

**27 February 2009**

**To:** Katrina Bach, Belinda Clark, Geoff Dangerfield, Peter Hughes, Stephen McKernan, Iain Rennie, Brian Roche, Murray Sherwin, Maarten Wevers.

**Copies to:** Hon Bill English, Minister of Finance; Grant Johnston, Office of the Prime Minister; Chris White, Department of Prime Minister and Cabinet.

**From:** Treasury

**Subject: Final Paper to Senior Executives Group on Savings and Emergency Pressures**

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## Introduction

This note provides the emergency pressures and savings submissions and the second cut of Treasury advice on those bids for your comment. Budget Ministers will receive a final version of Treasury advice on all submissions prior to a meeting in the week beginning Monday 9 March.

The table below updates the overall picture, as at Friday 27 February.

### *Submissions received in 2009*

	Operating (\$m)					Capital (\$m)	
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Emergency Pressure	51	520	550	618	621	2359	343
Savings	(196)	(353)	(484)	(601)	(641)	(2275)	(59)
<i>Sub-Total</i>	<i>(144)</i>	<i>167</i>	<i>66</i>	<i>16</i>	<i>(21)</i>	<i>85</i>	<i>284</i>
Policy Priority	(155)	1275	1566	1698	1727	6111	2268
Technical Change	4	10	10	12	14	50	1
<b>Total</b>	<b>(296)</b>	<b>1451</b>	<b>1643</b>	<b>1726</b>	<b>1720</b>	<b>6245</b>	<b>2553</b>

As you can see:

1. Emergency pressures exceed savings by \$85 million operating over the forecast period (including 2008/09) and there is a net saving of \$21 million in outyears. On the capital side, emergency pressures exceed savings by \$284 million.
- The *net* operating amount sought of \$6.245 billion over the forecast period (including 2008/09) exceeds the remaining operating allowance of around \$5.521 billion over the forecast period.
- The *net* capital amount sought totalling \$2.553 billion exceeds the remaining capital allowance which totals \$666 million. **Note** the \$666 million figure does not take account of decisions going to Cabinet in the next week. We understand that more than \$800 million is being sought in the next week.

It should be noted that this aggregation of the overall situation does not imply any departure from the requirement for savings to pay for all emergency pressures.

## Purpose of this paper

As previously discussed, the Minister has stated an intention to:

- deliver the government’s policy priorities for its first year within, or *substantially below*, the Budget 2009 allowances; and to
- retain a residual amount of savings (after funding emergency pressures).

We are seeking to use your comments on our current advice to improve the recommended Treasury package(s) which will go to Budget Ministers at the end of next week. Where your opinion is not reflected in the Treasury advice, *we will also include your comments*.

In particular, it would be useful to hear your thoughts on:

- How should we apply the emergency pressures criteria? What do you think “directly result in an unacceptable service failure to the public” covers? Many of the ‘capability’ emergency pressures bids, for example, do not appear to be directly linked to a service failure. If all capability bids were declined, the total pressures funding sought would reduce from \$2.359 billion to \$645 million operating over the forecast period;
- Where there is scope to suggest higher savings than have been put forward by a Vote Minister; and
- [deleted – negotiate without prejudice ].<sup>1</sup>

### Treasury assessment of emergency pressures and savings

As with the previous paper to this group, the bids are categorised as green/ amber/ red. In brief, green indicates support, red indicates Treasury does not support the bid, and amber indicates that an intermediate option will need to be found.

As you can see, there are a large number of emergency pressures still categorised as amber. In some cases these bids will be supported, but at lower levels. The amber bids also reflect the lack of a concrete savings target. Treasury’s advice to Budget Ministers will include packages at a range of levels, with advice on the implications of ‘drawing the line’ at those different levels.

#### Emergency pressures

Pressures	Departmental Submission					Total	Treasury Operating Total	Department Capital Total	Treasury Capital Total
	Operating 2008/09	2009/10	2010/11	2011/12	2012/13				
<b>Red</b>	25	136	156	198	212	727	55	297	16
<b>Amber</b>	7	302	296	299	288	1,191	599	40	3
<b>Green</b>	20	82	98	121	121	441	392	6	6
<b>Total</b>	<b>51</b>	<b>520</b>	<b>550</b>	<b>618</b>	<b>621</b>	<b>2,359</b>	<b>1,046</b>	<b>343</b>	<b>26</b>

#### Savings

<sup>1</sup> [deleted – negotiate without prejudice].

Savings	Departmental Submission Operating					Total	Treasury Operating Total	Department Capital Total	Treasury Capital Total
	2008/09	2009/10	2010/11	2011/12	2012/13				
<b>Red</b>	-	0	0	(0)	(0)	(1)	(1)	1	1
<b>Amber</b>	(1)	(26)	(12)	(15)	(25)	(80)	(440)	(9)	(47)
<b>Green</b>	(194)	(327)	(472)	(585)	(616)	(2,194)	(2,184)	(51)	(52)
<b>Total</b>	<b>(196)</b>	<b>(353)</b>	<b>(484)</b>	<b>(601)</b>	<b>(641)</b>	<b>(2,275)</b>	<b>(2,624)</b>	<b>(59)</b>	<b>(98)</b>

## Themes in the big picture

The table below shows that the bulk of the emergency pressures funding sought is for 'capability'.<sup>2</sup> This is also the category, of which Treasury is supporting the smallest proportion. Another significant proportion of the funding sought is for cost or revenue pressures. These bids are generally supported by Treasury.

Pressures	Departmental Submission Operating					Total	Treasury Operating Total	Department Capital Total	Treasury Capital Total
	2008/09	2009/10	2010/11	2011/12	2012/13				
<b>Baseline Holes</b>	-	9	9	8	8	35	12	0	0
[deleted – prejudice security]									
<b>IT</b>	-	11	7	4	4	25	17	17	4
<b>CUSMOD</b>	-	2	18	25	35	81	-	97	-
<b>Capability</b>	21	354	407	467	464	1,714	537	84	0
<b>Cost or revenue pressures</b>	30	142	109	111	108	500	474	0	0
<b>Infrastructure</b>	-	-	-	-	-	-	-	139	16
<b>Total</b>	<b>51</b>	<b>520</b>	<b>550</b>	<b>618</b>	<b>621</b>	<b>2,359</b>	<b>1,046</b>	<b>343</b>	<b>26</b>

The table below categorises the emergency pressures bids by government sector. The three sectors seeking the most funding are (starting with the most sought):

- 1 Law and Order;
- 2 Education and Science;
- 3 Government Administration and Finance. \$390 of the \$430 million is the NZ Railways Corporation operating support.

Pressures	Departmental Submission Operating					Total	Treasury Operating Total	Department Capital Total	Treasury Capital Total
	2008/09	2009/10	2010/11	2011/12	2012/13				
<b>Economic</b>	24	54	46	50	56	231	98	141	4
<b>Cultural</b>	-	3	3	3	3	12	-	-	-
<b>Government Administration and Finance</b>	8	108	105	106	103	430	413	13	0
<b>Education and Science</b>	-	127	117	123	118	485	95	118	16
<b>Law and Order</b>	(3)	155	188	223	228	791	55	70	5
<b>Health</b>	-	1	1	1	1	4	-	-	-
<b>Social</b>	21	71	90	112	111	406	385	-	-
<b>Total</b>	<b>51</b>	<b>520</b>	<b>550</b>	<b>618</b>	<b>621</b>	<b>2,359</b>	<b>1,046</b>	<b>343</b>	<b>26</b>

<sup>2</sup> This is a rough categorisation, acknowledging that some bids contain diverse elements.

The table below categorises the savings bids by government sector. The three sectors offering the most funding are (starting with the most offered):

- 1 Education and Science;
- 2 Government Administration and Finance;
- 3 Economic.

Savings	Departmental Submission Operating					Total	Treasury Operating Total	Department Capital Total	Treasury Capital Total
	2008/09	2009/10	2010/11	2011/12	2012/13				
<b>Economic</b>	(94)	(72)	(91)	(90)	(99)	(446)	(407)	(8)	(14)
<b>Cultural</b>	(5)	0	(4)	(3)	(1)	(12)	(369)	(20)	(52)
<b>Government Administration and Finance</b>	(33)	(94)	(108)	(122)	(135)	(493)	(513)	(1)	(7)
<b>Education and Science</b>	-	(91)	(158)	(236)	(245)	(730)	(739)	-	-
<b>Law and Order</b>	(0)	(16)	(21)	(27)	(38)	(102)	(110)	4	4
<b>Health</b>	-	(3)	(2)	(2)	(2)	(9)	(9)	(1)	(1)
<b>Social</b>	(64)	(77)	(100)	(121)	(121)	(482)	(477)	(34)	(29)
<b>Total</b>	<b>(196)</b>	<b>(353)</b>	<b>(484)</b>	<b>(601)</b>	<b>(641)</b>	<b>(2,275)</b>	<b>(2,624)</b>	<b>(59)</b>	<b>(98)</b>

#### Attached material

As previously, please find attached complete tables of both the emergency pressures and savings bids (in A3 pages). **Note** that the emergency pressures bids are categorised by type of bid, *then* by green/ amber/ red. The savings bids are categorised by government sector, *then* by green/ amber/ red.

Also attached is the final set of one-page Treasury assessments of each department's savings and emergency pressures bids.

The broad criteria used by Treasury to categorise bids as green/ amber/ red are set out below:

	<b>Savings</b>	<b>Pressures</b>
<b>Red</b>	<ul style="list-style-type: none"> <li>Proposed savings are likely to increase costs elsewhere and / or would result in an unacceptable service failure to the public.</li> </ul>	<ul style="list-style-type: none"> <li>Not funding will not result in unacceptable service failure to the public.</li> </ul>
<b>Amber</b>	<ul style="list-style-type: none"> <li>Insufficient information provided to determine whether proposed savings are likely to increase costs elsewhere and / or would result in an unacceptable service failure to the public</li> <li>Treasury considers that further savings can be made from within the Vote.</li> </ul>	<ul style="list-style-type: none"> <li>Insufficient information provided to determine whether the emergency pressure is likely to increase costs elsewhere and / or would result in an unacceptable service failure to the public</li> <li>Treasury considers that the area represents some risk of an unacceptable service failure but the appropriate response is not clear.</li> </ul>

<b>Green</b>	<ul style="list-style-type: none"> <li>Proposed savings will not increase costs elsewhere and / or will not result in an unacceptable service failure to the public.</li> </ul>	<ul style="list-style-type: none"> <li>Additional funding is necessary to avoid an unacceptable service failure to the public.</li> </ul>