

The Treasury

Budget 2018 Information Release

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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: T2018/448

BM-2-4-2018-5

Date: 26 February 2018

To: Minister for Child Poverty Reduction (Rt Hon Jacinda Ardern)
Minister of Corrections and Minister for Crown/Māori Relations (Hon Kelvin Davis)
Minister of Finance (Hon Grant Robertson)
Minister of Housing and Urban Development (Hon Phil Twyford)
Minister of Education (Hon Chris Hipkins)
Minister of Justice and Minister for Courts (Hon Andrew Little)
Minister for Social Development and Disability Issues (Hon Carmel Sepuloni)
Minister of Health (Hon Dr David Clark)
Associate Minister of Finance (Hon David Parker)
Minister for Māori Development (Hon Nanaia Mahuta)
Minister of Police (Hon Stuart Nash)
Minister for ACC and Workplace Relations and Safety (Hon Iain Lees-Galloway)
Minister of Immigration (Hon Iain Lees-Galloway)
Minister for Children (Hon Tracey Martin)

Deadline: None
(if any)

Aide Memoire: Material to support the "Social Wellbeing" workstream meeting

The purpose of this note is to support the Social Wellbeing workstream meeting, chaired by Minister Parker on Wednesday 28 February, 12pm.

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 Social Wellbeing workstream compared to what the Treasury Vote team initially supports for the next round of assessments,
- key themes and initiatives to consider in the Social Wellbeing portfolio, and
- a recommended agenda for the meeting.

Attached to this note is a list of all initiatives submitted by agencies to the Social Wellbeing 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. This reflects initiatives submitted up to 23 February.

Figure 1 – operating funding per annum sought vs Budget allowances

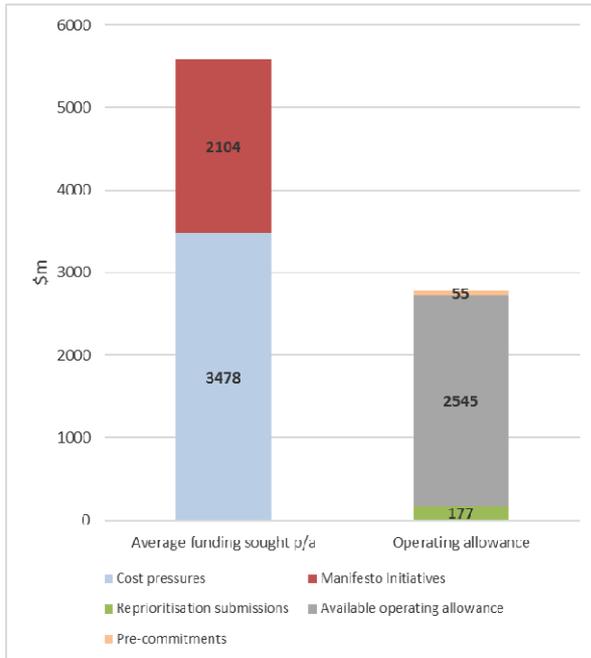
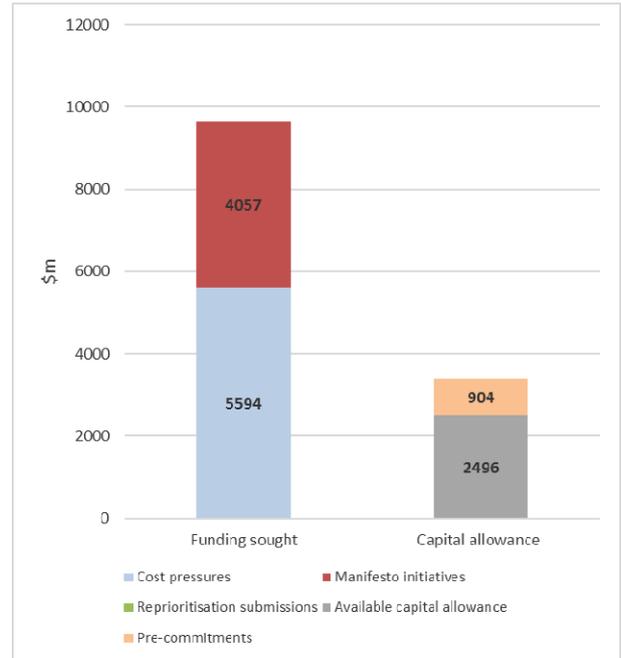


Figure 2 – capital funding sought vs Budget allowances



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.

Social Wellbeing workstream meeting

Social Wellbeing workstream ministers will play a key role in this prioritisation process in looking across portfolios for initiatives classified in the Social Wellbeing workstream in order to determine cross-portfolio linkages and workstream priorities.

It will be critical that Ministers consider at this meeting, which of the Social Wellbeing 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 Social Wellbeing 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 or 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 Social Wellbeing 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	2,414	1,721
Manifesto	1,029	187
Total funding sought	3,443	1,908
Reprioritisation	(131)	(109)
Total funding sought net of reprioritisation	3,312	1,799

Capital Initiatives – total sought or offered (\$m)		
Type of initiative	Capital funding sought	VA assessment of recommended capital funding
Cost pressure	127	106
Manifesto	(69)	24
Total funding sought	59	130
Reprioritisation	-	-
Total funding sought net of reprioritisation	59	130

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 themes and initiatives in the Social Wellbeing workstream

Looking across cost pressure and manifesto initiatives in the Social Wellbeing workstream, the following common themes have emerged which can help support the prioritisation discussion for specific initiatives.

COST PRESSURES			
Theme	Description	Specific Initiatives (avg. per annum)*	For Discussion
Increasing demand is putting pressure on core services	A number of significant cost pressure initiatives reflect higher demand for a service as a result of population growth, changes in the characteristics of a population or legislative requirements. The Treasury Vote team assessment reflects support for genuine pressures which are driven by existing policy settings and for which there are significant implications (e.g. service delivery failure risks) if funding is not provided this Budget.	<p>The significant demand driven pressures include:</p> <ul style="list-style-type: none"> • Additional support for DHBs (\$581 million) • Education forecast adjustments (\$246 million) • Public and transitional housing supply (\$86 million per annum operating and \$69 million capital) • ACC support for non-earners ^[33] • Including 17 years olds in the Youth Justice System (\$37 million) 	We recommend Ministers discuss the relative prioritisation of volume driven pressures for Budget 2018, the level of discretion available to consider scaling significant initiatives and the likelihood of these pressures continuing for future Budgets (under current economic and policy settings).
There is variability in the size and scale of departmental and wage pressures faced by agencies	A significant portion of cost pressures in the Social Wellbeing workstream reflect remuneration increases and/or departmental capacity and capability initiatives. There is a lot of variability across agencies on the percentage increase requested for wage pressures. The Treasury Vote team assessments have sought to distinguish between genuine departmental pressures (based on historical underfunding) and other discretionary policy choices.	<p>Significant departmental and wage related initiatives include:</p> <ul style="list-style-type: none"> • [33], [37], [38] • [38] • [33] • Teacher aide funding rates ^[33] • Social development remuneration pressures (\$12.5 million) 	Budget Ministers are likely to heavily scrutinise initiatives which only seek to increase the number of public sector employees and/or are departmental focussed. We recommend Ministers discuss ways in which to ensure consistency in wage increases and the scope for agencies to manage departmental pressures within baselines or realise efficiencies to free up resources.

*Note the funding outlined for specific initiatives reflects the amount sought. Refer to the annex for the Treasury Vote team recommendation.

COST PRESSURES			
Theme	Description	Specific Initiatives (avg. per annum)*	For Discussion
Pay equity is an emerging fiscal risk and will continue to impact future Budgets	There are a number of pay equity claims which have either already been lodged or are in the pipeline across a number of sectors. These are likely to continue increasing as more settlements are agreed and this reflects a significant fiscal risk for future Budgets. The Treasury Vote team assessment reflects the timing and status of claims and whether funding needs to be set aside in Budget 2018.	For Budget 2018, three pay equity initiatives have been submitted in relation to: <ul style="list-style-type: none"> • [38] • [33] • [33] [38]	The current pay equity claims are likely to be non-discretionary. As there is a precedence effect of any pay equity settlement, we recommend Ministers take this opportunity to discuss the broader strategy and approach to managing pay equity claims – including any key pre-requisites to considering a claim.
MANIFESTO COMMITMENTS			
Theme	Description	Specific Initiatives (avg. per annum)*	For Discussion
Reviews in key areas will help to ensure existing commitments are delivered effectively and in line with the strategic direction of the sector	There are a number of reviews underway in areas such as Health, Education, Housing and Justice which will help inform future investment – this includes primary care, mental health, and the education workforce strategy. There is a risk in committing to significant investments ahead of the outcome of these reviews – including the risk of path dependency and duplicating services due to lack of clarity on what is currently being delivered and to whom. In general, the Treasury Vote team recommendation is to defer or gradually phase any significant and ongoing investments pending the outcome of major reviews or the agency’s strategic direction, with some funding supported for preliminary work if required to maintain momentum.	The following initiatives are related to major reviews: <ul style="list-style-type: none"> • [33] [38] • Extending the very low cost access rate for GPs to community service card holders [33] • Striving towards 1800 New Police (\$130 million) • Teacher supply response package • Reinstating the training incentive allowance [33] • Mental health services for offenders and their families (\$17.1 million) 	We recommend Ministers discuss the overall approach and relative prioritisation of significant commitments which are subject to reviews and impact the strategic direction of the sector. This includes how any risks can be minimised or managed.

*Note the funding outlined for specific initiatives reflects the amount sought. Refer to the annex for the Treasury Vote team recommendation.

MANIFESTO COMMITMENTS			
Theme	Description	Specific Initiatives (avg. per annum)*	For Discussion
In certain areas, there is an immediate need to improve access to core services such as housing	Public housing has not kept pace with growing demand, with implications such as a growing waitlist and homelessness. Funding is sought for both rising costs of delivering existing places (cost pressure initiative) and increasing supply [33]. There are also a number of housing related initiatives which are being considered in the Economic Development workstream.	Specific initiatives related to improving access to core services include: <ul style="list-style-type: none"> [33] 	Housing has been identified as a priority by Budget Ministers. We recommend ministers discuss the Government's public housing target of building an additional 1,000 state houses per annum, options for scaling and phasing relative to the initiative that has been submitted [33] and how this compares with housing initiatives submitted in other workstreams.
Further policy work is required where there are overlapping services and incentive impacts	The Treasury vote team recommends manifesto commitments are deferred where there is high uncertainty around costings and implementation as further policy work is required or there are significant behavioural implications which need to be worked through (for example, changing policy settings may result in more people being incentivised to access the service). It is important to also work through any service overlaps and cross sector links.	Initiatives where the Treasury vote considers further policy work is required: <ul style="list-style-type: none"> [33] Reinstating the training incentive allowance (\$27 million) [33] 	We recommend ministers discuss the relative prioritisation of commitments where the policy work is very preliminary and unlikely to meet Budget 2018 timeframes for full funding.

*Note the funding outlined for specific initiatives reflects the amount sought. Refer to the annex for the Treasury Vote team recommendation.

Agenda for the meeting

Given the number of initiatives in the Social Wellbeing workstream and the time constraints, we recommend the following agenda for the meeting:

	Agenda item	For consideration
1.	Cost pressures: Common themes across workstream	<ul style="list-style-type: none">• Discuss the prompting discussion points in the table above.
2.	Manifesto initiatives: Top priorities for Budget 2018	<ul style="list-style-type: none">• Discuss the prompting discussion points in the table above.• What are the Social Wellbeing workstream priorities?• Do the priorities identified have any overlap (positive or negative) 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?
3.	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 Social Wellbeing workstream meeting prepared to discuss:

- the common themes across the cost pressure initiatives highlighted in this note, and
- the key priority initiatives in the Social Wellbeing 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 bilaterals are likely to be required for larger, more complex portfolios.

Pooja Patel, Analyst, Budget Coordination, ^[39]

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