

The Treasury

Budget 2018 Information Release

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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.

Treasury Report: Draft packages for Budget 2018

Date:	7 March 2018	Report No:	T2018/515
		File Number:	BM-2-4-2018

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Note the contents of this report. Work through the questions and recommendations with officials at Budget Matters on Thursday 8 March .	Thursday 8 March
Associate Minister of Finance (Hon Dr David Clark)	Note the contents of this report. Work through the questions and recommendations with officials at Budget Matters on Thursday 8 March .	Thursday 8 March
Associate Minister of Finance (Hon David Parker)	Note the contents of this report. Work through the questions and recommendations with officials at Budget Matters on Thursday 8 March .	Thursday 8 March

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Geraldine Wilkins	Graduate 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: Draft packages for Budget 2018

Executive Summary

This report provides you with an initial draft Budget package for each workstream to discuss with officials at Budget Matters on Thursday 8 March. This draft package has been developed using a prioritisation framework which we have been working with your office on over the past few weeks.

- For cost pressures, the prioritisation framework focusses on the implications and risk of providing no funding for Budget 2018. The draft package prioritises initiatives with high and medium level risks.
- For manifesto initiatives, the prioritisation framework focusses on whether the initiative is within scope, is implementation ready and the implications of funding in Budget 2018. The draft package prioritises high and medium level priority initiatives which are clearly in scope and implementation ready.

Based on the prioritisation framework, the draft operating package currently sits at \$2.8 billion per annum (net of reprioritisation) and the draft capital package is \$7.0 billion in total. Even after this initial prioritisation of Treasury Vote team assessments, the allowances are still oversubscribed (with capital more heavily oversubscribed than operating).

The draft package numbers above are also based on initiatives which were considered 'in-scope' for Budget 2018. They do not include out of scope initiatives which either have merit or have been identified as a key ministerial priority by portfolio Ministers. If you wish to include these initiatives in the draft operating and capital packages to present to Budget Ministers, difficult decisions will need to be made about what high-medium risk initiatives and high-medium priority initiatives will be removed or scaled in the package.

Attached to this report are draft packages for the five workstreams and an overarching draft and 'minimum' capital package. These annexes contain useful detail of the initiatives submitted for Budget 2018 and the associated risks and implications of each initiative.

We have also attached two further annexes that provide you with the current draft packages on the prioritisation diagrams, which illustrate the trade-offs that you will need to make in developing the draft package to present to Budget Ministers.

To support you in refining this draft package for Budget Ministers 2 on Monday 19 March, we would like to use the meeting to work through the following questions:

	Key questions to discuss	Treasury's recommendation (if applicable)
Prioritisation framework and out of scope initiatives	How comfortable are you with the prioritisation framework that the Treasury has used to develop the initial draft operating and capital packages?	
	Are there specific initiatives you have questions on or want us to follow up?	If you wish to include/remove any initiatives ahead of the Budget Ministers 2 Meeting on 19 March, we

	Key questions to discuss	Treasury's recommendation (if applicable)
		recommend discussing these with Treasury officials at Budget Matters on Tuesday 13 March.
	Do you have a preference on the weighting of cost pressure and manifesto initiatives in the draft operating and capital packages?	Discuss with officials at Budget Matters on 8 March.
	How do you want to treat initiatives that are currently not in the draft package and out of scope, but which have been identified as a key ministerial priority or have merit?	We recommend using bilateral meetings with portfolio Ministers to agree on which of these initiatives should form part of the Budget package, and which initiatives Ministers are willing to defer.
The draft package for Budget Ministers 2	For Budget Ministers 2, do you want to present a draft package within operating and capital allowances setting out the key trade-offs for each?	<p>In order to do this, some key trade-offs are still required.</p> <p>We recommend looking at further scaling and phasing options for the initiatives in the <i>draft operating packages</i> that have been identified as either 'medium risk' or 'medium priority'.</p> <p>We recommend using the '<i>minimum capital package</i>' as a starting point for developing a package for Budget Ministers.</p> <p>If you wish to use a different method to prioritise the initiatives, please discuss these options with the Treasury at Budget Matters on 8 March.</p>
Bilaterals in the week of 12 March	Would you like to share the initial draft package with portfolio Ministers and agencies ahead of the one-one-one bilaterals next week?	We recommend sharing the initial draft packages (at an aggregated level) with Ministers and agencies so that individual Ministers understand the trade-offs that are required for Budget 2018 and for you to work off the same material in your bilateral meetings.
	Do you want to reflect bilateral discussions with portfolio Ministers and amend the numbers in the draft package that goes to Budget Ministers on Friday 16th March?	We recommend that outcomes from bilateral meeting are incorporated into material for Budget Ministers 2. This does mean the material for the Budget Ministers 2 meeting will not be able to be sent out until late on Friday 16 March.

	Key questions to discuss	Treasury's recommendation (if applicable)
	How would you like to ensure that the approach you and Minister Clark take to these bilaterals is consistent and that the outcomes of each meeting are fed into the development of the package?	We recommend that the you and your offices liaise closely with each other following each bilateral meeting to determine how you want the outcomes of the meeting fed into the draft Budget 2018 package.
Presentation of workstream spreadsheets	Do you want to make any changes to the presentation of the spreadsheets in the annex?	Discuss with Treasury officials at Budget Matters on 8 March.
	Is there anything else you would like included on each package spreadsheet?	
	Once the draft package for Budget Ministers 2 is confirmed, are you comfortable with attaching these to the Budget Ministers slides as an annex?	We recommend attaching the operating and capital draft packages to the slides to allow Budget Ministers to see the full range of initiatives for Budget 2018 for the first time.

Recommended Action

We recommend that you:

Draft packages in this Treasury report

- a **note** that this Treasury Report provides you with initial draft operating and capital packages by workstream, which are made up of high and medium risk cost pressures, and high and medium priority manifesto initiatives;
- b **note** that these initial draft operating and capital packages exclude any low risk or out of scope initiatives that have been identified as a Ministerial priority in workstream meetings, and any initiatives that have been rated as low risk, low priority, or out of scope for Budget 2018;

'Minimum' Capital package

- c **note** that you have also received a 'minimum' capital package that is very close the capital allowance which is made up of a combination of fully supported, scaled and deferred high risk and priority initiatives as a starting point for discussion;
- d **note** that the intention is to discuss the package described in recommendation c at Investment Ministers on Monday 12 March;

Prioritisation of package

- e **agree** to provide the Treasury with any specific initiatives you wish to add or remove to the draft packages at Budget matters on Tuesday 13 March, in order to include the material in the draft package for Budget Ministers on Monday 19 March;

agree/disagree

- f **discuss** the prioritisation of cost pressure and manifesto initiatives with Treasury officials;
- g **agree** to use bilateral meetings with portfolio Ministers to agree on which initiatives currently not in the draft package should form part of the Budget package and which initiatives Ministers are willing to defer or phase;

agree/disagree

Draft package for Budget Ministers

- h **note** that key trade-off decisions between initiatives are still required to be made in order to present a package within allowances to Budget Ministers on 19 March;
- i **agree** to look at further scaling and phasing options for the initiatives in the draft operating and capital packages that have been identified as either 'medium risk' or 'medium priority'
- j **agree** to use the 'minimum' capital package as a starting point for developing a package for Budget Ministers;

agree/disagree

- k **discuss** with Treasury officials at Budget Matters on 8 March any other options you may wish to use to prioritise these initiatives;

Bilateral meetings

- l **agree** to share the initial draft package with Ministers and agencies that have bilateral meetings scheduled next week;

agree/disagree

- m **discuss** whether you would also like to share the initial draft package with Ministers and agencies who don't have bilaterals scheduled in order to provide early visibility of the package;
- n **note** that if you wish to reflect bilateral discussions with portfolio Ministers in the material for Budget Ministers 2 on Monday 19 March, this material will not be able to be sent until after your final bilateral at 5pm on Friday 16 March;

Presentation of annexes

- o **discuss** with Treasury officials at Budget Matters on 8 March if you wish to make any changes to the presentation of the spreadsheets in the attached annexes;
- p **agree** to attach the operating and capital draft packages to the slides for the Budget Ministers 2 meeting to allow Budget Ministers to see the full range of initiatives for Budget 2018 for the first time;

agree/disagree

Kamlesh Patel
Team Leader, Budget Coordination

Hon Grant Robertson
Minister of Finance

Treasury Report: Draft packages for Budget 2018

Purpose of Report

1. The purpose of this report is to outline the development of the draft Budget 2018 package and the process required to amend the draft package before you present it to Budget Ministers on **Monday 19 March**. Specifically, this report provides:
 - A. An overview of the process and framework that went into developing the draft Budget 2018 packages and an overview of initiatives out of scope that will need further consider.
 - B. Options to refine the draft package ahead of Budget Ministers 2.
 - C. Analysis of the composition of the draft package by workstream.
 - D. An overview of the bilateral meetings you will be holding in the coming weeks and a recommended approach to how these discussions could inform the draft package you present to Budget Ministers.

A. Assessment and development of the draft workstream Budget 2018 packages

2. Attached to this report are five workstream packages and an overarching capital package that also presents a minimum package that fits within the Budget 2018 capital allowances.

Assessment Process

3. The workstream packages have been developed by using the RAG rating framework (see Annex 2) across both cost pressures and manifesto initiatives.
4. For cost pressures, each initiative has been categorised by risk. The key components of this assessment are impact on service delivery, urgency and timing of impact and discretion available around how much is funded.
5. For manifesto initiatives, each initiative has been categorised by priority. The key considerations of this assessment are scope, implementation and implications of funding in Budget 2018.
6. We have based our RAG assessment of each initiative on the Treasury Vote team recommendation, confirmed these with the relevant Vote Analysts and moderated these across workstreams to ensure consistency.

Workstream draft packages

7. Taking into account only the high risk/high priority “red” and medium risk/medium priority “amber” initiatives from the workstream packages, the operating expenditure equates to an average of **\$2,833 million** per annum.

Table 1 – Draft operating package (average per annum)

Operating packages				Possible Additions ¹
\$millions	Red	Amber	Total	
Social Wellbeing	1462.796	374.667	1837.463	149.411
Infrastructure	128.516	0.000	128.516	8.473
Natural Resources	66.297	14.864	81.161	18.456
Economic Development	566.345	12.814	579.159	360.633
Other	37.908	174.520	212.428	90.638
Reprioritisation			-123.490	
Pre-commitments			67.360	
Between Budget Contingency			50.000	
Total	2261.862	576.865	2832.597	627.611

¹ Reflect additional prioritises identified by Ministers at workstream meetings and value initiatives out of scope

8. Taking into account only the red and amber initiatives from the workstream packages, the capital expenditure equates to a total of **\$7,005 million**.

Table 2 – Draft capital package (total)

Capital packages				Possible Additions ¹
\$millions	Red	Amber	Total	
Social Wellbeing	197.252	21.891	219.143	17.045
Infrastructure	1574.632	0.000	1574.632	805.500
Natural Resources	194.160	0.000	194.160	165.000
Economic Development	2081.100	2.000	2083.100	0.000
Other	169.147	1861.247	2030.394	38.061
Reprioritisation			0.000	
Pre-commitments			903.689	
Total	4216.291	1885.138	7005.118	1025.606

¹ Reflect additional prioritises identified by Ministers at workstream meetings and value initiatives out of scope

9. The Possible Additions column is excluded from the draft Budget package and includes initiatives that are out of scope but:
- were identified by Ministers as priorities for Budget 2018, or
 - have been identified as good value for money or mitigate risks if funded.
10. These initiatives have been shaded grey in each workstream package (in the attached annexes) and ordered as either: support in full, support scaled, or do not support. The RAG comment section in each workstream annex provide further context and draw out the risks and implications of not funding these initiatives.

Questions for discussion:

How do you want to address initiatives which are out of scope, but have been identified as a Minister's or a number of Ministers as a key priority?

How do you want to address initiatives which are out of scope, haven't been identified as a priority but have been identified as good value for money or mitigate risk if funded?

B. Options to refine the operating and capital Budget 2018 packages and presentation

- 11. As illustrated in Table 1 and Table 2, when you include the red and amber initiatives, the operating allowance is oversubscribed by an average of \$233 million per annum and the capital allowance is oversubscribed by a total of \$3,605 million.
- 12. In order to make progress at Budget Ministers on Monday 19 March to agreeing a Budget package, we recommend that you present a package which fits within the allowances. This will be a useful starting point for discussion around prioritisation and to draw out significant trade-offs required to manage within allowances.

Operating package

For the operating package, the mechanisms below will help you present a package within operating allowance:

Developing a package within the operating allowances		
Options available	Implications/Risks	How
Scaling and deferring amber initiatives	Initiatives categorised as medium risk, have varying level of risk involved and could be prioritised, scaled or deferred. This would involve potential service delivery risks, departments making sub-optimal trade-offs to continue operations and reputational risk for department/Ministers. Scaling and deferring medium priority initiatives will involve difficult discussions with portfolio Ministers.	We can work with Treasury Vote teams to prioritise medium risk/medium priorities across workstreams and get you this information ahead of Budget Matters on Tuesday 13 March .
Further phasing manifesto initiatives	You could also look at deferring more of the manifesto initiatives to future Budgets	You would need to indicate which manifesto commitments currently included in the high priority or medium priority categories you would like to defer.

Options available	Implications/Risks	How
<p>Prioritising out-of-scope priority initiatives identified by Ministers and in-scope priority initiatives.</p> <p>While this option would not increase your operating headroom, it would help you meet portfolio Ministers' expectations.</p>	<p>Given that many of the initiatives identified by portfolio Ministers as priorities were out-of-scope you could get portfolio Ministers to identify which of their in-scope initiatives they would remove in order to fund their priorities. This would however, have the risk of moving away from the commitments made in the Coalition agreement, Confidence and Supply agreement and the Speech from the Throne.</p>	<p>You should use the bilateral meetings scheduled between 12-15 March to ask key portfolio Ministers to identify initiatives which they would defer, in order to fund their priority initiatives.</p>
<p>Key question: Which of the above mechanisms would you like to pursue in order to develop a package for Budget Ministers that fits within the operating allowance?</p>		

Capital package

13. Given that the capital allowance is oversubscribed by \$1.718 billion when you include only high risk and high priority initiatives (and precommitments) the above options alone will not keep spending within the \$3.400 billion capital allowance.
14. As a starting point for discussion, we have pulled together a 'minimum' capital package that is very near the \$3.400 billion capital allowance. This package will provide an important starting point for discussion around prioritisation and to draw out the significant trade-offs required to manage within allowances.
15. The 'minimum' package heavily scales and does not provide funding for a number of high risk cost pressure initiatives. The 'minimum' package also does not provide funding for any medium risk cost pressure and medium priority manifesto initiatives. The key implications of risks or scaling and excluding the initiatives are outlined.
16. We propose that Investment Ministers discuss the 'minimum' capital package on Monday 12 March. In particular, discussing the prioritisation of initiatives in the 'minimum' package, and drawing out complex initiatives where further information is required.
17. We are scheduled to have a pre-Investment Ministers meeting this Thursday 8 March where the proposed approach can be discussed further.

18. We recommend that you consider the additional mechanisms below in order to present a capital package within the allowances:

Developing a package within the capital allowances		
Options available	Implications/Risks	How
Scaling and deferring high risk/high priority initiatives	This will involve not funding initiatives with service delivery risks, departments making sub-optimal trade-offs to continue operations and reputational risk for department/Ministers.	The 'minimum' package provides a starting point for identifying key risks and trade-offs. Detailed advice on selected initiatives can be provided.
Consider options to increase funding available for capital initiatives	Increasing funding in this Budget will likely result in decreasing headroom in future Budgets. For example, rephasing future capital allowance to accommodate the \$3 billion Provincial Growth Fund.	We can provide advice on the options to increase capital funding in this Budget by Tuesday 13 March . Final decisions on the options will need to be taken at Budget Ministers.
Key question: would you like to pursue any of the above options in order to develop a package for Budget Ministers that fits within the capital allowance?		

Beyond *what* is included in the package, there are also choices around how to present this package through the process, as set out in the table below:

Key choices in presentation of draft packages		
RAG rating	The RAG framework is useful in ensuring a consistent assessment across workstreams and highlighting the risks, trade-offs and level of discretion available	<i>Are you comfortable with the process and framework we have used to assess and prioritise initiatives?</i>

Key choices in presentation of draft packages		
Format of packages	<p>The packages attached to this report illustrate the progression from the agency submission to the draft package. This is useful in showing the scaling that has occurred across the assessment process.</p> <p>The initiatives are ordered by risk/priority and we have also included a comment which details the key considerations of the RAG assessment. This provides you with key background information when engaging with portfolio Ministers on the relative prioritisation of their submissions.</p>	<i>Do you want to make any changes to the presentation of the packages?</i>
Further information included in package spreadsheets	<p>There is a choice as to what further information you might want to include on the draft package spreadsheet. For example, we could include a column which tags initiatives with an impact for Māori so that you can keep track of these initiatives throughout the decision-making process.</p>	<i>Is there anything else you would like included on each package spreadsheet?</i>

C. Analysis of the composition of the draft package by workstream

Social Wellbeing draft workstream package

Overview

19. An average of \$1.837 billion and a total of \$219 million capital has been identified as high risk/high priority or medium risk/medium priority in the Social Wellbeing workstream. A breakdown of this is provided in the table below:

\$millions	Red	Amber	Total	Possible Additions
Operating expenditure (average per annum)	1462.796	374.667	1837.463	149.411
Capital expenditure	197.252	21.891	219.143	17.045

High risk/high priority initiatives (“red”)

20. A significant amount of funding in the Social Wellbeing workstream is being driven by high risk cost pressures that are related to legislative requirements and/or increases in population growth with limited opportunity to scale funding. The three largest high risk cost pressure initiatives are outlined below. These initiatives make-up 70% of the total initiatives rated as 'red' in this workstream.

- *Education Forecast Changes: \$246.077 million* operating per annum to fund volume and price related increases for schools and early childhood education.
- *District Health Board (DHB) Cost Pressures: \$549.000 million* operating per annum to support DHBs in providing core health services.
- [37], [38]

21. There are a limited number of manifesto commitments in the Social Wellbeing workstream that have been reflected as within scope, high priority and implementation ready for Budget 2018 (**\$12.908 million** operating per annum)

Medium risk/medium priority initiatives (“Amber”)

22. Relative to the other workstreams, the Social Wellbeing workstream also has a high proportion of medium risk cost pressures which are largely service based with higher than expected demand as the main cost pressure driver. These initiative include:

- [33] [33], [37] [33]
i
- *Offenders in the Community – Maintaining Public Safety: \$31.980 million* operating per annum to manage the increasing volume of community sentences.
- *Stabilising and Strengthening the Delivery of Family Violence Services: \$18.124 million* operating per annum to meet increasing demand for core family violence services.

23. The main initiative on the manifesto side (in terms of scale) is 'striving towards 1,800 police numbers' (**\$69.730 million** operating per annum and **\$17.800 million** total capital). This has been rated as 'amber' and reflected as a medium priority due to concerns around recruitment, market capacity and flow-on Justice sector costs if the initiative is supported in full.

Possible additions

24. Additionally, in the attached Social Wellbeing workstream draft package Annex you will see a number of initiatives which are not currently supported by the Treasury but flagged as a key priority for the relevant portfolio Minister(s) or out of scope but assessed as having merit by the Treasury. The key initiatives flagged in the spreadsheet include:

- *Inflationary cost adjustments for the School Operations Grant and Early Childhood Education* (^[33] operating per annum).
- *Targeted Interventions – Enhanced Housing and Support Services for People Managed by Corrections* (**\$28.803 million** operating per annum)
- *Family and Sexual Violence Central Agent* ^[33]

Infrastructure draft workstream package

Overview

25. An average of \$129 million and a total of \$1.575 billion in capital has been identified as high risk/high priority or medium risk/medium priority in the Infrastructure workstream. A breakdown of this is provided in the table below:

\$millions	Red	Amber	Total	Possible Additions
Operating expenditure (average per annum)	128.516	0.000	128.516	8.473
Capital expenditure	1574.632	0.000	1574.632	805.500

High risk/high priority

26. The high risk/high priority category is primarily driven by the following initiatives:

- *District Health Boards Capital Investment*: a total of **\$750 million** capital.
- *Schools Growth Package*: a total of **\$332 million** in capital and ^[33] operating per annum.
- *Waikeria Prison Development*: a total of **\$312 million** capital and **\$11.153 million** operating per annum.
- *Prisoner volumes – responding to growth*: a total of **\$180 million** capital and **\$100.936 million** operating per annum.

Possible additions

27. Additionally, in the attached Infrastructure workstream draft package Annex you will see a number of initiatives that are out of scope but are a priority for the relevant portfolio Minister(s) or are supported by the Vote team.

28. The key initiatives flagged in the spreadsheet include:

- *Christchurch Regeneration Acceleration Facility*: a total of \$299 million capital and \$0.375 million operating per annum
- *Christchurch Schools Rebuild*: a total of ^[33] capital and ^[33] operating per annum
- ^[33]

Economic development draft workstream package

Overview

29. An average of \$579 million per annum operating and a total of \$2.083 billion capital has been identified as high risk/high priority or medium risk/medium priority in the Economic Development workstream. A breakdown of this is provided in the table below:

\$millions	Red	Amber	Total	Possible Additions
Operating expenditure (average per annum)	566.345	12.814	579.159	360.633
Capital expenditure	2081.100	2.000	2083.100	0.000

30. This compares to an average of **\$1.362 billion** per annum operating and a total of **\$2.346 billion** capital submitted by portfolio Ministers to the Economic Development workstream.

High risk/high priority

31. The high risk/high priority category is primarily driven by the following initiatives:

- *Provincial Growth Fund*- an average of **\$184.799 million** per annum operating and a total of **\$1.517 billion** capital.
- *Research and Development Tax Credit* – an average of **\$256.075 million** per annum operating.
- *Capital Investment in Tāmaki Redevelopment Company* ^[33] total capital.
- *APEC21 Programme – Operations and Hosting* – an average of **\$49.925 million** per annum operating.

32. There are only two medium risk/medium priority initiatives in this workstream. It is primarily driven by high risk/high priority initiatives.

Out of scope initiatives

33. Additionally, in the attached Economic Development workstream draft package Annex you will see two initiatives flagged as out of scope but a Minister's (or a number of Ministers') key priority for Budget 2018. These are made up by the Official Development Assistance initiative, and the ^[33]
34. You will also see two initiatives flagged as out of scope, but have merit in funding.

Natural Resources draft workstream package

Overview

35. An average of \$81 million per annum operating and a total of \$194 million capital has been identified as high risk/high priority or medium risk/medium priority in the Natural Resources workstream. A breakdown of this is provided in the table below:

\$millions	Red	Amber	Total	Possible Additions
Operating expenditure (average per annum)	66.297	14.864	81.161	18.456
Capital expenditure	194.160	0.000	194.160	165.000

36. This compares to an average of **\$218.548 million** per annum operating and a total of **\$359.160 million** capital submitted by portfolio Ministers to the Natural Resources workstream.

High risk/high priority

37. The high risk/high priority category is primarily driven by the following initiatives:
- *Green Investment Fund* — an average of **\$6.250 million** per annum operating and a total of \$100 million capital.
 - *Establishing the Foundation for One Billion Trees* — an average of **\$27.584 million** per annum operating and a total of **\$94.160 million** capital.
 - *Enhancing biodiversity by controlling and eradicating predators* — an average of **\$20.000 million** per annum operating.

Medium risk/medium priority

38. The medium risk/medium priority category is primarily driven by the following initiatives:
- *Personnel and Other Inflationary Pressures* – an average of **\$7.006 million** per annum operating.

Out of scope initiatives

39. Additionally, in the attached Natural Resources workstream draft package Annex you will see two initiatives flagged as out of scope but a Minister's (or a number of Ministers') key priority for Budget 2018.

40. [33]

Other workstream draft package

Overview

41. An average of \$212 million per annum operating and a total of \$2,030 million capital has been identified as high risk/high priority or medium risk/medium priority in the "Other workstream.

42. This compares to an average of **\$381.4 million** per annum operating and a total of **\$2,151 million** capital submitted by portfolio Ministers to the "Other" workstream.

\$millions	Red	Amber	Total	Possible Additions
Operating expenditure (average per annum)	37.908	174.520	212.428	90.638
Capital expenditure	169.147	1861.247	2030.394	38.061

High risk/high priority

43. The high risk/high priority category is primarily driven by the following initiatives:

- *Improving social wellbeing: A fit for purpose Ministry for Culture and Heritage* - average of **\$5.823** million per annum operating
- [33]
- [37]

Medium risk/medium priority

44. The medium risk/medium priority category is primarily driven by the following initiatives:

- *Defence White Paper 2016 (DWP 2016) - Contingent Funding for P-8A acquisition* – average of [33] operating,[33] total capital
- *Defence White Paper 2016 (DWP 2016) - Operating Funding* – average of **\$88.000** million per annum operating
- *Government Digital Services* – average of [33] per annum operating

Out of scope initiatives

45. Additionally, in the attached "Other" workstream draft package Annex you will see 14 initiatives flagged as out of scope but a Minister's (or a number of Ministers') key priority for Budget 2018.

Reprioritisation

46. Overall a total of **\$492 million** (or average of **\$123.5 million** per annum) operating expenses and **\$2.5 million** capital spending have been freed up so far from this year's reprioritisation exercise as illustrated below:

Portfolio	Accepted (\$m ann. Avg)
ACC	(0.50)
Agriculture	(23.83)
Building and Construction	(3.00)
Economic Development	(1.54)
Education	(23.14)
Energy and Resources	(0.85)
Greater Christchurch Regeneration	(3.27)
Health	(48.68)
Housing and Urban Development	(0.25)
Internal Affairs	(1.00)
Justice	(4.82)
Social Development	(0.03)
Statistics	(6.00)
Tourism	(6.60)
Total	(123.49)

47. The Treasury has identified further potential savings from six portfolios, the relevant Ministers are due to report their findings to the Associate Minister of Finance (Hon Dr David Clark) within the next week. This could potentially increase the level of reprioritising identified for Budget 2018.
48. It is intended that reprioritisation of funding should continue after Budget 2018, with a work programme to be signalled in the Budget Cabinet paper.
49. In addition to the reprioritisation options noted in the above table, we are also aware of some possible revenue increasing items (e.g. loss ring-fencing) that may also help offset spending for Budget 2018.

D. Approach to Budget bilaterals and the refining of a draft Budget 2018 package

50. In the week of Monday 12 March, you have indicated that you and Minister Clark will hold the following eight bilateral meetings for key and complex portfolios as below:

Portfolio	Minister responsible
Education	Hon Grant Robertson
Health	Hon Grant Robertson
Foreign Affairs and Trade, Racing	Hon Grant Robertson
Housing and Urban Development, Transport	Hon Dr David Clark
Defence	Hon Dr David Clark
Conservation	Hon Dr David Clark
Research Science and Innovation/Greater Christchurch Regeneration	Hon Dr David Clark
Corrections	Hon Dr David Clark

51. Given that you and Minister Clark will each hold bilaterals, you will need to liaise closely with each other to ensure that the approach to these bilaterals is consistent and that the outcomes inform the development of the package.
52. The Treasury will provide you both with material tailored to support each of these meetings.
53. We recommend that you use these meetings to get portfolio Ministers to discuss the content of the draft package for the portfolio in question, the associated trade-offs and risks and key priorities for each Minister for Budget 2018.
54. We recommend no specific decisions are taken at the meeting. This will provide space for you and the other Budget Ministers to consider the relative priority of each portfolio Ministers' initiatives against other Budget pressures.
55. There is a choice as to how your bilateral discussions feed into the draft package that goes to Budget Ministers on Friday 16th March ahead of the Monday 19th meeting. We think it would be useful to reflect these decisions so that Budget Ministers can consider the most up to date package, prior to sharing the package for the second round of workstream meetings.

Question for discussion:

Do you want to reflect bilateral discussions with portfolio Ministers and amend the numbers in the draft package that goes to Budget Ministers on Friday 16th March?

56. There is also a choice as to whether you want to share the draft package with Ministers ahead of these bilateral meetings. This would have the advantage of illustrating the trade-offs and challenging choices that are having to be made across all portfolios, and not just the portfolio in question. However, you also may want to not share this package ahead of sharing it with Budget Ministers.

Question for discussion:

Do you want to share the draft package with the portfolio Ministers identified above ahead of the bilateral meetings?

Next Steps

57. Following the discussion and decisions taken at Budget Matters on **Thursday 8 March** we will work closely with you and your office to develop a revised draft package for your consideration alongside the Budget Minister 2 slides at Budget Matters on **Tuesday 13 March**.
58. Depending on your approach taken to the bilaterals, this package may need to be revised again before it is sent to Budget Ministers on **Friday 16 March**.