

# The Treasury

## Budget 2018 Information Release

### Release Document August 2018

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[2]	to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government	6(b)(i)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
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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)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
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[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
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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.

## Treasury Report: Draft Budget 2018 Packages

<b>Date:</b>	14 March 2018	<b>Report No:</b>	T2018/614
		<b>File Number:</b>	BM-2-1-2018

### Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p><b>Discuss</b> the key trade-offs that have been made in order to reach these allowances, and any changes that you may wish to make to the package with officials on Thursday 15 March.</p> <p><b>Refer</b> this report and the accompanying annex to the Prime Minister on Wednesday afternoon ahead of your meeting with her on Thursday morning.</p>	<p>2:30pm Thursday 15 March</p> <p>Wednesday 14 March 2pm.</p>
Associate Minister of Finance (Hon Dr David Clark)	<b>Note</b> the contents of this report.	None

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Rachelle Earwaker	Analyst, Budget Coordination	[39] (wk)	N/A (mob) ✓
Kamlesh Patel	Team Leader, Budget Coordination	[39] (wk)	N/A (mob)

### Actions for the Minister's Office Staff (if required)

**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** Yes (attached)

## **Treasury Report: Draft Budget 2018 Packages**

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### **Executive Summary**

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This report provides you with the updated capital and operating draft packages for Budget 2018 for your consideration ahead of Budget Ministers 2 at 6:15 pm on Monday 19 March.

You are meeting with officials at 2:30pm and 4pm on Thursday 15 March to discuss the contents of this report, and any changes that you may wish to make to the draft packages.

Treasury officials will also provide you with an updated slide pack for Budget Ministers 2 on Thursday morning, to discuss with officials ahead of sending out to Budget Ministers, along with the draft package annex on Friday morning.

The draft operating package for Budget 2018 is currently at \$2.632 billion per annum. This is made up of \$2.948 billion of gross spending (including precommitments) and \$315 million of reprioritisation and revenue savings. This exceeds the available allowance by \$32 million per annum.

The draft capital package for Budget 2018 is currently at \$3.696 billion. This is made up of \$3.699 billion of gross spending (including precommitments) and \$3 million of reprioritisation. This exceeds the available allowance by \$296 million.

In order to get both the operating and capital packages to these levels, key trade-offs and scaling have needed to be made across all workstreams. The package aims to balance ministerial priorities that were discussed at workstream meetings and bilateral discussions with red and amber rated initiatives. We have outlined some of these key decisions in the report, and recommend that you discuss these with officials on Thursday afternoon.

We have also provided additional information for you on the Provincial Growth Fund (PGF), the increased Conservation package, P-8 A capital phasing, and the Corrections package. We recommend discussing these areas with officials on Thursday afternoon.

We will be undertaking a thorough review of all of the annexes on the afternoon of Wednesday 14 March. This may result in some further refinements to the numbers, which we'll reflect in the version going to Budget Ministers on Friday morning.

## Recommended Action

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We recommend that you:

- a **note** that the current operating package comes to \$2.632 billion per annum, which exceeds the available operating allowance by \$32 million per annum.
- b **note** that the current capital package comes to a total of \$3.696 billion, which exceeds the available capital allowance by \$296 million.
- c **note** that these packages reflect your bilateral discussions with Ministers and officials this week, and where we have not been able to include these decisions, they are outlined in this report.
- d **discuss** with officials on Thursday 15 March the key trade-offs that have been made in order to reach these allowances, and any changes that you may wish to make to the package.

*Agree/disagree.*

- e **refer** this report to the Prime Minister on the afternoon of Wednesday 14 March (today) in preparation for your discussion with her early Thursday morning.

*Refer/not referred.*

Kamlesh Patel  
**Team Leader, Budget Coordination**

Hon Grant Robertson  
**Minister of Finance**

## Treasury Report: Draft Budget 2018 Packages

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### Purpose of Report

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1. This report provides updated draft Budget packages for discussion with Treasury officials on Thursday 15 March, in preparation for Budget Ministers 2 on Monday 19 March.
2. It also provides you with key initiatives that have been scaled or removed from the draft package in order to fit within allowances, and responds to key areas you raised at Budget Matters on Tuesday 13 March.

### Overview

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#### The Operating Package

3. The draft operating package for Budget 2018 is currently at \$2.632 billion. This is made up of \$2.948 billion of gross spending (including precommitments) and \$315 million of reprioritisation and revenue savings.
4. This net operating package exceeds the available operating allowance by \$32 million per annum.
5. The amount of reprioritisation available for Budget 2018 may marginally increase over the coming week. We will be able to reflect this final number in the Budget totals before Budget Ministers 3.
6. Table 1 provides a breakdown of the numbers that make up the operating package, by workstream.

**Table 1 – Operating package at 14 March**

<b>Operating package \$millions</b>	<b>Cost Pressure</b>	<b>Manifesto</b>	<b>Total</b>
Social Wellbeing	1701	151	<b>1852</b>
Infrastructure	104	6	<b>109</b>
Natural Resources	13	60	<b>73</b>
Economic Development	242	424	<b>666</b>
Other	117	13	<b>130</b>
Savings			<b>-195</b>
Reprioritisation			<b>-120</b>
Pre-commitments			<b>67</b>
Between Budget Contingency			<b>50</b>
<b>Total</b>	<b>2177</b>	<b>653</b>	<b>2632</b>

#### The Capital Package

7. The draft capital package for Budget 2018 is currently at \$3.696 billion. This includes \$902 million of precommitments.
8. This exceeds the available capital allowance by \$296 million.
9. Table 2 provides a breakdown of the numbers that make up the capital package, by workstream.

**Table 2 – Capital package at 14 March**

<b>Capital package \$millions</b>	<b>Cost Pressure</b>	<b>Manifesto</b>	<b>Total</b>
Social Wellbeing	142	26	<b>168</b>
Infrastructure	1593	105	<b>1698</b>
Natural Resources	0	189	<b>189</b>
Economic Development	466	195	<b>661</b>
Other	71	10	<b>81</b>
Reprioritisation			<b>-3</b>
Pre-commitments			<b>902</b>
<b>Total</b>	<b>2272</b>	<b>526</b>	<b>3696</b>

### **Annex One – The draft packages**

10. Annex One provides you with oversight of all of the initiatives that have been submitted for Budget 2018 and the Treasury Vote team assessments. The green columns provide you with the operating and capital funding that has been supported to form the draft packages.
11. Annex One also provides comments on the key risks associated with not funding initiatives, and commentary on why we have scaled or not supported certain initiatives.
12. We have also provided a column addressing your comments (where possible) on all of the initiatives which we discussed with your office on Tuesday.
13. Paragraphs 15-28 of this report expand on key initiatives that have not been included in the draft packages, or initiatives that have had to be scaled.
14. It is important to note that we will be proof-checking all of the annexes this afternoon. This may result in some further refinements to the numbers, which we'll reflect in the version going to Budget Ministers on Friday morning.

### **Significant initiatives that are currently not included or are heavily scaled**

15. In order to fit the draft packages in allowances, some key trade-offs and scaling has been required. This section outlines an overview of these key trade-offs by workstream.
16. The annexes provide the full list of initiatives so that you can compare the funding sought with the current draft package for all initiatives (including those not highlighted below).
17. Due to time constraints in pulling this package together, we have not been able to provide full written analysis of the risks and trade-offs for each initiative not included in the draft package. However, we have this information, and recommend you discuss these risks with officials on Thursday 15 March.

#### ***“Infrastructure” workstream***

18. The following initiative is a priority for Minister Woods but is not included in the draft package:
  - *Christchurch Regeneration Acceleration Facility (10253) - \$298.500 million total capital and an average of \$0.375 million operating per annum*

### **“Other” workstream**

19. The following high and medium risk initiatives are not included in the “Other” package:

- [33]
- *Defence White Paper 2016 (DWP 2016) - Contingent Funding for P-8A acquisition (10119)* – average of [33] operating, per annum, [33] total capital.
- *World War One Centenary Programme – Commemorating Armistice Day 2018 (10202)* – average of \$0.188 million operating per annum.
- *Government Digital Services (10231)* – average of [33] operating per annum.

20. A further eight initiatives that were identified as a Ministerial priority in the “Other” workstream are not included in the draft package. This includes:

- *Improving the Resilience of Business Critical Systems (10205)* – average of [37] operating per annum, \$33.325 million total capital.
- *Public media – supporting an informed democracy (10369)* – average of \$38.000 million operating per annum.

### **“Economic Development” workstream**

21. The suite of Foreign Affairs initiatives have been scaled from the original submitted funding amounts to reflect your recent discussions with Minister Peters and Treasury officials. These have been scaled from an initial requested amount of an [33] and a total of [33] to an average of \$223 million of operating funding per annum and a total of \$40 million capital.

22. The Provincial Growth Fund has been scaled from a total of \$3 billion submitted to provide \$1 billion of total funding per Budget for the next three Budgets. This is outlined in more detail in paragraphs 29-38 below.

### **“Natural Resources” workstream**

23. [33]

24. The *Establishing the Foundation for One Billion Trees* initiative (10438) has been scaled from [33] and an average of [33] to total capital of \$88.8 million and an average of \$9.161 million operating per annum.

25. The *Primary Sector Futures – Supporting Sustainable Value Growth* initiative (10389) has been removed from the draft package. It sought funding of \$22.062 million per annum.

## **“Social Wellbeing” workstream**

26. The following initiatives haven't been included in the Social Wellbeing draft package to help fit within allowances:
- *Very low cost access to GP visits for community service card holders (\$95.515 million operating, starting 1 October 2018)*: The current draft package already reflects funding of \$751.347 million per annum operating for Health, excluding this initiative. If you are to remain within the \$750-\$770 million envelope you have indicated, this will require some trade-offs. The Vote team will be providing further advice on the options to fund a package within this envelope and meet Minister Clark's priorities.
  - *Teacher Aide Funding Rates* <sup>[33]</sup> the draft package includes funding for both the schools operations grant and ECE price adjustments (as discussed at the bilateral with Minister Hipkins). If you were to prioritise the across-the-board schools operations grant adjustment, we would not recommend funding the Teacher Aide Funding Rates initiative as well given this funding is paid into the overall operations grant anyway (however, is better targeted to schools with a higher proportion of learners with additional needs).
  - *Expanding Housing First (\$11.744 million operating)*: this initiative seeks to expand the housing first pilot to further regions in New Zealand. It can be deferred to Budget 2019 given pilots are already underway and potential market supply constraints in responding to all housing initiative in Budget 2018. The initiative can be scaled/phased.
  - <sup>[33]</sup>
27. The following initiatives have been scaled to help fit within allowances:
- *Public and transitional housing supply (\$75.056 million operating, \$28.601 million capital)*: this initiative has been scaled for consistency with the draft capital package. The implication of this is that the Government would not be fully meeting its transitional housing supply target of 2,155 in Budget 2018.
  - *Enhanced housing and support services for people managed by Corrections (\$14.4 million operating)*: this initiative has been scaled to reflect market capacity constraints and allow the proposal to develop on a smaller scale to support further development.
  - *Striving towards 1,800 police numbers (\$69.730 million operating, \$17.800 million capital)* <sup>[33]</sup>
  - <sup>[33], [37], [38]</sup>



28. In your bilateral with Minister Hipkins, the Minister outlined there are around \$86.5 million in anticipated underspends associated with lower projected demand in Vote Tertiary Education for low level qualifications and Youth Guarantee courses. There is a risk that if actual demand is higher than anticipated these projected savings would not be realised, however we consider this risk to be low. There is a choice around whether these savings are used to offset the overall Budget allowance or whether they are used to fund further education related initiatives. We would recommend using the savings to offset the overall Budget package.

## Provincial Growth Fund

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29. The Provincial Growth Fund (PGF) is a three year, \$1 billion per year fund.
30. At Budget Matters on Tuesday 13 March, you asked us to provide a draft package, which included one year of \$1 billion of funding for the PGF in Budget 2018 (with a view to fund an additional \$1 billion in Budget 2019 and \$1 billion in Budget 2020).
31. The current draft package reflects one year of funding, totalling \$1 billion with both operating and capital funding. This \$1 billion includes repurposed funding agreed by you and the Minister for Regional Economic Development, and funding already pre-committed against Budget 2018 by Cabinet.
32. The following tables outline the following profile for the PGF for both operating and capital to reach \$3 billion over three years, by providing approximately \$1 billion of funding per year.

Operating funding (\$m)	Year 1	Year 1
	(avg p/a)	Total
Repurposed operating funding	34	135
Pre-commitments	37	147
Budget 2018 operating allowance	101	402
Budget 2019 operating allowance		
Budget 2020 operating allowance		
<b>Total operating</b>	<b>172</b>	<b>684</b>
Capital funding (\$m)	Year 1	
Repurposed capital funding		80
Pre-commitments		49
Budget 2018 capital allowance		187
Budget 2019 capital allowance		
Budget 2020 capital allowance		
<b>Total capital</b>		<b>316</b>
<b>Total operating and capital</b>		<b>1000</b>

33. For Year One (Budget 2018), you and the Minister for Regional Economic Development have already agreed to repurpose a total of \$135 million of operating funding and \$80 million capital funding. Cabinet agreed to \$147 million of operating precommitments over 10 years and \$49 million of capital precommitments against the Fund. Reviewing what projects are likely to come through the pipeline for 2018/19, and the expected split of operating and capital of these, leaves you with a balance of \$402 million operating and \$187 million capital to fund through Budget 2018. For Year One, this means a total spend on the PGF of \$1 billion.
34. Please note that the table above reflects both total operating funding, and average operating funding per annum. This is because in the attached draft package, you will see the operating figures reflected as per annum figures.
35. For Budgets 2019 and 2020, under current PGF design, there is currently \$1 billion in funding from allowances in each Budget required. <sup>[33]</sup>
36. If the full \$3 billion for the PGF was funded in Budget 2018, you would need to make significant trade-offs in other portfolios, including capital funding for DHBs, the Schools Growth Package and TRC. You would also need to make trade-offs with high risk cost pressures seeking operating funding.
37. You are meeting with Minister Jones on 22 March to discuss which initiatives which are currently in the Budget process could be funded from the PGF. This will likely further reduce some pressure on both operating and capital allowances.
38. If you have further questions about the assumptions that have been used in the operating and capital numbers for Budget 2018, we can discuss these with you when you meet with officials at 2:30 pm on Thursday 15 March.

## Other areas that you have requested further information on

### **Conservation Initiatives**

39. The eight initiatives submitted in the Conservation portfolio seek <sup>[33]</sup> . The funding sought through Budget 2018 would increase the size of the Department of Conservation (DOC)'s baseline by approximately <sup>[33]</sup>
40. The Treasury currently supports <sup>[33]</sup> of operating funding per annum, which amounts to an approximately <sup>[33]</sup> increase to DOC's annual baseline. These initiatives are outlined in the below table.
41. Following your request at Budget Matters on 13 March to increase the conservation package, we have provided an option of a <sup>[33]</sup> This contingency could be used to fund a mix of items across the predator, pest, freshwater, and threatened species bids.

Initiative ID	Title	Average operating funding supported p/a
10362	Managing visitor impacts	[33]
10363	Strengthening DOC's organisational capability and capacity	
10370	Enhancing biodiversity by controlling and eradicating predators	
10375	Enhancing biodiversity by supporting community conservation	
<b>TOTAL - Initiatives supported</b>		
<b>Additional funding</b>	Tagged Contingency to support biodiversity	
<b>TOTAL - Initiatives supported + tagged contingency</b>		

42. Providing the Minister with the contingency option would give her a relative indication of the amount of funding that the Government is prepared to provide DOC in Budget 2018/19. If Budget Ministers wish to identify particular initiatives for increased funding, the Treasury would prefer to elicit a proposal for scaling options from the Minister of Conservation, which we can then evaluate. This is because it is difficult to understand from the current information provided what the appropriate balance of interventions is for achieving Government's biodiversity objectives.
43. At the bilateral Budget meeting with Minister Clark on 12 March 2018, the Minister of Conservation indicated she would provide further scaled options on the initiatives to the Treasury. The Treasury has not yet received the Minister's scaled options, but these may help in evaluating which initiatives the tagged contingency could be allocated to.

#### ***P-8A capital profile***

44. In response to your request, below we have provided further information on the capital profile and operating breakdown of the P-8A initiative. The following tables outline the capital profile and the breakdown of the operating funding over this period.

Funding Sought (\$m)	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Capital	[33]					

Operating Expenditure accumulative to 2021/22	\$m
Personnel	[33]
Depreciation	
Capital Charge	
<b>Operating expenditure accumulative to 2021/22</b>	

45. It's also worth noting that the actual costs of operating the aircraft, above depreciation and capital charge, would not start to hit until the aircraft arrive in 2022. [33]

**Corrections Initiatives**

46. This week senior Ministers met to discuss the upcoming set of decisions related to the prison population, <sup>[33]</sup>

As a result, Cabinet consideration of the upcoming Cabinet papers is likely to be delayed a week. We now expect these decisions to be discussed at a further senior Ministers meeting early in the week of 26 March, with Cabinet papers discussed at Cabinet Committee around the 4th April (the same time as the final Budget Ministers meeting).

47. This means that there is likely to be some uncertainty around the following initiatives until that time:

- <sup>[33]</sup>
- 10221: Prisoner volumes (portion relating to the cost of modular prison capacity)
- 10410: Enhanced housing and support service for people managed by Corrections
- 10324: Striving towards 1800 Police
- 10158: Independent Police Conduct Authority

48. <sup>[33]</sup>

We see the Prisoner Volumes initiative as largely non-discretionary, and this is unlikely to change as a result of the decisions noted above. We also think that Budget Ministers could take decisions about the funding available for Police numbers, the Corrections Housing initiative and the IPCA initiative in anticipation of these discussions.

49. <sup>[33]</sup>

**Next steps**

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50. You are meeting with officials at 2:30pm on Thursday 15 March to discuss any changes you would like to make to the draft package and the slide pack for Budget Ministers 2.