

Treasury Report: Budget 2009 - Budget Ministers' Paper 2 - Confirming the 2009 Budget Package

Date:	27 March 2009	Report No:	
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Action Sought

	Action Sought	Deadline
Prime Minister (Hon John Key)	Read this report before Budget Ministers Meeting 2	8pm Monday 30 March
Minister of Finance (Hon Bill English)	Read this report before Budget Ministers Meeting 2	8pm Monday 30 March
Associate Minister of Finance (Hon Simon Power)	Read this report before Budget Ministers Meeting 2	8pm Monday 30 March
Associate Minister of Finance (Hon Steven Joyce)	Read this report before Budget Ministers Meeting 2	8pm Monday 30 March

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
[deleted – privacy]	Senior Analyst - Fiscal Management	[deleted – privacy]	[deleted – privacy]	✓
Chris Bunny	Manager - Fiscal Management	[deleted – privacy]	[deleted – privacy]	

Minister of Finance's Office Actions (if required)

Forward copies of this report to the Office of the Prime Minister

Enclosure: No

Treasury Report: Budget 2009 - Budget Ministers' Paper 2 - Confirming the 2009 Budget Package

Executive Summary

This is the first of two papers Ministers need to consider in finalising the Budget. It deals with this year's Budget and final spending and saving decisions. The second paper, which you will receive on Monday, looks at the longer term fiscal strategy.

On 9 March 2009, Budget Ministers asked the Minister of Finance to put together a budget package within an operating allowance of \$1.45 billion per annum and a capital allowance of \$1.45 billion across the forecast period.

Since that meeting, the Minister of Finance has had budget bilateral discussions with Ministers to make progress in developing a package consistent with the expectations of Budget Ministers.

At this time the progress made enables each of the submissions to be assigned into one of the following categories:

- Decisions taken (either in Cabinet or during the bilaterals);
- Areas where funding is still sought (support parties); and
- Decisions yet to be taken.

To enable the budget package to be in a state suitable for Cabinet consideration decisions are required on the initiatives for which a decision is yet to be taken.

We are aware of a number of other proposals currently outside the budget process which may require funding such as Jobs Summit proposals and initiatives related to tourism. In addition, whilst we have provided for a between budget contingency of \$50 million this may provide insufficient flexibility for the Government to respond, as appropriate, should the financial crisis continue to worsen. For these reasons we recommend that, at this time, **Budget Ministers seek to agree a budget package from an operating allowance of \$1.25 billion – ie. \$1.45 billion including a contingency of \$200 million rather than \$50 million currently**

Recommended Action

We recommend that Budget Ministers

- a **agree** to the recommendations contained in the body of his report in the second Budget Ministers Meeting on 30 March 2009

(Decision points are set out across pages 10 to 24 in bold text)

- b **invite** the Minister of Finance to submit a Cabinet paper to the Strategy Committee meeting of 6 April that reflects the decisions taken in this meeting

Agree/disagree.

Chris Bunny
Manager Fiscal Management
for Secretary to the Treasury

Hon Bill English
Minister of Finance

Treasury Report: Budget 2009 - Budget Ministers' Paper 2 - Confirming the 2009 Budget Package

Purpose of Report

1. On 9 March 2009, Budget Ministers asked the Minister of Finance to put together a budget package within an operating allowance of \$1.45 billion per annum and a capital allowance of \$1.45 billion across the forecast period.
2. Since that meeting, the Minister of Finance has had budget bilateral discussions with Ministers to put together a budget package that fits within these constraints.
3. This report advises Budget Ministers of the decisions taken in these meetings and:
 - Seeks confirmation of decisions taken during the bilateral discussions (Section 2)
 - Seeks decisions on some items that were not resolved during the bilateral discussions (Sections 3 and 4)
 - Informs Ministers of discussions yet to be had with the Maori Party and the United Future Party
 - Seeks assent to the drafting of a Cabinet Paper for Cabinet Strategy Committee on 6 April 2009 to seek Cabinet approval of the decisions that will be made in this Budget Ministers' meeting

Overview

4. This is the first of two papers Ministers need to consider in finalising the Budget. It deals with this year's Budget and final spending and saving decisions. The second paper, which you will receive on Monday, looks at the longer term fiscal strategy.
5. This budget is prepared against a very difficult backdrop. Friday's GDP figures confirmed that the economy was in recession throughout the 2008 calendar year and New Zealand is probably about to enter its 6th consecutive quarter of negative growth. Most of our major trading partners are in worse shape, with sharper contractions in growth.
6. The fiscal position has consequently deteriorated significantly and we are now facing a forecast track of significant budget deficits (peaking at \$12 billion) and mounting debt. Preliminary projections are for gross debt to reach 82% by 2022/23.
7. Two factors have complicated the Government's response to this situation and formulation of this Budget. One has been the rapid deterioration in the world economy following the financial crisis and the continuing and sharp downward revisions in the forecasts for our trading partners. This has affected both the impacts on the New Zealand economy and economic and fiscal forecasts. The second has been the Government's spending path. In the five years from 2005 to 2010 levels of Core Crown expenses grew by almost 50% from \$45 billion in 2005 to a forecast \$66 billion in 2010. In addition some policy commitments were unfunded and spending in 2008/09 was oversubscribed, so initial policy responses to the recession taken by the government this year have had to count against the 2009 Budget.
8. Through the Budget process the government has had to face these challenges and look beyond the current situation to create the high growth economy that is its primary objective. This required a rapid response and significant reprioritisation. The

Government has been unable to pursue its initial policy programme and has continually revised spending plans and looked for efficiencies and savings.

9. The Budget strategy can be expressed in three parts:
 - Helping New Zealanders through the current crisis.
 - Longer-term initiatives designed to lift productivity and competitiveness and New Zealand's future performance.
 - Fiscal consolidation and measures to ensure that the growth in Government debt is minimised.
10. The best policies deal with two or more of these objectives. For example the SME regulatory and tax reforms measures reduced short-term compliance costs on businesses and will help lift longer term productivity. Improving the efficiency of public sector agencies can lift productivity in the sector and provide fiscal savings. The main tensions through the Budget are between the first and third areas – spending and saving.
11. The emphasis to date has been on softening the immediate impact of the global downturn. The current fiscal impulse is large and will help sustain the economy for a period. As this phase passes the growth strategy and subsequent fiscal consolidation will become the Government's main focus. For Budget 2010 the issues will be fiscal rather than economic; forecasts show a resumption in economic growth but a significant and prolonged impact on the government's accounts. Final decisions on this year's Budget should be considered in that environment.
12. While the Government has entered this phase with its balance sheet in good shape the size and structural nature of the deterioration in the Crown accounts means the sooner corrective action is applied the better.
13. As New Zealand's high credit rating has reflected sound public finances offsetting the very large external imbalance, credit rating agencies are looking to the Budget to signal the Government's determination to address the projected rise in debt. In addition it is important over time to reduce the current fiscal stimulus to reduce any pressure on the export sector, and to rebuild the government balance sheet to provide flexibility to face future shocks.
14. Against this backdrop the Government has set new spending parameters of \$1.45 billion operating per annum and \$1.45 capital in total. While this is a reduction on the Government's initial plans, it still represents extra spending of \$7.25 billion over the forecast period.
15. In addition, the line-by-line reviews conducted by departments as the start of the process of improving public sector performance has freed-up \$550 million in the final outyear which is being spent on government priorities. The line-by-line reviews focussed on the margins of departmental expenditure and these savings represent just over 1% of core government spending.
16. The following section deals with spending and savings decisions made to date, and identifies those areas where Ministers still need to make final decisions.

Section 1: Summary of the Bilateral process

17. During the bilateral discussions in March, the Minister of Finance has put together a budget package that fits within the following constraints as set out by Budget Ministers in their first meeting on 9 March 2009:

Table 1: Available to Spend

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
BPS Allowance	-	1,750	1,750	1,750	1,750	3,000	1,450
Less savings target	-	(300)	(300)	(300)	(300)	(300)	-
Less contingency	-	(50)	(50)	(50)	(50)	(50)	(50)
Available to spend	-	1,400	1,400	1,400	1,400	1,400	1,400

18. The budget package is made up of:

- Decisions taken (either in Cabinet or during the bilaterals);
- Decisions that are outstanding and for which final decisions are sought here; and
- Areas where funding is still sought (support parties)

19. To enable the budget package to be in a state suitable for Cabinet consideration decisions are required on the initiatives for which a decision is yet to be taken.

20. We are aware of a number of other proposals currently outside the budget process which may require funding such as Jobs Summit proposals and initiatives related to tourism. In addition, whilst we have provided for a between budget contingency of \$50 million this may provide insufficient flexibility for the Government to respond, as appropriate, should the financial crisis continue to worsen. For these reasons we recommend that, at this time, Budget Ministers seek to agree a budget package from an operating allowance of \$1.25 billion – ie. \$1.45 billion including a contingency of \$200 million rather than \$50 million currently

Table 2: Decisions Taken

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Cabinet Decisions	346	220	(209)	112	112	580	784
Savings	(172)	(266)	(487)	(570)	(554)	(2,048)	(56)
Pressures	5	234	132	126	121	617	93
Priorities	(86)	1,057	1,315	1,385	1,389	5,060	486
Technical	0	11	1	0	0	12	3
Contingencies	-	21	42	42	42	148	25
Total Bilateral Decisions	(253)	1,057	1,003	984	999	3,789	550
Total	93	1,276	793	1,096	1,111	4,370	1,334

21. Within the decisions in the table above there are some areas where the Minister of Finance would like to test his decisions with Budget Ministers. These are set out in section 3 of this report.

22. There are also some matters that have yet to be finalised – the total of these is set out in the table below:

Table 3: Decisions outstanding

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Minister requests	21	155	215	273	267	931	25
Treasury recommends	21	74	99	101	92	387	-

23. Budget Ministers are asked to take decisions on these matters in section 4 of this report.

24. The remaining amount to spend based on Ministerial requests or Treasury is set out in the table below. Red indicates that the spending exceeds the allowance. This is important in the final year of the forecast period, and in the total across the forecast period.

Table 4: Remaining allowance after decisions outstanding

Based on:	\$ million within allowance / (over allowance)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Minister requests	(114)	(31)	391	31	22	299	42
Treasury recommends	(114)	49	507	203	197	843	66

25. In addition, there are some areas where Ministers are still seeking funding and for which no discussions have yet been taken – these relate to support party relationships. Ministers are not asked to take any decisions on these areas but information is provided on the split between parties in section 5 of this report.

Table 5: Funding still sought

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Minister requests	22	13	(28)	(28)	(1)	(22)	54
Treasury recommends	10	(19)	(57)	(58)	(30)	(155)	(47)

26. The remaining amount to spend based on Ministerial requests or Treasury is set out in the table below. This incorporates both outstanding decisions in table 3 and funding still sought in table 5

Table 6: Remaining allowance after decisions outstanding and funding still sought

Based on:	\$ million within allowance / (over allowance)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Minister requests	(136)	(44)	419	58	24	321	(12)
Treasury recommends	(124)	68	564	261	228	998	113

27. NB: All remaining allowance figures in this report assume an allowance of \$1.45 billion and a contingency of \$50 million

Section 2: Decisions taken

28. This section of the report sets out the decisions taken so far and the main features of the 2009 Budget Package.

Table 2: Decisions Taken

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Cabinet Decisions	346	220	(209)	112	112	580	784
Savings	(172)	(266)	(487)	(570)	(554)	(2,048)	(56)
Pressures	5	234	132	126	121	617	93
Priorities	(86)	1,057	1,315	1,385	1,389	5,060	486
Technical	0	11	1	0	0	12	3
Contingencies	-	21	42	42	42	148	25
Total Bilateral Decisions	(253)	1,057	1,003	984	999	3,789	550
Total	93	1,276	793	1,096	1,111	4,370	1,334

Weathering the Storm: Initiatives to date

29. In the 2009 Budget the Government has committed extra spending to ensure New Zealand is cushioned from the sharpest edges of the recession.
30. This includes maintaining benefits and a range of social spending initiatives so as not to cause further short-term contraction. The Budget Package also includes policies to improve services and implement the government's priorities in a number of areas. Some of the main elements of the package are:
- Health: \$750 million per annum;
 - Education: \$[withheld – confidentiality of advice]) and \$346 million in capital across the forecast period, including:
 - \$192 million operating for teachers and principals collective agreement
 - \$325 million in capital (across the forecast period) and \$48.5 million in operating for school building programmes
 - \$23 million in increased operational funding for schools
 - \$18 million in support for literacy and numeracy standards
 - \$85.7 million in operating (outyear cost) for the Defence funding package
 - Corrections: \$123.8 in operating (outyear cost) and \$234.2 million in capital across the forecast period, primarily for prison capacity and Department of Corrections emergency pressures.
 - Police: \$57.4 million operating (outyear cost) and \$25 million capital (across forecast period), including \$49.7million in operating and \$20 million in capital for extra police.
 - Social Development: \$61.6 million in operating, including the Job Support programme, the Fresh Start for Young offenders Programme and Setting NZ Super and Veterans' Pensions rates at a minimum of 66% of the net average wage.

- Rail: \$290 million across the forecast period (including \$40 million capital) to support the ongoing operations of the New Zealand Railways Corporation
31. As the between budget contingency was exhausted before November 2008, the initiatives passed by Cabinet earlier this year to protect New Zealand from the recession have counted against the 2009 budget:
- SME assistance package (\$485 million across the forecast period)
 - Bringing forward of major infrastructure spending (\$265 million across the forecast period plus extra school property spending that was considered in the context of this budget)
32. As can be seen above – the majority of new spending in Budget 2009 goes to the Health sector. Given future fiscal pressures and uncertainty the Ministers of Health and Finance have agreed not to set an indicative allocation for Health for Budget 2010. Treasury supports this approach in light of current uncertainties (around future forecasts, future fiscal strategy and the size of future Operating Allowances) and given the scope for reprioritisation/savings within Vote Health baselines to manage future pressures.

The Growth Strategy

33. The Government's growth strategy encompasses a wide range of measures, with the common theme of raising future living standards of New Zealanders and having the economy emerge stronger than it entered this recession. This is best achieved by lifting productivity and competitiveness throughout the economy. The initiatives fall into two broad areas, those that improve the business environment, and those related to infrastructure.
34. Low cost – reviews rather than spending:
- Resource Management Act – \$2 million operating for reform of the RMA and the establishment of an Environmental Protection Agency
 - Overseas Investment Act
 - Electricity Industry Review
 - Telecommunications Act
 - Building Act
 - ACC reform
35. Infrastructure
- Establishment of National Infrastructure Unit.
 - Broadband – \$234 million in capital across the forecast period and \$56 million in operating in 2009/10.
 - Royal Commission on Auckland – \$1.3 million in operating in 2008/09 and \$2.5 million in capital in 2008/09 for implementing the recommendations of the royal Commission.
 - Electrification of the Wellington Rail network - \$258 million in capital expenditure across the forecast period.

Fiscal Consolidation

36. The Government regards the prospective fiscal outlook as unacceptable. It has already taken some preliminary actions to:
- Establish true nature of fiscal risks;
 - Identify and remove unfunded commitments of the previous Government;
 - Place a cap on numbers employed in Government administration; and

- Conduct line by line reviews of Government expenditure.
37. As can be seen in Table 2 and Table 7, so far in Budget 2009 these actions have resulted in savings in excess of \$550 million in the final year. When decisions to reverse the unfunded commitments of the previous government are included, final outyear savings come to almost \$750 million.
 38. A key policy and focus of the National-led government is to improve state sector performance and public services within constrained baselines – the idea of “smarter, better public services for less”. We need to get more from existing resources and to apply tight fiscal disciplines for at least the next 5 years.
 39. Savings identified to date are only at the margins - \$750 million represents just 1.2% of the forecast core crown expenditure for 2009 of \$62.5 billion. The focus for Budgets 2010 and onwards will be on driving greater value out of that base of spending and considering all aspects of the Crown balance sheet, rather than looking at new spending alone.
 40. The full list of initiatives approved so far (including savings) is attached as Appendix 1.

41. Ministers are asked to:

Confirm the 2009 Budget Package as attached at Appendix 1.

Agree / Disagree

Section 3: Decisions to be confirmed

42. Within this budget package there are a number of decisions which were taken in bilaterals that the Minister of Finance wishes to test with Budget Ministers. These matters have been grouped in three categories:

- i. Two initiatives which were declined in bilaterals;
- ii. Four Education savings items and two other savings items which were accepted in bilaterals; and
- iii. Two initiatives which were agreed in bilaterals.

43. These matters are set out in the tables below. Any decisions by Budget Ministers which revise these funding levels will affect the amount available to spend on other priorities.

Decisions taken in bilaterals

<i>Amount agreed in bilateral</i>	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
<i>Initiatives declined in bilaterals</i>							
Performance Based Research Fund (Vote Education)	-	-	-	-	-	-	-
Interagency Resource Needs for Trade Agreements (Multi-Vote)	-	-	-	-	-	-	-
<i>Savings accepted in bilaterals</i>							
Tripartite Funding (Vote Education)	-	-	(11.069)	(22.137)	(22.137)	(55.343)	-
School Transport (Vote Education)	-	(5.900)	(11.800)	(11.800)	(11.800)	(41.300)	-
New Entrant Teacher: Student Ratios (Vote Education)	-	-	-	(45.000)	(50.000)	(95.000)	-
Adult and Community Education (Vote Education)	-	(1.694)	(9.149)	(21.802)	(21.802)	(54.447)	-
Pay and Employment Equity and related savings (Vote Labour)	-	(3.540)	(4.753)	(4.753)	(4.753)	(17.799)	-
Wine Levy (Vote Food Safety)	-	(1.985)	(1.985)	(1.985)	(1.985)	(7.940)	-
<i>Initiatives agreed in bilaterals</i>							
A Fresh Start for Young Offenders (Multi-Vote)	-	10.264	14.745	14.745	14.745	54.499	2.15
Treasury Advice on Government Priorities (Vote Finance)	-	4362	4748	5301	5566	19.977	0.08

44. These items are discussed individually below.

Performance Based Research Fund (PBRF) (Vote Education)

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Minister	-	15.000	15.000	15.000	15.000	60.000	-
Treasury	-	-	-	-	-	-	-
Agreed in Bilateral	-	-	-	-	-	-	-

45. With the Minister of RS&T, you agreed to increase the Marsden Fund by \$9 million per annum and the Health Research Fund by \$8 million per annum (approx 23% and 12% increases respectively). The Cabinet paper *Reversing Unfunded Budget 2008 Commitments for Economic Transformation: Innovation* removed the CPI adjustment for the Performance Based Research Fund (PBRF). If increased PBRF funding is to be agreed with the Minister of Education, there is the option to divide the extra funding for the Marsden Fund and Health Research Council into thirds, with one-third directed towards the PBRF. Should you wish to maintain the current agreed RS&T package, you may wish to consider an amount in light of the profile of the unwound funding:

	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Unwinding ET Precommitment - PBRF	-	(0.700)	(4.100)	(6.900)	(6.900)	(18.600)	-

46. Treasury recommends you confirm this bid as **declined**.

Yes / No

Interagency Resource Needs for Trade Agreements (Multi-Vote)

	\$ million increase / (decrease)						
	Operating						Capital
	08/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Minister							
- Food Safety	-	1.156	1.037	1.097	1.140	4.429	-
- Immigration	-	1.000	1.000	1.000	1.000	4.000	-
- Biosecurity	-	0.900	0.891	0.897	0.746	3.434	-
- Agriculture and Forestry	-	0.600	0.572	0.592	0.600	2.364	-
- Labour	-	0.370	0.450	0.475	0.495	1.790	-
- Commerce	-	-	0.372	0.333	0.347	1.052	-
Total funding requested	-	4.025	4.322	4.394	4.328	17.068	-
Treasury	-	-	-	-	-	-	-

47. Although this funding is for new activity in implementing recently signed FTAs, it is part of the core business of the departments requesting funding. Treasury advises that this could be funded from the baselines of all agencies involved (assuming in particular that cross-Vote prioritisation at MED occurs to fund the pressure in Vote Commerce). The amount sought represents less than 1% of departmental output expenses for all agencies except FSA, where it represents around 3.5% of departmental output expenses.¹

48. Treasury recommends you confirm these bids as **declined**.

Yes / No

¹ There is an existing funding pool for one-off expenses incurred by agencies relating to FTAs (the GIF) but ongoing expenses such as those sought above (which relate to permanent resource increases such as additional analysts) should be considered in the context of overall agency baselines.

Tripartite Funding (Vote Education)

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Agreed in Bilateral	-	-	(11.069)	(22.137)	(22.137)	(55.343)	-

49. [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

50. [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].

51. [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]:

	08/09	2009/10	2010/11	2011/12	2012/13	Total	Total
CPI Adjustment agreed in Cabinet paper (not yet confirmed)	-	(7.700)	(43.100)	(70.300)	(70.300)	(191.400)	-

52. Treasury recommends you confirm this saving as **accepted.**

Yes / No

School Transport (Vote Education)

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Agreed in Bilateral	-	(5.900)	(11.800)	(11.800)	(11.800)	(41.300)	-

53. [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

54. Treasury recommends you confirm this saving as **accepted.**

Yes / No

New Entrant Teacher: Student Ratios (Vote Education)

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Agreed in Bilateral	-	-	-	(45.000)	(50.000)	(95.000)	-

55. [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

56. [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

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

58. [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

59. Treasury recommends you confirm this saving as accepted.

Yes / No

Adult and Community Education (Vote Education)

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Agreed in Bilateral	-	(1.694)	(9.149)	(21.802)	(21.802)	(54.447)	-

60. The Ministry of Education believes that a significant proportion of the adult and community education provided by tertiary and community providers is directed to hobby courses and/or used by individuals who could pay the full costs without Government assistance. Treasury therefore supports the savings offered in Budget 2009 to reduce funding for such provision, and to focus the remaining funding on courses of higher value.

61. Treasury recommends you confirm this saving as accepted.

Yes / No

Pay and Employment Equity and Related Savings (Vote Labour)

<i>Pay and Employment Equity (P&EE)</i>	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
P&EE Policy Unit	-	(0.915)	(0.915)	(0.915)	(0.915)	(3.660)	-
P&EE Contestable Fund	-	(0.889)	(0.889)	(0.889)	(0.889)	(3.556)	-
Agreed in bilateral (total)	-	(1.804)	(1.804)	(1.804)	(1.804)	(7.216)	-

62. Hon Wong has proposed that instead of cancelling the Policy Unit (as agreed in the bilateral), it instead be transferred to the Ministry of Women's Affairs. Treasury believes that if the initiative is retained, then the lowest cost and best fit option is retention within the Department of Labour. We believe that this saving should be realised as we consider this to be low value expenditure that is unlikely to be aligned with Government priorities. Department of Labour and the Ministry of Women's Affairs will still be able undertake some functions in this area as part of their core business, as well as make use of the tools that they have already developed.

<i>Employment Relations</i>	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Partnership Resource Centre	-	(1.172)	(1.172)	(1.172)	(1.172)	(4.688)	-
Employment Relations Education Fund	-	(0.564)	(1.777)	(1.777)	(1.777)	(5.895)	-
Agreed in bilateral (total)	-	(1.736)	(2.949)	(2.949)	(2.949)	(10.583)	-

63. The Partnership Resource Centre is a semi autonomous unit within the Department of Labour's workplace policy group, set up in late 2004 to promote workplace partnerships between employers and unions that would not otherwise have been entered into. The rationale for the Centre was that partnerships would be adopted more rapidly and economically if potential workplace partners had a central, expert resource to assist them. In the 2007 report-back the Partnership Resource Centre, after more than three years of operation, was unable to quantify any of the benefits, either private or public, of its work. The Centre had not achieved its cost recovery targets, nor was it able to provide any options for increasing the cost recovery component. We consider that this indicates that there is insufficient demand from employers and unions for the Centre's services, possibly because they duplicate other Departmental work streams.

64. The current Employment Relations Education Contestable Fund was established in 2000 to increase knowledge of the Employment Relations Act. It funds contracts with organisations that promote employment relations and good faith behaviour, and good health and safety practices amongst employers, unions and employees. Even with this saving, the Department retains a significant role in providing information, guidance, investigations regarding employment rights, as well as information and support for workplaces to ensure adequate workplace health and safety.

65. Treasury recommends you confirm these savings as accepted.

Yes / No

Wine Levy (Food Safety)

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Agreed in Bilateral	-	(1.985)	(1.985)	(1.985)	(1.985)	(7.940)	-

66. It is our understanding that the wine industry is the only food and beverage industry that has its testing costs funded by the government. The dairy, animal and plant products sectors pay 100% of their costs for similar export activities. A negative precedent was set by funding this and given the difficult economic environment the food and beverage sector is currently facing, there might a further call on government to fund testing costs. The current exemption mostly favours large, foreign-owned wineries and only applies to testing of product exported to the EU. Both the New Zealand Food Safety Authority and the Treasury consider that there is no robust economic reason for the government continuing to pay for these costs.

67. However, should the government wish to continue paying for testing costs for the wine industry, we suggest it is publicly announced that this is for **one year only** and industry will pay from 2010/11 on. This option would involve savings from 2010/11 onwards returning to the centre. This would provide some certainty to the industry in difficult economic times but sends a clear message that it is not the role of government to fund costs that industry should be absorbing

EITHER

68. Treasury recommends you confirm these savings as accepted.

Yes / No

OR

69. Agree to continue to fund the costs of testing the wine industry in 2009/10 only and that the savings offered from 2011/12 onwards are confirmed as accepted.

Yes / No

A Fresh Start for Youth Offenders

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Vote Social Development	-	8.684	13.860	13.860	13.860	50.264	-
Vote Courts	-	1.080	0.385	0.385	0.385	2.235	1.150
Vote Police	-	0.500	0.500	0.500	0.500	2.000	1.000
Total	-	10.624	14.745	14.745	14.745	54.859	2.150

70. The Minister of Finance has agreed to \$57.009 million funding over four years, which will establish and maintain the level of service provided in the *first year of the implementation* of Fresh Start (as per four year implementation plan).

71. [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Funding for Second Year Implementation

72. To expand services to the intended level in 2010/11, the Ministry of Social Development would need to seek *additional* funding (at or before Budget 2010) of:

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Vote Social Development	-	-	9.621	9.980	9.980	29.581	-

73. [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Risks

74. [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

75. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
76. Treasury notes that the operating funding sought for the 10 additional beds in Youth Justice Lower North (\$2.006 m in 2010/11, \$2.675 m per year after) was considered in Budget 2007 when capital funding for the beds was approved. At that time the department undertook to fund this operating expense internally, thus Treasury cannot support it as a new funding element of the Fresh Start approach.

Funding for Third and Fourth Year Implementation

77. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

EITHER

78. **Agree to fund this bid at the first year costings only (\$57 million over the forecast period).**

Yes / No

OR

79. **Agree to fund this bid at the first and second year costings only (\$86 million over the forecast period).**

Yes / No

Treasury Advice on Government Priorities

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Department	-	5.984	6.549	7.747	7.769	28.049	0.120
Treasury Vote Team	-	3.119	3.005	3.194	3.219	12.537	0.064
Agreed in Bilateral	-	4.362	4.748	5.301	5.566	19.977	0.080

80. **Agree to fund this bid at the costings agreed in the bilateral.**

Yes / No

Section 4: Decisions outstanding

81. Through the course of the budget process there have been some areas where final decisions are yet to be made. The largest of these are in the Ministry of Social Development and Vote Energy

<i>Minister requests</i>	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Brownlee	-	41	60	71	65	236	-
Power (Commerce)	-	3	-	-	-	3	-
Justice	-	45	71	96	96	308	30
Bennett	21	66	85	106	106	385	(5)
Total	21	155	215	273	267	931	25

<i>Treasury recommends</i>	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Brownlee	-	11	21	9	-	41	-
Power (Commerce)	-	-	-	-	-	-	-
Justice	-	-	-	-	-	-	-
Bennett	21	63	78	92	92	346	-
Total	21	74	99	101	92	387	-

82. Hon Brownlee has submitted a number of late budget initiatives. The fiscal implications of these are set out in the tables below.

<i>Minister requests</i>	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
New Zealand Insulation Fund	-	21	36	48	59	164	-
Biodiesel Production Grants	-	18	18	18	-	53	-
Solar and Heat Pump Water Heating Programme	-	2	6	6	6	20	-
Total	-	41	60	71	65	236	-

<i>Treasury recommends</i>	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
New Zealand Insulation Fund	-	11	21	9	-	41	-
Biodiesel Production Grants	-	-	-	-	-	-	-
Solar and Heat Pump Water Heating Programme	-	-	-	-	-	-	-
Total	-	11	21	9	-	41	-

83. **New Zealand Insulation Fund.** The Treasury recommends Ministers do not fund this initiative in full. While the Treasury understands that this is a job summit proposal and that there is support within the Government to proceed with it, there is still significant concern around the current scale and design of the Fund. We currently view the Fund as having a large fiscal impact and do not believe the current design adheres to the principles of being either *targeted* or *temporary*

84. Treasury supports a downscaling of the scheme overall. This is easily achievable through reducing the number of targeted retrofits. In particular, we do not see the need for the current strong growth profile and a continued funding boost in outyears. We suggest increasing the fund for 1-2 years until 2010/11 and pending a review of effectiveness at that stage, reverting to existing fund levels by 2012/13 – allowing for 71,000 additional retrofits over that period compared to the request which amounts to an estimated 162,500 retrofits over the period.

85. Ministers are asked to either:

- **Decline funding** **Yes / No**
- **Agree Minister request** **Yes / No**
- **Agree Treasury recommendations** **Yes / No**

86. **Biodiesel Production Grants.** The Treasury recommends Ministers decline funding for this initiative. The Government’s primary environmental objective is to establish a market based environmental policy which sets out a cost effective framework for emissions reductions (e.g. Emissions Trading Scheme (ETS) or Carbon Tax), in which case biofuels are a subset of the Government’s broader environmental policy objectives. Implementing a general price based measure means that ad hoc supplementary policies such as grants or subsidies for biofuels are rendered redundant (unless there is an identified market failure).

87. Ministers are asked to:

- **Decline funding** **Yes / No**

88. **Solar and Heat Pump Hot Water Heating Programme.** The department seeks funding so that EECA is able to offer household grants for the installation of solar and heat pump water units. Treasury recommended that the Minister not support this initiative because:

- there are a number of more cost-effective ways of enhancing energy efficiency; including insulating homes and more efficient and clean heating units;
- the performance of the current solar water grant programme has been weak (22 loans in 07/08, 500 loans in 08/09); and
- it was not clear how this grant scheme fits in with the proposed New Zealand Insulation Fund proposal.

89. However Treasury understands that this bid is to support pre-election promises to increase solar and heat pump water heating installations to 9,000 per year (from 3,371 installations in 2007/08) and 70,000 total installations over five years. Currently the bid proposes an additional \$ 19.5 million in spending over 5 years, in addition to the current appropriated spending.

90. For these reasons, Treasury proposes the following alterations to the bid that will still work towards Government pre-election promises:

- Target the largest amount of grants in years 2009-11 rather than in later years due to the assumption that market stimulus in the short term will cause increased market uptake and cost reductions in the overall industry in the long term;
- Reduce personnel, administration, auditing and industry development costs in line with this grant reduction; and
- Remove consumer marketing and information costs by devolving these costs into the NZ Insulation Fund.

	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Alternative recommendations	-	1.8	5.2	3.6	2.3	12.9	-

91. Ministers are asked to either:

- **Decline Funding** **Yes / No; or**
- **Agree Minister request** **Yes / No; or**
- **Agree Alternative Treasury recommendation** **Yes No.**

92. Hon Power has submitted an initiative to improve business reporting by standardising forms. This has been costed at \$3 million in one year only.

93. Treasury believe that the initiatives under the Standard Business Reporting Programme have the potential to reduce the compliance burden for business and simplify reporting to government by standardising a place of lodgement, data definitions and a communication language. Minister Power has assessed options and decided to request Cabinet approval to proceed with an initiative of standardising the information on 97 financially related forms across IRD, Statistics NZ and ACC and a pilot of a GST related taxonomy. Minister Power is due to report back to Cabinet on 30 April seeking approval to proceed with the SBR regime.

94. If Ministers wish to pursue this initiative, Treasury suggests that the \$3 million be included in the Budget Cabinet paper, with use subject to Cabinet Report back, at which time more information on the full costs and benefits of these and other initiatives will be available. No further funding will be required to undertake these two initiatives. However, if the pilot is deemed successful, a further bid will be required in order to proceed with this work. Cabinet may wish to consider funding for this pilot in light of the full costs for the further roll-out.

95. Ministers are asked to either:

- **Decline Funding** **Yes / No; or**
- **Agree Minister request** **Yes / No**

96. In the Justice Bilateral the issue of emergency pressures funding was not resolved for police.

<i>Minister requests</i>	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Police Maintenance Funding	-	45	71	96	96	308	30

<i>Treasury recommends</i>	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
Police Maintenance Funding	-	-	-	-	-	-	-

97. Treasury recommends that Ministers do not support additional funding for this initiative. The New Zealand Police are working through alternative options to mitigate the projected \$39 million shortfall for 2009/10. Treasury has asked the Police to explore a full range of options, [deleted – confidentiality of advice].

98. Given this, we consider it premature to grant any additional funding at this stage and that if any funding is needed on an urgent basis it be done in the context of Budget 2010.

99. Ministers are asked to:

- **Decline Funding** **Yes / No**

100. In the Social Development Bilateral the issue of emergency pressures funding was not resolved for the Ministry of Social Development. The Ministry of Social Development submitted a cost pressures bid that, in conjunction with their Value-for-Money savings bid, was designed to manage a number of [deleted – negotiate without prejudice], property and service pressures within baselines.

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	20.964	63.366	84.636	106.270	106.270
Treasury	20.964	63.366	78.056	91.880	91.880

101. The cost pressures sought over four years add up to \$275.236 million.

102. Treasury supported funding of \$254.266 million over four years. This number was arrived at [deleted – negotiate without prejudice], and by supporting the extension of the \$6.8 million addition to the CYF baseline for 18 months.

MSD Departmental Cost Pressures

Cost Pressures Supported by Treasury

[deleted – negotiate without prejudice]

[deleted – negotiate without prejudice]

103. At the bilateral discussion the Chief Executive of MSD agreed [deleted – negotiate without prejudice], and noted that he intended to manage the CYF baseline pressure, but that if the difference is removed from his baselines, he would not be able to internally manage all the cost pressures MSD is facing, and would need to seek additional funding.

104. The cost pressures presented at the bilateral were:

- CYF Baseline gap \$10.2 million over two years

- Work & Income volume pressure \$32.9 million to June 2012 – There was no Budget bid associated with this amount, and Treasury has not yet seen the calculations behind it
- Studylink student loan demand pressures \$3.1 million in 2009/10 – There was a separate Budget bid for this amount that was classified ‘policy priority’, not ‘emergency pressure’. Treasury notes that in the 2006 March Baseline Update, the Ministry permanently removed \$8 million of baseline funding for Studylink. Additionally, the Ministry’s 2009 March Baseline Update submission removes \$1.2 million of funding from Studylink in 2008/09.

105. The Chief Executive and Treasury will provide the Minister of Finance with more information on these cost pressures and the Ministry’s proposals to manage them on Monday 30 March.

106. Ministers are asked to either:

- | | |
|-----------------------------------------------------------------------------------------------------|---------------------|
| • Decline Funding | Yes / No; or |
| • Agree Minister request | Yes / No; or |
| • Agree Treasury recommendations | Yes / No; or |
| • Defer decision until further information is provided by the Minister of Social Development | Yes / No |

Section 5: Funding still sought

107. Bilateral discussions are still to be held with the leaders of the Maori Party and the United Future Party. The tables below set out what is being sought for Ministers' information.
108. Once discussions have been held with the relevant Ministers (currently scheduled for 1 April with Hon Dunne and 2 April with Hon Dr Sharples), decisions will be confirmed by Cabinet in the Budget Cabinet Paper.
109. There is also the matter of the Speaker's votes and the National Library as set out below. Treasury recommendations include a large capital withdrawal as they recommend significant scaling back of the library upgrade programme.

Funding still sought

<i>Minister requests</i>	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
United Future	21	1	(30)	(33)	(8)	(50)	61
Maori Party	3	5	1	1	1	11	(8)
Speaker's Votes and National Library	(1)	7	1	4	6	17	0
Total	22	13	(28)	(28)	(1)	(22)	54

Funding still sought

<i>Treasury recommends</i>	\$ million increase / (decrease)						
	Operating						Capital
	2008/09	2009/10	2010/11	2011/12	2012/13	Total	Total
United Future	7	(16)	(47)	(54)	(26)	(137)	4
Maori Party	3	(4)	(11)	(5)	(5)	(22)	(8)
Speaker's Votes and National Library	1	1	1	1	1	5	(43)
Total	10	(19)	(57)	(58)	(30)	(155)	(47)