

The Treasury

Budget 2018 Information Release

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Treasury Report: Additional bilaterals to support Budget 2018 decision-making

Date:	28 February 2018	Report No:	T2018/455
		File Number:	BM-2-4-2018-5

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>Note that additional bilaterals will be required with selected portfolio ministers to support decision-making at the Budget Ministers 2 and 3 meetings.</p> <p>Agree to lead additional bilaterals with portfolio Ministers recommended by the Treasury.</p> <p>Agree to schedule a second round of workstream Ministers meetings to provide portfolio Ministers with visibility of the near-final Budget package and raise any significant concerns ahead of the Budget Ministers 3 meeting.</p>	Friday 2 March (To allow meetings to be scheduled in Minister's diaries)
Associate Minister of Finance (Hon Dr David Clark)	<p>Note that additional bilaterals will be required with selected portfolio ministers to support decision-making at the Budget Ministers 2 and 3 meetings.</p> <p>Note you will be supporting the Minister of Finance in additional bilaterals (with the exception of Health) recommended by the Treasury.</p> <p>Note you will be supporting the Minister of Finance in a second round of workstream Ministers meetings to provide portfolio Ministers with visibility of the near-final Budget package and raise any significant concerns ahead of final decisions.</p>	Friday 2 March (To allow meetings to be scheduled in Minister's diaries)

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Pooja Patel	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: Yes (attached)

Treasury Report: Additional bilaterals to support Budget 2018 decision-making

Executive Summary

The purpose of this report is to highlight the areas where we recommend that one-on-one bilaterals are required with selected portfolio Ministers in order to work through complex initiatives and support Budget Ministers in decision-making for Budget 2018.

The ministerial and workstream meetings to date have focussed on setting expectations around the process and discussing high level priorities. There has been limited opportunity to discuss individual initiatives in detail to support decision-making.

One-on-one meetings are crucial to supporting the decision-making process and can be a useful escalation point for portfolios with large and complex initiatives. It will provide you with an opportunity to get visibility on the key choices and trade-offs within specific areas, supported by the Treasury Vote team advice. The outcome of these meetings can then feed into the development of the draft package and the Budget Ministers 2 meeting.

At a minimum, we recommend you lead bilateral meetings for the following portfolios:

- **Education** (Hon Chris Hipkins)
- **Health** (Hon Dr David Clark)
- **Housing and Urban Development and Transport** (Hon Phil Twyford)
- **Defence** (Hon Ron Mark)
- **Conservation** (Hon Eugenie Sage)
- **Corrections** (Hon Kelvin Davis)
- **Research, Science and Innovation and Greater Christchurch Regeneration** (Hon Dr Megan Woods)

In order to feed into the Budget Ministers 2 meeting on 19 March, we recommend these meetings are set up between Thursday 8 and Wednesday 15 March.

In order to get visibility of initiatives for portfolios that are not included in the list above, we would suggest meeting with Vote teams directly for each workstream. These meetings were very productive in the past.

In addition, it is recommended that additional workstream meetings are set up between the Budget Ministers 2 and Budget Ministers 3 meetings in order to share the near-final Budget package with portfolio Ministers ahead of final decisions.

Annex 1 includes a revised Budget 2018 process diagram which reflects the above recommendations. We will be discussing an initial draft package with you at Budget Matters on Thursday 8 March.

Recommended Action

We recommend that you:

- a **note** the ministerial engagements to date on Budget 2018 have been at a high level only and there has been limited opportunity to discuss detail on specific and complex initiatives;
- b **note** having one-on-one meetings with selected portfolio Ministers will provide you with visibility on those complex initiatives and the key choices and trade-offs associated with each of them;
- c **note** that these meetings will be supported by advice from the Treasury Vote teams;
- d **agree** to lead additional bilaterals for the following portfolios, with Minister Clark providing support (with the exception of Health):

Education (Hon Chris Hipkins)	<i>Agree/disagree</i>
Health (Hon Dr David Clark)	<i>Agree/disagree</i>
Housing and Urban Development and Transport (Hon Phil Twyford)	<i>Agree/disagree</i>
Defence (Hon Ron Mark)	<i>Agree/disagree</i>
Conservation (Hon Eugenie Sage)	<i>Agree/disagree</i>
Corrections (Hon Kelvin Davis)	<i>Agree/disagree</i>
Research, Science and Innovation and Greater Christchurch Regeneration (Hon Dr Megan Woods)	<i>Agree/disagree</i>

- e **agree** to include Minister Hipkins in the bilateral on the Health portfolio to manage any perceived conflicts of interest;

Agree/disagree

- f **note** the portfolios listed in recommendation d) above reflect the bare minimum and you may receive requests for bilaterals in other portfolios or may wish to meet with other Ministers.
- g **agree** to consider any additional requests for bilateral meetings on a case-by-case basis;

Agree/disagree

- h **note** that these bilaterals will need to be scheduled between 8 and 15 March to ensure any discussions are able to be incorporated into the Budget Ministers 2 meeting;

- i **agree** to schedule additional workstream Ministers meetings between the Budget Ministers 2 (19 March) and Budget Ministers 3 (26 March) meetings;

Agree/disagree

- j **note** these meetings will provide an opportunity to share the draft package with portfolio Ministers and consider any significant concerns that are raised;
- k **note** you will receive an initial draft 'strawman' package to discuss with officials at Budget Matters on Thursday 8 March;
- l **agree** to meet with Treasury Vote teams directly following consideration of this initiative draft package to discuss the assessments underpinning initiatives and key trade-offs for Budget 2018.

Agree/disagree

Kamlesh Patel
Team Leader, Budget Coordination

Hon Grant Robertson
Minister of Finance

Hon Dr David Clark
Associate Minister of Finance

Treasury Report: Additional bilaterals to support Budget 2018 decision-making

Purpose of Report

1. The purpose of this report is to highlight the areas where we recommend that one-on-one bilaterals are required with selected portfolio Ministers in order to work through complex initiatives and support Budget Ministers in decision-making.
2. This report also proposes a second round of workstream meetings between the Budget Ministers 2 and 3 meetings to provide visibility to portfolio Ministers on what has been reflected in the draft package.
3. Your next Budget Ministers meeting is on Monday 19 March. This will be followed by Budget Ministers 3 on Monday 26 March where final decisions will need to be taken on the Budget 2018 package.

Additional one-on-one bilaterals

Why are additional bilaterals required?

4. As part of the decision-making process, portfolio Ministers have been involved in two rounds of bilaterals so far, both of which have been led by Minister Clark:
 - a **Scene setting on the Budget process (13-21 February):** The purpose of these meetings was to set out the assessment and decision-making process for Budget 2018, provide an overview of what was submitted compared to allowances and set expectations with portfolio Ministers.
 - b **Workstream Ministers meetings (27 – 5 March):** The purpose of these meetings is to discuss priorities within each of the five workstreams and provide portfolio Ministers with visibility on the Treasury Vote team assessments (including those initiatives that have been assessed as 'out of scope').
5. Given the timing and the number of ministers involved, these meetings have not provided an opportunity to discuss individual initiatives in detail or surface key trade-offs and choices in complex areas. The need for additional bilaterals after workstream meetings was signalled in our advice to you on the overall Budget process in late January.
6. Having meetings with selected portfolio ministers will provide you with an opportunity to:
 - a Get more visibility of large and complex initiatives for specific portfolios,
 - b Discuss key priorities, funding options and trade-offs with the relevant portfolio Minister to feed into decision-making,
 - c Resolve or act as an escalation point for any issues in relation to specific initiatives, and
 - d Ensure your colleagues on board with how the Budget package is shaping up.

7. One-on-one meetings in the past have been crucial to work through the prioritisation of initiatives for large areas and support Budget Ministers make decisions on the overall Budget package.
8. The Treasury will support you in these bilaterals and provide advice ahead of each meeting on the package of initiatives supported by the Vote team, the rationale behind this and what areas the portfolio Minister might push on in the meeting.

Which portfolio Ministers do we recommend you meet with and why?

9. The table below outlines the portfolio Ministers we recommend you meet with at a minimum and explains our rationale. You are likely to get requests from other Minister's offices in addition to what has been set out below. We recommend you consider these additional requests on a case-by-case basis.
10. The minimum list below reflects areas where there are a significant volume of initiatives, the funding sought is a large proportion of the overall Budget submissions, and/or there are complex initiatives where further discussion is required to determine a way forward.
11. Due to Minister Clark's high level of involvement with the Budget process to date, we recommend you lead these meetings with Minister Clark also in attendance to support the discussion. To manage any perceived conflicts of interest for the Health portfolio we recommend Minister Hipkins is invited to moderate the meeting.

Portfolio where we recommend an additional bilateral	
Education <i>(Hon Chris Hipkins)</i>	<p>Education has submitted a total of 49 manifesto and cost pressures initiatives at a cost of [33] and [33]</p> <p>The Treasury Vote team assessment reflects support for cost pressures which are either non-discretionary or where there is a significant risk to current service levels, and a small number of investment-ready manifesto initiatives. An additional education bilateral to help you understand education priorities for Budget 2018 and discuss with Minister Hipkins deferral or scaling options that enable you to deliver on both your policy objectives and fiscal strategy.</p>
Health <i>(Hon David Clark)</i>	<p>Health has submitted a total of 30 initiatives across both manifesto and cost pressures at a cost of [33] and [33]</p> <p>There are a number of choices and trade-offs to consider in the Health portfolio which will require discussion with Minister Clark, including: whether to fully fund DHB cost pressures, funding large manifesto initiatives related to primary care ahead of the Primary Care review.</p>
Housing and Urban Development and Transport <i>(Hon Phil Twyford)</i>	<p>A total of [33] and [33] has been submitted in the housing and urban development portfolio. The most significant component of this reflects cost pressures related to the existing provision of public and transitional housing as well as increasing the number of public housing places to meet increased demand and reducing homelessness. Further discussion is required with Minister Twyford on the public housing targets that the Government has committed to including details around the cost of delivering on these targets, [33], [37]</p> <p>alongside the broader housing package for Budget 2018.</p> <p>For the transport portfolio, a total of [33] and [33]</p> <p>Treasury is working with the Ministry of Transport on the extent to which most of the 16 initiatives submitted could become eligible for National Land Transport Fund (NLTF) funding.</p>

<p>Defence (Hon Ron Mark)</p>	<p>An average of [33] operating per annum and a total of [33] capital has been submitted in the Defence Force portfolio. Further discussion is required with Minister Mark on how much of the Defence White Paper 2016 to implement in Budget 2018 ahead of NZDF and Ministers reconsidering the policy settings of Paper which is set to begin this year. In this discussion it would also be useful to discuss the opportunity costs/trade-offs of deferring significant decisions to future Budgets.</p>
<p>Conservation and Land Information (Hon Eugenie Sage)</p>	<p>An average of [33] has been submitted in the conservation portfolio. The Treasury Vote team currently supports \$26 million per annum in funding. We recommend that you discuss the Conservation portfolio to assist with developing a strategy of how to approach a significant increase to DOC's baseline funding over the next three years (as outlined in the Confidence and Supply Agreement). This will help ensure that any agreed funding can be best utilised to achieve the Government's objectives.</p>
<p>Corrections (Hon Kelvin Davis)</p>	<p>A total of [33] per annum operating and [33] capital is being sought through Budget 2018 in the Corrections portfolio. We recommend you meet with Minister Davis to discuss significant decisions about whether to proceed with the Waikeria development and how prison population pressures are managed to help the Government achieve its target.</p>
<p>Research, Science and Innovation and Greater Christchurch Regeneration (Hon Dr Megan Woods)</p>	<p>There are six initiatives relating to the Government's commitment to increase Research and Development (R&D) spending to 2% of GDP over ten years that have been submitted totalling an average of \$258 million per annum. This includes funding for an R&D tax credit which makes up \$214 million of the total funding per annum, which the Treasury is currently supporting in full. We recommend having a discussion with Minister Woods to discuss the strategy for achieving this objective over the next ten years, and how this may impact Budgets 18, 19 and 20.</p> <p>If you were to meet with Minister Woods, we would also recommend discussing the Greater Christchurch Regeneration portfolio.</p>

Timing

12. We recommend these meetings are held between Thursday 8 March and Wednesday 14 March. This will both (i) allow Vote teams to prepare detailed advice to support you in these discussions and (ii) ensure that any outcomes of the meeting feed through into the draft package and the Budget Ministers 2 meeting on Monday 19 March.
13. The Budget Ministers 2 meeting will provide an opportunity to look across all workstreams at the overall Budget package and highlight any key issues that still need to be worked through. There will be a tight turnaround to follow up on any outstanding matters ahead of the Budget Ministers 3 meeting where final decisions need to be taken on the package.

Second round of workstream meetings

14. In addition to the bilaterals with the portfolio Ministers mentioned above, we recommend a second round of workstream Ministers meetings be set up between the Budget Ministers 2 and Budget Ministers 3 meetings.

BUDGET-SENSITIVE

15. The purpose of this would be to ensure portfolio Ministers have visibility of the near-final package and are broadly comfortable with it before final decisions are taken. This also mitigates the perception risk of portfolio Ministers being “out of the loop” on how decisions are being taken. We recommend you lead these meetings with the support of Minister Clark.
16. There is only a week between Budget Ministers 2 and 3. When sharing the near-final package at the workstream meetings, it will be important to emphasise that there will be limited opportunity to make changes to the package unless there are significant concerns. This high threshold will ensure that any changes can be managed ahead of the Budget Ministers 3 meeting.

Process and Next Steps

17. We have updated the attached **Budget 2018 process diagram** (see Annex 1) to reflect the recommended one-on-one bilaterals and the second round of workstream meetings. The next four weeks will be critical in shaping the draft package.
18. You have a Budget Matters meeting with the Treasury on Thursday 8 March, where we will be taking you through an initial version of a ‘strawman’ draft package. It is likely there will be a number of changes to this package as we engage with you over the next two weeks and in the lead-up to Budget Ministers 2.