

## Treasury Report: Bilateral Briefing for Vote Finance

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<b>Date:</b>	6 March 2009	<b>Report No:</b>	
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### Action Sought

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	<b>Action Sought</b>	<b>Deadline</b>
Associate Minister of Finance (Hon Simon Power)	<b>Read</b> the attached briefing and use it as the basis for taking decisions in your bilateral with Hon Bill English at 12.00 p.m. on 12 March 2009	Read this prior to 9.00am Monday 9 March briefing

### Contact for Telephone Discussion (if required)

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>			
Mark Jacobs	Manager	<i>[deleted – privacy]</i>	

### Minister of Finance's Office Actions (if required)

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None.
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**Enclosure: Yes**

## **Treasury Report: Bilateral Briefing for Vote Finance**

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Attached is a briefing for the bilateral between Hon Simon Power (to whom the Minister of Finance has agreed to delegate the responsibilities of the Minister of Finance when he is addressing matters in relation to Vote Finance) and Hon Bill English (as Minister Responsible for Vote Finance), at 12.00 p.m. on 12 March 2009 to discuss the Budget initiatives for Vote Finance.

The bilateral briefing is structured as follows:

Overview of the Vote	p. 3
Savings component & recommendations	p. 3
Emergency pressures & recommendations	p. 6
Value for Money & Strategic Direction	p. 7
Policy priority initiatives & recommendations	p. 8

We expect the key issue for discussion will be the level of additional funding, if any, for Treasury to deliver on Ministerial priorities. The Vote Team's view is that \$3 million p.a. would be appropriate, though this is further scalable if necessary.

### **Recommended Action**

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We recommend that you **read** the attached briefing and use it as the basis for taking decisions in your bilateral with Hon Bill English at 12.00 p.m. on 12 March 2009.

Mark Jacobs  
**for Secretary to the Treasury**

Hon Simon Power  
**Associate Minister of Finance**

## Overview of the Vote

### VOTE FINANCE

1. As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review and submit savings, emergency pressure and policy priority initiatives, the Minister of Finance, as Minister responsible for Vote Finance, submitted the following:

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Savings	(6.495)	(0.700)	(0.200)	-	-
Emergency pressures	-	90.000	90.000	90.000	90.000
Policy priorities	-	5.984	6.549	7.747	7.769
<b>Total funding requested</b>	(6.495)	95.284	96.349	97.747	97.769
<i>Capital (GST excl)</i>					
Savings	(0.600)	-	-	-	-
Emergency pressures	-	0.120	-	-	-
Policy priorities	-	-	-	-	-
<b>Total funding requested</b>	(0.600)	0.120	-	-	-

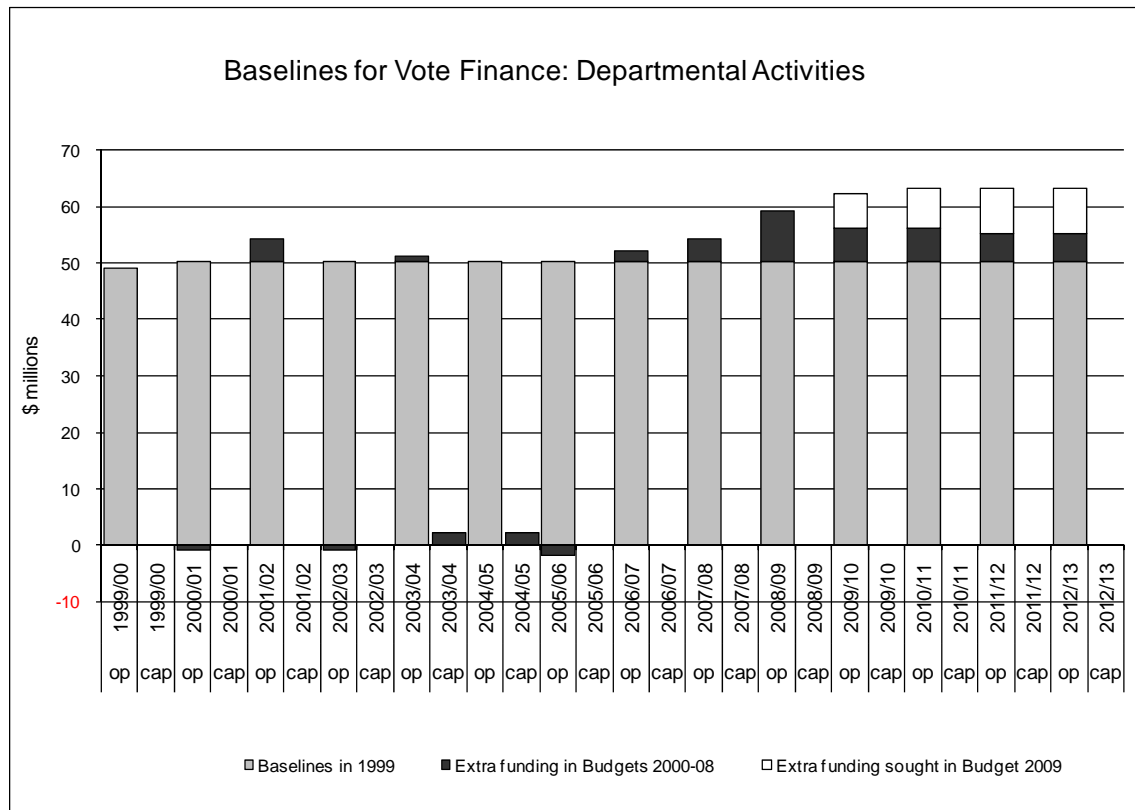
2. The Vote team's view is that the level of departmental savings submitted for the Vote (\$7 million in 2008/09, \$0.7 million in 2009/10 and \$0.2 million in 2010/11) is reasonable. We accept that the core departmental baseline has steadily eroded in real terms over the last decade, that Treasury has already reprioritised resources where possible to meet the priorities of the new government, and that there are no additional, credible immediate savings opportunities.
3. There may be longer-term opportunities for savings in departmental baselines. Treasury has indicated that it will continue to reprioritise resources, test performance measures and seek efficiencies to maintain flexibility and manage cost pressures over the medium term.
4. Non-departmental expenditure, though significant at around \$8 billion in 2008/09, is not discussed in any great detail in the review, and no savings are identified. The Vote Team is comfortable with this, given non-departmental baselines mainly comprise payments made under permanent legislative authority and Crown commitments and legal obligations. The main 'discretionary' item is the Crown contribution to the NZ

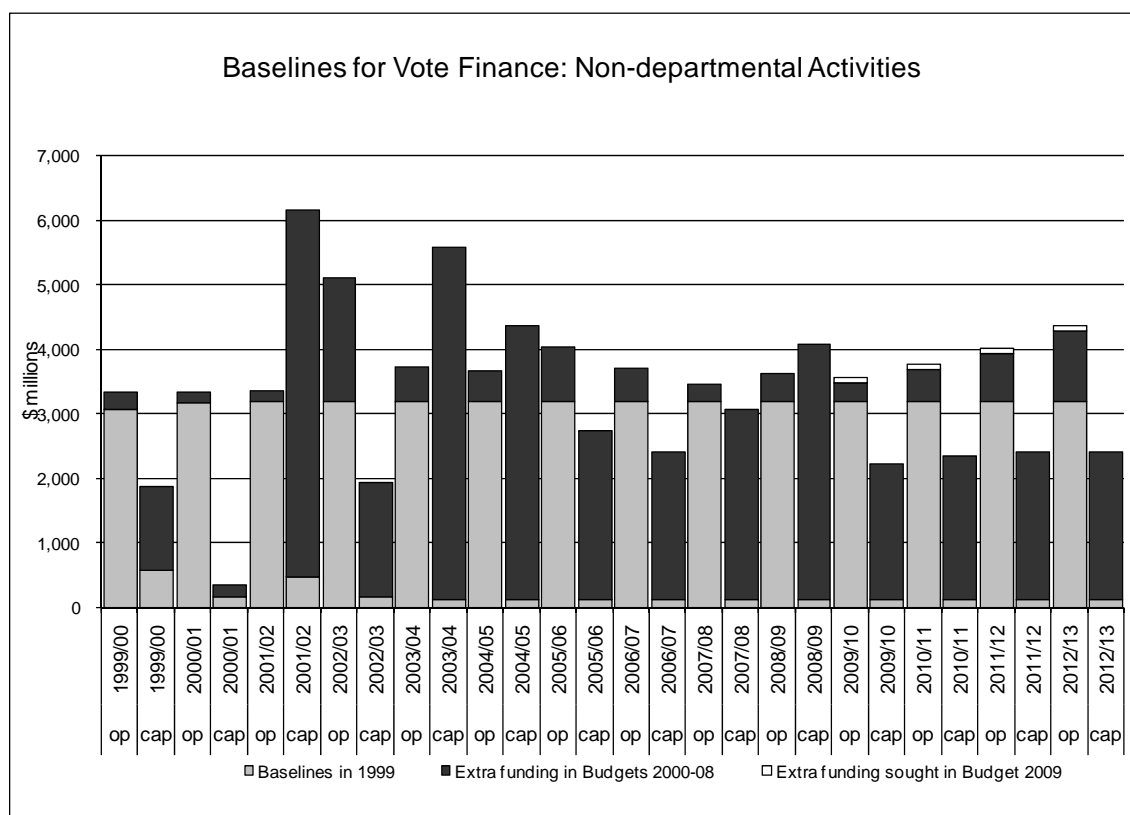
Super Fund, and yielding any savings from this would require both policy and legislative changes by government.

## Analysis of Vote

5. Vote Finance baseline trends are illustrated in the graphs below. Departmental baselines have grown very slowly, mostly driven by increases in the number of Treasury personnel and an increase in funding for financial asset management. Non-departmental expenditure is dominated by several, large non-discretionary items under permanent legislative authority, including debt servicing (\$2 billion) and payments to GSF (\$1 billion). These costs have changed very little over the last decade; most year-to-year variation in expenditure has been due to one-off or newly-introduced capital contributions, including:

- A capital contribution of \$3.5 billion in 2001/02 to enable the newly-formed Housing New Zealand Corporation to commence operations
- Capital payments to the NZ Superannuation Fund, introduced in 2003/04, with an initial contribution of \$3.8 billion, falling to approximately \$2 billion p.a. in subsequent years
- One-off capital injections to the Reserve Bank of \$1 billion in 2004/05 and \$600 million in 2008/09
- The purchase of Toll NZ Ltd's rail business for \$690 million in 2008/09.





## **Recommendations**

The Vote Team recommends that you:

- (i) Support the savings submitted for Vote Finance

***Agree/Disagree***

## **Emergency Pressure**

6. The Minister has submitted an emergency pressure bid of \$90 million p.a., as outlined in the table above, to provide for the continuation of an operating subsidy to New Zealand Railways Corporation to cover its operating shortfall in maintaining the track system and retaining the existing level of services. The previous government provided NZRC with a \$90 million subsidy for 2008/09 only. The new funding is time-limited for the four-year period 2009/10 through 2012/13.
7. The Vote Team accepts that NZRC will require a continued \$90 million p.a. subsidy to maintain its existing network and level of services from 2009/10. Even at this level NZRC is likely to register a loss in 2009/10. Scaling the bid is possible, but would have the following consequences:
  - NZRC annual losses (and debt levels) would rise more or less commensurately with scaling
  - NZRC would cancel planned track renewal work, with increased risk of deteriorating service performance (and thus customer loss) and track failures. There is already a significant backlog in renewals, as a result of deferrals over the past 20 years.
8. On balance, the Vote Team supports continuing the \$90 million operating subsidy for NZRC for one year only (2009/10). Committing to this level of subsidy for each of the next four years in this Budget is not a realistic option, given the current fiscal environment and competing pressures for new funding.
9. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

## **Recommendations**

The Vote Team recommends that you:

- (ii) Support the emergency pressure submitted for Vote Finance for the 2009/10 year only

***Agree/Disagree***

- (iii) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

***Agree/Disagree***

## **Value for Money and Strategic Direction**

10. The Vote Team notes that Treasury already has a strong value-for-money culture: the department continually reprioritises resources and seeks efficiencies to maintain flexibility and manage cost pressures across all its functions and operations; it has performance measures in place to measure cost-effectiveness and highlight trends in performance across process areas (e.g. managing Crown debt, export credit, preparing Crown financial statements, monitoring economic growth); and for policy advice – an area inherently difficult to gauge in qualitative terms – it has developed and implemented a framework for measuring impact.
11. Further, Treasury is a learning, continually self-improving organisation. In response to Audit comment it intends explaining more clearly the linkages between outputs, impacts and outcomes; how these contribute to government outcomes; and relevance of performance measures.
12. Given this work already in place, it is the Vote Team's view that next steps in Value for Money for Vote Finance should be to 'lock in' deliverables to inform Budget 2010 initiatives, as well as Treasury's strategic planning for 2010/11, as described below.

### **Recommendations**

The Vote Team recommends that you:

- (iv) Direct Treasury to develop and consider a number of efficiency and effectiveness reviews across departmental activities as part of its detailed planning for the 2009/10 year, with the goal of managing emerging cost pressures and lifting performance

***Agree/Disagree***

- (v) Invite the Minister Responsible for Vote Finance to discuss with you in late 2009, in the context of strategic planning for 2010/11 and beyond, his policy priorities for the Treasury, to inform Budget 2010 initiatives and the 2010/11 Statement of Intent

***Agree/Disagree***

13. The main issue that will affect Vote Finance in Budgets 2010/11 and 2011/12 will be Treasury's ability to deliver on the government's priorities, in the face of uncertain demand, and its core functions and operations within baseline – particularly if it receives little or no new departmental funding this budget. While the department will strive to seek additional efficiencies, where necessary, to enable it to deliver on its Minister's priorities, ultimately there is only so far that 'core' business can be pared back before service delivery risk manifests. In the Vote Team's view it would be prudent for Treasury to instigate regular feedback loops with its Minister to ensure that an appropriate balance is being struck between competing demands.

### **Recommendations**

The Vote Team recommends that you:

- (vi) Direct Treasury to report regularly to the Minister of Finance on how it is progressing with balancing the various competing demands for its services, with a view to ensuring that service delivery risks are kept to an acceptable minimum

***Agree/Disagree***

## Vote Finance – Analysis of Policy Priorities

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14. The Minister of Finance has submitted the following policy priority initiative:

**a Treasury Advice on Government Priorities**

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 &amp; Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	5.984	6.549	7.747	7.769
Treasury	-	3.119	3.005	3.194	3.291
<i>Capital (GST excl)</i>					
Department	-	0.120	-	-	-
Treasury	-	0.064	-	-	-

15. Treasury is seeking additional operating funding to provide for an increased level of advice and support; deliver on immediate Ministerial priorities (infrastructure, regulation quality, value for money, current economic downturn); and deliver on medium to long-term issues (e.g. future economic agenda, improved public sector). The amount is around \$6 million in 2009/10 rising to nearly \$8 million in 2011/12 and outyears. This represents a significant increase, equivalent to around 11% of the 2009/10 departmental baseline.
16. The funding sought is net of approximately \$4 million p.a. that has already been reprioritised from transport and state sector performance results to resource infrastructure and value for money. Treasury is able to reprioritise further to deliver on immediate government priorities, but the consequence would be a decreased ability to provide advice on future-focused economic issues, emerging and medium priorities, and reduced first-opinion (e.g. tax) and second-opinion (e.g. support for Cabinet committees) advice.
17. The Vote Team acknowledges that the government's stated priorities around infrastructure, regulation, etc. will require significant additional direct and indirect input from Treasury, over and above reprioritisation of departmental activities that has already occurred. On balance, we consider that a scaled-back increase of around \$3 million p.a. would be appropriate for this purpose in the current fiscal environment. Further, it would signal leadership to other departments and encourage Treasury to crystallise potential savings opportunities identified in the line by line review.



18. Your currently-intended budget allocations for funding government priority initiatives are heavily subscribed, and many of the bids are higher-ranking than additional funding for Treasury purely in terms of what is affordable. We have included options for further scaling the Treasury bid all the way to nil new funding, though the risk of Treasury not being able to deliver advice and support on all Ministerial priorities whilst still delivering on core activities (e.g. preparing the budget, fiscal and economic forecasts) would increase commensurately with the degree of any further scaling.

### **Recommendations**

**Please circle the preferred option (Hon Simon Power, Associate Minister of Finance):**

<b>Treasury preferred option</b>	<b>Vote Team preferred option</b>	<b>Further scaled option</b>	<b>No funding</b>
\$28.049 million operating over the period, plus \$0.120 million capital	\$12.609 million operating over the period, plus \$0.064 million capital	<i>AMoF to indicate quantum</i>	