

# The Treasury

## Budget 2018 Information Release

### Release Document August 2018

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[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
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[36]	to maintain legal professional privilege	9(2)(h)
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[40]	not in scope	
[41]	that the making available of the information requested would be contrary to the provisions of a specified enactment	18(c)(i)
[42]	information is already publicly available or will be publicly available soon	18(d)

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.

Reference: T2018/417

BM-2-1-2018

Date: 26 February 2018

To:

Minister of Corrections (Hon Kelvin Davis)  
Minister of Finance (Hon Grant Robertson)  
Minister of Transport (Hon Phil Twyford)  
Minister for Greater Christchurch Regeneration (Hon Dr Megan Woods)  
Minister of Education (Hon Chris Hipkins)  
Associate Minister of Finance (Hon Dr David Clark)  
Minister of Police (Hon Stuart Nash)  
Minister for Building and Construction (Hon Jenny Salesa)  
Minister of Broadcasting, Communications and Digital Media (Hon Clare Curran)  
Minister of Defence (Hon Ron Mark)  
Minister for Infrastructure (Hon Shane Jones)

Deadline: None  
(if any)

## **Aide Memoire: Material to support Infrastructure workstream meeting**

The purpose of this note is to support the Infrastructure workstream meeting, chaired by Minister Clark on Wednesday 28 February.

This note provides an overview of:

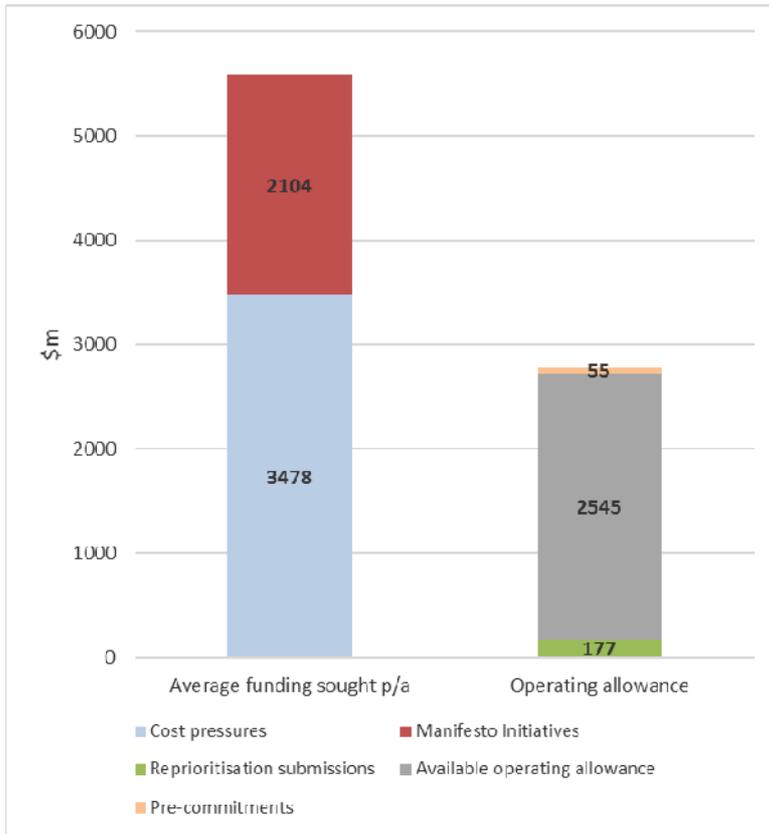
- The purpose of the workstream meetings;
- The key assessment criteria used by the Treasury Vote teams;
- A comparison of what has been submitted in the Infrastructure workstream compared to what the Treasury Vote team initially supports for the next round of assessment;
- Key themes and initiatives to consider in the Infrastructure portfolio, and
- A recommended agenda for the meeting.

Attached to this note is a list of all initiatives submitted by agencies to the Infrastructure workstream with the Treasury Vote team funding recommendation. This includes cost pressures, manifesto and reprioritisation initiatives.

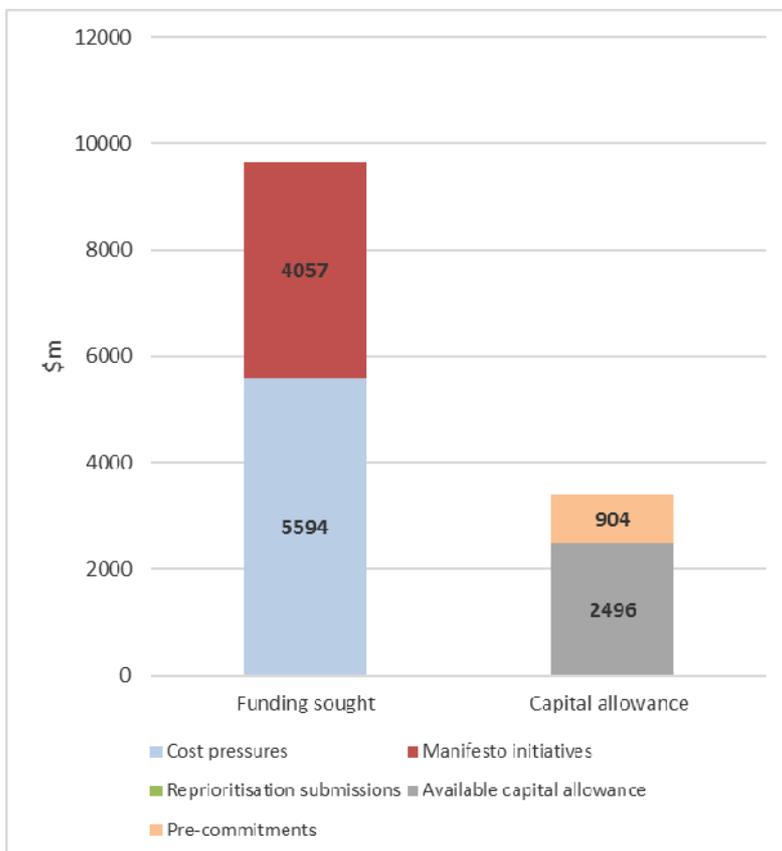
### **Overview across all workstreams**

As outlined at the bilateral meetings led by Minister Clark and illustrated in Figure 1 and 2 below, both the operating and capital allowances are heavily oversubscribed. This reflects initiatives submitted up to 23 February.

**Figure 1 – operating funding per annum sought vs. Budget allowances**



**Figure 2 – capital funding sought vs. Budget allowances**



## Purpose of the workstream meetings

The purpose of the workstream meetings is to assist with the Budget 2018 decision-making process by considering initiatives dealing with similar issues or sectors together, identifying priority initiatives across portfolios and to provide advice to Budget Ministers who make final Budget decisions.

In order to meet the Budget Responsibility Rules, it is critical that Budget 2018 is delivered within the allowances announced in the 2018 Budget Policy Statement. This means that initiatives will need to be prioritised, further reprioritisation options will need to be considered and some challenging decisions will need to be made.

Five workstreams have been established to help with this decision-making process:

- **Natural Resources:** This workstream considers policies related to the environment, conservation and energy sustainability. It also considers policies related to New Zealand's natural resources and indigenous flora and fauna, biodiversity, and climate change. This workstream also includes policies within the Lands portfolio.
- **Economic Development:** This workstream considers non-infrastructure policies related to economic, urban and regional development. It also considers policies related to communications, research and innovation in business, productivity and New Zealand's workforce.
- **Social Wellbeing:** This workstream considers policies relating to social wellbeing to support a fair and dignified standard of living for all New Zealanders. This workstream includes policies relating to education, health, justice, income support, public housing and child poverty reduction.
- **Infrastructure:** This workstream considers investment in physical and non-physical facilities and services necessary for a well-functioning economy, for example: schools, hospitals and IT.
- **Other:** This workstream considers policies in the areas not covered by the other workstreams, for example: Arts, Culture & Heritage, Defence, and Internal Affairs.

These workstreams were created to incorporate the Living Standards Framework and the Government's priorities. They do not limit how the Budget package is presented on Budget day, but are instead designed to help with the decision making process.

## Infrastructure workstream meeting

Infrastructure workstream Ministers will play a key role in this prioritisation process in looking across portfolios at that initiatives classified in the Infrastructure workstream to determine cross-portfolio linkages and workstream priorities.

It will be critical that Ministers consider at this meeting, which of the Infrastructure workstream initiatives best contribute to the following priorities agreed to by Cabinet for Budget 2018:

- Providing quality public services for all New Zealanders and improving access to core services such as health and education,
- Taking action on child poverty and homelessness,
- Supporting families to get ahead and sharing the wealth generated by our economy with a wide range of New Zealanders,
- Sustaining economic development and supporting the regions, and
- Managing our natural resources and taking action against environmental challenges such as climate change.

Additionally, Budget Ministers have highlighted the following areas as priorities for Budget 2018. Portfolio Ministers should consider how initiatives in the Infrastructure workstream align with these priorities:

- Commitment to Coalition and Confidence and Supply Agreements,
- Meeting cost pressures and rebuilding core services,
- Housing (both short-term and long-term focus),
- Health,
- Education, and
- Supporting the business community and wealth creation.

This will assist in the prioritisation and development of a draft package for Budget Ministers consideration on **Monday 19 March**.

### **Where are we at in the assessment and decision-making process?**

The Treasury Vote teams have completed their individual assessment of cost pressures, manifesto and reprioritisation initiatives. It is important to note that these are individual Vote team assessments. Initiatives that are supported in this initial assessment still need to be considered in the next three rounds of assessment and decision-making as outlined in Annex 2.

### **The Treasury Vote team assessment**

The Treasury Vote team funding recommendations have been included in Annex 1 of submitted initiatives. These recommendations derive from more detailed assessments. The Table in Annex 3 outlines the key considerations of these assessments.

The first consideration of this assessment is scope. **Initiatives that are not genuine cost pressures or mentioned in the Coalition agreement, Confidence and Supply agreement and the Speech from the Throne have not been prioritised in the assessment process and are reflected as 'do not support' in the Annex.** These initiatives have been assessed as 'do not support' as they are out of scope for Budget 2018 and the assessment does not necessarily reflect the merits of the initiative.

## Submitted initiatives in the Infrastructure workstream and the Treasury vote team assessment

### Operating initiatives

Operating Initiatives – average per annum (\$m)		
Type of initiative	Operating funding sought or offered	Vote team assessment of recommended operating funding
Cost pressure	225	129
Manifesto	20	0
<b>Total funding sought</b>	<b>245</b>	<b>129</b>
Reprioritisation submissions	0	0

### Capital initiatives

Capital Initiatives – total sought or offered (\$m)		
Type of initiative	Capital funding sought	Vote team assessment of recommended capital funding
Cost pressure	2,354	1,574
Manifesto	2,401	0
<b>Total funding sought</b>	<b>4,755</b>	<b>1,574</b>
Reprioritisation submissions	0	0

### Reprioritisation

As discussed in the recent Budget meetings held by Minister Clark, reprioritisation submissions are unlikely to provide sufficient headroom to fund additional spending on top of the operating allowance for Budget 2018. To generate further savings, the Treasury has sent across its initial assessments to portfolio ministers, which in a number of portfolios identifies further savings options to investigate.

It is important to note that while your entire portfolio may be a priority of the Government, there still may be services or programmes set up by the previous Government within the portfolio that do not align with the Government's priorities. Identifying such initiatives will enable the Government to fund more of its manifesto commitments and cost pressures in Budget 2018.

### Key groupings and initiatives in the Infrastructure workstream

#### Transport

##### *Overview*

There are <sup>[33]</sup> transport initiatives submitted through the manifesto track seeking new funding. <sup>[33]</sup>

and <sup>[37]</sup>

The Treasury Vote team has assessed all of these initiatives as not in scope for Budget 2018 according to the assessment criteria (as it is not specifically mentioned in agreements).

[33]

The Vote team acknowledges that several initiatives have merit <sup>[33]</sup>  
but recommend deferring decisions on Crown  
funding until:

1. The revised Government Policy Statement (GPS) on land transport is in effect (stage 1 expected in June). This two-stage process would enable most of the transport initiatives to become eligible for funding through the NLTF by September 2018 for with the second-stage GPS reflected in 2019. The two-stage approach was recommended to provide early signals to the transport sector while being confident that the second-stage GPS due for completion in 2019 would fully implement the Government's transport priorities.
2. The review of rail is completed (expected in August 2018). The review will provide a better understanding of rail's value and strategic significance, and seek agreement from Ministers for the ongoing funding approach to be used for rail investment. <sup>[33]</sup>

#### *Other funding sources*

[33]

The Treasury Vote team are supporting scaled funding for two cost pressure initiatives related to increased responsibilities and challenges for the Civil Aviation Authority.

**Ministers may wish to discuss what initiatives are a priority for the Government's transport strategy and Budget 2018.**

## Education

The *Schools Growth Package* initiative is the largest Education cost pressure initiative submitted. The funding is to accommodate roll growth pressures, as well as carry out complete redevelopments of schools in poor condition. The Vote team has worked with the Ministry to develop three scaling options. The Vote team's recommended funding amount (\$332 million capital and <sup>[33]</sup> per annum operating, which is the medium package) has taken into account market capacity to deliver in areas facing the greatest growth pressures, for example Auckland. It is worth noting that the package can be further scaled, however real pressures in some areas that aren't funded this year will return for funding next year.

[33]

\$8.600 million has been supported for the infrastructure capability component, <sup>[33]</sup>

The Vote team has assessed the *Christchurch Rebuild* initiative submitted through the manifesto track as out of scope (as it is not specifically mentioned in agreements). The Vote team is confident of the Ministry's capacity and capability to deliver the initiative, but they also note that the initiative is scalable. <sup>[33]</sup>

There is some community pressure to get this further underway.

All other education initiatives are being considered through the Social Wellbeing workstream.

**Ministers may wish to discuss what the strategy is to manage infrastructure pressures such as roll-growth in the education sector.**

## Corrections

Since December 2014, the prison population has increased by more than 20%. <sup>[33]</sup>

Further significant investment could be required to deal with projected prison population numbers if efforts to reduce the prison population are not successful. Many existing prison facilities are also in need of an upgrade or replacement.

The initiative *Prisoner volumes - responding to growth* requests funding to enable the operation of [38] new beds. [38] of these new beds are already being added within existing facilities (primarily through double bunking). This initiative provides operating funding for that capacity, and capital and operating funding for a further 600 new beds via modular units.

[33]

Corrections is seeking approval for the Waikeria redevelopment in March in order to meet programme timeframes which anticipate signing the contract in April, in order to have capacity delivered by late 2021. We expect this to be submitted alongside a suite of accompanying papers to provide Ministers with advice on increases in Police numbers (which could create upward pressure on prison capacity) and options for reducing the prison population. We recommend Ministers consider these initiatives as a package in order to reach a judgement on how much prison capacity is needed.

**Ministers may wish to discuss the upcoming advice related to the prison population, and what balance they would like to strike between efforts to reduce the prison population and further capacity investments.**

## Health

The cost pressure initiative *District Health Boards (DHB) Capital Investment* seeks funding for a wide range of DHB projects. All of the projects signalled are considered by the Treasury Vote team and the Ministry of Health to be essential, but consider it very unlikely that DHBs will be able to develop and deliver business cases for the total [33] being sought in the 2018/19 year.

Scaled funding of \$750 million will provide for the high priority, investment ready projects. This will be a mix of volume pressures [33] and price pressures (infrastructure remediation and replacement).

DHBs have signalled capital intentions of [33] for the next four Budgets (2018 – 2021) so significant capital investment by the Government will be required over the coming years.

The Dunedin Hospital redevelopment has been submitted primarily to give Ministers early visibility of this significant initiative. [33]

The Treasury Vote team recommends setting aside [37] in capital for the design costs.

## Christchurch

Any funding for the *Christchurch Regeneration Acceleration Facility* initiative would go towards developing the red zone, contribute towards a new multi-purpose stadium and deal with the gaps in the horizontal infrastructure programme in partnership with the Christchurch City Council (CCC) as part of reaching a Global Settlement. The funding would be set aside in a tagged contingency as funding projects are subject to business case approval.

Though the initiative is not specifically listed in agreements the Vote team supports the initiative subject to business case approval. The Vote team also notes the initiative is not realistically scalable.

### Ministers may wish to discuss the relative advantages of:

- [33]

- 

## Agenda for the meeting

Given the number of initiatives in the Infrastructure workstream and the time constraints, we recommend the following agenda for the meeting:

	Agenda item	Areas to consider
1.	Cost pressures and manifesto initiatives: Top priorities and common groupings in the Infrastructure workstream for Budget 2018	<ul style="list-style-type: none"> <li>• Discuss the prompting discussion points in the above paragraphs.</li> <li>• What are the Infrastructure workstream priorities?</li> <li>• Do initiatives contribute to Government priorities?</li> <li>• Do the priorities identified have any overlap with other initiatives across the workstream?               <ul style="list-style-type: none"> <li>○ E.g. are they complimentary in contributing to a particular priority?</li> </ul> </li> <li>• Do these priorities align with the Government priorities agreed by Cabinet and Budget Ministers for Budget 2018?</li> </ul>
2.	Next steps for reprioritisation – request for Portfolio Ministers to continue to pursue further reprioritisation options with their officials. Agreement from Portfolio Minister to direct their departments to work with the Treasury in order to investigate further savings.	

## Next steps

In order to manage expenditure within the allowances initiatives will need to be prioritised and some tough trade-offs will be required. We encourage you to come to the Infrastructure workstream meeting prepared to discuss:

- the common groupings and discussion points across the cost pressure and manifesto initiatives highlighted in this note, and
- the key priority initiatives in the Infrastructure workstream for Budget 2018, and what manifesto initiatives could be deferred until future Budgets, in particular the 2019 Wellbeing Budget.

The workstream meeting will assist Treasury in developing a draft package for Budget Ministers consideration on **Monday 19 March**. At this point, Budget Ministers will consider what further engagements will be required ahead of finalising the Budget package by **Tuesday 3 April**. These further meetings are likely to be required for larger, more complex portfolios.

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