

2009 LINE-BY-LINE REVIEW – TREASURY RESPONSE

Introduction

This document is the Treasury's response to Cabinet's directive for departmental Chief Executives to conduct a "line-by-line review" of expenditure [CBC Min (08) 32/6].

Treasury is primarily a policy agency delivering economic and financial advice to Ministers, with some additional operational roles (Debt Management Office, Export Credit Office, deposit guarantees). Beyond the core legislative requirements associated with our Finance Ministry role, Ministers in successive governments have purchased a range of first and second opinion advice from the Treasury.

Ministers have the option of choosing *how much* of this advice to purchase and *from whom*. For example, Ministers can decide how much economic advice to purchase from Treasury compared to MED; the mix of tax revenue advice from Treasury and IRD; or the split of central agency functions between Treasury, DPMC and SSC.

Treasury generally delivers on Ministerial priorities and core business from within its baselines, although these have occasionally been supplemented with one-off funding for significant and unusual work (e.g. Air New Zealand and NZ Rail). Excluding such special projects, over the last 9 years Treasury's funding has increased by 2% in nominal terms, and decreased by 20% in real terms – this trend is consistent over previous years.

Our key resource, and thus key cost driver, is people – 68% of baselines are spent on personnel costs. Over recent years we have lived within baselines by focusing policy staff towards a small number of large and pervasive economic and fiscal issues and results. This has led to us providing less second opinion advice to Ministers in a range of areas (e.g. fewer comments on individual Cabinet papers), while making efficiency gains in other areas (reduced consulting, accommodation and corporate roles).

We recommend returning some one-off funding that is now unlikely to be required, for Building Industry Authority litigation (\$2.9m in 2008/09 only)¹ and guarantee schemes (\$3.2m over 3 years). We are also exploring some further savings options, but these are marginal compared to the choices Ministers have around the level of policy advice Treasury provides.

The current economic and fiscal environment presents the government with some particular challenges, which place a premium on more and better quality economic and fiscal policy advice, at both a macroeconomic level and in specific policy areas.

In this context, ministers have already indicated the priorities they wish to progress over this Parliamentary term – these suggest a stronger role for central agencies, including pushing the forward looking agenda and greater issues management. Treasury has the lead on some of the government's key priorities, e.g. infrastructure, regulation quality and public sector value for money. To deliver significant results in these areas it is likely to require around 42 FTEs (many of whom are currently working in related areas).

¹ Note that there is a risk that this funding may be sought again if there is successful litigation against the Crown.

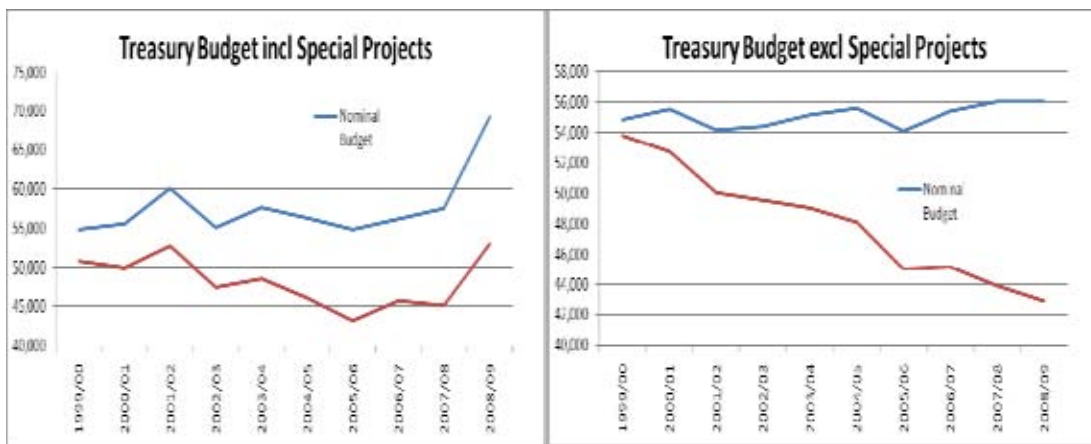
Treasury has already begun shifting resources towards the government's immediate priorities. Some of this reprioritisation may leave Treasury and the government exposed to risk, by focusing on immediate priorities we become unprepared to advise on medium- or longer-term priorities, or other areas become under-resourced and overstretched.

As a result, Treasury's input into the line-by-line review and Budget 2009 includes a menu of options around the level of advice Treasury could provide with less, the same, and more funding.

Our preferred approach would be to increase resources to a level that would deliver on Ministers' immediate priorities and to ensure the centre is well placed to advise you on medium-term and longer-term challenges and priorities.

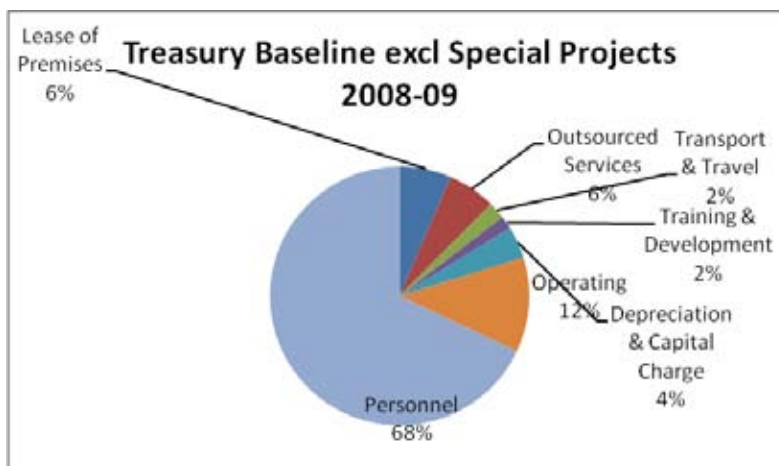
Treasury has been living within baselines...

- Treasury's general approach to Ministerial requests for increased advice is to fund requests of less than \$250,000 from within baselines. Other larger, one-off tasks have received ring-fenced and time-limited funding.
- Over the last 9 years, Treasury's budget has seen a growth in nominal terms, mainly due to a small number of large one-off special projects (such as Air NZ and NZ Rail). Excluding these, Treasury's baseline has increased by 2% in nominal terms (\$1 million) but has declined by 20% in real terms (\$11 million). This general trend is consistent over a much longer horizon, with Treasury having significantly more resources in the 1980s.

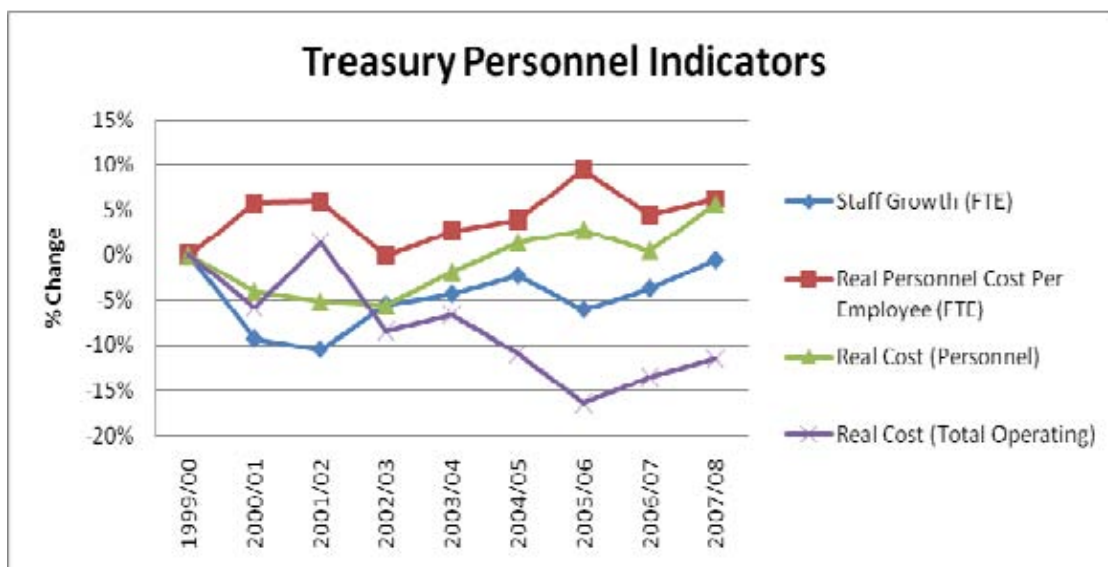


... departmental baselines are largely driven by personnel costs ...

- Treasury's key resource and cost driver is its people - 68% or \$38 million is spent on personnel costs, including staff salaries and allowances, temporary staff, leave, superannuation and personnel taxes.



- The nature of Treasury's role is that it needs to recruit, maintain and grow quality staff able to run large-scale projects, as well as a range of hard-to-replace technical specialists



- Staff numbers decreased by 1% between 1999/2000 and 2007/08, though personnel costs have increased by 6% in real terms over this 9 year period. This compares to average figures for *all public sector departments* of a 30% real increase in staff numbers, and a 38% real increase in staff costs, over the 8 year period 1999/2000 to 2006/07.²
- **[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]**

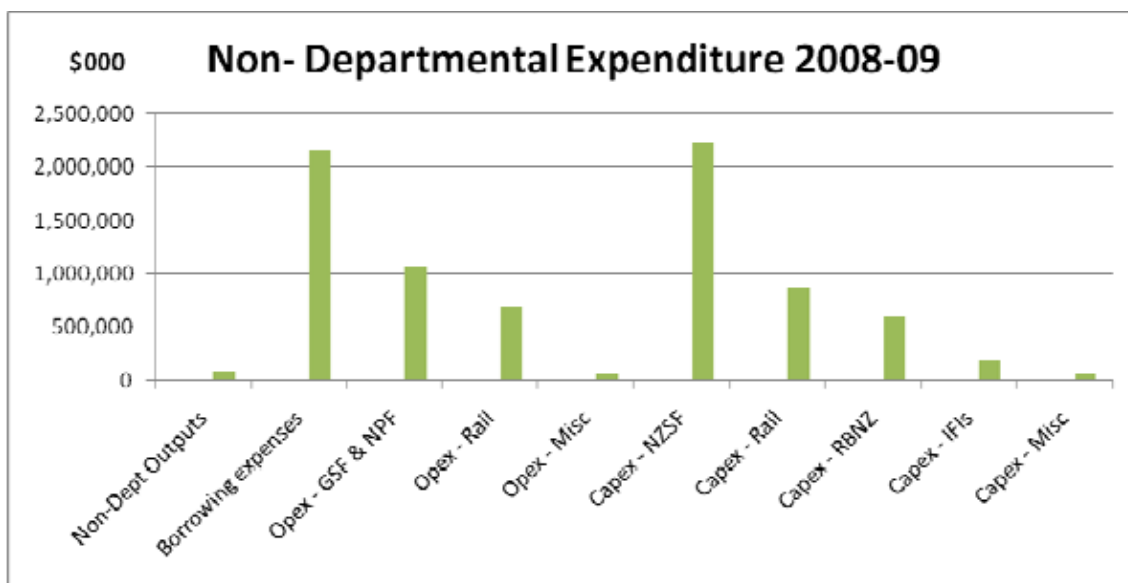
... while other costs have decreased in relative terms ...

- The increase in personnel costs has been funded by realising efficiencies in other operating costs, e.g. rent, consultants, back office. Consequently operating costs have decreased by 11% in real terms between 1999/2000 and 2007/08.³
- Operating costs at 12% includes printing including Budget printing, debt servicing commissions and audit fees, IT and information, communications, recruitment and conferences.
- Outsourced services (6%) includes consultants, legal fees and process management services such as debt management services, Maui Gas contract management and land titles. Excluding special projects, outsourced services costs have reduced from \$7m in 1999/2000 to around \$3.3m in 2008/09.
- Lease of premises (6%) includes rent, office cleaning and electricity.
- Depreciation relates to office fit-out and IT assets. Capital charge is being reduced by making annual returns of capital to the Crown.

² Consistently comparable 2007/08 figures for all departments are not yet available, but are in the process of being collated.

³ This compares to an average 44% increase across all public sector departments over the 8 years 1999/2000 to 2006/07.

... non-departmental expenditure is significant, but largely non-discretionary ...



- Treasury is also responsible for significant transactions on the Crown (Non-Departmental) side of Vote Finance – the non-departmental operating and capital expenditure budget is just over \$8 billion in 2008/09.
- This is largely non-discretionary, being required under legislation e.g. Government Superannuation Fund, National Providence Fund and New Zealand Superannuation Fund, or in relation to contractual obligations e.g. Crown debt servicing costs (which will increase as the Crown takes on more debt).
- This also includes the purchase of Toll NZ Limited, maintenance and operating funding. Treasury is reporting separately on the options Ministers have in the rail area (T2009/84 and T2009/184). A Cabinet paper seeking capital funding is being sought and operational funding will be sought as an initiative in Budget 2009.
- International financial institution capital subscriptions are required to meet New Zealand’s membership obligations to international financial institutions such as the IMF and World Bank. Therefore, this expenditure is non-discretionary and may increase due to the world financial situation.

... Treasury constantly seeks effectiveness and efficiency gains ...

- Treasury aims to be an efficient and flexible organisation, reprioritising resources and seeking efficiency gains on an ongoing basis. Recent examples include:
 - Refocusing staff on gaining a deeper understanding of a small number of key pervasive issues (our Strategic Result Areas), aiming to have a large impact in these areas, while putting less effort into those areas that are less pervasive or significant and where we are likely to have a smaller impact.
 - This led to “streamlining” effort on the majority of votes. This means we have a decreased ability to respond to issues or provide in-depth second opinion advice in streamlined areas. 49 of 69 votes are fully streamlined (and 20 of

these are handled by 2 FTEs), another 13 are partially streamlined (e.g. capital is a priority), while 7 are priorities – see annex 1.

- We have realised a number of other savings in recent years and used the funding to offset cost pressures:
 - saved \$2m p.a. over 3 years in lease/building costs when reducing office space leased from 14 to 10 floors in 2005
 - reduced a number of back office corporate roles in 2008, freeing up \$550,000 p.a.
 - presently adjusting Senior Leadership Team structure to remove 1 Deputy Secretary role from February 2009
 - Debt Management Office retendered global custody services in 2007, delivering a *[deleted – commercial position]* saving in costs from 2008. Based on the current level of custody assets held, this equates to an estimated saving of *[deleted – commercial position]* p.a. (although the actual saving will be determined by the changing level of custody assets held over time).
 - Reduced use of consultants, as noted above. While this has saved costs, it also limits our ability to draw on expertise that we do not have in-house, narrowing the scope of our advice.
- Prior to the election, Treasury began examining further potential reprioritisation options to deal with cost pressures/reducing real baselines:
 - latest rent increase is likely to be an extra \$1.2m p.a. (a 54% increase);
 - remuneration changes – even a modest 2% pay increase equates to \$0.8m p.a. (equivalent to 6 FTEs).

Crown Company Monitoring Advisory Unit (CCMAU)

- The wider figures above include CCMAU⁴ expenditure of \$3.5m and 20 FTEs.
- CCMAU faces similar cost pressures in terms of rent, salaries and other costs as the wider Treasury, but its smaller scale means it has less room to reallocate resources. While the disestablishment or mergers of some agencies *marginally* reduces demand, CCMAU's only real option to absorb costs is staff attrition, leading to a decreased focus on results,.
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
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⁴ CCMAU is part of the Treasury, so Minister of Finance is the Responsible Minister, while the Ministers of SOEs and RS&T are the Vote Ministers.

... and there are some immediate savings outside of the policy area ...

- Treasury is *primarily* a policy organisation with a small number of operational functions, so significant gains can only come from reprioritising our focus on different policy priorities (see below). However, we have identified some potential savings that could be realised through the following non-policy changes:
 - Building Industry Association (current budget \$3.4m in 2008/09 only) – one-off funding has been set aside for litigation that may be needed to respond to leaky buildings cases brought against the Crown. This expense has been transferred from year to year. Treasury proposes to return \$2.9m of this to the centre for use in higher priority areas now, noting that there is a risk that some further funding may be required if the Crown is required to defend itself in the future
 - Guarantee schemes – recent information suggests the current 2008/09 funding of \$6.5m may not be fully required due to no litigation arising to date, difficulty in recruiting suitable staff and back office systems not being required. We propose to return \$3.2m over 3 years to the centre as part of the line-by-line review, with the potential to return further funding at the March Baseline Update when further wholesale scheme uptake information is available.
- We are also exploring some potential savings in other areas, *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
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- Treasury has contracted *Burleigh Evatt*, an independent financial management consultant, to examine Treasury's work to date in this area and provide further recommendations.

... performance information is difficult for a policy agency ...

- It is inherently difficult to develop performance information around policy advice, as the gains are realised incrementally over a period of years from a series of interventions. Treasury has developed and implemented a framework for measuring the quality of policy advice, *Treasury Quality Standards for Policy Advice*, which has a founding principle that policy advice should be 'fit for purpose'. Stakeholder feedback is an important part of our approach to measuring advice.
- In process areas such as management of the Crown's debt, export credit and measuring and monitoring economic growth, the Treasury is more able to demonstrate cost effectiveness and has developed a set of performance measures to highlight trends in performance.
- In response to audit comment, the Treasury intends to explain more clearly the linkages between its outputs, impacts and outcomes; how these contribute to the Government's priorities; and the relevance of our performance measures. We will aggregate similar outputs to ensure that output class performance measures apply to all outputs in a class.

... the main determinant of expenditure is the level of advice Ministers require ...

- A core part of Treasury is a Finance Ministry role, ensuring government finances comply with legislation such as the Public Finance Act, and managing forecasting, fiscal reporting and Budget processes. These tasks require less than 50 FTEs and are only a small part of the advice we provide.
- Treasury has been used by successive governments to provide both first and second opinion policy advice on a range of areas, plus a small number of operational roles (Debt Management, Export Credit Office, Deposit Guarantees etc).
- This has involved frequently shifting resources to be responsive to changing ministerial demands and also to take a longer-term strategic outlook. This covers both moving people into different areas/teams, but also changing what type of work is done, e.g. Budget management role has changed from managing a steady-state process to redesigning the process to deal with a more constrained fiscal environment and the government's goal of reviewing existing spending

... a menu of advice we could provide over this Parliamentary term ...

- The current economic and fiscal environment, coupled with the new government's priorities, suggests a stronger role for central agencies, including pushing the forward looking agenda to lift NZ's growth rates in the medium-to-longer term and greater issues management.
- Examples include an increased focus on Value for Money, infrastructure planning and regulatory quality, managing through the economic downturn and providing support for Cabinet committees. There is also unmet demand from other agencies who have requested Treasury's assistance in developing advice on some difficult issues.

- Ministers have indicated that they do not wish to radically reduce Treasury back to a core Finance Ministry role. We have assumed Ministers *do* want to make choices around the level and type of advice Treasury provides.
- Treasury has identified approximately 28 policy FTEs who are working on tasks that we consider to be *relatively lower value than the government's immediate new priorities*:
 - Some have already transferred, e.g. 11 Transport/Capital Asset Management FTEs are moving to the new Infrastructure Unit while 3 FTEs are running the Value for Money process.
 - Some of the remaining potential resources work on specific tasks that no longer need a high Treasury resource, e.g. leading Treaty settlements;
 - Down-scaling work on longer-term issues, e.g. to help position future advice on natural resources, skills, productivity.
- Treasury has already begun to refocus existing resources onto these priority tasks. There are a number of risks with this reprioritisation:
 - the focus on immediate priorities reduces the effort we can direct to medium- and longer-term priorities (thus limiting the effectiveness of our advice beyond the 1 year horizon);
 - taking a minimal approach to large and complicated issues will not deliver results Ministers are seeking. Experience shows that Treasury is most successful when areas are fully-resourced. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*;
 - the combined effect of these priorities will stretch the ability of our vote teams to provide advice.
- Even with this reprioritisation, the Treasury is not in a position to deliver on all tasks the government is likely to charge us with.
- The following menu shows what the Treasury could and could not deliver under a range of scenarios, including:
 - *Returning the identified savings* back to the centre for Ministers to direct into other priorities – this significantly reduces Treasury's ability to deliver on Ministerial priorities;
 - *A zero net increase* in funding – limited ability to deliver on Ministerial priorities;
 - *A \$3.9m p.a. increase* - delivers on immediate Ministerial priorities; and
 - *An \$8.4m p.a. increase* - delivers on immediate and medium-long-term Ministerial priorities.

Menu of options for Treasury advice

<p>0 – savings of \$4m [28 FTE] returned to centre</p>	<p align="center">Core roles and Ministerial priorities</p> <ul style="list-style-type: none"> • Core roles in terms of PFA requirements, Budget processes and Ministerial servicing • Reduced 1st and 2nd opinion advice, based on less research and engagement with other departments • Can only progress Ministerial priorities in a minimal way – process management with little contestable advice or added value • Cease existing future-focused work altogether – no advice on future economic agenda 					<p align="center">Vote team advice and further savings</p> <ul style="list-style-type: none"> • Reduced 2nd opinion advice and limited support for Cabinet committees • Investigate radical savings options, e.g. stopping some functions entirely (or examining duplication across other agencies), salary cuts 							
<p>A - \$0 net new funding, 0 new FTEs</p>	<p align="center">Ministerial priorities</p> <table border="1"> <tr> <td data-bbox="359 554 709 1352"> <p>Value for Money</p> <ul style="list-style-type: none"> • Manage process for up to 6 reviews p.a. • High-level advice on where to look for effectiveness • Limited advice on programme effectiveness • Contestable advice at high level only – if departments fail to deliver, Treasury cannot advise on solutions • Impact – likely to be mixed success, relying heavily on drive by Ministers and Chief Executives • 5 FTEs (3 existing, 2 transferred) </td> <td data-bbox="718 554 1050 1352"> <p>Infrastructure</p> <ul style="list-style-type: none"> • Basic National Infrastructure Plan • 2nd opinion advice on broadband and rail • Existing/minimal advice on capital investment; and limited advice on broader frameworks • 2nd opinion on transport, energy, telecoms, Royal Commission report, and Electricity and Commerce Commissions reviews. • Existing targeted capital asset management programme • 11 FTEs (existing staff, incl. Treasury manager) </td> <td data-bbox="1059 554 1380 1352"> <p>Regulations</p> <ul style="list-style-type: none"> • Existing RIAT Manage process for up to 3 regulatory quality reviews p.a. • Develop framework and institutional arrangements for systematic ex-post review • No funding for taskforce costs • Impact – mixed success, relying on agencies • 9 FTEs (existing) </td> <td data-bbox="1389 554 1733 1352"> <p>Medium priorities</p> <ul style="list-style-type: none"> • Short-term work on banking, monitoring Reserve Bank, guarantee schemes, alternative credit for SMEs [roles picked up over last few months] • Limited advice on NZSF 40%, Crown balance sheet, capital markets, tertiary education and youth guarantees • Limited advice on reform of prudential system or contribution to international debate for at least 12 months • 2nd opinion on industrial relations, Holidays Act, business assistance, ETS • existing FTEs </td> <td data-bbox="1742 554 1997 1352"> <p>Emerging priorities</p> <ul style="list-style-type: none"> • No ability to take on significant new priorities without reducing effort on existing ones </td> </tr> </table>					<p>Value for Money</p> <ul style="list-style-type: none"> • Manage process for up to 6 reviews p.a. • High-level advice on where to look for effectiveness • Limited advice on programme effectiveness • Contestable advice at high level only – if departments fail to deliver, Treasury cannot advise on solutions • Impact – likely to be mixed success, relying heavily on drive by Ministers and Chief Executives • 5 FTEs (3 existing, 2 transferred) 	<p>Infrastructure</p> <ul style="list-style-type: none"> • Basic National Infrastructure Plan • 2nd opinion advice on broadband and rail • Existing/minimal advice on capital investment; and limited advice on broader frameworks • 2nd opinion on transport, energy, telecoms, Royal Commission report, and Electricity and Commerce Commissions reviews. • Existing targeted capital asset management programme • 11 FTEs (existing staff, incl. Treasury manager) 	<p>Regulations</p> <ul style="list-style-type: none"> • Existing RIAT Manage process for up to 3 regulatory quality reviews p.a. • Develop framework and institutional arrangements for systematic ex-post review • No funding for taskforce costs • Impact – mixed success, relying on agencies • 9 FTEs (existing) 	<p>Medium priorities</p> <ul style="list-style-type: none"> • Short-term work on banking, monitoring Reserve Bank, guarantee schemes, alternative credit for SMEs [roles picked up over last few months] • Limited advice on NZSF 40%, Crown balance sheet, capital markets, tertiary education and youth guarantees • Limited advice on reform of prudential system or contribution to international debate for at least 12 months • 2nd opinion on industrial relations, Holidays Act, business assistance, ETS • existing FTEs 	<p>Emerging priorities</p> <ul style="list-style-type: none"> • No ability to take on significant new priorities without reducing effort on existing ones 	<p>Setting the future economic agenda</p> <ul style="list-style-type: none"> • Limited advice on future economic agenda • 5 existing FTEs on future focused work (natural resources, productivity, international economics, skills) • Existing resources narrowed to implementation of the above only - knowledge out of date in 18 months • Long-term fiscal management – publish 40-year report at high level with limited engagement 	<p>Vote team advice</p> <ul style="list-style-type: none"> • Reduced 2nd opinion advice – more streamlining • Limited support for Cabinet committees • Reduced 1st opinion advice, e.g. tax • Vote teams likely to be stretched by competing priorities 	<p>Further savings</p> <ul style="list-style-type: none"> • Investigate radical savings options, e.g. stopping some functions entirely, salary freezes/cuts
<p>Value for Money</p> <ul style="list-style-type: none"> • Manage process for up to 6 reviews p.a. • High-level advice on where to look for effectiveness • Limited advice on programme effectiveness • Contestable advice at high level only – if departments fail to deliver, Treasury cannot advise on solutions • Impact – likely to be mixed success, relying heavily on drive by Ministers and Chief Executives • 5 FTEs (3 existing, 2 transferred) 	<p>Infrastructure</p> <ul style="list-style-type: none"> • Basic National Infrastructure Plan • 2nd opinion advice on broadband and rail • Existing/minimal advice on capital investment; and limited advice on broader frameworks • 2nd opinion on transport, energy, telecoms, Royal Commission report, and Electricity and Commerce Commissions reviews. • Existing targeted capital asset management programme • 11 FTEs (existing staff, incl. Treasury manager) 	<p>Regulations</p> <ul style="list-style-type: none"> • Existing RIAT Manage process for up to 3 regulatory quality reviews p.a. • Develop framework and institutional arrangements for systematic ex-post review • No funding for taskforce costs • Impact – mixed success, relying on agencies • 9 FTEs (existing) 	<p>Medium priorities</p> <ul style="list-style-type: none"> • Short-term work on banking, monitoring Reserve Bank, guarantee schemes, alternative credit for SMEs [roles picked up over last few months] • Limited advice on NZSF 40%, Crown balance sheet, capital markets, tertiary education and youth guarantees • Limited advice on reform of prudential system or contribution to international debate for at least 12 months • 2nd opinion on industrial relations, Holidays Act, business assistance, ETS • existing FTEs 	<p>Emerging priorities</p> <ul style="list-style-type: none"> • No ability to take on significant new priorities without reducing effort on existing ones 									
<p>B - \$3.9m net new funding, 13.5 new FTEs</p>	<p align="center">Ministerial priorities</p> <table border="1"> <tr> <td data-bbox="359 1415 709 1860"> <p>Value for Money</p> <ul style="list-style-type: none"> • Manage process with choice of: <ul style="list-style-type: none"> ◦ Breadth – 6-8 reviews p.a. or ◦ Depth – contestable advice on 1-2 reviews; QA and peer review; • Engage more widely with sector (not just CFO focus) • Limited ability to enhance system tools for sustained VFM (e.g. supporting better financial management) • Consultancy advice • Impact – increased ability to </td> <td data-bbox="718 1415 1050 1860"> <p>Infrastructure</p> <ul style="list-style-type: none"> • Sophisticated NIP including local government and private sector plans • Advisory Council to support Ministers • Response to Royal Commission on Auckland's infrastructure comments • Extending capital asset management and CBA frameworks • Targeted at 3-5 core public sector agencies </td> <td data-bbox="1059 1415 1380 1860"> <p>Regulations</p> <ul style="list-style-type: none"> • Manage process with choice of: <ul style="list-style-type: none"> ◦ Breadth (more reviews); or ◦ Depth (contestable advice on 2-3 reviews • Establish and moderate QA of taskforce TOR • Cover Building Act, RMA-2, HSNO; not telcos or energy • Consultancy advice, incl. From the sectors • Funding for taskforce and secretariat </td> <td data-bbox="1389 1415 1733 1860"> <p>Medium priorities</p> <ul style="list-style-type: none"> • As above </td> <td data-bbox="1742 1415 1997 1860"> <p>Emerging priorities</p> <ul style="list-style-type: none"> • Limited ability to take on significant new priorities without reducing effort on existing ones </td> </tr> </table>					<p>Value for Money</p> <ul style="list-style-type: none"> • Manage process with choice of: <ul style="list-style-type: none"> ◦ Breadth – 6-8 reviews p.a. or ◦ Depth – contestable advice on 1-2 reviews; QA and peer review; • Engage more widely with sector (not just CFO focus) • Limited ability to enhance system tools for sustained VFM (e.g. supporting better financial management) • Consultancy advice • Impact – increased ability to 	<p>Infrastructure</p> <ul style="list-style-type: none"> • Sophisticated NIP including local government and private sector plans • Advisory Council to support Ministers • Response to Royal Commission on Auckland's infrastructure comments • Extending capital asset management and CBA frameworks • Targeted at 3-5 core public sector agencies 	<p>Regulations</p> <ul style="list-style-type: none"> • Manage process with choice of: <ul style="list-style-type: none"> ◦ Breadth (more reviews); or ◦ Depth (contestable advice on 2-3 reviews • Establish and moderate QA of taskforce TOR • Cover Building Act, RMA-2, HSNO; not telcos or energy • Consultancy advice, incl. From the sectors • Funding for taskforce and secretariat 	<p>Medium priorities</p> <ul style="list-style-type: none"> • As above 	<p>Emerging priorities</p> <ul style="list-style-type: none"> • Limited ability to take on significant new priorities without reducing effort on existing ones 	<p>Setting the future economic agenda</p> <ul style="list-style-type: none"> • As above 	<p>Vote team advice</p> <ul style="list-style-type: none"> • Existing levels of 1st and 2nd opinion advice – existing streamlining • Support for Cabinet committees – significant role on officials committees • Vote teams likely to be stretched by competing priorities 	<p>Further savings</p> <ul style="list-style-type: none"> • Explore marginal savings to fund internal cost pressures
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	<ul style="list-style-type: none"> provide alternative solutions 8 FTEs (3 existing, 5 new) 	<ul style="list-style-type: none"> and 2 Crown entities Integration – longer-term secondees 15 FTEs (11 existing, 4 new, including Executive Director) 	<ul style="list-style-type: none"> Regulatory management system 14 FTEs (9 existing, 4.5 new) 					
C - \$8.4m net new funding, 38.5 new FTEs	Ministerial priorities					Setting the future economic agenda <ul style="list-style-type: none"> Advice on future agenda, including natural resources/water, skills and productivity (measurement & policy options), long-term economic statement, tax strategy Revive existing future-focused work – more investment & research Consultancy advice 15 FTEs (5 existing, 10 new) 	Vote team advice <ul style="list-style-type: none"> Existing levels of 1st and 2nd opinion advice – potentially streamlining Support for Cabinet committees – significant role on officials committees Improved vote team advice – increased financial capacity and extra resources in areas with competing priorities (housing, economic development, transport, environment, justice) Building financial management skills across public service 	Further savings <ul style="list-style-type: none"> Sustainable in medium term Explore marginal savings to fund internal cost pressures
	Value for Money <ul style="list-style-type: none"> Increased breadth (6-8 reviews) and depth (contestable advice on 1-2, QA & peer review) Consultancy advice Advice on cross-cutting issues such as policy advice & industrial relations Impact – increased alternative solutions plus develop and build on processes that improve Vote Team effectiveness and departmental behaviours/mindset 13 FTEs (3 existing, 10 new) 	Infrastructure <ul style="list-style-type: none"> As above 	Regulations <ul style="list-style-type: none"> As above 	Medium priorities <ul style="list-style-type: none"> As above, plus Input to, but not lead, ACC review Crown Financial Instruments – monitoring and expert consulting on risk management Increased asset management work, including RB's prudential risk and Crown balance sheet 10 new FTEs, and consultancy costs] 	Emerging priorities <ul style="list-style-type: none"> Ability to take on some significant new priorities 			

Notes – both VFM and regulatory change will require further input from Treasury Vote Teams *and* relevant departments – above figures relate solely to the core Treasury teams leading the processes. It would not be practical to recruit and train the increased staff proposed above in the immediate future. Treasury would phase this, and the required funding, over the Parliamentary term – building to the full funding requested in 2011/12, potentially using consultants for some of these functions in the short-term.

- The demands for Treasury advice have increased significantly over the last 5 years or so. We have addressed this by reducing underspending, streamlining advice in some areas, taking on more risk and cutting down on long-term development work.
- To reinstate Treasury's ability to act as a strong centre in the manner we have in the past would require a 20% increase in our baseline, before adding the cost of new functions. The total cost of doing new functions and restoring past capability would be in the order of \$11m-\$16m p.a.
- We recognise it is difficult to justify a significant increase in Treasury's funding when other agencies are being asked to tighten their belts. Consequently, the above Options provide Ministers with a range of ways to combine reprioritisation and new funding to address Ministerial priorities over the immediate, medium and longer terms.

Next steps

- The Minister of Finance is submitting an initiative into Budget 2009 proposing to increase Treasury's funding to enable it to deliver on the government's priorities, i.e. Option C above.
- This includes immediately identifiable savings of \$2.9m in 2008/09 only from Building Industry Authority litigation and \$3.2m over 3 years from guarantee schemes. It also identifies reprioritisation available from shifting the focus of policy staff.
- Treasury will continue to examine potential marginal savings **[delete – confidentiality of advice]** to manage internal cost pressures.
- There are no areas solely within the Treasury that require an in-depth review at this point. The wider question of how much policy advice the government requires, and from which agencies, would be an appropriate area for in-depth review.

Annex 1: Streamlined Votes

Vote	Fully Streamlined	Partly Streamlined	Fully Prioritised	Note
ACC	1			
Agriculture and Forestry	1			
Arts, Culture and Heritage	1			
Attorney General	1			
Audit	1			
Biosecurity	1			
Climate Change		1		Vote is streamlined but policy is prioritised
Commerce		1		Vote is streamlined but regulatory policy is prioritised
Communications		1		Vote is streamlined but regulatory policy is prioritised
Communications Security and Intelligence	1			
Community and Voluntary Sector	1			
Conservation	1			
Consumer Affairs	1			
Corrections		1		Vote is streamlined but capital only is priority
Courts		1		Vote is streamlined but capital only is priority
Crown Research Institutes	1			
Customs	1			
Defence		1		Vote is streamlined but capital only is priority
Defence Force		1		Vote is streamlined but capital only is priority
Economic Development			1	vote priority, especially regulatory policy
Education	1			
Education Review Office	1			
Emergency Management	1			
Employment	1			
Energy		1		Vote is streamlined but policy is prioritised
Environment		1		Vote is streamlined but sustainability parts and MFE capability are a priority
Finance	1			
Fisheries	1			
Food Safety	1			
Foreign Affairs and Trade		1		Only partly streamlined - unsure what priority is
Health	1			
Housing			1	
Immigration			1	vote only priority
Internal Affairs	1			
Justice	1			
Labour		1		Vote is streamlined but skills policy only priority
Lands	1			
Local Government	1			
Māori Affairs	1			
Ministerial Services	1			
National Archives	1			
National Library	1			
Office of the Clerk	1			
Official Development Assistance	1			
Ombudsmen	1			
Pacific Island Affairs	1			
Parliamentary Commissioner for the Environment	1			
Parliamentary Counsel	1			
Parliamentary Service	1			
Police		1		Vote is streamlined but capital only is priority
Prime Minister and Cabinet	1			
Racing	1			
Research, Science and Technology			1	
Revenue			1	business tax and international tax implementation, revenue base maintenance, capital management priorities
Security Intelligence	1			
Senior Citizens	1			
Serious Fraud	1			
Social Development			1	vote priority, especially benefit system
Sport and Recreation	1			
State Owned Enterprises	1			
State Services	1			
Statistics	1			
Tourism	1			
Transport			1	
Treaty Negotiations		1		Vote is streamlined except for CFRT
Veterans' Affairs - Defence Force	1			
Veterans' Affairs - Social Development	1			
Women's Affairs	1			
Youth Development	1			
TOTAL (69)	49	13	7	

Annex 2: Responses to questions for Ministers to ask departments

- How confident are you that you have identified all opportunities for savings – from programmes that do not work, that cost a lot to deliver for little apparent gain, or that are inconsistent with our priorities?
 - We have identified immediate savings in two areas (BIA and guarantee schemes) and the potential for some more marginal savings across a range of areas. As a policy agency, the real choice for Ministers is in what level of advice they buy from the Treasury.
- Have you identified areas for further investigation – such as programmes that *could* be inconsistent with our priorities or those where you cannot make a judgement because of poor information on performance?
 - See above.
- Have you demonstrated how much spending is on front line services versus back office functions? Have you demonstrated how funding could be shifted?
 - Treasury has identified and realised significant savings in overhead and back office functions over recent years, e.g. accommodation changes, reduced corporate roles, and retendering some DMO functions. While Treasury still has a relatively high level of support roles, these free up front-line policy staff to work on results. We are continuing to review these, including seeking independent external advice.
- Have you identified ways to save on overheads and corporate services (e.g. human resources, IT, communications)?
 - In addition to the savings already realised, there are a number of marginal changes we can investigate, ~~confidentiality of advice~~
- Have you identified credible actions you can take to make improvements over the next three years?
 - See above.
- Are there any fundamental changes we could make to the vote e.g. balance between State versus private/voluntary provision?
 - It is appropriate for the government's core economic and fiscal advice to be provided by a public sector provider, but our preference is to increase our use of consultancy advice to provide a wider range of expertise over time.
- Is an independently chaired value for money review needed for any part of the spending you administer?
 - There are no areas solely within the Treasury that require an in-depth review at this point. The wider question of how much policy advice the government requires and from which agencies, would be an appropriate area for in-depth review.
- Have you considered scope creep e.g. things that your department is doing that is not core business, or which duplicates the work of other departments?
 - Treasury has provided extra capacity to assist departments in a range of areas over recent years, e.g. Treaty negotiations, ETS development, Transport sector

changes. Treasury has (or is) exiting from these areas, but expects to continue to be used by Ministers in a go-to role.