

SUMMARY

At your last meeting Budget Ministers discussed that Budget 2010 will be about tax, research, science and technology, and health.

The proposed Budget package is primarily focussed on these areas (less tax). It provides a considerable funding increase for Vote Health (\$437 million in outyears, or 40% of the operating allowance) and provides an additional \$225 million across the forecast period (\$75 million in outyears) for Vote Research, Science and Technology. The package also manages pressures in Vote Education through the provision of an additional \$300 million p.a. from the operating allowance (and through the funding of a further \$385 million in forecast changes outside of the operating allowance).

The overall operating package balances to \$4.38 billion across the forecast period (\$1.05 billion in outyears), and \$1.49 billion for capital, with most Votes managing within their existing baselines.

The package contains a number of savings proposals including:

- **Biosecurity** - variety of reductions in FTE numbers, efficiency gains, lower input costs (e.g. travel).
- **Corrections** - self-funding of Mt Eden replacement depreciation and property costs; internal efficiency savings and absorbing cost pressures (approx \$20 million a year).
- **Education** – Early Childhood Education (ECE) savings (including not removing six hour daily limit), removing current funding rates for ECE services with above 80% registered teachers (\$60 million in out-years).
- **Tertiary Education** - sector savings (about \$50 million a year).
- **Health** - lower take-up of immunisation, public health savings (oral health), Ministry staff reductions, underspends.
- **Maori Affairs** - operational efficiencies.
- **Research, Science & Technology** - reductions from lower priority research funds (including teacher fellowships and social & economic research), uncommitted outyears funding.
- **Social Development** - reducing level of childcare assistance family income thresholds and removing future CPI indexing of thresholds (\$20 million in outyears), pathways to partnership unallocated funding, contracted services savings.
- **Youth Development** - pathways to partnership unallocated funding, contracted services savings.

Continuing to manage within constrained baselines in future Budgets will become increasingly challenging in all Votes, and means that Vote Ministers and departments will need to commence implementing different ways of doing business in 2010 (e.g. price, quality volume), so that their baselines remain viable and services continue to be delivered to the public.

CONFIRM DECISIONS FROM LAST MEETING

Treasury recommends you confirm the following decisions taken by Budget Ministers on 16 March 2010. *agree / disagree*

- 1. Accept** the following BAPs
- Finance
 - Agriculture and Forestry
 - Arts, Culture and Heritage
 - Biosecurity
 - Commerce
 - Communications
 - Community and Voluntary Sector
 - Conservation
 - Consumer Affairs
 - Crown Research Institutes
 - Customs
 - Defence
 - Defence Force
 - Education
 - Education Review Office
 - Emergency Management
 - Employment
 - Energy
 - Food Safety
 - Foreign Affairs and Trade
 - Housing
 - Immigration
 - Internal Affairs
 - Local Government
 - Maori Affairs
 - Ministerial Services
 - National Archives
 - National Library
 - Office of the Clerk
 - Official Development Assistance
 - Pacific Island Affairs
 - Parliamentary Counsel
 - Parliamentary Service
 - Prime Minister and Cabinet
 - Racing
 - Revenue
 - Security Intelligence
 - Senior Citizens
 - Sport and Recreation
 - State Services
 - State-Owned Enterprises
 - Statistics
 - Tourism
 - Transport
 - Veterans' Affairs - Defence Force
 - Veterans' Affairs - Social Development
 - Women's Affairs

BUDGET MINISTERS MEETING – 31 MARCH 2010: RECORD OF DECISIONS

CAPITAL PACKAGE

1. The key elements of the capital package are:

- *[deleted – confidentiality of advice]*;
- \$250 million for the KiwiRail network business case;
- \$200 million for the national broadband network;
- \$146 million for the Education capital envelope;
- \$76 million for the Joint Border Management system;
- \$71 million for the Asian Development Bank;
- \$423 million for other initiatives; and
- **\$1.49 billion total.**

The package is currently overspent by \$40 million and does not include a between Budget capital contingency. This can be fixed using ACC and Energy underspends (see red box).

Treasury recommends that you confirm the package outlined above. *agree / disagree*

2. The package includes \$48.3 million for the second year of the *Broadband in Schools* programme. This is scaled down from the \$58.3 million requested.

Treasury recommends you agree to a scaled amount of \$48.3 million for the School Network Upgrade Programme. *agree / disagree*

3. The package includes \$10 million for developing *Memorial Park* in time for the Gallipoli centenary. The Ministry of Culture and Heritage have advised this is an appropriate amount *[deleted – confidentiality of advice]*.

Treasury recommends you agree \$10 million for Memorial Park. *agree / disagree*

Vote	Title	Sought
Revenue	<i>[deleted – confidentiality of advice]</i>	
Defence Force	<i>[deleted – confidentiality of advice]</i>	
Transport	Metro Rail Network Costs (including renewals)	\$21.139m
Research, Science and Technology	<i>[deleted – confidentiality of advice]</i>	
Economic Development	<i>[deleted – confidentiality of advice]</i>	

Treasury recommends that you decline the bids above. *agree / disagree*

EDUCATION

The proposed Education package is:

	\$ million increase / (decrease)					
Vote Education	2009/10	2010/11	2011/12	2012/13	2013/14	Total
Education	10.0	289.9	299.7	299.7	299.7	1,199.0
Tertiary Education	-	(26.6)	(7.1)	(3.4)	(0.0)	(37.2)
Total	10.0	263.2	292.6	296.3	299.7	1,161.8

The Minister of Education will report back to ECC in May 2010 identifying likely cost growth in ECE and schooling over the next 5 years, and with options for managing these costs. The Tertiary package makes savings in student support and capability funding. It proposes to apply these savings to student enrolments, and cost and price pressures.

Treasury recommends that you confirm the Vote Education package outlined above. *agree/disagree*

2. You **directed** officials to resolve issues in the following Votes. This has been done and the BAPs now balance:

- Climate Change
- Economic Development
- Environment
- Fisheries
- Lands

3. You **agreed** that the \$2.2m p.a. additional for HSNO Act enforcement activities is to be met within the Vote Labour baseline *[deleted – confidentiality of advice]*.

Disrupting P Supply
The capital package includes \$7m opex (within a contingency) but no capital for this initiative. There is the potential to fund this initiative from within Vote Police baselines.

Treasury recommends that the capital for the Disrupting P Supply initiative be funded from the Vote Police baseline. *agree / disagree*

Vote ACC
1.

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

2. **Treasury recommends that you agree to update the NEA and reduce the baseline by approx \$187m and that this be applied to the contingencies.** *agree/disagree*

SOCIAL DEVELOPMENT

Social Development proposes that the savings shown below be returned to the Vote for other priorities:

	\$ million increase / (decrease)					
Vote	2009/10	2010/11	2011/12	2012/13	2013/14	Total
Vote Social Development	0.1	46.4	(17.2)	(71.9)	(65.5)	(108.0)
Vote Youth Development	(0.1)	(0.6)	(2.8)	(3.2)	(3.2)	(9.9)
Total	-	45.8	(20.0)	(75.1)	(68.7)	(117.9)

Treasury recommends that you confirm the Social Development package, taking into account final decisions on the use of savings from the 31 March session of the Cabinet Social Policy Committee (additional advice may be tabled at the Budget Ministers meeting). *agree/disagree*

JUSTICE SECTOR

The proposed Justice Sector package is:

	\$ million increase / (decrease)					
Vote	2009/10	2010/11	2011/12	2012/13	2013/14	Total
Corrections	(10.000)	10.285	2.222	2.845	3.545	8.897
Justice	15.698	40.689	11.201	1.219	1.117	69.924
Courts	4.523	18.737	16.228	18.266	17.686	75.440
Police	(20.000)	0.533	1.662	2.686	2.625	(12.494)
Attorney-General	4.300	0.700	-	0.457	-	5.457
Total	(5.479)	70.944	31.313	25.473	24.973	147.224

Treasury recommends that you confirm the Justice Sector package above. *agree/disagree*

HEALTH

The proposed Health package is:

	\$ million increase / (decrease)					
Vote Health	2009/10	2010/11	2011/12	2012/13	2013/14	Total
Funding Increase for DHBs	-	350.000	350.000	350.000	350.000	1,400.000
Ministry-managed programmes	-	59.340	59.340	59.340	59.340	237.360
Increased Medical school places (Vote Education)	-	0.589	1.635	2.706	3.780	8.710
Government Health Initiatives	(3.373)	71.542	72.119	54.759	54.911	249.958
Bowel cancer screening outyear 2014/15 only	-	-	-	-	-	3.991
Total	(3.373)	481.471	483.094	466.805	468.031	1,900.019

Treasury recommends that you confirm the Health package above. *agree/disagree*

Treasury recommends that you invite the Minister of Health to explore further savings and reprioritisation options, to manage risks and funding pressures with the agreed funding for Vote Health over the course of 2010/11 without recourse to further funding from the centre. *agree/disagree*

Lakes DHB is relying upon \$3.85 million from the Gifted Lands policy (compensation for the return of surplus Gifted lands) to meet its contribution to an upgrade of Rotorua and Taupo hospitals (see separate *Aide Memoire*).

Treasury recommends you agree to LINZ's appropriation bid for \$3.85 million to compensate Lakes DHB for the return of gifted lands; and EITHER count this amount against the Budget 2010 capital allowance (Treasury preferred); *agree/disagree*
OR

Count this amount against the Health capital envelope. *agree/disagree*

DECISIONS REQUIRED

Vote Communications Security and Int
[deleted – security interests]

agree / disagree

Vote Energy

Treasury recommends that you agree to accept the return of an \$80m underspend, and that this be applied to the contingencies. *agree / disagree*

Vote Labour

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

agree / disagree

Vote R, S & T

Treasury recommends that you agree to provide \$0.51 m over three years for the administration of the Creative Commons. *agree / disagree*

Vote Treaty Negotiations

Treasury recommends that you agree to increase the MYA to \$1.4 billion; and agree to provide \$6.5m to increase OTS capacity. *agree / disagree*

Between Budget Contingencies

	General Contingency (\$ millions)				
09/10	10/11	11/12	12/13	13/14	Total
(0.3)	102.4	103.2	102.4	102.7	410.5

Confirm the General Contingency above and the Tagged Contingencies listed in the main report. *agree / disagree*

Treasury recommends you agree the bids to be funded from the Emerging Priorities contingency in the report.