

**Budget Report:** Budget 2010: Budget Ministers' Meeting 2 - Confirming the 2010 Budget Package

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<b>Date:</b>	29 March 2010	<b>Report No:</b>	BR2010/14
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**Action Sought**

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	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Bill English)	<b>Read</b> this report in advance of the Budget Ministers' meeting on Wednesday 31 March 2010	4.00 pm, Wednesday 31 March
Prime Minister (Hon John Key)	<b>Read</b> this report in advance of the Budget Ministers' meeting on Wednesday 31 March 2010	4.00 pm, Wednesday 31 March
Associate Minister of Finance (Hon Simon Power)	<b>Read</b> this report in advance of the Budget Ministers' meeting on Wednesday 31 March 2010	4.00 pm, Wednesday 31 March
Associate Minister of Finance (Hon Steven Joyce)	<b>Read</b> this report in advance of the Budget Ministers' meeting on Wednesday 31 March 2010	4.00 pm, Wednesday 31 March

**Contact for Telephone Discussion (if required)**

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>		<b>1st Contact</b>
[withheld - privacy]	Senior Analyst, Fiscal Management	[withheld - privacy]	[withheld - privacy]	✓
Richard Downing	Acting Manager, Fiscal Management	[withheld - privacy]	[withheld - privacy]	

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

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None.
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**Enclosure: No**

## **Budget Report: Budget 2010: Budget Ministers' Meeting 2 - Confirming the 2010 Budget Package**

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### **Executive Summary**

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This report lays out a proposed 2010 Budget package (exclusive of tax changes) for confirmation by Budget Ministers. The report outlines the decisions taken by Budget Ministers at their first meeting on 16 March, at the subsequent Health and Education bilateral meetings, and the results of the capital initiatives process. The report seeks confirmation of these decisions and asks Budget Ministers to take decisions on the few remaining outstanding matters.

At your meeting on 16 March, Budget Ministers discussed that Budget 2010 will be about tax, research, science and technology, and health. The Budget package proposed in this report 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 and \$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.

The following is a summary table of the changes to Vote baselines proposed for Budget 2010. A detailed table of all the changes in each Vote is attached as Annex 1.

*Table 1: Vote Summary*

<b>Vote(s)</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>Total</b>
ACC	<i>[deleted – confidentiality of advice]</i>					
Agriculture and Forestry	-	7.0	1.0	0.2	0.3	<b>8.4</b>
Arts, Culture and Heritage	(0.5)	0.1	(0.1)	(0.1)	(0.1)	<b>(0.7)</b>
Attorney-General	4.3	0.7	-	0.5	-	<b>5.5</b>
Audit	-	-	-	-	-	-
Biosecurity	-	(1.6)	(2.3)	(2.3)	(2.3)	<b>(8.5)</b>
Climate Change	-	-	-	-	-	-
Commerce	-	(0.0)	(0.1)	(0.1)	(0.1)	<b>(0.3)</b>
Communications	-	-	-	-	-	-
Communications Security and Intelligence	-	0.2	-	-	-	<b>0.2</b>
Community and Voluntary Sector	-	(0.0)	(0.0)	(0.0)	(0.0)	<b>(0.1)</b>
Conservation	-	-	-	-	-	-
Consumer Affairs	-	(0.0)	(0.0)	(0.0)	(0.0)	<b>(0.1)</b>
Corrections	(10.0)	10.3	2.2	2.8	3.5	<b>8.9</b>
Courts	4.5	4.5	18.8	16.4	18.4	<b>17.7</b>
Crown Research Institutes	-	-	-	-	-	-
Customs	-	(0.0)	(0.1)	(0.1)	(0.1)	<b>(0.3)</b>
Defence	-	-	-	-	-	-
Defence Force	(10.0)	45.0	35.0	35.0	35.0	<b>140.0</b>
Economic Development	(1.6)	25.5	11.7	2.5	2.2	<b>40.3</b>
Education Review Office	-	-	-	-	-	-
Education	10.0	263.2	292.6	296.3	299.7	<b>1,161.8</b>
Emergency Management	(0.5)	(0.0)	(0.0)	(0.0)	(0.0)	<b>(0.5)</b>
Employment	-	(0.1)	(0.1)	(0.2)	(0.2)	<b>(0.5)</b>
Energy	(86.7)	6.6	(0.2)	(0.2)	(0.2)	<b>(80.7)</b>
Environment	(9.6)	7.2	(0.5)	(0.6)	(0.6)	<b>(4.1)</b>
Finance	(0.8)	1.5	4.1	4.4	4.4	<b>13.6</b>
Fisheries	(0.7)	6.1	5.8	5.8	5.7	<b>22.7</b>
Food Safety	-	(0.0)	(0.1)	(0.1)	(0.1)	<b>(0.3)</b>
Foreign Affairs and Trade	(2.3)	8.8	7.9	3.9	3.1	<b>21.5</b>
Health	(15.7)	458.7	445.5	426.3	424.9	<b>1,739.6</b>
Housing	1.5	(0.5)	(1.8)	(1.7)	(1.7)	<b>(4.2)</b>
Immigration	-	-	-	-	-	-
Internal Affairs	0.2	(0.0)	(0.0)	(0.0)	(0.0)	<b>0.0</b>
Justice	15.7	40.7	11.2	1.2	1.1	<b>69.9</b>
Labour	-	(0.2)	(0.3)	(0.4)	(0.4)	<b>(1.2)</b>
Lands	(2.4)	(1.6)	2.0	1.2	0.5	<b>(0.3)</b>
Local Government	0.3	(0.2)	(0.3)	(0.3)	(0.3)	<b>(0.8)</b>
Maori Affairs	(0.2)	36.7	32.7	32.9	29.9	<b>132.0</b>
Ministerial Services	-	-	-	-	-	-
National Archives	-	-	-	-	-	-
National Library	-	-	-	-	-	-
Office of the Clerk	-	-	-	-	-	-
Official Development Assistance	-	-	-	-	-	-
Ombudsmen	-	-	-	-	-	-
Pacific Island Affairs	-	1.2	1.2	1.2	1.2	<b>4.8</b>
Parliamentary Commissioner for the Environment	-	-	-	-	-	-
Parliamentary Counsel	-	-	-	-	-	-
Parliamentary Service	-	-	-	-	-	-
Police	(20.0)	0.5	1.7	2.7	2.6	<b>(12.5)</b>
Prime Minister and Cabinet	-	-	-	-	-	-
Racing	-	(0.0)	(0.0)	(0.0)	(0.0)	<b>(0.0)</b>
Research, Science and Technology	(7.1)	31.2	46.7	66.1	70.4	<b>207.2</b>

<b>Vote(s)</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>Total</b>
Revenue	15.0	15.9	21.1	20.8	17.5	<b>90.3</b>
Security Intelligence	-	-	-	-	-	-
Senior Citizens	-	-	-	-	-	-
Serious Fraud	-	-	-	-	-	-
Social Development	0.1	46.4	(17.2)	(71.9)	(65.5)	<b>(108.0)</b>
Sport and Recreation						
State Services	-	(0.1)	(0.1)	(0.2)	(0.2)	<b>(0.5)</b>
State-Owned Enterprises	-	-	-	-	-	-
Statistics	-	(0.0)	(0.1)	(0.1)	(0.1)	<b>(0.3)</b>
Tourism	(1.0)	(0.1)	(0.2)	(0.2)	(0.2)	<b>(1.7)</b>
Transport	-	(0.1)	(0.1)	(0.2)	(0.2)	<b>(0.5)</b>
Treaty Negotiations	-	3.4	1.8	1.3	-	-
Veterans' Affairs - Defence Force	-	-	-	-	-	-
Veterans' Affairs - Social Development	-	0.0	0.0	0.0	0.0	<b>0.1</b>
Women's Affairs	-	-	-	-	-	-
Youth Development	(0.1)	(0.6)	(2.8)	(3.2)	(3.2)	<b>(9.9)</b>
<b>Vote Changes Total</b>		<i>[deleted – confidentiality of advice]</i>				
Balancing Line	-	222.9	215.9	205.9	210.2	<b>855.0</b>
<b>Grand Total</b>		<i>[deleted – confidentiality of advice]</i>				

## Recommended Action

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We recommend that during the second Budget Ministers' Meeting you:

- a **indicate** your decisions with respect to the recommendations contained in the main body of this report; and
- b **invite** the Minister of Finance to submit a Cabinet paper for consideration by Cabinet on Monday 19 April that reflects the decisions taken in this meeting.

*Agree/disagree.*

Richard Downing  
**Acting Manager, Fiscal Management  
for Secretary to the Treasury**

Hon Bill English  
**Minister of Finance**

## Budget Report: Budget 2010: Budget Ministers' Meeting 2 - Confirming the 2010 Budget Package

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### Purpose of Report

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1. This report lays out a proposed 2010 Budget package (exclusive of tax changes) for confirmation by Budget Ministers. The report outlines the decisions taken by Budget Ministers at their first meeting on 16 March, at the subsequent Health and Education bilateral meetings, and the results of the capital initiatives process. The report seeks confirmation of these decisions and asks Budget Ministers to take decisions on the few remaining outstanding matters.
2. This report also seeks Budget Ministers assent to the drafting of a paper for Cabinet on Monday 19 April, seeking Cabinet's endorsement of the decisions taken in this Budget Ministers' meeting.

### Decisions taken at the first Budget Ministers Meeting (16 March 2010)

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3. At your meeting on Tuesday 16 March Budget Ministers agreed that the balanced Baseline Alignment Proposals (BAPs) for the following Votes were to be **accepted as submitted**, the BAPs contained good proposals and trade-offs, or as these Votes are relatively insignificant, or the issues in the BAPs are better resolved either via other processes or after Budget 2010:
  - 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 Review Office
  - Emergency Management
  - Employment
  - Energy
  - Finance
  - 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

4. At your meeting on 16 March the Votes listed below were identified as having unbalanced BAPs. Budget Ministers agreed to **direct officials to resolve** the issues in these Votes and produce balanced BAPs before your next meeting. This has been done and the BAPs now balance:
- Climate Change
  - Economic Development
  - Environment
  - Fisheries
  - Lands
5. You agreed that the \$2.2 million p.a. in additional funding required for Hazardous Substances and New Organisms Act enforcement and compliance activities within Vote Labour is **to be met by reprioritisation within the Vote Labour baseline** *[deleted – confidentiality of advice]*. The Department of Labour is currently identifying savings within Vote Labour to meet these costs; any changes to appropriations required will be included in the Budget package Cabinet paper.
6. **Treasury recommends you confirm the above decisions taken by Budget Ministers at the meeting on 16 March 2010.**

*agree / disagree*

## Capital Package

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7. The capital package has been discussed at Fiscal Issues on 25 February and 25 March and at Budget bilaterals with the Ministers of Health, Education and Immigration.
8. 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;
  - *[deleted – confidentiality of advice]*;
  - \$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.**
9. The package is currently overspent by \$40 million and does not include a between Budget capital contingency. However, there are two sources of funding that could balance the package and create room for a capital contingency (and top-up the operating contingency). These are:
  - \$187 million in ACC which is no longer required for the purposes it was appropriated (see paragraphs 55-60);
  - \$80 million from Vote Energy BAP savings (see paragraphs 65-66);
10. We recommend you agree the package (including the elements and exclusions identified in Tables 2 and 3 below) at this time, with an expectation that the package will be balanced and a capital contingency created as these savings become available.
11. In addition, the Minister of Education is currently considering options for a capital package requiring *less* new funding than the *[deleted – confidentiality of advice]* set aside in this package (which is separate to the \$48.3 million set aside for *Broadband in Schools* – see below). If any of these options are agreed by the Ministers of Finance and Education, any resulting reduction in new capital for Vote Education can be used to increase the between Budget capital contingency.
12. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

### *Bids which have been scaled or are outside the package*

13. The package includes \$7.155 million operating funding but no capital for the *Disrupting P Supply* initiative. The Ministers of Finance and Police are investigating whether capital could be found from within Vote Police baselines. The operating funding will be kept in a contingency until 1 February 2011, and will be available for release once baseline capital funding is found.



14. The package includes \$48.3 million for the second year of the *Broadband in Schools* programme. [deleted – confidentiality of advice]. The phasing of this work has not been announced publicly. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

15. **Treasury recommends you agree [deleted – confidentiality of advice] of \$48.3 million for the School Network Upgrade Programme.**

*agree / disagree*

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

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

*agree / disagree*

18. The table below shows the bids which are outside the proposed capital package.

*Table 2: Bids outside the Proposed Capital Package*

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

19. **Treasury recommends that you decline the bids in Table 2 above.**

*agree / disagree*

*Table 3: Proposed Capital Package*

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

20. Treasury recommends that you confirm the package in Table 3 above.

*agree / disagree*

## Health

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21. In December, Cabinet agreed a Budget 2010 Health allocation of \$400 million per year ongoing. The Minister of Finance subsequently agreed to support additional one-off funding of \$91.4 million over four years (equal to Health's 2008/09 non-departmental underspend). *[information deleted in order to maintain the effective conduct or public affairs through the free and frank expression of opinions]*.
22. The Minister of Health bid for \$200 million in new capital funding, in addition to the \$204.5 million currently in the Health capital envelope. Treasury recommended no new capital for 2010/11, due to the competing capital priorities across government and an assessment that the existing envelope should be sufficient for 2010. In the bilateral, Budget Ministers confirmed a nil additional capital allocation for Health.
23. Key areas of savings include:
  - Ministry of Health staffing reductions (\$5 million per year);
  - savings in oral health (averaging \$4.4 million per year); and
  - savings across a range of Ministry-managed programmes including public health, mental health and vaccination programmes.
24. Funding for District Health Boards increases by 3.6%, comprised of:
  - \$182.8 million per year to meet demographic pressures; and
  - \$167.2 million per year to contribute to meeting price pressures.
25. Funding for Ministry-managed programmes will address volume and price pressures in prioritised areas including:
  - disability support services (\$18 million per year);
  - primary care (\$22 million per year);
  - screening services (\$11.5 million per year); and
  - a Maori innovations fund (\$5 million per year).
26. The larger initiatives funded as Government commitments or using the time-limited funding from 08/09 underspends include:
  - boosting medical student places (Vote Education – growing to \$8.7 million per year);
  - \$10 million per year to boost medicines funding;
  - \$7.6 million per year for mental health programmes including “Fresh Start for Young Offenders” initiatives, multi-systemic therapy alcohol and drug services for youth, multi-agency conduct and behavioural programmes for children, and primary health initiatives;
  - \$7.6 million per year for bowel cancer screening;
  - \$10 million per year for additional elective surgery to replace ACC funding; and
  - \$20 million over 2 years for disability support equipment grants.

Table 4: Proposed Health Package

	\$ million increase / (decrease)					
	Operating					
Vote Health	2009/10	2010/11	2011/12	2012/13	2013/14	Total
<b>Funding Available</b>						
Health Allocation (revised)	-	420.000	420.000	420.000	420.000	1680.000
1-off funding (08/09 Underspend)	-	34.900	22.528	17.104	16.830	91.362
Savings within Vote Health	-	33.707	34.566	33.037	34.537	135.847
Transfer to capital envelope	-	-	-	(3.336)	(3.336)	(6.672)
RWC and Prod Commission	-	(0.078)	(0.140)	(0.150)	(0.150)	(0.518)
<b>Available for Health Operating Initiatives</b>	<b>-</b>	<b>488.529</b>	<b>476.954</b>	<b>466.655</b>	<b>467.881</b>	<b>1,900.019</b>
<b>Spending and Baseline changes</b>						
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
	<b>(3.373)</b>	<b>481.471</b>	<b>483.094</b>	<b>466.805</b>	<b>468.031</b>	<b>1,900.019</b>

27. Treasury recommends that you **confirm the Vote Health package** outlined in Table 4 above.

agree / disagree

28. **Note that In addition, funding from the balance of 2009/10 Vote Health risk reserves for these initiatives is awaiting joint Ministers' agreement.**

Table 5: Vote Health Risk Reserves Funding

To be agreed by joint Ministers before Budget decisions	2009/10	2010/11	Total
Electives Initiatives	10.200	10.000	20.200
Increased vaccine costs - Measles and Influenza	4.815		4.815
Shared Services Agency	3.640	2.360	6.000
Balance of 09/10 Risk Reserve*	[deleted – negotiate without prejudice]		

29. 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

## Education

30. The Vote Education (excluding tertiary) bilateral took place on 25 March 2010.
31. Ministers agreed that the Minister of Education would report back to ECC in May 2010 identifying likely cost growth in early childhood education (ECE) and schooling over the next 5 years, and with options for managing these costs. The cost pressures in ECE and schooling are different, with the former being more demand driven and the latter entitlement driven. Ministers agreed that Vote Education would move to an 'all inclusive' approach to Budget management, meaning that items currently treated as forecast changes will have to be managed within Vote Education baselines and future Budget allocations.
32. Definitive decisions were not made on capital. However, both the Treasury and the Ministry support a \$176 million capital allocation for Education, funded by a \$146 contribution from the central capital pool and a \$30 million operating to capital swap. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- It is
- likely that the Minister of Education will contact the Minister of Finance to confirm a capital allocation. An aide memoire has been provided to the Minister of Finance to support this discussion.
33. Ministers noted that the projected cost of the School Network Upgrade Programme (SNUP) has risen from \$150 million to \$235 million, although this does not necessarily require decisions in the Budget 2010 context.

### Tertiary Education

34. The Tertiary Education package makes savings in student support (to be considered by SOC on 31 March) and the removal of capability funding. The package then proposes to apply these savings to student enrolments, the flow-on costs from a change to fee regulation (also to be considered by SOC on 31 March) and a price adjustment to tuition subsidies.
35. The Minister of Finance and the Minister for Tertiary Education discussed the Tertiary Education package on Thursday 25 March. Ministers agreed to accept the proposed package, subject to final costings and Cabinet agreement to the above policy changes.

Table 6: Proposed Education Package

	\$ million increase / (decrease)					
	Operating					
<b>Vote Education</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>Total</b>
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)
<b>Total</b>	<b>10.0</b>	<b>263.2</b>	<b>292.6</b>	<b>296.3</b>	<b>299.7</b>	<b>1,161.8</b>

36. **Treasury recommends that you confirm the Vote Education package outlined in Table 6 above.**

*agree / disagree*

## Social Development

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### *Unallocated Pathway to Partnership funding*

37. The largest outstanding decision has been the use of \$348 million in unallocated Pathway to Partnership funding (\$124 million per annum in outyears). Last week the Cabinet Social Policy Committee agreed that:

- \$90.5 million of the total is to be moved into a contestable Quality Services and Innovation Fund for NGOs, which will be \$34.8 million per annum in outyears;
- \$120 million (\$30 million per annum) will be transferred to Vote Maori Affairs to fund the implementation of whānau ora; and
- \$9 million over four years will fund Study Support for beneficiaries.

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

### *The rest of the package*

39. The Future Focus benefit reform package has been decided on, with the exception of \$0.7 million for Work and Income, to be funded from line-by-line review savings.

40. The remaining funding sources are:

- *[Deleted – Confidentiality of advice]* Pathway to Partnership;
- *[Deleted – Confidentiality of advice]* line-by-line review of programme spending; and
- \$8.1 million in reprioritised capital charge operating funding associated with the Ministry's return of \$27 million in cash held on its balance sheet.

41. The remaining spending proposals from the Minister's BAP are:

- \$11.7 million to continue time-limited programme spending;
- \$21.8 million over two years for Work and Income to continue to manage Unemployment Benefit jobseeker numbers over 60,000; and
- A number of fiscally neutral transfers proposed within the Vote, the largest of which recognise the increased corporate overhead costs associated with delivering CYF services since the merger with MSD (CYF appropriations will be increased by \$15 million per annum, \$8 million of which will be funded from Work and Income).

*[Deleted – Confidentiality of advice]*

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

Table 7: Proposed Social Development Package

Vote	\$ million increase / (decrease)					
	Operating					
	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)
<b>Total</b>	-	<b>45.8</b>	<b>(20.0)</b>	<b>(75.1)</b>	<b>(68.7)</b>	<b>(117.9)</b>

43. Treasury recommends that you **confirm the Social Development package outlined in Table 7 above.**

*agree / disagree*

44. **Note the above package does not incorporate final decisions** *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*

## Justice

45. The majority of the Justice Sector spending was agreed at the first Budget Ministers' meeting on 16 March 2010. At that point, the outstanding issues were Prison Capacity, capital funding for Whare Oranga Ake (the sector has committed to funding operating costs), and a small request from the Police for Capital funding for one of the Justice Performance Improvement Actions.
46. Since that meeting Ministers have agreed to an operating to capital swap to fund the Police request; and the capital items (Prison Capacity, Wiri Programme Management, Whare Oranga Ake) have been agreed through the capital process.
47. The major agreed items in the Justice package are:
- Legal aid restructure costs - \$11.6 million across the forecast period with \$1.1 million in the final year.
  - Funding for legal aid volumes in 2009/10 and part of 2010/11 (before the Minister of Justice reports back on policy options to set a sustainable and affordable baseline) - \$36.6 million in 2009/10 and 2010/11.
  - Family and Youth Court Professional Services - \$51 million across the forecast period with \$10.7 million in outyears.
  - Unfunded commitments and cost pressures in the Ministry of Justice (\$15.9 million across the forecast period with \$3.2 million in the final year).
48. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
49. The total costs of the Justice sector allocation (excluding the items that are being met from the capital allocation, *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*) is set out below:

Table 8: Proposed Justice Package

Vote	\$ million increase / (decrease)						Capital Total
	Operating						
	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)	3.363
Attorney-General	4.300	0.700	-	0.457	-	5.457	-
<b>Total</b>	<b>(5.479)</b>	<b>70.944</b>	<b>31.313</b>	<b>25.473</b>	<b>24.973</b>	<b>147.224</b>	<b>3.363</b>
Allocation	-	37.833	37.833	37.833	38.000	151.500	-
<b>Balance</b>	<b>5.479</b>	<b>(33.111)</b>	<b>6.520</b>	<b>12.360</b>	<b>13.027</b>	<b>4.276</b>	<b>(3.363)</b>

50. Treasury recommends that you confirm the Justice Sector package outlined in Table 8 above.

agree / disagree



## Accident Compensation Corporation

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### *Baseline Alignment Proposal*

51. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
52. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
53. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
54. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*
55. **Treasury recommends that you:**

*EITHER [Minister for ACC proposal]*

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

*agree / disagree*

*OR [Treasury proposal]*

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

*agree / disagree*

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

*agree / disagree*

### *Non-Earners' Account Baseline Update*

56. In recent years, the ACC Non-Earners' Account (NEA) baseline has been updated annually around the time of the October Baseline Update (OBU). In 2009 Ministers and officials agreed to defer the baseline update until the 2010 Budget. This was so that ACC could be considered at the same time as all other Government expenditure

and because the ACC valuation available in 2009 had yet to reflect ACC's recent remedial actions. Having not updated the baseline in OBU and instead deferred it until now, and having an updated valuation of Scheme liabilities, it is timely to update it.

57. In 2008, the Government increased the ACC baseline by \$297 million a year (approximately \$1.2 billion over four years) in response to significant deterioration in ACC's financial situation. The latest information available, based on December 2009 figures, indicates that some of the earlier increase is no longer required and that the baseline can be reduced by a further \$187 million over three years (in addition to the \$128 million indicatively allocated from the Budget 2010 allowance that is now not needed by ACC). This further \$187 million reduction identified by ACC is currently undergoing independent actuarial peer review. We understand that the final amount will be confirmed by 12 April 2010. The reduction reflects ACC's recent financial improvement (fewer new claims, quicker average rehabilitation time, better investment returns).
58. Treasury understands that Department of Labour officials have only recently drawn the \$187 million to the attention of the Minister for ACC because the numbers for that item are still draft and, in particular, as the actuarial peer review has yet to be completed. The potential to reduce the ACC baseline by \$187 million has become known since the Minister for ACC indicated that he did not need the \$128 million from the Budget allowance. At that time he saw no need to update the baseline until after the ACC Stocktake has reported in June.
59. Treasury considers that Ministers should update the ACC baseline now as:
  - Baselines in out-years are intended to be "best estimates" of future funding requirements, not firm promises to pay a set amount. It is routine to update baselines for all Government expenditure in the Budget; there is no obvious reason to exclude ACC from this process.
  - It is normal practice to return any surplus funds in baselines to the centre so Ministers have the opportunity to prioritise all expenditure.
  - The effect of not returning surplus ACC baseline would be to reduce the amount available for expenditure in other areas (within the fiscal parameters).
  - If the update is not done, then the NEA baseline set in December 2008 would continue unchanged. It would be difficult to justify retaining a baseline which is almost a year and a half out of date and which does not reflect policy changes, which the Government and ACC have put in place since 2008. Nor does it reflect latest information on claim rates and costs.
60. If Budget Ministers decide to update the ACC baseline now, and return the resulting savings to the centre, Treasury's preference would be for these to be used to balance the capital package and increase the amount allocated to the first three years of the general contingency (see *Table 10*). ACC has yet to supply details of the price and quantity of its services in the outyears. Accordingly, Treasury considers Budget Ministers should carry forward the new 2013/14 baseline in the outyears.

61. Treasury recommends that you:

a. **agree** to the following reductions to the ACC baseline:

- i. **\$70.13 million in 2010/11**
- ii. **\$82.37 million in 2011/12**
- iii. **\$34.64 million in 2012/13**  
**\$187.14 million total**

*agree / disagree*

b. **agree** that the resulting savings (approximately \$187 million) are to be used to balance the capital package, with the remainder being applied to the first three years of the between Budget contingencies.

*agree / disagree*

c. **agree** to carry over the \$1.31 billion updated baseline for 2013/14 to outyears.

*agree / disagree*

#### *Treatment Injury Account Baseline*

62. To date, a transfer from the Non-Earners' Account has funded the Crown's share of the Treatment Injury Account (TIA). Treasury, Department of Labour and ACC consider it would be more transparent to show the TIA separately in the Estimates and financial reporting. Implementing this would involve a fiscally neutral transfer from the existing appropriations for the Non Earners' Account to new line items in the Estimates. While the change is purely technical, it requires a Cabinet decision that can be arranged as part of the Budget 2010 package.

63. Treasury recommends that you **agree** that the 2010/11 Main Estimates include separate appropriations for ACC's TIA and the NEA, with the total amount of these appropriations to equal the baseline (as approved above).

*agree / disagree*

## Other Votes

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### *Vote Communications Security and Intelligence*

64. *[information deleted in order to protect New Zealand's security, defence or international interests]*
65. *[information deleted in order to protect New Zealand's security, defence or international interests]*

*agree / disagree*

### *Vote Energy*

66. Since he submitted his BAP the Minister of Energy and Resources has identified an \$80 million underspend in the Reserve Energy and Emergency Measures Multi-year appropriation. This appropriation is not used unless a shortage occurs in the energy market and was previously increased in case it was needed for the 2008 winter. As this risk has passed the unspent funds can now be returned.
67. **Treasury recommends that you agree to accept the return of the \$80 million underspend in Vote Energy, and that this be applied to the between Budget contingencies**

*agree / disagree*

### *Vote Labour*

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

*agree / disagree*

### *Vote Research, Science and Technology*

70. The Minister for Research, Science and Technology has requested \$0.17 million in each of 2010/11, 2011/12 & 2012/13 for the administration of the Creative Commons suite of law licences. Treasury supports this request
71. **Treasury recommends that you agree to provide \$0.51 million over three years for the administration of the Creative Commons.**

*agree / disagree*

*Vote Treaty Negotiations*

72. An increase to the Vote Treaty Negotiations - Historical Treaty of Waitangi Settlements Multi-year Appropriation (MYA) from \$800 million to \$1.4 billion is sought.

*[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice].*

The MYA does not reflect the actual amount set aside in the Crown accounts, which would not change. The proposal has therefore, no fiscal impact.

73. The Minister for Treaty of Waitangi Negotiations is seeking an increase of a total of \$6.5 million over 2010/11-2012/13 to the appropriation 'Policy advice – Treaty Negotiations'. This is intended to fund increased capacity for the Office of Treaty Settlements, to meet the Government's goal of settling all Treaty claims by 2014.

74. **Treasury recommends that you:**

- a. **agree to increase the Treaty Settlements MYA to \$1.4 billion; and**

*agree / disagree*

- b. **agree to provide additional funding of \$6.5 million to increase OTS capacity.**

*agree / disagree*

## Other Issues

### *Productivity Commission*

75. As agreed by Cabinet a number of Votes have released funds to establish the New Zealand Productivity Commission. The total amounts transferred to Vote Finance are:

*Table 9: Productivity Commission*

	\$ million increase / (decrease)					
	Operating					
<b>Vote Finance</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>Total</b>
NZ Productivity Commission	-	2.285	4.551	4.878	4.880	16.594

76. Treasury recommends that you note the funding provided for the Productivity Commission in Table 8 above.

### *Between Budget Contingencies*

77. If Budget Ministers agree that the underspends identified in Vote Energy (\$80 million) and Vote ACC (\$187 million - to be confirmed by 12 April) are to be applied to the general contingency, the balance of the contingency available for between Budget spending in 2010 is as outlined in Table 10 below.

*Table 10: 2010/11 General Contingency*

	\$ million increase / (decrease)					
	Operating					
	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>Total</b>
Remaining General Contingency	(0.3)	10	38	47	48	143
Vote Energy underspend		20	20	20	20	80
Vote ACC underspend		72.0	45.0	35.0	35.0	187
<b>Total</b>	<b>(0.3)</b>	<b>102.4</b>	<b>103.2</b>	<b>102.4</b>	<b>102.7</b>	<b>410.5</b>

78. The following tagged contingencies are proposed:

*Table 11: Proposed Tagged Contingencies*

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

79. Treasury recommends that you agree to confirm the contingencies outlined in Tables 10 & 11 above.

*agree / disagree*

## Emerging Pressures Contingency

80. Treasury has received the following bids for funding from the Emergency Pressures Contingency:

*Table 11: Emerging Priorities Contingency*

		\$ million increase / (decrease)					
		Operating					
Vote	Title	2009/10	2010/11	2011/12	2012/13	2013/14	
<b>Decisions Taken</b>							
RS&T	Medium-Term Economic Growth Agenda: Science and Innovation Initiatives		30.00	50.00	70.00	75.00	CBC Min (1)3/7
Sport and Recreation	All Whites FIFA World Cup	0.30	-	-	-	-	CAB Min (10) 9/3
Economic Development	Rugby World Cup Free to Air	0.01	1.03	0.96	-	-	CAB Min (10) 7/19
<b>Government Priorities</b>							
Tourism	Increasing Tourism's performance through increased investment in marketing	-	30.00	-	-	-	<i>agree / disagree</i>
<i>[information deleted in order to maintain the constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>							
<i>[information deleted in order to maintain the constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>							
<b>Support Party Bids (Dr Sharples)</b>							
<i>[information deleted in order to maintain the constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>							
<i>[information deleted in order to maintain the constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>							
Maori Affairs	Growing Maori productivity and export growth through improved skills and governance	-	1.00	1.00	1.00	-	<i>agree / disagree</i>
Economic Development	Value-add in the Maori economy - supporting Maori innovation	-	0.50	0.50	0.50	-	<i>agree / disagree</i>
<b>Support Party Bids (Mrs Turia)</b>							
Justice	Promote, protect and monitor the rights of disabled	-	0.30	0.30	0.30	-	<i>agree / disagree</i>



		\$ million increase / (decrease)					
		Operating					
Vote	Title	2009/10	2010/11	2011/12	2012/13	2013/14	
	people						
Ombudsmen	Promote, protect and monitor the rights of disabled people	-	0.40	0.40	0.40	-	<i>agree / disagree</i>
Community & Voluntary	Digital literacy (computers in homes and computer clubhouses)	-	2.24	2.24	2.24	-	<i>agree / disagree</i>
Social Development	Enabling disabled people to have a voice in monitoring and implementation of the UN Convention	-	0.25	0.25	0.25	-	<i>agree / disagree</i>
Social Development	Government partnership with Lifetime Design	-	0.50	0.50	0.50	-	<i>agree / disagree</i>
Social Development	Improving attitudes towards disabled people	-	1.00	1.00	1.00	-	<i>agree / disagree</i>
Social Development	Expansion of the Settling In programme - improving settlement outcomes for migrants and refugees	-	1.0	1.0	1.0	-	<i>agree / disagree</i>
<b>Other</b>							
<i>[information deleted in order to maintain the constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>							
<i>[information deleted in order to maintain the constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>							
<i>[information deleted in order to maintain the constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>							
Pacific Island Affairs	Auckland Pacific Development Agency	1.20	1.20	1.20	-	-	<i>agree / disagree</i>
<b>Total</b>		<b>1.51</b>	<b>120.36</b>	<b>91.17</b>	<b>108.96</b>	<b>101.68</b>	<b>423.68</b>
Remaining to Spend (of \$141m pa)		-1.51	20.64	49.83	32.04	39.32	140.32

81. Treasury recommends that you agree to fund the initiatives outlined in Table 11 above from the Emerging Priorities Contingency.

## Next Steps

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82. If agreed by Budget Ministers, Treasury officials will draft a Budget Package Cabinet paper for the Minister of Finance. The paper will be lodged with the Cabinet Office by Friday 16 April, for consideration by Cabinet on Monday 19 April.