA) and includes the Treasury's economic forecasts and the forecast financial statements of the Government incorporating the financial implications of Government decisions and other information relevant to the fiscal and economic outlook. The BEFU also outlines the key risks to the economic and fiscal forecasts.</p> <p>This is prepared by the Treasury and authorised by the Secretary to the Treasury and signed by the Minister of Finance.</p>
2018/19 Estimates and 2017/18 Supplementary Estimates	The Treasury	<p>The Estimates, also required by the PFA, outline for the financial year about to start (the Budget year) expenses and capital expenditure the Government plans to incur on specified areas within each Vote, and capital injections it plans to make to individual departments.</p> <p>The Supplementary Estimates, also required by the PFA, outlines the additional expenses and capital expenditure required for the financial year about to end.</p>

Budget 2018 Products and Presentation

Traditionally the following documents have been released on Budget Day to help communicate the Budget package. These documents each have a distinct purpose and have been well received by media and the public in past Budgets. We would like to discuss with you whether you would like any substantial changes or additions to this suite of products – **for example, a separate document on child poverty.**

Given the tight production deadlines, an early indication of any changes will help with feasibility planning and risk management. We recommend limiting the number of new documents as this will ensure consistency for the media and analysts who attend the lock-up (feedback from media is that they like continuity in the documents released). To help with consistency, there is also the option to tailor existing products to meet specific requirements and priorities for Budget 2018.

Product	Owner	Description
Budget Speech	Minister of Finance	The Budget Speech is the Minister of Finance's speech delivering the Budget Statement at the start of Parliament's Budget debate. The Budget Statement generally focuses on the overall fiscal and economic position, the Government's policy priorities and how those priorities will be funded. The Budget Day lock-up presentation (and associated speech) are also prepared by the Minister of Finance's Office.
Summary of Initiatives	Minister of Finance	Summary of Initiatives in Budget 2018 document presents the new initiatives contained in the Budget in a number of different ways - by Budget package, by area of spending and by Vote. The document is critical to reconcile Budget decisions to the Estimates document and Press Releases.
Press Releases	Minister of Finance	The Press Releases communicate the key policy details of the Budget initiatives and the associated new funding in Budget 2018. The press releases are coordinated and approved by the Minister of Finance's office with support from the Treasury on checking facts and figures.
Budget Summary documents	Minister of Finance	Provides an overview of key Budget information presented in a user friendly document (e.g. graphic fold-out document). The documents provide a summary of the Budget package, Fiscal Strategy Report and BEFU.
Budget Website	Minister of Finance	The key features of the website are interactive graphs and charts, my tax dollar calculator and overview of the Budget priorities. The website also includes links to all Budget products. 20

Budget Lock-Up

Traditionally the following lock-ups are held on Budget Day in Wellington:

- **Media and Analysts:** Journalists and policy analysts are provided with all Budget material ahead of public release. Treasury Analysts are present to answer any factual questions and provide guidance on how to read the documents. The Minister of Finance does a presentation during this lock-up and there is an opportunity to ask questions.
- **Parliamentary:** This is typically called the 'opposition' lock-up where documents are provided to opposition members ahead of public release and ahead of the debate in parliament where Budget documents are tabled.

The Budget Day lock-ups typically have higher external attendance from media and analysts as well as Treasury officials compared to HYEPU. They will involve more logistical planning which usually starts in early April ahead of the Budget package being finalised.



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Detailed Timetable and Key Risks

Budget 2018 – Indicative Key Dates

Date	Item	Description
13 February	Budget Ministers #1	Discuss total initiatives submitted (cost pressures, manifesto and reprioritisation options) through Budget process and preliminary Treasury advice where assessments have been completed. Confirm major parameters and the process.
13 – 21 February	Portfolio Minister meetings – Round 1	Discuss aggregated view of initiatives received and outline expectations to manage initiatives within fiscal parameters.
16 February	Preliminary Economic Forecasts	Based on economic data and other information received since the finalisation of the HYEPU forecasts. A Treasury report will be received in the week beginning 19 February.
22 February	Preliminary Tax Forecasts	Based on preliminary economic forecasts and other information received since the finalisation of the HYEPU forecasts. A Treasury report will be received in the week beginning 26 February.
27 February – 5 March	Portfolio Minister meetings – Round 2	Discuss initiatives to identify priorities/cross-portfolio implications within the five workstreams.
15 March	Preliminary Fiscal Forecasts	Preliminary view of the Government’s fiscal outlook, reflecting the impact of the preliminary economic forecasts and other information received since the finalisation of the HYEPU forecasts. A Treasury report will be received in the week beginning 19 March.
19 March	Budget Ministers #2	Discuss draft Budget packages and significant choices and trade-offs to remain within the Government’s Budget Responsibility Rules.
22 March	Treasury Report on Fiscal Strategy	This report to Budget Ministers provides Treasury’s overall recommendations on fiscal strategy and budget allowances. It is informed by the preliminary forecasts and medium-term projections.

Budget 2018 – Indicative Key Dates (continued)

Date	Item	Description
26 March	Budget Ministers #3	Final decisions on the Budget initiatives informed by the report on the Fiscal Strategy advice in light of preliminary Budget forecasts.
3 April	Cabinet Paper – Technical items	Cabinet considers the technical Budget Cabinet paper. This paper covers changes in appropriations that do not require new funding. The paper will be lodged on Thursday 29 March.
3 April	Budget Ministers #4	Confirm the Budget 2018 package to be taken to Cabinet.
9 April	Cabinet Paper – Significant items	Cabinet considers the significant Budget Cabinet paper. This paper will be lodged on Thursday 5 April.
10 April	Final Economic Forecasts	Preliminary forecasts updated based on economic data and other information received since February (including the impact of final Budget 2018 decisions).
13 April	Final Tax Forecasts	Preliminary forecasts updated based in final economic forecasts, latest tax data and Budget 2018 decisions.
19 April	Treasury Report on Specific Fiscal Risks	Discuss the Specific Fiscal Risks chapter for inclusion in the Budget Economic and Fiscal Update.
26 April	Final Fiscal Forecasts	Preliminary forecasts updated for final Budget 2018 decisions, impact on final economic forecasts and any other significant matters that have occurred since the preliminary forecasts.

Key Risks

Part of the Process	Risk	Mitigation
Ministerial Bilateral and Budget Ministers Meetings	<ul style="list-style-type: none"> • Key risks and trade-offs are not identified and discussed • Funding decisions are not made 	<ul style="list-style-type: none"> • Fit-for-purpose briefing material is provided. • Meetings have a clear agenda and purpose.
Budget Package Development	<ul style="list-style-type: none"> • High-value initiatives are not funded, low value initiatives are funded • The total amount funding agreed to exceeds the Budget allowances 	<ul style="list-style-type: none"> • The Budget process is designed to identify high value initiatives. There are several points in the process where the emerging Budget package is tested to ensure the right mix of initiatives have been identified. • The initiatives identified for funding are tracked closely, if the amount exceeds Budget allowances this will be identified before final decisions are made.
Budget Production	<ul style="list-style-type: none"> • Documents are not ready in time for publication • Documents contain errors • New Budget documents need to be designed and produced under tight timeframes 	<ul style="list-style-type: none"> • Decisions on Budget Production follow the set out timetable to avoid significant last minute changes and deadlines are communicated at the start of the production phase. • Thorough QA process
Economic and Fiscal Updates	The forecasts are weaker than expected	<ul style="list-style-type: none"> • Regular updates on the forecasts to monitor the impact on the fiscal strategy.



THE TREASURY
Kaitohutohu Kaupapa Rawa

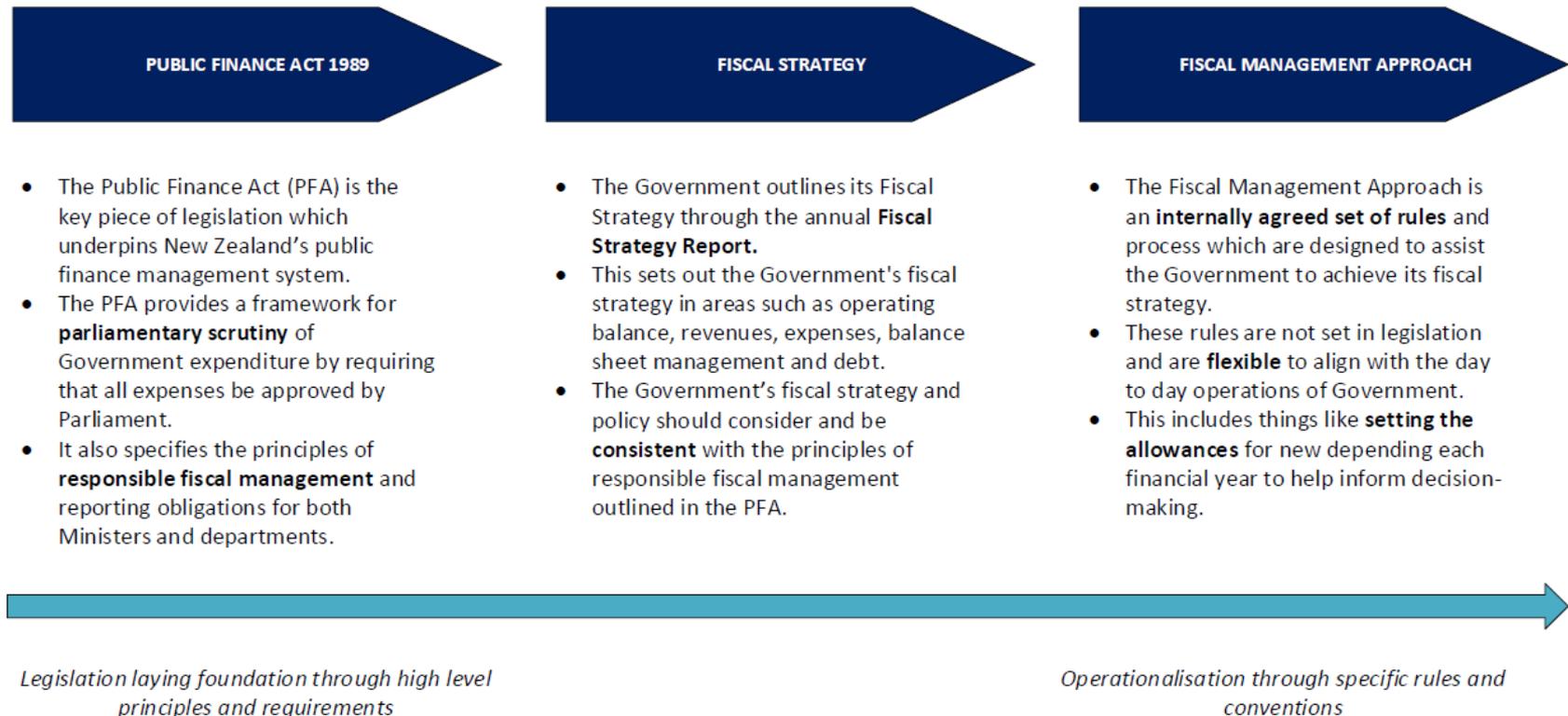
Budget Allowances

Fiscal Management Approach

- The **purpose of this section** is to explain how items are counted against the Budget allowances under the Fiscal Management Approach (FMA).
- The allowances provide a key fiscal parameter which guides decision-making and the development of the Budget package. The self-imposed cap means that the fiscal implications of any spending can be managed in line with the Government's fiscal strategy and targets.
- The FMA is a **flexible set of rules** designed to help ensure the government's spending decisions are consistent with their fiscal strategy.
- Budget allowances are a construct of the FMA. The allowances are set at a level to met a key objective of the government's fiscal strategy: *reducing net debt to 20 per cent of GDP with five years of taking office.*

Fiscal Management Approach

- The diagram below summarises the relationship between the Public Finance Act (PFA), the Government's Fiscal Strategy and the FMA.
- The key point is that the FMA is designed to help implement the government's fiscal strategy. The allowances set aside for Budget 2018 are a critical part of delivering a Budget package consistent with that fiscal strategy.



FMA – Counting Expenditure Against Allowances

What is counted and why?

- Under the FMA the majority of new government expenditure is counted against the Budget allowances.
- Any new expenditure not counted against allowances could lead to government spending and net debt being higher than forecast.
- If spending is higher than forecast this could result in the government not achieving its fiscal strategy.

What is not counted and why?

- *Pro-cyclical changes*: To prevent pro-cyclical fiscal policy some spending isn't counted against allowances. E.g. Unemployment benefit and tax revenue changes.
- *Fiscally neutral items*: The total amount of forecast spending does not change. E.g. a transfer of funding between departments in a given year, or a transfer of funding across years.
- *Changes in asset value*: Non-cash and volatile, does not affect net debt e.g. debt impairments.

FMA – Operating and Capital Definitions

Operating Expenditure

- Operating expenditure provide for on-going operational costs.
- It reflects the ongoing expenditure of both departmental and non-departmental spending that does not result in an asset on the Government's books.
- This is an accrual measure of expenses and includes non-cash items.
- Examples: Departmental wage settlement and Schools operating grant.

Capital Expenditure

- Capital expenditure provide for the one-off investment for the construction or establishment of assets.
- An asset is expected to generate economic benefit and must be controlled by the Crown.
- It includes investments and loans to Crown entities and State-Owned Enterprises to fund their capital programme.
- Examples: Building new schools and loans to Housing New Zealand Corporation.

FMA – Counting Operating Expenditure Against Allowances

Allowance Impact

- The **total cost** of an initiative is calculated as the current fiscal year (2017/18) plus the four forecast years.
- A **4-year average** of the **total cost** is counted against the annual operating allowance.
- As there is no 2017/18 Budget allowance the **total cost** includes the 2017/18 year cost.
- For Initiative Y in Table 2, \$250m (the 4-year average) would be counted against each year of the Budget 2018 operating allowance. This average is made up of \$200 in the current fiscal year (2017/18) plus \$800m in the four forecast years, divided by 4.

Outyears impact (years subsequent to the forecast period)

- As well as focusing on forecast period spending, the Outyears funding total is monitored. An Outyears funding total greater than the Budget allowance will result in higher than forecast spending outside of the forecast period which would have a negative impact on net debt.
- In the example below, Outyears funding is \$2.55 billion, which is under the \$2.6 billion set aside in forecasts. If Outyears funding was \$2.9 billion, we would want to consider reducing the number.

Table 1: Example of a Budget initiative, Forecast Budget 2018 Operating Allowance and actual Budget Operating spending.

	2017/18	2018/19	2019/2020	2020/21	2021/22	Out years	Forecast period total	4-year average
Initiative Y (\$b)	0.20	0.20	0.20	0.20	0.20	0.20	1.00	0.25
Forecast Budget 2018 Operating Allowance (\$b)	-	2.6	2.6	2.6	2.6	2.6	10.4	2.6
Actual Budget 2018 Operating Spending (\$b)	0.75	2.85	2.2	2.3	2.3	2.55	10.4	2.6

FMA – Counting Capital Expenditure Against Allowances

Allowance Impact

- The 10-year capital cost of an initiative is counted against a single year allowance (to reflect the total amount of government funding that has been committed).
- For Initiative X in Table 1, \$500 million would be charged against the Budget capital 2018 allowance.

Net Debt Impact

- The impact on net debt of a capital initiative will depend on when the cash is spent. On occasion capital spending does not start until a couple years after the government commits to the initiative.
- Initiative X in Table 1 does not start impacting net debt until year 2019/20.

Table 2: Cash profile for hypothetical Initiative X

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Initiative X	0	0	25	25	100	100	150	100	0	0	0	500

Counting significant investments against a single year allowance

- For significant investments the cost can be spread across allowances over several years to prevent committing a large proportion of the Budget allowance to one investment and limiting room for other critical investments.
- This approach was taken for City Rail Link, where the cost of the investment (over \$1.7b) has been spread over several Budget capital allowances.
- The main downside to this approach is it limits the amount of funding available in future Budgets, reducing decision-making options in future years. A decision on when this approach should be taken is made on a case-by-case basis.
- Regardless of how investments are treated under the allowances framework, once Cabinet commits to spending the PFA requires the Treasury to reflect this decision in the Economic and Fiscal Updates.

Other key characteristics

- Capital is a one-off injection.
- Associated operating costs are capital charge and depreciation funding, which is managed against the operating allowance.

FMA – Budget Allowance

Pre-commitments

What is a pre-commitment?

- A **pre-commitment** is where the fiscal implications of an initiative have already been counted against a future Capital or Operating Budget allowance outside of the standard Budget process. The decision is often made between Budgets.
- Generally pre-commitments are not recommended for two main reasons:
 1. Initiatives with fiscal implications should go through the Budget process to allow for consistent prioritisation and trade-offs to be made. Portfolio ministers are likely to push for precommitments given funding decisions are taken in isolation and this could set a precedent.
 2. It limits the amount of funding available in later Budgets, reducing future decision-making options.

When is a pre-commitment appropriate?

- Funding decisions cannot wait until the next Budget process, and
- There is no money remaining in the between-Budget contingency (BBC) or the fiscal implications are so big it would significantly deplete the BBC (e.g. \$200 million over the forecast period).

Because there is currently no BBC for Capital proposals, any between Budget capital spending is treated as a pre-commitment against the upcoming Capital allowance.

FMA – Budget Allowance Pre-commitments

Table 3: Budget 2018 Pre-commitments at 16/1/2018, in \$ million.

<i>Vote</i>	<i>Initiative</i>	<i>Total Op Ex</i>	<i>Total Cap Ex</i>
<i>Transport</i>	Auckland City Rail Link*	0.000	427.300
<i>Infrastructure</i>	Crown Infrastructure Proposal**	0.000	300.000
[33]			
<i>Internal Affairs</i>	Premier House	0.000	1.039
<i>Economic Development</i>	Funding for the 36th America's Cup	100.000	0.000
<i>Employment</i>	He Poutama Rangatahi / Youth Employment Pathways	13.275	0.000
<i>Maori Development</i>	Passport to Life	8.000	0.000
Total		121.275	768.339
Allowance minus precommitments		2,478.725	2,631.661

*\$427.300 million is pre-committed against Budget 2019 and 20

** \$300.000 million is pre-committed against Budget 2019

FMA – Between-Budget Contingency

The Between-Budget Contingency (BBC)

- The BBC is a general operating contingency that provides for operating proposals that arise between Budgets (traditionally set at \$50 million per annum).
- A call on the BBC should only be made if the proposal cannot be delayed until the upcoming Budget and cannot be funded through reprioritisation of a lower value activity.
- There is currently no BBC for capital proposals. All between Budget capital spending is treated as a pre-commitment against the upcoming Budget Capital allowance.
- Once the BBC is exhausted between Budget operating spending is treated as a pre-commitment against the upcoming Budget Operating allowance.

Where does funding for the BBC come from?

- At each Budget, funding is set aside to set up a new BBC.
- In Budget 2018 we would advise setting aside \$50 million per annum from the operating allowance to set up the 2019 BBC.

FMA – Tagged Contingencies

Tagged Contingencies

Tagged contingencies (TCs) reflect funding that is ring fenced for a particular purpose and held in the centre (i.e. not appropriated into baselines).

There are two main reasons why Cabinet would want to set up a TC for an initiative:

1. Cabinet agrees with the policy direction but further work is required before Cabinet will agree to appropriate funding (for example, the completion of a business case).
2. The initiative is commercially sensitive or negotiations have yet to take place (for example, State Sector wage negotiations).

Typically, there is a high bar for setting aside funding in a tagged contingency given the opportunity cost of using this funding elsewhere. Portfolio Ministers should be discouraged from using tagged contingencies as a way to secure funding ahead of establishing or justifying the need for it.

Publication of Tagged Contingencies

- Ministers make the call on publication of TCs in Budget documents, in the past only a handful of contingencies have been published.
- *Commercially-sensitive or negotiations-sensitive contingencies:* We recommend not publishing these contingencies as release could prejudice ongoing or future negotiations.
- *General contingencies:* While publishing the contingencies makes Budget decisions more transparent, it creates the following risks for Ministers:
 - Creates a public expectation that the initiative will go ahead with the full amount of funding before further policy analysis is completed. This makes it significantly harder to pull back from a policy if required.
 - Reduces the incentive on agencies to ensure any conditions on drawing down the contingency are met to a satisfactory level.
 - The work/fulfilling the conditions is delayed and the initiatives is not progressed as intended.

How it comes together

- All initiatives agreed by Budget Ministers will be counted against allowances. The Budget process is designed to fund the highest value initiatives within the Government's allowances: \$2.6 billion per annum in operating and \$3.4 billion in capital (before pre-commitments).
- You will receive regular updates on how the Budget package is coming together against the Budget allowances from late February until final decisions are made in Early April. We will provide spreadsheets that breakdown the initiatives in each of the workstreams.
- Once final decisions are made the Budget package will likely look similar to Table 4.

Table 4: Budget 2018 Package EXAMPLE ONLY

\$ m	2017/18	2018/19	2019/20	2020/21	2021/22	4-year total	Average	Capital
Social Wellbeing	65	880	1025	1050	1065	4085	1021.25	200
Natural Resources	45	320	320	325	325	1335	333.75	400
Economic Development	60	403	410	415	418	1706	426.5	700
Infrastructure	0	280	310	315	333	1238	309.5	1400
Other	35	550	645	650	660	2540	635	350
Contingencies	40	132	120	110	105	507	126.75	650
Reprioritisation	-50	-170	-245	-265	-270	-1000	-250	-300
Budget 2018 Net Package	195	2395	2585	2600	2636	10411	2602.75	3400

Budget 2018 Operating spending equals \$2.6b p/a

Budget 2018 Capital spending equals \$3.4b