

The Treasury

Budget 2018 Information Release

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[36]	to maintain legal professional privilege	9(2)(h)
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[40]	not in scope	
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[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: T2018/419

BM-2-4-2018



Date: 23 February 2018

To: Minister of Foreign Affairs (Rt Hon Winston Peters)
Minister of Tourism (Hon Kelvin Davis)
Minister of Finance (Hon Grant Robertson)
Minister of Housing and Urban Development (Hon Phil Twyford)
Minister of Research, Science and Innovation (Hon Dr Megan Woods)
Associate Minister of Finance (Hon Dr David Clark)
Minister for Economic Development (Hon David Parker)
Minister for Small Business (Hon Stuart Nash)
Minister of Immigration (Hon Iain Lees-Galloway)
Minister of Broadcasting, Communications and Digital Media (Hon Clare Curran)
Minister for Regional Economic Development (Hon Shane Jones)
Minister of Commerce and Consumer Affairs (Hon Kris Faafoi)
Minister of Customs (Hon Meka Whaitiri)
Minister of Statistics (Hon James Shaw)

Deadline: Tuesday 27 February 3:30pm
(if any)

Aide Memoire: Material to support the Economic Development workstream meetings

The purpose of this note is to support the Economic Development workstream meeting, chaired by Minister Clark on Tuesday 27 February at 3:30pm.

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 Economic Development workstream compared to what the Treasury Vote team initially supports for the next round of assessment;
- key groupings and initiatives to consider in the Economic Development workstream, and
- a recommended agenda for the meeting.

Attached to this note is a list of all initiatives submitted by agencies to the Economic Development workstream with the Treasury Vote team funding assessment. This includes cost pressure and manifesto initiatives and reprioritisation submissions.

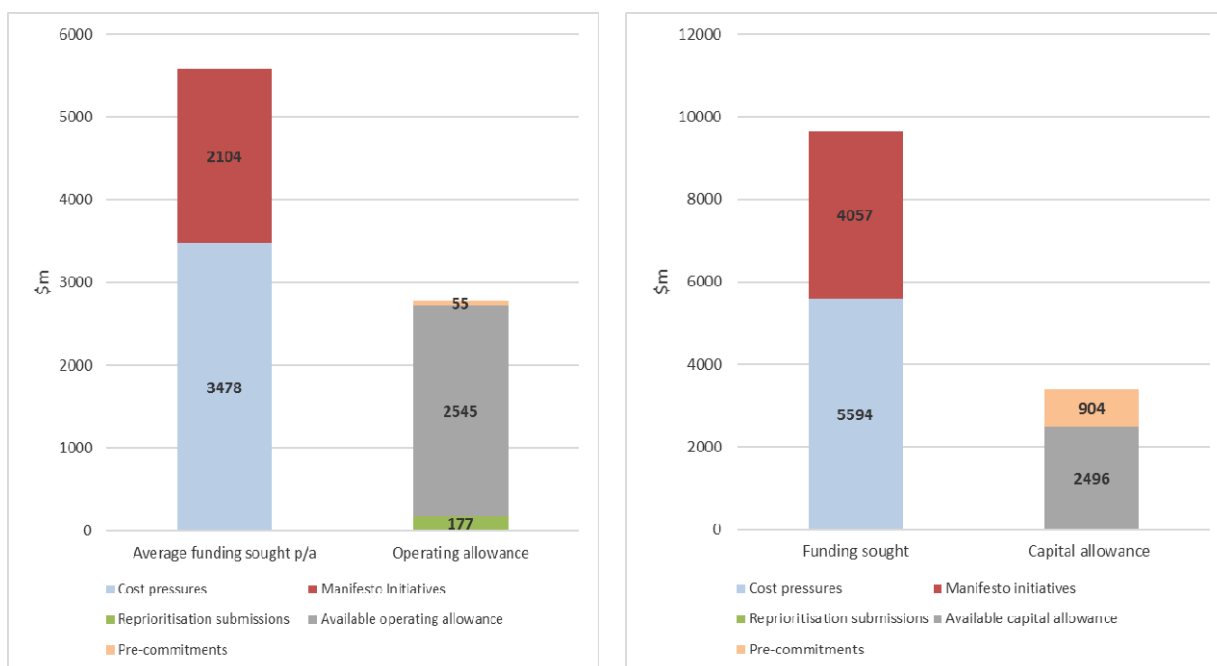
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Overview across all workstreams

As outlined at the recent Budget meetings led by Minister Clark and illustrated in Figures 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

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 the decision-making process by considering initiatives dealing with similar issues or sectors together, identifying priority initiatives and to provide advice to Budget Ministers who make final Budget decisions:

- **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.

Economic Development workstream meeting

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

It will be critical that Ministers consider at this meeting, which of the Economic Development 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 Economic Development 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
- 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 pressure and manifesto initiatives and reprioritisation submissions. 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. ***Vote teams have not supported any initiatives that aren't genuine cost pressures or any manifesto initiatives that are not in scope*** (in the Coalition agreement, the Confidence and Supply agreement and the Speech from the Throne).

Submitted initiatives in the Economic Development workstream and the Treasury Vote team assessment

Operating Initiatives – average per annum (\$m)		
Type of initiative	Operating funding sought or offered	VA assessment of recommended operating funding
Cost pressure	587	71
Manifesto	736	468
Total funding sought	1,323	539
Reprioritisation submissions	16	13

Capital Initiatives – total sought or offered (\$m)		
Type of initiative	Capital funding sought	VA assessment of recommended capital funding
Cost pressure	833	589
Manifesto	1,515	1,477
Total funding sought	2,349	2,066
Reprioritisation submissions	3	3

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 Economic Development workstream

Data and digital initiatives

A number of data and digital initiatives have been submitted which are out of scope for Budget 2018, but have merit. ('Bis.Govt New Business Journeys', 'Implementation of e-invoicing in New Zealand' and 'Business Connect'). If deferred, the implementation costs of these initiatives are likely to increase. Three further initiatives have a specific data and digital focus, and are in scope for Budget 2018.

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We recommend that a separate meeting with Ministers who have submitted these initiatives be set up to ensure that these initiatives can be seen as a suite of related initiatives and prioritisation decisions can be made based on which initiatives would have the greatest impact from a system perspective.

A key discussion point for this workstream meeting will be the overarching data and digital strategy across Government.

Research and Development (R&D) Initiatives

There are six manifesto initiatives that have been submitted totalling an average of \$258 million per annum that relate to the Government's commitment to increase R&D spending to 2% of GDP over ten years.

This includes funding for an R&D tax credit which makes up \$214 million of the total funding per annum, which the Treasury is currently supporting in full. The actual cost of the R&D tax credit will be substantially affected by design settings and there is currently uncertainty in the total value of claims that will come in. The transitional arrangements which are still to be determined will have an impact on funding for the current Growth Grant scheme, which may change the funding required and the amount supported for this initiative.

A key discussion point for this workstream meeting will be how much R&D funding should be prioritised now to achieve the overall target, and what a funding strategy might look like.

Housing-related Initiatives

Housing initiatives are split across the Economic Development and Social Wellbeing workstreams. An average of \$166 million operating per annum and a total of \$69 million capital has also been sought in the Social Wellbeing workstream for initiatives related to public and transitional housing.

Two initiatives in the Economic Development workstream are linked to the Healthy Homes Guarantee Act – funding for implementation, and a grant scheme for insulation and heating retrofits to help homeowners comply with new standards ^[33]

The Treasury Vote team also recommends that the approach to fees and incentives to home owners and landlords to comply with the standards is reviewed to ensure that the intended outcome of the policy is best achieved, and that the initiative looks to target low income and poor health owner occupiers.

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A key discussion point for this workstream meeting will be how to prioritise all of the housing initiatives that have been submitted (across the Economic Development and Social Wellbeing workstreams)

Foreign Affairs-related initiatives

Eight initiatives have been submitted in the Foreign Affairs portfolio totalling an average of \$438 million operating funding per annum and \$280 million capital in total. This is a significant portion of the Economic Development workstream.

Of these, an average of \$300 million per annum operating is sought to lift New Zealand's Official Development Assistance (ODA) contribution significantly to 0.35% of GNI over four years. This is not technically a cost pressure (as per assessment criteria) and any increases to ODA are discretionary, although may be seen as a Government priority. Ministers need to consider the longer-term strategy in this space. Following Ministerial direction, Officials are exploring options with lower fiscal impacts.

Funding of \$50 million per annum operating is also sought to host APEC in 2021. Given that New Zealand has committed to hosting APEC21, there is limited discretion in funding this initiative. Costings reflect a 'credible minimum' option for hosting and operations, but do not yet include security-related costs (part of phase 2 to be sought in Budget 2019). The Treasury Vote team is currently supporting this initiative in full, but following Ministerial direction, are exploring implications of reducing contingency funding.

The Provincial Growth Fund

It is also worth noting that a significant amount of funding has been sought in Budget 2018 to establish the Provincial Growth Fund (PGF). This makes up a large portion of the Economic Development workstream, with an average of \$375 million per annum of operating funding sought (a total of \$1.5 billion) and a total of \$1.5 billion capital sought. The Treasury is recommending funding \$185 million per annum operating and \$1.46 billion capital which would fully fund the PGF to a total of \$3 billion over 3 years, after taking into consideration operating and capital already agreed as a pre-commitment to Budget 2018 and repurposed from other areas.

The Minister for Regional Economic Development and the Minister of Finance will be meeting on 22 March to agree which Budget initiatives will count against the PGF if the initiatives were to be agreed through the Budget process. This will have an impact on how much supported funding for other initiatives may have on the Budget 2018 allowances. The exact operating and capital split may change depending on the outcome of this meeting.

Ministers may wish to consider how current and future initiatives in this workstream might advance the objectives of the PGF over the next three years.

Agenda for the meeting

Given the number of initiatives in the Economic Development 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 Economic Development workstream for Budget 2018	<ul style="list-style-type: none"> • Discuss the prompting discussion points in the above paragraphs. • What are the Economic Development workstream priorities? • Do initiatives contribute to Government priorities? • Do the priorities identified have any overlap with other initiatives across the workstream? <ul style="list-style-type: none"> ○ E.g. are they complimentary in contributing to a particular priority? Do they rely on the same labour force to implement? • Do these priorities align with the Government priorities agreed by Cabinet and Budget Ministers for Budget 2018?
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 Economic Development 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 Economic Development 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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Kamlesh Patel, Team Leader, Budget Coordination, ^[39]