Vote: Finance
Vote: State Owned Enterprises
Vote: Crown Research Institutes

Baseline Alignment Proposal

8 March 2010

Submitted by:

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SECTION 1: ALIGNMENT TO GOVERNMENT PRIORITIES

Introduction

This Baseline Alignment Proposal covers three portfolios administered by the Treasury. Ministers consider it was appropriate that these three portfolios be considered together given their joint objectives particularly around Grow the New Zealand economy in order to deliver greater prosperity, security and opportunities for all New Zealanders.

Comment

Last year was about security within a challenging economic environment and fiscal crisis. The focus of these Votes during 2009 was to balance the effort between supporting jobs and economic activity, and ensuring that the government's long term finances remained sound and that debt accumulation was consolidated.

Treasury aligned its focus to Government priorities, via a combination of new funding and reprioritisation within existing baselines. We will continue to ensure that we focus our policy advice in the areas that will enable us to best deliver on current and future priorities – this is unlikely to require changes to appropriations.

In June 2009 Cabinet identified six key drivers of economic performance: *better regulation, better investment and management of infrastructure, tax reform, lifting skills, supporting business innovation and trade, and public sector productivity*.

As the core elements of the economic agenda, we need to maintain a consistent focus on all of these drivers if we are able to make real progress on raising our income levels.

The work done by the Treasury is crucial to achieving the Government's goal of greater prosperity, security and opportunities for all New Zealanders. Work undertaken in addressing the medium-term fiscal consolidation and work on more efficient State sector spending, as well as improved performance from the Crown's portfolio of business interests will be of immediate benefit. The Treasury's medium-term investment work will strengthen our economy when the crisis is over.

The focus for 2010 is to bed in policy to reinforce the recovery and lift longer term economic performance thus closing the gap with Australia. Within this context, the priorities for Votes Finance; State Owned Enterprises; and Crown Research Institutes are:

- **Infrastructure** – building on the first version of the National Infrastructure Plan and driving opportunities for greater private sector involvement in infrastructure development which will deliver value for taxpayers.

- **Better Regulation** – progressing the Productivity Commission and Regulatory Responsibility Bill as well as a wide ranging programme of regulatory reform.

- **Public sector** – continuing to develop innovative ways of driving better value for money and higher quality services, while ensuring that government expenditure grows at a slower rate than in recent years.

- **State Owned Entity Performance** - Communicating clear expectations in respect of improved financial performance and the need for greater transparency and accountability; maintaining a focus on strengthening boards and their performance and looking at improvements to the existing model.

- **Crown Research Institutes** - Implementing the government's response to the CRI taskforce through developing monitoring arrangements across agencies that give weight to the core purpose of CRIs while at the same time ensuring that COMU continues to monitor their financial viability.

In the short term these priorities will be delivered through the existing baselines within each of the respective Votes.

The focus for the state sector will be on embedding a culture of continuous performance improvement, greater innovation in the public sector and value for money applied in and through departments, Crown entities and other Crown businesses. I will be looking for new tools for Ministers to use to encourage these behaviours. One is example is the recently introduced Performance Improvement Framework, which Treasury will be assessed against later this calendar year.

The National Infrastructure Unit established within the Treasury during 2009 will help ensure the Government's infrastructure programme is strategically sound and helps build a more competitive and productive economy. A key focus over the coming period will be building on the first version of the National Infrastructure Plan and ensuring that opportunities for greater private sector involvement in infrastructure development are implemented. This work links closely with wider efforts to improve the management and performance of the Crown's balance sheet being undertaken by the new Crown Ownership Monitoring Unit (COMU).

Additionally a focus for 2010 will be the establishment of the Productivity Commission, with Treasury as the department being responsible for coordinating and advising on the work programme and terms of reference.

SECTION 2: REPRIORITISATION

Introduction

Treasury is both a policy agency delivering economic and financial advice to Ministers, as well as an agency with significant operational roles (Crown financial accounting and reporting, NZ Debt Management Office, NZ Export Credit Office, and Deposit Guarantees). Approximately 34 percent of funding for 2010/11 relates to operational activity, with the remaining 66 percent relating primarily to policy functions. By 2013/14 the proportion of operational activities are forecast to reduce to 22 percent of the Treasury's total activities and policy related functions increase to 78 percent as time limited funding and activities cease.

Treasury baselines will see a reduction of around $11.5 million between 2009/10 and 2013/14, and in the short term a reduction between 2009/10 and 2010/11 of around $2.6 million (or 3.8%). The reduction is due to time funded operational activities such as the Guarantee schemes and NZECO and not in areas relating to the budget 2009 initiatives of Value for Money and other Medium and emerging priorities.

Beyond the core legislative requirements associated with our "Finance Ministry" role Ministers in successive governments have purchased a range of first and second opinion advice from the Treasury.

Treasury generally delivers Ministerial priorities and core business within its baselines; although these may require to be supplemented with one-off funding for significant and unusual projects (e.g. large commercial transactions that may arise), or where broader whole of Government initiatives are coordinated from the centre.

The Treasury continues to reprioritise its expenditure in 2010/11 within its core programmes, as a continuation of the changes made in last year's budget to ensure that it is well placed to advise Ministers on medium-term and longer-term challenges and priorities.

In addition, the Secretary of Treasury has recently completed a change in the structure of the Treasury to better meet the future needs of Ministers and work to better align its capabilities to meet the challenges or the economic and financial environment we are operating in.

One of the changes was to implement Cabinet's agreement that the Crown Company Monitoring Advisory Unit (CCMAU) would no longer be a semi-autonomous body. This has allowed him to bring together all current Treasury and CCMAU monitoring, appointments and governance functions into a consolidated unit in Treasury (COMU).

This change, which will support elements of all three portfolios work programme will allow the Treasury to increase its flexibility in responding to changing priorities and ensure it is efficient and effective, and recognises the need to think about the longer term positioning of the public sector management system, its overall public sector productivity agenda, and create synergies between the commercial and non-commercial areas of the public sector.

The Treasury will continue to look at opportunities to reduce its back office cost and support structures and leverage off the opportunities for cost optimisation initiatives, and we will be participating in the benchmarking work currently underway under the

Better Administration and Support Services (BASS) Programme, and participating in the all-of-government procurement reform.

Managing Within Reducing Out year Baselines

The Treasury will continue to adopt strategies to ensure it can provide efficient and effective services to Ministers within the resources available to it. Given the reduction in baselines over the next 3 years (primarily because fixed-term projects, such as Deposit Guarantee Scheme, wind down) and a flat baseline thereafter this will require a reduction in staffing resources over the medium term. The current staffing complement of approximately 370 FTEs is not financially sustainable over the longer term.[*Information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions.]*

Managing to this level will be achieved through a mix of natural staff attrition; fixed term contracted staffing reducing as functions cease (e.g. for debt guarantee scheme); and careful resource planning to ensure that limited resources are directed to the highest priority areas. The Treasury will:

- Continue to improve the efficiency of its own processes and systems to reduce costs;
- Ensure its support structures are delivered efficiently and effectively; and
- Continue to invest in people and systems to develop the skills required to deliver more with less;
- Ensure efficient decision-making around priority work and the allocation of resources to these, and thus decreasing effort in lower priority areas, and the effective identification of out-year financial implications; and
- Careful manage exiting from activities where time limited funding has previously been allocated.

Therefore, the short-term focus continues to be on prioritising operating expenditure and managing within baselines. A current example is the reduction in office space from returning the surplus second floor to the head tenant, with immediate lease benefit of $260,000 per annum.

The long-term focus is on examining ways to meet increasing cost pressures within relatively fixed baselines, while minimising the impact on priorities. The Treasury's business planning processes are intended to support this by:

- encouraging an approach that is driven by the agreed strategic priorities and outcomes;
- continuing to reassess the optimum level of staffing (both value and number) and future recruitment needs based on the anticipated work and funding over the medium term; and
- developing and implementing processes around prioritisation of resources across the Treasury, including refreshing our five-year finance strategy.

Departmental output expenditure

Ministers will continue to work with the Treasury as part of their planning process to prioritise activities across the portfolios more systematically. This will require judgement to be applied to identify key priorities, sequencing of activity and work that can be deferred or ceased.

While there are no proposals to end or reduce any current activities already funded within Votes Finance, SOE and CRIs in 2010/11, as baselines reduce in the out years we will continue to prioritise further. This will include completing the scheduled review of activities around the NZ Export Credit Office's programmes; increasing the focus on higher impact work in the states sector performance areas (with a subsequent decrease in detailed Vote work), and using the central agency role to increase the effectiveness of the other agencies.

As part of the line by line review last year a number of activities were curtailed or stopped and these changes are built into the current baselines. Additionally the current baselines include time limited funding for some projects that will be curtailed over the next two years. Most of these relate to time limited funding mainly in relation to the Deposits Guarantee Scheme, Wholesale Guarantees schemes and Administration of Guarantees.

The table below splits the time related activities with core policy making functions across Vote Finance.

	$ million				
Vote Finance	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
:					
Policy Based Activities	56.451	54.217	52.767	53.113	53.113
DMO and Financial Operations	15.591	15.261	11.325	8.429	7.469
Total Output Expenses	**72.042**	**69.478**	**64.092**	**61.542**	**60.582**

Baselines for Votes CRIs and SOEs remain static over the same period.

The table shows the Treasury must manage its out year work programme and resource it in a way that is both efficient and effective but also in a way that ensures that an appropriate and defined disengagement strategy is in place. So that when the work ceases so do the related costs. This is particularly relevant in the above mentioned operational activities within the Treasury.

We do not envisage there to be a significant shift in resources across the Treasury's output expenses in 2010/11, although some proposed fiscally neutral adjustments may be sought during the year to ensure sufficient resources are redirected to the highest priority areas; for example for Crown Risk and Balance Sheet, Infrastructure and State Sector Performance activities.

Infrastructure will be a critical area of focus particularly in respect to development of the next version of the National Infrastructure Plan and driving opportunities for greater private sector involvement in infrastructure development.

The implementation of the CRI taskforce findings may have implications for the distribution of existing resources between the Treasury and other agencies, and across Votes. That work has just commenced and the consequences are yet to be identified. Any potential changes will be considered as part of Budget 2011.

In addition funding, establishing and potentially servicing the Productivity Commission will also be an area of focus. The Vote Finance financial contribution will be $237,000 in 2010/11, $467,000 in 2011/12 and $500,000 from 2012/13 onwards.

Within Vote Finance I intend returning some 2009/10 funding that officials have advised is unlikely to be required this financial year, and will be returned as a saving and the baselines reduced accordingly. This amount is $0.830 million and is detailed in the table below.

	$ million increase/(decrease)				
Vote Finance	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
MCOA Macro Economic Policy Advice and Management:					
Economic and Tax Forecasting	(0.075)				
Fiscal Management	(0.350)	-	-	-	-
Fiscal reporting	(0.075)	-	-	-	-
Management of Crown Lending and Crown Bank Accounts	(0.180)	-	-	-	-
Policy Advice; Fiscal and Macroeconomic	(0.150)	-	-	-	-
Total MCOA:	**(0.830)**	-	-	-	-

In addition a number of reductions in forecast expenditure were adjusted to baselines as part of the recent February Baseline Update reflecting more up to date information – particularly around Administration of Guarantees and Indemnities given by the Crown (PLA), Administration of Derivative Transactions (PLA) and Administration of Investment of Public Money (PLA).

Non-Departmental Expenditure

Non-departmental expenditure is significant, but largely non-discretionary, being required under legislation; for example cost associated with the Government Superannuation Fund and New Zealand Superannuation Fund, or in relation to contractual obligations; e.g. Crown debt servicing costs (which continue to increase as the Crown takes on more debt).

Accordingly there is not a lot of scope to reprioritise resources in these areas. Again, there have been a number of reductions in forecast expenditure that were adjusted to baselines as part of the recent February Baseline Update. This is a reflection of more up to date information.

SECTION 3: SUMMARY OF FINANCIAL MOVEMENTS

Baseline Alignment Proposal - Financial Summary Report					
Vote: Finance	2009/10	2010/11	2011/12	2012/13	2013/14
	($000)	($000)	($000)	($000)	($000)
Baseline (2009/10 FBU)	4,389,665	3,843,779	4,457,992	5,054,753	5,305,400
Share Allocation	0	0	0	0	0
Centralised Saving	-830	0	0	0	0
Reprioritisation					
Total Reprioritisation	0	0	0	0	0
Transfers Outside Vote					
NZ Productivity Commission	0	-237	-467	-500	-500
Total Transfers Outside Vote	0	-237	-467	-500	-500
Total Changes	-830	-237	-467	-500	-500
Total Proposed Baseline	4,388,835	3,843,542	4,457,525	5,054,253	5,304,900

Baseline Alignment Proposal - Financial Summary Report					
Vote: State-Owned Enterprises	2009/10	2010/11	2011/12	2012/13	2013/14
	($000)	($000)	($000)	($000)	($000)
Baseline (2009/10 FBU)	3,275	2,739	2,748	2,782	2,782
Share Allocation	0	0	0	0	0
Centralised Saving	0	0	0	0	0
Reprioritisation					
Total Reprioritisation	0	0	0	0	0
Transfers Outside Vote					
Total Transfers Outside Vote	0	0	0	0	0
Total Changes	0	0	0	0	0
Total Proposed Baseline	3,275	2,739	2,748	2,782	2,782

Baseline Alignment Proposal - Financial Summary Report					
Vote: Crown Research Institutes	2009/10	2010/11	2011/12	2012/13	2013/14
	($000)	($000)	($000)	($000)	($000)
Baseline (2009/10 FBU)	1,686	1,074	1,074	1,074	1,074
Share Allocation	0	0	0	0	0
Centralised Saving	0	0	0	0	0
Reprioritisation					
Total Reprioritisation	0	0	0	0	0
Transfers Outside Vote					
Total Transfers Outside Vote	0	0	0	0	0
Total Changes	0	0	0	0	0
Total Proposed Baseline	1,686	1,074	1,074	1,074	1,074