

# The Treasury

## Budget 2018 Information Release

### Release Document August 2018

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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)
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[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
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[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.

Reference: T2018/147 BM-2-4-2018-10

Date: 9 February 2018

To: Minister of Housing and Urban Development and Transport  
(Hon Phil Twyford)  
Minister for Building and Construction and Ethnic Communities  
(Hon Jenny Salesa)

Deadline: None



## **Aide Memoire: Material to Support Budget Bilaterals**

The purpose of this note is to support your meeting with Minister Clark on Tuesday 13 February.

This note provides an overview of:

1. The role and responsibilities of the Associate Minister of Finance (Hon David Clark);
2. the purpose of the bilateral and workstream meetings;
3. the settings and scope for Budget 2018; and
4. the assessment and decision-making process for Budget 2018 to help manage expenditure within the allowances.

You will also be receiving a Budget 2018 Overview slide pack following Cabinet on Monday which will support this discussion.

### **Role and Responsibilities of the Associate Minister of Finance (Hon David Clark)**

The Minister of Finance, Hon Grant Robertson has delegated responsibility to the Associate Minister of Finance, Hon David Clark, to lead the first two sets of Budget Ministerial engagements. The overall purpose of these meetings is to inform the development of a Budget package for Budget Ministers' consideration.

To avoid a perceived conflict of interest we are proposing that another Minister attend the Health bilateral between Minister Robertson and Minister Clark and that another Minister will chair the Social Wellbeing workstream meeting.

### **Purpose of bilateral and workstream meetings**

The purpose of the first meeting on Tuesday 13 February is to discuss Ministerial priorities in the Housing, Transport, Building and Construction and Ethnic Communities portfolios, outline the process for managing cost pressures and manifesto commitments within the allowances and discuss potential savings as a result of the reprioritisation process. For reference, Annex 1 includes a list of submitted initiatives, however it is unlikely that specific initiatives will be discussed in detail.

Later in February, Minister Clark will be coordinating workstream meetings. The purpose of these meetings will be to identify cross-portfolio linkages and workstream priorities. There will be an opportunity to discuss the Treasury’s assessment of initiatives at this meeting.

### Setting and scope for Budget 2018

The Government’s intention is that Budget 2018 will be delivered while still meeting the Budget Responsibility Rules, such as reducing the level of net core Crown debt to 20% of GDP within five years of taking office and delivering a sustainable operating surplus across the economic cycle.

In order to meet these fiscal objectives, it is critical that Budget 2018 is delivered within the allowances included in the Half-Year Economic and Fiscal Update. The table below sets out the operating and capital allowances for Budget 2018:

	2018/19	2019/20	2020/21	2021/22
Budget 2018 operating allowance (billion)	2.6	2.6	2.6	2.6
Budget 2018 capital allowance (billion)	← 3.4 →			

The scope for Budget 2018 is limited to genuine agency cost pressures and manifesto initiatives. Manifesto initiatives are limited to initiatives in Labour’s Fiscal Plan, the Coalition Agreement and the Confidence and Supply Agreement. The expectation is that all initiatives will be managed within the operating and capital allowances as well as any savings identified from the reprioritisation process.

### Manifesto Initiatives

Manifesto initiatives will be assessed through the Budget process with a particular focus on whether the initiatives are accurately costed, value-for-money and ready to be implemented in the 2018/19 financial year.

Initiatives which are not implementation ready are likely to be deferred to future Budgets.

It is important to note that the manifesto initiatives in the Coalition Agreement, Confidence and Supply Agreement and the Fiscal Plan are commitments across the Government’s political term. Given this, not all manifesto initiatives will be funded through Budget 2018.

The commitments which have been already delivered through the 100 Day Plan will also be taken into consideration by Budget Ministers when considering how to prioritise initiatives.

The costings of commitments in the Fiscal Plan are now for reference only; the funding each portfolio receives through Budget 2018 will be based on the assessment of individual initiatives rather than “allocations” or “envelopes” for each portfolio.

All initiatives have been classified into one of the following workstreams: social wellbeing, economic development, natural resources, infrastructure and other. These workstreams were developed by the Minister of Finance and the Associate Minister of Finance (Hon David Clark) and broadly align

with the Cabinet Committee groups. Classifying initiatives into workstreams allows similar initiatives to be grouped together to assist the prioritisation and development of a draft Budget package. Each workstream will include cost pressure, manifesto and reprioritisation initiatives.

### **Budget 2018 Assessment and Decision-Making process**

The process for developing a Budget package that fits within the allowances is detailed in the Budget Process Diagram A3 annexed to this note.

Treasury vote teams have completed their individual assessment of cost pressures and are currently working on their assessments of manifesto and reprioritisation initiatives. Initiatives that are supported in this initial assessment still need to be considered through the next three rounds of assessment and decision-making as illustrated below.

### **Stages of initiative assessment and decision-making**

	Treasury vote team assessment	Treasury draft package	Budget Ministers	Cabinet
<b>Support for Initiative</b>	✓	?	?	?
<b>Description</b>	All initiatives are assessed and moderated by Treasury vote teams. These assessments are used to support the development of draft packages for each workstream.	The Treasury will develop a draft Budget package based on Treasury vote team assessments. This will help to reveal the significant trade-offs and choices required to remain within allowances across both cost pressures and manifesto commitments.	The Budget Ministers meeting series is the key decision-making mechanism for Budget 2018. It provides an opportunity to look across portfolios/work streams to prioritise initiatives and bring together the overall Budget package alongside updated forecasts and the Government's fiscal strategy.	The Minister of Finance will take a paper to Cabinet to get approval of the final Budget 2018 package.
<b>Timing</b>	All vote team assessments will be completed by <b>Friday 23 February</b> . Lists of the Treasury vote team supported initiatives by workstream will be provided <b>ahead of the workstream meetings</b> .	Early draft packages for each workstream will be completed <b>by the week of Monday 5 March</b> .	Budget Ministers 2 is scheduled for <b>19 March</b> where the draft packages for each work stream will be discussed. Budget Ministers 3 and 4 will be in <b>late March and Early April</b> .	The Budget 2018 Cabinet paper will be lodged on <b>Thursday 5 April</b> .

## **Next Steps**

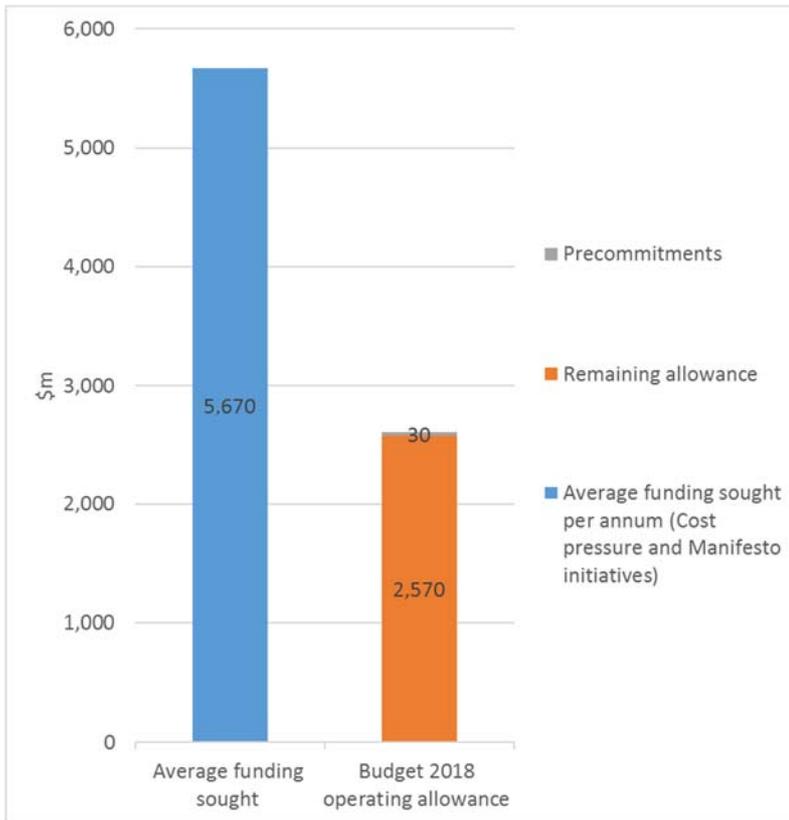
In order to manage expenditure within the allowances initiatives will need to be prioritised and some tough trade-offs will be required. We encourage you to come to the meeting with Minister Clark prepared to discuss your top priorities for Budget 2018 among the initiatives you have submitted and the reprioritisation process that your departments have undertaken.

Attached is a list of the initiatives you have submitted for Budget 2018 and an A3 diagram illustrating how key pieces of advice feed into the Budget Ministers meetings.

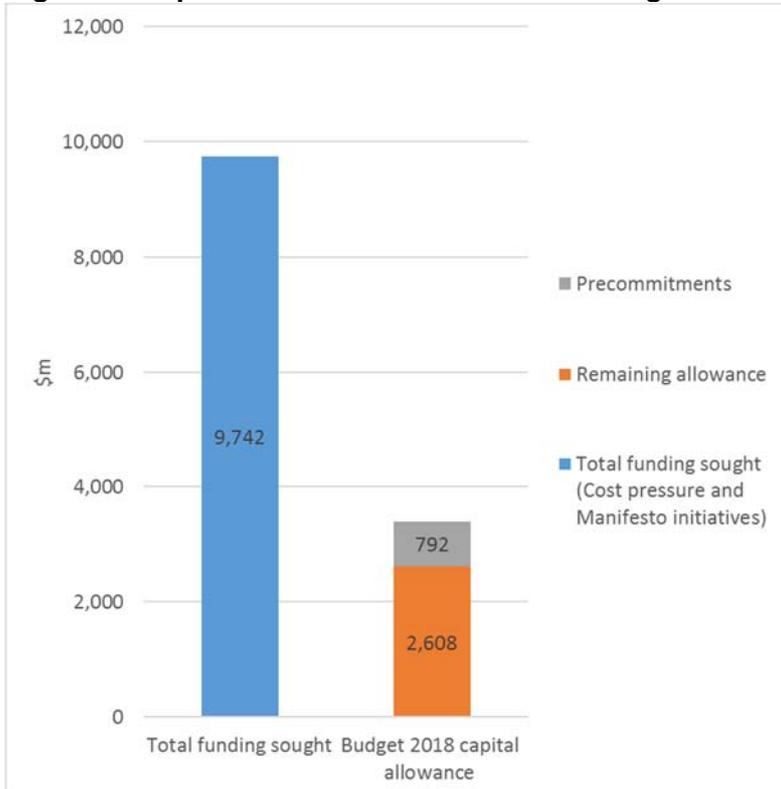
**Geraldine Wilkins**, Graduate Analyst, Fiscal and State Sector Management, [39]

**Kamlesh Patel**, Team Leader, Budget Coordination, Fiscal and State Sector Management, [39]

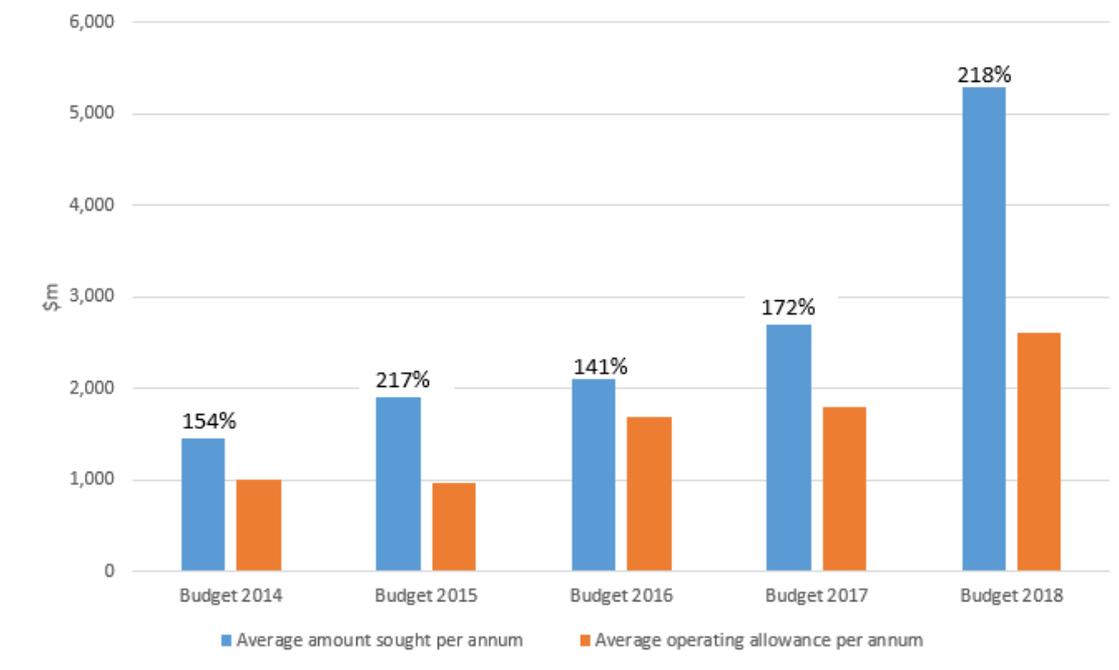
**Figure 1: Operating initiatives submitted vs. Budget 2018 operating allowance**



**Figure 2: Capital initiatives submitted vs. Budget 2018 capital allowance**



**Figure 3: Comparison of initiative submission and final operating allowances (Budget 2014-2018)**



**Table 1: Workstream breakdown of average operating funding sought compared to average reprioritisation options submitted**

Operating					
Workstream	Average operating cost pressure funding sought per annum	Average operating manifesto funding sought per annum	Average funding sought per annum (total)	Average reprioritisation options submitted per annum	Average funding per annum net of reprioritisation
Social Wellbeing	2286.249	1146.148	3432.397	123.038	3309.359
Natural Resources	35.118	227.484	262.602	23.828	238.774
Economic Development	601.885	763.631	1365.516	21.781	1343.735
Infrastructure	217.854	19.920	237.774	0.000	237.774
Other	284.200	87.084	371.284	1.000	370.284
<b>TOTAL</b>	<b>3425.306</b>	<b>2244.267</b>	<b>5669.573</b>	<b>169.647</b>	<b>5499.926</b>

**Table 2: Workstream breakdown of total capital funding sought compared to reprioritisation options submitted**

<b>Capital</b>					
<b>Workstream</b>	<b>Total cost pressure funding sought</b>	<b>Total manifesto funding sought</b>	<b>Total funding sought</b>	<b>Reprioritisation options submitted</b>	<b>Total net of reprioritisation</b>
<b>Social Wellbeing</b>	55.932	-73.678	<b>-17.746</b>	0.000	<b>-17.746</b>
<b>Natural Resources</b>	165.000	143.355	<b>308.355</b>	0.000	<b>308.355</b>
<b>Economic Development</b>	947.884	1526.601	<b>2474.485</b>	0.000	<b>2474.485</b>
<b>Infrastructure</b>	2262.1920	2564.3900	<b>4826.5820</b>	0.000	<b>4826.582</b>
<b>Other</b>	2080.191	70.415	<b>2150.606</b>	0.000	<b>2150.606</b>
<b>TOTAL</b>	5511.199	4231.083	<b>9742.282</b>	0.000	<b>9742.282</b>

*Key considerations in Treasury Vote team assessments*

<b>Type of initiative</b>	<b>Key considerations in Treasury Vote team assessment</b>
Cost pressure	Initiative is assessed on: <ul style="list-style-type: none"> <li>- scope (volume, price or personnel driven);</li> <li>- whether sufficient evidence has been presented to show a genuine cost pressure exists;</li> <li>- discretionary components of initiative;</li> <li>- whether it is urgent for Budget 2018;</li> <li>- costings are assessed, including underlying assumptions driving costs;</li> <li>- whether there is value-for-money in the existing service, and</li> <li>- phasing and scaling options are assessed.</li> </ul>
Manifesto	Initiative is assessed on: <ul style="list-style-type: none"> <li>- scope (in a Government agreement);</li> <li>- value-for money;</li> <li>- implementation readiness;</li> <li>- accuracy of costings, and</li> <li>- the phasing and scaling options are assessed.</li> </ul>
Reprioritisation	Initiative is assessed on: <ul style="list-style-type: none"> <li>- a comparison between Ministers'/Department's submitted reprioritisation initiatives with reprioritisation options identified by the Treasury Vote teams;</li> <li>- achievability for both quantum and timing, and</li> <li>- any risks in pursuing submitted initiatives.</li> </ul>