

The Treasury

Budget 2018 Information Release

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[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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[36]	to maintain legal professional privilege	9(2)(h)
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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: T2018/341

BM-2-4-2018-10-1

Date: 28 February 2018

To: Minister of Finance (Hon Grant Robertson)
Associate Minister of Finance (Hon Dr David Clark)
Minister for Arts, Culture and Heritage (Rt Hon Jacinda Ardern)
Minister for Racing (Rt Hon Winston Peters)
Minister of State Services (Hon Chris Hipkins)
Minister for Treaty of Waitangi Negotiations (Hon Andrew Little)
Minister for Social Development (Hon Carmel Sepuloni)
Minister of Revenue (Hon Stuart Nash)
Minister of Broadcasting, Communications and Digital Media (Hon Clare Curran)
Minister of Defence (Hon Ron Mark)
Minister of Internal Affairs (Hon Tracey Martin)
Minister of Civil Defence (Hon Kris Faafoi)
Minister of Statistics (Hon James Shaw)
Minister for Women (Hon Julie Anne Genter)

Deadline: None
(if any)

Aide Memoire: Material to support "Other" workstream meeting

The purpose of this note is to support the "Other" workstream meeting, chaired by Minister Clark on Monday 5 March.

This note provides an overview of:

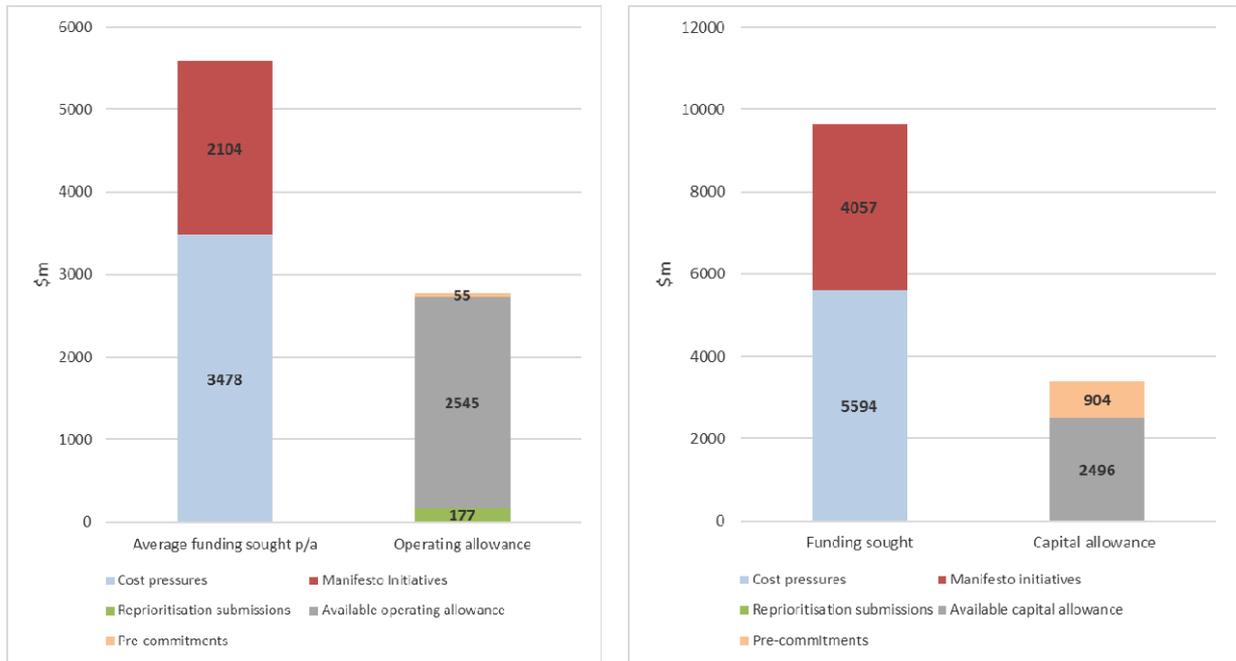
- The purpose of the workstream meetings,
- The key assessment criteria used by the Treasury Vote teams,
- A comparison of what has been submitted in the Natural Resources workstream compared to what the Treasury Vote team initially supports for the next round of assessment,
- Key themes and initiatives to consider in the "Other" portfolio, and
- A recommended agenda for the meeting.

Attached to this note is a list of all initiatives submitted by agencies to the "Other" workstream with the Treasury Vote team funding recommendation. This includes cost pressures, manifesto and reprioritisation initiatives.

Overview across all workstreams

As outlined at the bilateral meetings led by Minister Clark and illustrated in Figure 1 and 2 below, both the operating and capital allowances are heavily oversubscribed.

Figure 1 – operating funding per annum sought vs. Budget allowances
Figure 2 – capital funding sought vs. Budget allowances



Purpose of the workstream meetings

The purpose of the workstream meetings is to assist with the Budget 2018 decision-making process by considering initiatives dealing with similar issues or sectors together, identifying priority initiatives across portfolios and to provide advice to Budget Ministers who make final Budget decisions.

In order to meet the Budget Responsibility Rules, it is critical that Budget 2018 is delivered within the allowances announced in the 2018 Budget Policy Statement. This means that initiatives will need to be prioritised, further reprioritisation options will need to be considered and some challenging decisions will need to be made.

Five workstreams have been established to help with this decision-making process:

- **Natural Resources:** This workstream considers policies related to the environment, conservation and energy sustainability. It also considers policies related to New Zealand’s natural resources and indigenous flora and fauna, biodiversity, and climate change. This workstream also includes policies within the Lands portfolio.
- **Economic Development:** This workstream considers non-infrastructure policies related to economic, urban and regional development. It also considers policies related to communications, research and innovation in business, productivity and New Zealand’s workforce.
- **Social Wellbeing:** This workstream considers policies relating to social wellbeing to support a fair and dignified standard of living for all New Zealanders. This workstream includes policies relating to education, health, justice, income support, public housing and child poverty reduction.

- **Infrastructure:** This workstream considers investment in physical and non-physical facilities and services necessary for a well-functioning economy, for example: schools, hospitals and IT.
- **Other:** This workstream considers policies in the areas not covered by the other workstreams, for example: Arts, Culture & Heritage, Defence, and Internal Affairs.

These workstreams were created to incorporate the Living Standards Framework and the Government's priorities. They do not limit how the Budget package is presented on Budget day, but are instead designed to help with the decision making process.

“Other” workstream meeting

“Other” workstream ministers will play a key role in this prioritisation process in looking across portfolios at that initiatives classified in the “Other” workstream to determine cross-portfolio linkages and workstream priorities.

It will be critical that Ministers consider at this meeting, which of the “Other” workstream initiatives best contribute to the following priorities agreed to by Cabinet for Budget 2018:

- Providing quality public services for all New Zealanders and improving access to core services such as health and education,
- Taking action on child poverty and homelessness,
- Supporting families to get ahead and sharing the wealth generated by our economy with a wide range of New Zealanders,
- Sustaining economic development and supporting the regions, and
- Managing our natural resources and taking action against environmental challenges such as climate change.

Additionally, Budget Ministers have highlighted the following areas as priorities for Budget 2018. Portfolio Ministers should consider how initiatives in the “Other” workstream align with these priorities:

- Commitment to Coalition and Confidence and Supply Agreements,
- Meeting cost pressures and rebuilding core services,
- Housing (both short-term and long-term focus),
- Health,
- Education, and
- Supporting the business community and wealth creation.

This will assist in the prioritisation and development of a draft package for Budget Ministers consideration on **Monday 19 March**.

Where are we at in the assessment and decision-making process?

The Treasury Vote teams have completed their individual assessment of cost pressures, manifesto and reprioritisation initiatives. It is important to note that these are individual Vote team assessments. Initiatives that are supported in this initial assessment still need to be considered in the next three rounds of assessment and decision-making as outlined in Annex 2.

The Treasury Vote team assessment

The Treasury Vote team funding recommendations have been included in Annex 1 of submitted initiatives. These recommendations derive from more detailed assessments. The table in Annex 3 outlines the key considerations of these assessments.

The first consideration of this assessment is scope. **Initiatives that are not genuine cost pressures or mentioned in the Coalition agreement, Confidence and Supply agreement and the Speech from the Throne have not been prioritised in the assessment process and are reflected as ‘do not support’ in the Annex.** These initiatives have been assessed as ‘do not support’ as they are out of scope for Budget 2018 and the assessment does not necessarily reflect the merits of the initiative.

Budget Ministers will still have visibility of all initiatives in the decision-making process, including those that have been assessed by the Treasury Vote team as out of scope.

Submitted initiatives in the “Other” workstream and the Treasury vote team assessment

Operating Initiatives – average per annum (\$m)		
Type of initiative	Operating funding sought or offered	VA assessment of recommended operating funding
Cost pressure	296	208
Manifesto	88	0
Total funding sought	384	208
Reprioritisation submissions	6	1

Capital Initiatives – total sought or offered (\$m)		
Type of initiative	Capital funding sought	VA assessment of recommended capital funding
Cost pressure	2,118	2,030
Manifesto	67	0
Total funding sought	2,185	2,030
Reprioritisation submissions	0	0

Reprioritisation

As discussed in the recent Budget meetings held by Minister Clark, reprioritisation submissions are unlikely to provide sufficient headroom to fund additional spending on top of the operating allowance for Budget 2018. To generate further savings, the Treasury has sent across its initial assessments to portfolio ministers, which in a number of portfolios identifies further savings options to investigate.

It is important to note that while your entire portfolio may be a priority of the Government, there still may be services or programmes set up by the previous Government within the portfolio that do not align with the Government's priorities. Identifying such initiatives will enable the Government to fund more of its manifesto commitments and cost pressures in Budget 2018.

Key groupings and initiatives in the “Other” workstream

Data and Digital		
Theme	Specific Initiatives (avg. per annum \$m)	For Discussion
There are a number of initiatives across the “Economic Development” and “Other” workstreams with a data and digital focus.	[33]	[33]

Arts, Culture and Heritage		
Theme	Specific Initiatives (avg. per annum \$m)	For Discussion
<p>Capacity of the Ministry for Culture and Heritage (MCH) to deliver manifesto initiatives given existing resourcing constraints.</p> <p>This is not unique to MCH as it has also been a common theme across the other workstreams.</p>	<p>The Minister for Arts, Culture and Heritage has submitted a number of initiatives into the manifesto track as well as a departmental cost pressure initiative for MCH (<i>Improving social wellbeing: A fit-for-purpose Ministry for Culture and Heritage</i>, \$5.823m). The manifesto initiatives include:</p> <ul style="list-style-type: none"> - <i>Public Media – Supporting an Informed Democracy</i> (\$38.000m): the Treasury Vote team recommends that this initiative be deferred until Budget 19, to allow it to benefit from the advice of the recently established public media Ministerial advisory group. [33] - [33] <p>While submitted as a cost pressure the “<i>New Zealand Music Export and Development – Increasing Support</i>” initiative (\$0.650m) is a discretionary policy choice.</p>	<p>Given that the departmental cost pressure initiative highlights the pressure MCH is under currently to deliver on its existing services and programmes, it is recommended Ministers consider MCH’s manifesto initiatives in light of this cost pressure initiative and discuss phasing or deferral options.</p>

Defence Force		
Theme	Specific Initiatives (avg. per annum \$m)	For Discussion
The funding sought across the Defence Force initiatives represent the majority of the operating and capital sought in the “Other” workstream [33]	<p><i>Defence White Paper 2016 (DWP 2016) – Funding for P-8A acquisition</i></p> <p>There is a time-limited opportunity to purchase the MoD and NZDF preferred aircraft type. [33]</p>	[33]
	[1][25][33]	It is also recommended that Ministers consider how much funding to set aside for the DWP in Budget 2018 ahead of reviewing Defence policy settings.
	<p><i>Defence White Paper 2016 (DWP 2016)</i></p> <p>Aside from the P-8As, NZDF have submitted three initiatives related to the Defence White Paper 2016 (DWP 2016). The Treasury Vote team’s [33]</p> <p style="text-align: right;">The NZDF are set to review the strategic policy settings for Defence this year to ensure they are aligned with the Government’s foreign policy and national security priorities.</p>	

Resilience			
Theme	Description	Specific Initiatives (avg. per annum \$m)	For Discussion
Increasing resilience in the face of emergency events	<p>A number of initiatives in this workstream relate to improving New Zealand's resilience in the face of emergency events. Some of the risks identified include:</p> <ul style="list-style-type: none"> - Prolonged interruption of MSD's core service delivery ICT applications; - Life safety concerns or severe land damage due to rockfalls in Kaikoura; - Damage to heritage documents due to National storage facilities being below the required seismic resilience standard, and - substandard water infrastructure. <p>The Treasury Vote team assessment of these initiatives reflects that while some of these are not genuine cost pressure bids nor manifesto commitments, it is recommended that Ministers still should still consider whether the risks identified are acceptable.</p>	<ul style="list-style-type: none"> • <i>Improving the Resilience of Business Critical Systems</i> - MSD [37] • <i>Additional Crown Support for Kaikōura Recovery from the November 2016 earthquake</i> (\$10.000m) • <i>Preserving the Nation's Memory</i> [33] • <i>Heritage New Zealand Pouhere Taonga - Meeting increased demand</i> (\$1.563m) • <i>Investment in Central / Local Government Partnerships - Three Waters component</i> (\$3.833m) 	<p>We recommend Ministers discuss the risks identified in these initiatives, consider the counterfactuals of not funding and identify which resilience initiatives (if any) are of key priority to the Government in Budget 2018.</p>

Agenda for the meeting

Given the number of initiatives in the “Other” workstream and the time constraints, we recommend the following agenda for the meeting:

	Agenda item	Areas to consider
1.	Cost pressures and manifesto initiatives: Top priorities and common groupings in the “Other” workstream for Budget 2018	<ul style="list-style-type: none">• Discuss the prompting discussion points in the above boxes.• What are the “Other” workstream priorities?• Do initiatives contribute to Government priorities?• Do the priorities identified have any overlap with other initiatives across the workstream?<ul style="list-style-type: none">○ E.g. are they complimentary in contributing to a particular priority? Do they rely on the same labour force to implement?• Do these priorities align with the Government priorities agreed by Cabinet and Budget Ministers for Budget 2018?
2.	Next steps for reprioritisation – request for Portfolio Ministers to continue to pursue further reprioritisation options with their officials. Agreement from Portfolio Minister to direct their departments to work with the Treasury in order to investigate further savings.	

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 “Other” workstream meeting prepared to discuss:

- the common groupings and discussion points across the cost pressure and manifesto initiatives highlighted in this note, and
- the key priority initiatives in the “Other” workstream for Budget 2018, and what manifesto initiatives could be deferred until future Budgets, in particular the 2019 Wellbeing Budget.

The workstream meeting will assist Treasury in developing a draft package for Budget Ministers consideration on **Monday 19 March**. At this point, Budget Ministers will consider what further engagements will be required ahead of finalising the Budget package by **Tuesday 3 April**. These further meetings are likely to be required for larger, more complex portfolios.

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