

The Treasury

Budget 2018 Information Release

Release Document August 2018

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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)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
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[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
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[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.

Treasury Report: Budget 2018 - Overview and Cost Pressure Assessments

Date:	02 February 2018	Report No:	T2018/183
		File Number:	BM-2

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Discuss the contents of this report and any changes you wish to make to the draft Budget Ministers 1 slide pack at Budget Matters on 7 February.	3:15pm Wednesday 7 February 2018
Associate Minister of Finance (Hon Dr David Clark)	Discuss the contents of this report and any changes you wish to make to the draft Budget Ministers 1 slide pack at Budget Matters on 7 February.	3:15pm Wednesday 7 February 2018
Associate Minister of Finance (Hon David Parker)	Discuss the contents of this report and any changes you wish to make to the draft Budget Ministers 1 slide pack at Budget Matters on 7 February.	3:15pm Wednesday 7 February 2018

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Rachelle Earwaker	Analyst, Budget Coordination	[39] (wk)	N/A (mob) ✓
Kamlesh Patel	Team Leader, Budget Coordination	[39] (wk)	N/A (mob)

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Budget 2018 - Overview and Cost Pressure Assessments

Executive Summary

This report supports the draft Budget Minister 1 slides that you have received to discuss at Budget Matters with Treasury officials on Wednesday 7 February. The report provides further detail on cost pressure assessments, and a more comprehensive overview of the manifesto initiatives and reprioritisation submissions received.

Overall, as at 1 February, an average of \$6.088 billion of operating funding per annum and a total of \$9.639 billion of capital funding has been sought through Budget 2018. This compares to an available operating allowance of \$2.570 billion and an available capital allowance of \$2.608 billion (the allowances after pre-commitments). These numbers are subject to change and are what have been submitted thus far.

- Of the total operating funding sought, an average of \$3.394 billion per annum is sought for cost pressures, and an average of \$2.694 billion per annum is sought for manifesto initiatives.
- Of the total capital funding sought, \$5.408 billion is sought for cost pressures and \$4.231 billion is sought for manifesto initiatives.

Agencies have also submitted an average of \$163 million per annum of operating reprioritisation options per annum. These savings are unlikely to provide sufficient headroom to fund additional spending on top of the operating allowance set for Budget 2018. The Treasury will be engaging with agencies to explore further savings options.

Based on these submitted initiatives, and taking into account reprioritisation options submitted, the available operating allowance after pre-commitments is oversubscribed by \$3.335 billion per annum (123%). The available capital allowance after pre-commitments is oversubscribed by \$7.031 billion (270%). While the allowances are heavily oversubscribed, this is consistent with the starting point for previous Budgets.

Treasury Vote teams have now completed their assessments of the cost pressure initiatives received. Treasury Vote teams are supporting an average of \$1.998 billion operating per annum to the next stage of the Budget process. This amounts to 78% of the available operating allowance. Treasury Vote teams are also supporting a total of \$4.164 billion capital to the next stage of the Budget process, which amounts to 160% of the available capital allowance.

These assessments are based on an individual bottom up 'merits based' assessment ahead of any cross sector prioritisation and consideration of allowances. Where Treasury Vote teams have 'supported an initiative', this is 'support to the next stage of the Budget Process'.

In order to remain within allowances, Ministers will need to prioritise initiatives and make some challenging trade-offs across cost pressure and manifesto initiatives. Simply deferring to future Budgets is unlikely to be a viable solution as significant cost pressures are expected to continue. There are a number of mechanisms in the process to support Ministers to make prioritisation decisions including the classification of similar initiatives by workstreams, ministerial engagements and Treasury advice and support.

Recommended Action

We recommend that you:

- a **note** that an average of \$6.088 billion of operating funding per annum and a total of \$9.639 billion of capital funding has been sought through Budget 2018 and is broken down by the following:
 - Of the total operating funding sought, an average of \$3.394 billion per annum is sought for cost pressures, and an average of \$2.694 billion per annum is sought for manifesto initiatives.
 - Of the total capital funding sought, \$5.408 billion is sought for cost pressures and \$4.231 billion is sought for manifesto initiatives.
- b **note** that the available operating allowance after pre-commitments is \$2.570 billion and the available capital allowance after pre-commitments is \$2.608 billion.
- c **note** that agencies have submitted an average of \$163 million operating funding per annum (a total of \$652 million) of reprioritisation options.
- d **note** that Treasury Vote teams have completed their assessments of cost pressure initiatives and are supporting an average of \$1.997 billion per annum operating funding and \$4.164 billion capital to the next stage of the Budget process.
- e **note** that these assessments are based on an individual bottom up 'merits based' assessment ahead of any cross sector prioritisation and consideration of allowances.
- f **note** that this report will be discussed at Budget Matters on Wednesday 7 February and is to compliment the draft Budget Ministers 1 slide pack.
- g **discuss** with officials any changes that you wish to make to the slide pack based on the contents of this report and the draft slide pack.
- h **note** that the Treasury will provide you with early draft package options by workstreams based on initial Vote team assessments around 23 February ahead of the workstream Minister meetings scheduled for 27 February – 5 March.

Kamlesh Patel
Team Leader, Budget Coordination

Hon Grant Robertson
Minister of Finance

Treasury Report: Budget 2018 - Overview and Cost Pressure Assessments

Purpose of Report

1. The purpose of this report is to provide you with an overview of all submitted Budget 2018 initiatives and reprioritisation options. It supports the draft Budget Minsiters 1 slides for discussion at Budget Matters on Wednesday 7 February. Specifically, this report provides:
 - Treasury Vote team assessments of cost pressures and emerging themes
 - An overview of all manifesto initiatives submitted by workstream
 - An overview of reprioritisation options submitted
2. We are providing this information to you at this early stage of the Budget process so that you are aware of the overall pressures across Government in comparison to available allowances, as well as the emerging themes for cost pressures across the public sector.

Overview

3. As you are aware, Budget 2018 consists of three tracks; cost pressures, manifesto initiatives and reprioritisation options.
4. Agencies have submitted a total of 276 initiatives seeking funding through Budget 2018 (141 manifesto, and 135 cost pressure) as well as 36 reprioritisation options.
5. The graphs below provide an overview of:
 - The total amount of funding sought by agencies (cost pressures and manifesto initiatives)
 - How this compares to the operating and capital allowances (including pre-commitments)

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

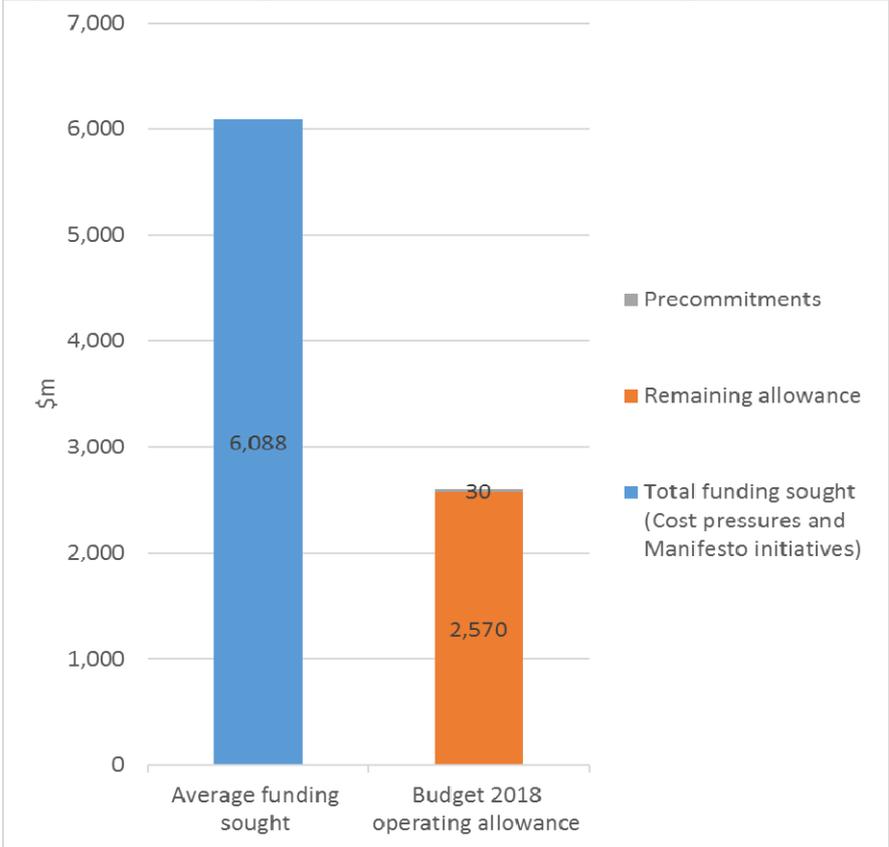
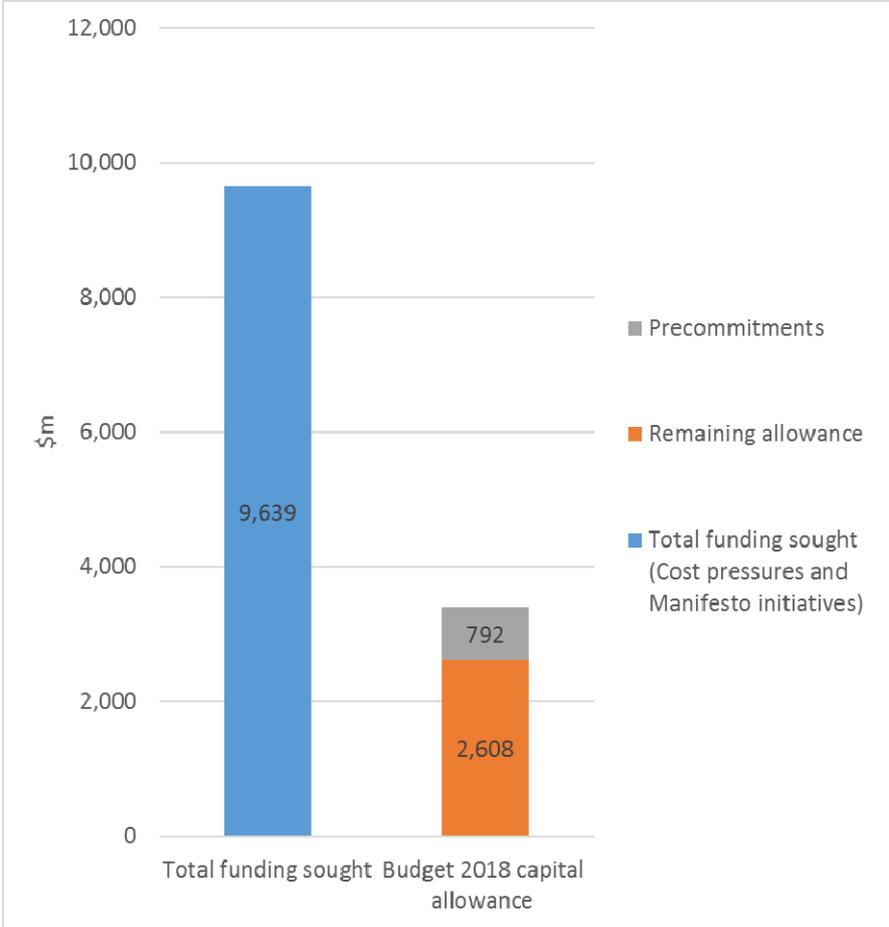
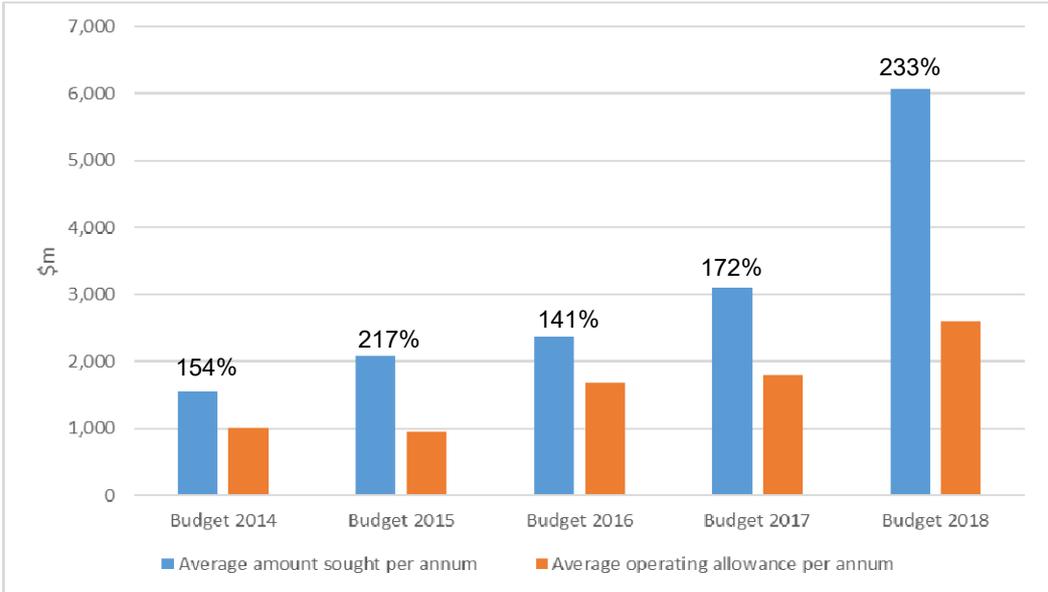


Figure 2: Capital initiatives submitted vs. Budget 2018 capital allowance



- 6. Agencies have submitted a total of \$6.088 billion per annum of operating funding requests. This is made up of \$3.394 billion of cost pressure submissions and \$2.694 billion of manifesto submissions. Agencies have also submitted an average of \$163 million per annum of reprioritisation options. Based on these submitted initiatives, and taking into account reprioritisation options submitted, the available operating allowance after pre-commitments is oversubscribed by \$3.335 billion per annum (123%).
- 7. Agencies have also submitted a total of \$9.639 billion of capital funding requests. This is made up of \$5.408 billion of cost pressure submissions and \$4.231 billion of manifesto submissions. Agencies have not submitted any capital reprioritisation options. Overall, based on submitted initiatives, the available capital allowance after pre-commitments is oversubscribed by \$7.031 billion (270%).
- 8. In Figures 1 and 2 above we have included the pre-commitments that Cabinet has already agreed to, which reduce the amount of allowances available for additional spending. The pre-commitments amount to an average of \$30 million per annum operating, and a total of \$792 million capital. They include funding for significant projects including the City Rail Link and Crown Infrastructure Partnerships.
- 9. The total funding sought (both cost pressure and manifesto initiatives) only includes agency submissions, and these figures do not take Treasury assessments, prioritisation or analysis into account.
- 10. As the Budget process continues, you will need to make some difficult trade-offs between funding cost pressures and your manifesto initiatives in Budget 2018. While deferring to future Budgets is an option for a number of initiatives, the allowances over the next few Budgets are also tight, and the reprioritisation options submitted thus far do not provide much headroom.
- 11. While these oversubscription numbers appear large, they are consistent with the starting point for previous Budgets. The following graph outlines the amount of operating funding sought in Budgets 2014-2017 and the final allowances.

Figure 3: Budget comparison graph with percentage of oversubscription



Cost pressures

Overview

12. Overall, 135 cost pressure initiatives have been submitted. These initiatives sought operating funding of \$13.576 billion over the forecast period (an average of \$3.394 billion per annum) and a total of \$5.408 billion capital.
13. Treasury Vote teams have completed assessments of these initiatives, and the Treasury held an internal moderation session last week. These assessments are based on an individual bottom up 'merits based' assessment ahead of any cross sector prioritisation and consideration of allowances. Where Treasury Vote teams have 'supported an initiative', this is 'support to the next stage of the Budget Process'.
14. Annexes 1-4 outline key themes and complex initiatives that have emerged through the assessment process.
15. Overall, Treasury Vote teams are supporting \$7.991 billion operating over the forecast period (an average of \$1.998 billion per annum) to the next stage of the Budget process. This amounts to 78% of the available operating allowance (operating allowance less pre-commitments). Treasury Vote teams are also supporting a total of \$4.164 billion capital to the next stage of the Budget process, which amounts to 160% of the available capital allowance (capital allowance less pre-commitments).
16. In our analysis of the cost pressure initiatives, we sorted the submitted cost pressure initiatives into four types; Volume, Price, Personnel and Not a cost pressure. These are defined as follows:
 - a) **Volume:** initiatives that primarily reflect higher demand for the service under current policy settings. This can be driven by higher population growth, changes in population characteristics or legislative requirements which result in higher demand for a new or existing service.
 - b) **Personnel:** initiatives that primarily reflect collective bargaining agreements and wage progression pressures.
 - c) **Price:** Initiatives where the cost of delivering or continuing to deliver a service is now higher. This could be driven by a number of factors including external market factors, or the initiative being under-costed or not funded when the policy was agreed.
 - d) **Not a cost pressure:** An initiative has been categorised as not a cost pressure if it is seeking funding
 - i for a service not currently being delivered by the agency (unless this is driven by legislation)
 - ii to extend a current service or add on extra components
 - iii to extend a time limited service (e.g. pilot or trial) and further policy decisions are required

iv there is a high level of discretion for Ministers around the funding decision with minimal impact on service delivery if no decision is taken for Budget 2018

17. Grouping the submitted cost pressure initiatives into these types allowed for us to analyse similar initiatives together, and to draw out key themes and complex initiatives, which are outlined in Annexes 1-4 at the end of this report.
18. The graphs below provide an overview of the total cost pressures sought (broken down by type) and the amount of funding that Treasury vote teams have supported to the next stage of the Budget process.

Figure 4: Operating cost pressure initiatives by type per annum

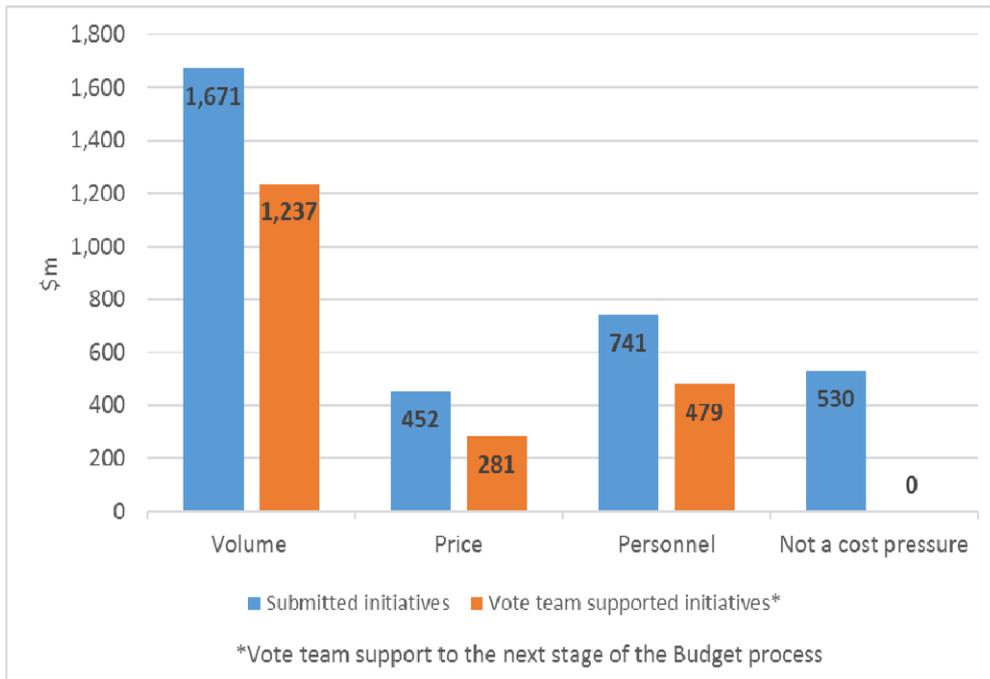
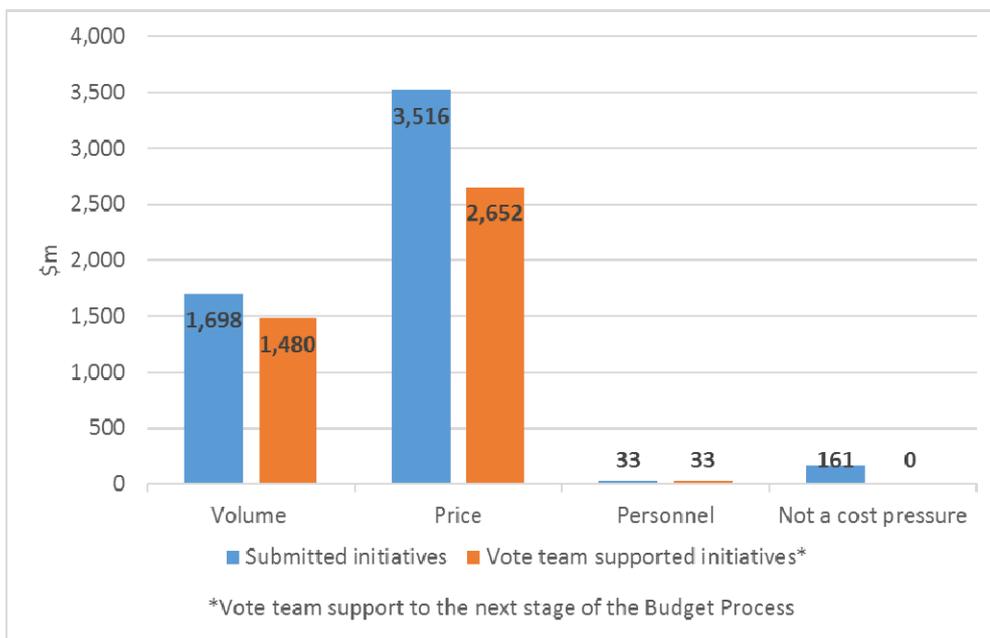


Figure 5: Capital cost pressure initiatives by type



19. Where an initiative did not meet the definition of a cost pressure, Treasury Vote teams have not initially supported funding the initiative as it is not in scope for Budget 2018. However, where these initiatives are high value-for-money (VFM), or where we consider there to be risks to not funding, we will be asking you to make explicit decisions on the initiatives when draft packages are developed in time for Budget Ministers 2. This means that the amounts supported by Treasury Vote teams above to the next stage of the process is a relatively conservative number.

CBAX to inform VFM advice and Budget packages

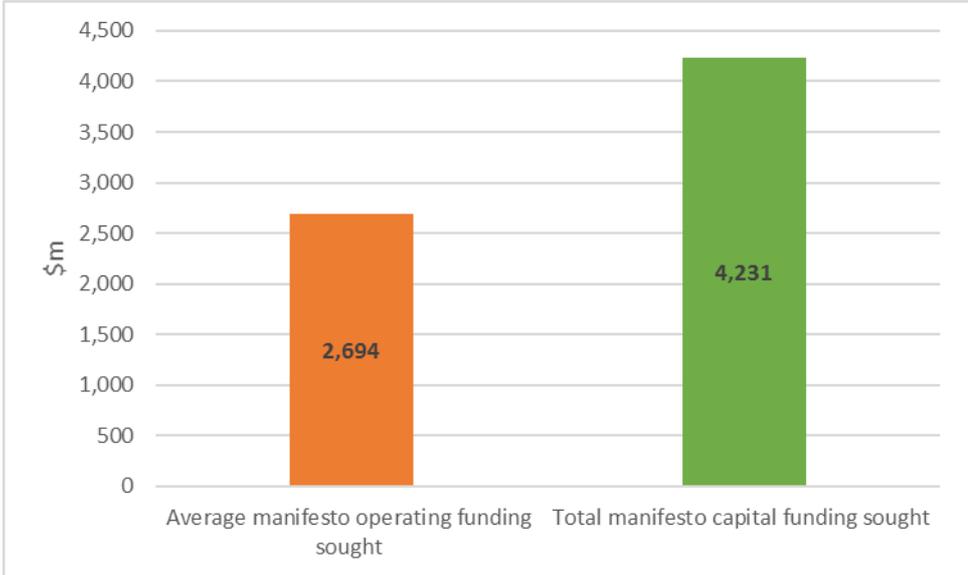
20. The Treasury will assess the VFM of initiatives as part of advising on the draft Budget packages. The VFM advice is partially informed by cost-benefit analysis (CBA), which helps to identify the impacts and effectiveness of a proposal. The Treasury has developed a CBA spreadsheet model called CBAX, which applies a consistent framework of assumptions for monetising outcome values (both fiscal and well-being) and applying discount rates.
21. For Budget 2018, a CBAX is required for social sector cost pressure initiatives, if it would be beneficial for assessing VFM. Around 50% of social sector cost pressure initiatives were exempt from CBAX requirements. For the initiatives that did not require a CBAX, around 10% have provided supporting CBAX analysis to increase confidence in the VFM.
22. The Treasury will assess the available CBAXs to help inform VFM and Budget package advice as we progress through the Budget process.

Manifesto initiatives

23. Overall, 141 manifesto initiatives have been submitted for Budget 2018. These initiatives are seeking total operating funding of \$10.775 billion over the forecast period (an average of \$2.694 billion per annum) and a total of \$4.231 billion capital.
24. Treasury Vote teams are currently assessing the initiatives submitted, with a particular focus on whether the initiatives are well costed, are VFM, and are ready to be implemented in 2018/19. Vote teams will also be looking at whether the initiatives are referenced in either Labour's Fiscal Plan, the Coalition Agreement, or the Confidence and Supply Agreement.

25. The following graph shows the amount of operating and capital funding sought for manifesto initiatives. These are the amounts submitted by agencies, and have not yet been assessed by Treasury Vote teams.

Figure 6: Operating and capital manifesto initiatives submitted



26. Within the manifesto submissions, there are some key initiatives that make up significant portions of the amount of funding sought. These are outlined by workstreams below.

27. Social Wellbeing Workstream

The social wellbeing workstream contains the majority of the operating manifesto initiatives, with average operating funding of \$1.594 billion (59% of total initiatives submitted).

- There are a number of significant initiatives in the Health portfolio including
 - i [33]
 - ii Cutting GP fees by \$10 a visit [38]
 - iii [33]
 - iv Extending the very low cost access rate for GP visits to Community Services Card Holders [33]
 - v [38]
- ‘Striving toward 1800 new police’ (\$129 million operating per annum).
- Additional public housing places [33]
- [33]

28. Economic Development

The economic development workstream contains average operating funding of \$764 million per annum and a total of \$1.527 billion capital.

- The Provincial Growth Fund (PGF)
 - i There is currently an initiative seeking an average of \$375 million operating per annum and a total of \$1.5 billion capital for the PGF. The submitted figures are for the full \$3 billion over the next three years, and include a 50/50 operating and capital split.
 - ii Through the Budget process, you will have options on how to treat the fund over the next three Budgets, and what the best split of operating and capital expenditure may be.
 - iii Some initiatives that have been submitted for Budget 2018 also align with the PGF, and may be able to be included within the Fund.
- Research and Development Tax Credit (\$214 million operating per annum)
- Implementation of grant scheme for insulation and heating retrofits (\$75 million operating per annum)
- A number of digital related initiatives have been lodged from portfolios across Government including: state services; economic development; small business; broadcasting, communications and digital media; government digital services; consumer affairs; and statistics. As these bids fall across Government, and outside the existing Ministerial groupings, we recommend that you meet with these Ministers as a separate group. The quantum of these bids is at least \$26 million operating funding per annum and \$6 million capital.

29. Infrastructure

The infrastructure workstream contains initiatives that either involve direct investment in infrastructure, or have a strong procurement focus. The infrastructure workstream contains the majority of capital manifesto initiatives, with total capital sought at \$2.564 billion (60% of total initiatives submitted) and average operating funding of \$21.4 million capital per annum.

- There are a number of significant initiatives in the Transport portfolio including
 - i Funding certainty for KiwiRail's capital requirements ^[33]
 - ii ^[33]
 - iii ^[33]
- Dunedin Hospital redevelopment ^{[33][38]}
- Christchurch Regeneration Acceleration Facility (\$299 million capital)
- ^[33]

30. **Natural Resources**

The natural resources workstream contains average operating funding of \$227 million per annum and a total of \$143 million capital.

- Green Investment Fund (\$100 million capital)
- The majority of operating funding sought comes from the Conservation portfolio, seeking ^[33]

31. **Other**

The 'Other' workstream contains average operating funding of \$87 million per annum and a total of \$70 million capital.

Reprioritisation submissions

32. A total of \$652.2 million operating over the forecast period (an average of \$163 million per annum) has so far been submitted for reprioritisation by portfolio ministers.
33. Of the total 36 reprioritisation initiatives submitted, 19 are categorised under the Social Wellbeing workstream, 12 under the Economic Development workstream, 4 under the Natural Resources workstream, and one under the Other workstream.
34. Of the \$652.2 million operating submitted for reprioritisation, \$378.2 million is from the Health portfolio. The Treasury did not identify any phase 1 reprioritisation options for Health. The bulk of the \$378.2 million over the forecast period is made up of:
 - \$194.7 million from savings in the PHARMAC Combined Pharmaceutical Budget (dependent on a policy change giving PHARMAC budget holding responsibilities for hospital medicines); and
 - \$125.0 million from unallocated contingency funding for mental health.

35. The total \$652.2 million submitted is set out as follows, and provides a comparison to the total amount of low risk reprioritisation funding that Treasury advised on in December 2017.

Portfolio	Total submitted (\$m)	Total Treasury advice (\$m) ^[33]
ACC	2.0	0
Agriculture	95.3	90.9
Civil Defence	21.6	0
Commerce and Consumer Affairs	0	0.75
Economic Development	4.4	0
Education	92.6	103.8
Finance	0	3.63
Energy and Resources	5.15	0
Greater Christchurch Regeneration	13.1	0
Health	378.2	0
Housing and Urban Development	13.0	140.7
Internal Affairs	4.0	0
Justice	19.3	19.3
Social Development	0.1	40
Statistics	3.5	4
Total	652.25	403.08

36. We have yet to examine the submissions for their viability, which may further reduce the total amount. We will also be building on our initial December advice [T2017/2646] on reprioritisation analysing where further savings may be found beyond those already submitted.
37. We recommend that those “low risk” options identified by the Treasury in our initial advice on reprioritisation be pursued with agencies.
38. Of the 21 reprioritisation initiatives identified as low risk by the Treasury (totalling \$424 million), only eight have been submitted by Ministers. Only one of the moderate risk reprioritisation initiatives initially identified by the Treasury has been submitted (Crown Irrigation Investments), while none of the high risk initiatives were submitted. Where Treasury estimated the amount of reprioritisation available for these initiatives, the amounts submitted by agencies were almost equal.
39. The low risk initiatives identified by the Treasury in December which have not been submitted total \$277.9 million. If the full \$277.9 million were also to be achieved, there is potential to reprioritise increase the reprioritised total to \$930.1 million. Beyond that, more difficult options may be available from the moderate and high risk options that the Treasury identified in December 2017.

Next steps

40. This report will be discussed at Budget Matters on **Wednesday 7 February**. We can use this meeting to go through any specific questions or comments you have on the cost pressure assessments and process going forward.
41. Your first Budget Ministers meeting is on **Tuesday 13 February**. We have sent you a draft slide-pack, also for discussion at Budget Matters on Wednesday 7 February. The purpose of these slides is to provide Budget Ministers with an overview of the initiatives that have been submitted through the process, set out the key fiscal parameters that will guide decision-making and outline the process to help manage expenditure within allowances. We don't expect any decisions will be taken at this meeting on individual initiatives.
42. Your first set of meetings with portfolio Ministers are currently scheduled from **13-21 February**. These are 15 minute meetings led by Minister Clark with the purpose of providing portfolio Ministers with an update of the overall amount of initiatives submitted, and to highlight reprioritisation options submitted. It is also an opportunity to understand from portfolio Ministers what their top priorities are for Budget 2018. These meetings may be complimented by additional ad-hoc meetings as required. Treasury will provide you with talking points ahead of these meetings.
43. There may be an opportunity in forthcoming bilateral discussions with your Ministerial colleagues to emphasise the importance of continuing to look to reprioritise existing spending in order to accommodate the Government's new priorities. In particular, there are a few Votes which have not provided reprioritisation options to the extent which the Treasury expected including:
 - Social Development (Hon Carmel Sepuloni);
 - Social Housing (Hon Phil Twyford);
 - Foreign Affairs (Rt Hon Winston Peters);
 - Maori Development (Hon Nanaia Mahuta);
 - Arts, Culture and Heritage (Rt Hon Jacinda Ardern);
 - Sport and Recreation (Hon Grant Robertson).
 - Tertiary Education (Hon Chris Hipkins)
44. Treasury Vote teams will be assessing manifesto and reprioritisation submissions up to **Friday 16 February**.
 - For manifesto initiatives this will involve assessing whether initiatives are high VFM, have strong cost effectiveness, any implications of scaling and deferring to future Budgets, and whether the initiative is implementation ready for 2018/19.

- For reprioritisation submissions, this will involve assessing the submissions for achievability and timing, and considering any risks or unintended consequences if funding is returned to the centre. Vote teams will also be exploring whether further reprioritised spending is possible from the items identified by Treasury in December 2017, and examining larger portfolios for any further savings. Treasury will also identify where material savings may be possible from the larger portfolios from the phase two reprioritisation to occur over the next eight months in time for Budget 2019.
 - Treasury Vote teams will also be comparing portfolios' bids for cost pressures funding in Budget 2018 with their reprioritisation submissions. A number may have absorbed their cost pressures by internal reprioritisation and have consequently not submitted any reprioritisation initiatives.
45. Following the initial Vote team assessments, an initial draft package will be pulled together for each of the five workstreams (covering cost pressures, manifesto initiatives and reprioritisation submissions) around **23 February**. This package will involve prioritising initiatives and showing you what kind of package will fit within the operating and capital allowance. This will be discussed by workstream ministers at the second set of ministerial engagements commencing on **27 February**. The draft packages will provide portfolio ministers with visibility of initiatives in other sectors as well as encourage discussion on cross sector priorities.
46. An updated draft package will be presented to Budget Ministers on Monday 19 March. The purpose of Budget Ministers 2 will be to discuss specific initiatives in the draft package and the key trade-offs and choices that ministers face to remain within allowances. This will be supported by information on the preliminary economic, tax and fiscal forecasts.

Annex 1: Volume Cost Pressures Analysis

Key themes:

Theme	Comment
Genuine volume cost pressures	Overall, genuine pressures based on projected demand under existing policy settings are supported. This reflects the delivery of core services for a specific population (without any expansions or enhancements and where there is little discretion).
Scaled support for some initiatives	Support for initiatives have been scaled where there are further policy choices on expanding the service out to other population groups in need ('unmet demand'), without any evidence of effectiveness to support this. Support for initiatives is also scaled where funding is sought to make workforce improvements and increase FTEs without a robust justification.
Decisions ahead of funding required	Although funding may not be drawn down until the 2019/20 year, some initiatives require decisions now to support long lead-in times for procurement and contracting with the private sector.
Deferring decisions to future Budgets	For some initiatives, there are choices to delay decisions until future Budgets (rather than commit a large amount of funding now), however this may increase costs.
Lack of information and contract issues	Some assessments were hindered by a lack of information on the effectiveness and length of contracts.

Key and complex initiatives:

Initiative	Comment on initiative
ACC - Support for non-earners	Seeks an average of ^[33] per annum of operating funding. There is an option to defer this if the Budget 2018 allowance is tight, however the opportunity cost of deferring is higher payments in the future. We are currently supporting \$31 million per annum.
Health - DHB Support	Seeks an average of \$581 million per annum of operating funding. This calculation is based on a top-down approach by the Ministry of Health. There is scope to scale, however we are currently supporting an average of \$549 million per annum of operating funding.
Education - Forecast Changes	Seeks an average of \$246 million per annum of operating funding. This is largely driven by roll growth (with some price pressures). Very little discretion under current policy settings, already built into forecasts. We are currently supporting this in full.
Corrections - Prison Muster	Seeks an average of ^[33] per annum of operating funding and \$180 million capital to respond to prison muster pressures. Seeks ^[33] funding for 600 additional modular units. Funding is not required for the latter until 2019/20 so there are options to defer, however this will impact on recruitment and result in additional operating costs. We are currently supporting an average of \$101 million operating and capital in full.
Tamaki Redevelopment Company	^[33]

Annex 2: Price Cost Pressures Analysis

Key themes:

Theme	Comment
Variability	This category had the most variability in terms of the different types of cost pressure initiatives.
Small cost pressures	One consistent theme was that there were a number of agencies seeking very small amounts of funding to meet pressures (e.g. policy funding in the Commerce and Consumer Affairs and Environment portfolio). The standard expectation is the agency should be able to manage these policy/resource pressures by moving around funding within baselines – however it is unclear how much of this is due to initiatives being put up separately for the reprioritisation process. This is something that will need to be considered once the packages are put together covering cost pressures, manifesto bids and reprioritisation for each workstream.
Deferring/funding within baselines	Overall, initiatives were scaled if there were discretionary/expansionary components, there was scope for the agency to fund within baselines or there was scope to defer due to lack of information/certainty. There is scope to defer some initiatives due to a pending review or evaluation.

Key and complex initiatives:

Initiative	Comment on initiative
Defence - Contingent Funding for P-8 Acquisition	Seeks an average of [33] per annum of operating funding and around [33] in capital. Defence is seeking to bring forward the purchase from what was outlined in the Defence White Paper (DWP) due to a time-limited opportunity. [33]
Foreign Affairs – APEC21	Seeks an average of \$50 million per annum of operating funding. Limited discretion here given NZ has committed to hosting APEC21. Costings reflect a ‘credible minimum’ option and do not yet include security-related costs (part of phase 2). We are currently supporting this initiative in full.
Health -DHB Capital Investment Pool	Seeks [33] capital. This largely reflects the replacement of ageing infrastructure and maintenance of assets. We are currently supporting around \$700 million capital for critical projects that will be investment ready. There are options around how much funding is provided in Budget 2018 vs. future Budgets – this will depend on prioritisation and development of business cases.

Annex 3: Personnel Cost Pressures Analysis

Key themes:

Theme	Comment
Overview	Initiatives in this category were largely dominated by remuneration pressures for selected agencies, collective bargaining agreements and pay equity claims in the pipeline.
Variation in remuneration percentages and approaches	There is a lot of variation between agencies on the percentage increase sought for remuneration pressures, ^[38] This usually includes a mix of wage increases and costs resulting from changes to pay bands and progression. Typically, the approach to assessment has been to accept the wage pressure where enough information has been presented on drivers etc. Scaled support has been recommended where this is not the case. This raises an important issue around consistency across agencies and why only some agencies have put forward budget submissions for remuneration related to 'historical underfunding'. Given that each wage settlement is influenced by prior settlements, ensuring consistency is essential.
Inconsistency in treatment of wage pressures	The Ministry of Education's wage progression pressures are automatically funded through MBU/OBU raising another point of inconsistency.
Holiday pay	There was a similar issue of consistency in relation to Holiday Pay remediation costs. Some agencies (e.g. MBIE) seem to be more ahead than others in determining the extent of the issue. A key consideration is whether a system view is taken across Government ahead of making any individual funding decisions.

Key and complex initiatives:

Initiative	Comment on initiative
[38]	
[33]	
Defence White Paper Operating Funding	[33]
MBIE and Corrections Holidays Act Remediation Costs	Corrections have only submitted a placeholder bid as they are still working through costings, however MBIE is seeking \$12 million in 2017/18. There is a question around whether we support individual bids without a system level view around the extent/size of problem across the core public service.
[38]	

Annex 4: 'Not a cost pressure' Cost Pressures Analysis

Key themes:

Theme	Comment
Out of scope for Budget 2018	Initiatives which have been classified as 'not a cost pressure' reflect expansions to existing services, new discretionary initiatives or other policy changes where ministers have choices around the timing and scale of funding. This was not part of the scope set for Budget 2018.
High risk initiatives	There are initiatives which, although out of scope, have high risk components and require Ministers to make choices around funding in Budget 2018 or future Budgets.
Deferring some initiatives to future Budgets	There are also initiatives which are high value for money and generally 'good ideas' to progress and are aligned to Government priorities – the recommendation for these initiatives is to defer for consideration in future Budgets.

Key and complex initiatives:

Initiative	Comment on initiative
Official Development Assistance (ODA)	Seeks an average of \$300 million per annum of operating funding to lift our contribution to 0.35% of GNI. This is not a cost pressure and any increases to ODA are discretionary. Deferring is likely to have minimal impact and Ministers need to consider longer-term strategy in this space.
Resilience initiatives	Largely around ensuring resilience of critical systems in the event of a disaster to ensure normal operations can continue. Initiatives across MSD, BSI (CERT), Civil Defence & OT. Can be deferred, or scaled, but potentially high risk. The initial tranche of the MSD initiative is also already funded and underway. Civil Defence bids are realistically scalable.
[33]	