

The Treasury

Budget 2017 Information Release

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[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Budget 2017

Decisions required for development of the Budget Strategy Cabinet paper

Cabinet on 5th or 12th September

Budget 2017 – What would success look like?

This slide pack sets out the key objectives and priority areas for Budget 2017 and confirms the decisions required for development of the Budget Strategy Cabinet paper.

The Budget 2017 process should be designed to support:

- Making progress with embedding Social Investment approach with agencies
- Getting into the Health expenditure with a value-for-money lens
- Increasing the rigour of the BGA process
- Continuing the focus on capital recycling
- Results focused performance targets for the Budget
- The macroeconomic environment in which New Zealand operates

We propose that Budget 2017 supports the change required to embed the Investment Approach and Treasury's Fiscal Integrator role with a focus on:

CUSTOMER CENTRIC FOCUS:

- Focus on value and results for customers and businesses
- Settings that require a targeted client focus
- Work with those best able to succeed, without limitation by institutional boundaries

GETTING INTO THE BASE:

- Agencies relating their cost to serve to results
- Focus on stocks as well as flows. Shift resources and change settings to increase impact
- Supported by rules that incentivise these behaviours

IMPACT & RETURN ON INVESTMENT:

- Longer-term understanding of drivers of results and risks
- Investment decisions are made looking across agencies/sectors are driven by results
- Requirement for robust evidence, analysis and evaluation with clear strategic alignment

Priority areas that contribute to Budget 2017 outcomes

- Treasury has reflected the priorities focused to the results areas discussed by Budget Ministers.

[33]

- We recommend Ministers clearly commission these pieces of work, consistent with the Budget 2017 timeframes, subject to any required consultation with their Cabinet colleagues.
- ***Treasury can commence working with agencies to develop more detail on what is possible for Budget 2017 in each of these areas. This work can be used to inform the Cabinet paper and recommended bilaterals in October.***

[33]

Key Points:

- Operating allowances for Budget 2017 have been set at \$1.5b per annum – pressures signalled exceed this by \$500m – this does not include a between-Budget contingency.
- It is still very early in the Budget process – these numbers provide a rough indication of known pressures. This highlights the big spending areas to focus on for Budget strategy discussions (e.g. health, education, housing, family violence and CYF reforms).

Portfolio Pressures Overview

Defence: [33] per annum operating as signaled in the Defence White Paper.

International: Potentially [33] over the forecast period for the Dubai Expo 2020. Maybe sought as a pre-commitment.

Justice Sector: [33] over the forecast period for Family Violence Legislation initiatives sought as a pre-commitment. [33] per annum). [33] per annum for anti-money laundering/countering the financing of terrorism reforms sought as a pre-commitment. [33] over the forecast period for prison muster pressures ([33] per annum).

Housing: Officials are exploring options to secure supply with a report back in August. These options may have fiscal costs [33]

Social Development: CYF reforms uncertain at this stage but could be [33] per annum at Budget 2017, with further significant cost in future Budgets as the operating model is developed. The reforms were originally estimated to cost an additional [33]

Business Growth Agenda & Other: Placeholder based roughly on previous Budgets [33] The BGA Leadership Group is on 15 August to discuss key BGA themes for Budget 2017.

Education: Significant cost pressures expected around forecast changes (\$175m), property [33] and teachers aides and special education [33]. New initiatives are likely for targeted ops grant increase [33] and education payroll ([33]). We have not assumed any funding relating to the Education System Funding Review.

Health: At this stage it looks difficult to manage Health under [33] per annum. Rough indications show Terranova ([33]), DHB pressures ([33]), disability support services ([33]), bowel screening ([33]), and other pressures including nationally funded programmes and primary care [33]).

Key Points:

- Capital allowances for Budget 2017 have been set at \$900m – pressures signalled exceed this by five times the allowance.
- It is still very early in the Budget process – these numbers provide a rough indication of known pressures. This highlights the big spending areas to focus on for Budget strategy discussions (e.g. health, transport, education, housing). An updated Investment Pipeline will be presented to Investment Ministers.

Portfolio Pressures Overview

International: [33]

HNZC: [33]

Health: Possibly up to [33] for capital pressures. [33]

Defence: The Defence White Paper signalled around [33] of capital pressure.

Justice Sector: Prison muster pressures of around \$1.0b – further advice on the programme business case will be provided at Fiscal Issues on 17th August. This excludes projects funded from the tagged contingency. It is also anticipated that there may be additional capital expenditure required for the Family Violence Reform Programme.

Education: As per previous Budgets expect large capital bid, at least [33] for school property and [33]

Transport: Large potential costs include:

- CRL (~\$1.7b) – note this could become operating funding, and could also be spread across multiple budgets depending on contract. Still uncertainty over end ownership and accounting treatment
- \$1 billion infrastructure fund (at this stage assumed to be repayable over 10 years, not counted in the graph on the right)
- KiwiRail injections [33]
- Wellington metro rail [33]
- [33]

Budget 2017 – How does it fit together?

Treasury will set out the Budget process and clear rules in the Budget Strategy Cabinet paper for Finance Ministers' engagement with their Cabinet colleagues

The main things we will **emphasise** are:

- An increased focus on the importance of high quality Four Year Plans
- Provide further advice on the impact of drivers such as population movement on the allowances
- Cost pressure analysis and consideration of options to address these are embedded within Four Year Plans and the Ministry of Finance Function
- We will consider how the Social Investment Panel is used – we recommend you discuss this when you meet with the Panel on 11th August 2016
- Improving the consistency of the Social Investment Panel and Investment Panel
- Providing more rigour to all Budget work streams
- Explicit reporting of Four Year Plan quality, Investor Confidence Ratings and Investment Pipeline in advice to Budget Ministers

The main **step changes** we will implement or explore are:

- Early report backs on Priority Areas in September to inform bilaterals and to influence how agencies develop initiatives and Four Year Plans
- Agencies are required to submit financial implications over a 15 year forecast period for all initiatives
- Fit for purpose evaluation plans are required for all initiatives
- [33]
- BGA Budget team will provide recommendations on use of an independent expert panel and bi/trilateral meetings with Finance Ministers
- [33]
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Budget Strategy & Priorities

Development & Production

	August	September	October	November	December
What is currently planned?	<ul style="list-style-type: none"> • <u>July</u>: Published Budget 2017 CBAX • <u>By end of August</u>: Treasury engagements with agencies on Four Year Plans 	<ul style="list-style-type: none"> • Cabinet Investor Confidence Rating (Tranche 2) • Investment Panel 	<ul style="list-style-type: none"> • October Baseline Update • GPP data • Science advisors report back • Bilateral meetings • <i>Social Investment Panel (TBC)</i> 	<ul style="list-style-type: none"> • <u>30th November</u>: Four Year Plans and Cost Pressures (through Four Year Plans) • <u>30th November</u>: Long Term Investment Plans (Tranche 3) • Investment Panel 	<ul style="list-style-type: none"> • <u>2nd December</u>: Budget initiatives and CBAX templates • <u>December</u>: HYEPU • Budget Ministers

Initiative Assessment & Bilaterals

Budget Production & Communication

	January	February	March	April	May
What is currently planned?	<ul style="list-style-type: none"> • Initiatives assessments • Sector Team engagement with agencies 	<ul style="list-style-type: none"> • Investment Panel • Social Investment Panel • Bilaterals with Ministers on Vote baselines • BGA work stream meeting • Budget Ministers 	<ul style="list-style-type: none"> • March Baseline Update • Bilaterals with Ministers on Vote Initiatives • Investment Ministers' decisions • BGA Ministers' meeting • Budget Ministers' decisions 	<ul style="list-style-type: none"> • Budget Ministers' decisions • Cabinet decisions on technical and significant Budget papers 	<ul style="list-style-type: none"> • Budget day • BEFU • Budget Moratorium

