

The Treasury

Budget 2018 Information Release

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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: T2018/770 BM-2-4-2018

Date: 22 March 2018

To: Minister of Finance (Hon Grant Robertson)

Deadline: 12:30 pm Thursday 22 March

Aide Memoire: Updated Package for a Budget Update Meeting on 22 March

This aide memoire provides material on the updated Budget 2018 package for discussion at the Budget Update meeting at 12.30 pm Thursday 22 March ahead of the third Budget Ministers meeting at 11:00 am Monday 26 March. You received a draft version of this aide memoire as a note on the evening of Wednesday 21 March.

Specifically, this aide memoire covers the following:

1. The updated Budget package following the Budget Ministers 2 meeting on Monday 19 March
2. Allowance scenarios based on the updated Budget package
3. Outstanding issues
4. Initiatives identified at BM2 for further consideration
5. Further scaling options to get within Budget allowances
6. Next steps

The table below summarises the operating and capital draft package before and after Budget Ministers 2. The packages will move around as initiatives are added in and removed following the workstream Ministers meetings this week. We will provide you with final numbers for the operating and capital packages going to Budget Ministers 3 following our meeting at 12.30pm.

	Operating Package (\$m)	Capital Package (\$m)
Packages considered at Budget Ministers 2	2672.984	3639.543
Packages update after Budget Ministers 2	2764.787	3773.439
Packages update after Budget Ministers 2 and possible additions	2864.802	4082.739
Packages update after Budget Ministers 2, possible additions and scaling	2720.314	3713.327

1. Updated Budget package

The below table summarises the Budget package by workstream following the Budget Ministers 2 meeting on Monday 19 March.

Operating package \$millions	Budget Ministers 2	Updated Package	Change
Social Wellbeing	1897.923	2010.806	112.883
Infrastructure	111.586	106.643	-4.943
Natural Resources	73.005	73.005	0.000
Economic Development	665.436	665.436	0.000
Other	123.064	133.337	10.273
Savings	-194.900	-194.900	0.000
Reprioritisation	-120.490	-146.900	-26.410
Pre-commitments	67.360	67.360	0.000
Between Budget Contingency	50.000	50.000	0.000
Total	2672.984	2764.787	91.803

Capital package \$millions	Budget Ministers 2	Updated Package	Change
Social Wellbeing	208.643	208.643	0.000
Infrastructure	1597.762	1714.262	116.500
Natural Resources	188.950	188.950	0.000
Economic Development	661.412	661.412	0.000
Other	83.637	101.033	17.396
Reprioritisation	-3.000	-3.000	0.000
Pre-commitments	902.139	902.139	0.000
Total	3639.543	3773.439	133.896

The key changes to the package since the Budget Ministers 2 meeting are outlined below:

Changes Since BM2			
Initiative	Workstream	Remove	Add
Christchurch Regeneration Facility	Infrastructure	-	\$298.5 million capital
MSD resilience of business critical systems	Other	-	\$17.296 million capital \$8.813m operating p/a
Inquiry into EQC	Other	-	\$0.100 capital \$0.810 million operating p/a
[33]			
[38]			
Initiative	Workstream	Remove	Add
DHB cost pressures	Social Wellbeing	-	\$60 million operating p/a

Integrated therapies pilot for 18-25 year olds	Social Wellbeing	-	\$2.623 million operating p/a
New Zealand Music Export and Development	Other	-	\$0.650 million operating p/a
[33]			
Independent Police Conduct Authority	Social Wellbeing	\$0.064 million operating p/a	-
Te Kahu Toi intensive wraparound service	Social Wellbeing	\$0.060 million operating p/a	-
Cost changes to Prisoner Volumes	Infrastructure		\$30 million capital \$6.21 million operating p/a
Reprioritisation	-	\$26.410 million operating p/a	
Net Change Capital			+\$133.896 million
Net Change Operating p/a			+\$91.803 million

2. Allowance scenarios

The below tables provides two scenarios around the Budget allowances and the estimated impact on net core Crown debt in 2021/22. The scenarios are:

- **Scenario A** – Budget 2018 based on the updated package, with no changes to subsequent Budget allowances
- **Scenario B** – Budget 2018 based on the updated package, with increases to subsequent Budget allowances (\$0.4 b operating and \$0.2b capital)
- **Scenario C** – Budget 2018 based on the updated package plus re-phasing of savings from removing tagged contingencies (currently in Budget 19 to 21). Increases to subsequent Budget allowances (\$0.4 b operating and \$0.2b capital)

The scenarios focus on the direct impacts on net core Crown debt from changing allowances. Changes to allowances would also have indirect impacts on the economic outlook and tax revenue forecasts.

Scenario	Budget 2018		Budget 2019 – 2021		Net Debt in 2021/22
	Operating	Capital	Operating	Capital	
Preliminary forecasts	\$2.600b	\$3.400b	\$1.875b	B19 - \$3.4b B20 - \$3.1b B21 - \$2.7b	18.0%
(A) Higher (+0.4b) operating allowance and (+0.6b) capital allowance in B18	\$2.800b	\$3.800b	\$1.875b	B19 - \$3.4b B20 - \$3.1b B21 - \$2.7b	18.3%
(B) Higher (+0.4b) operating allowance and (+0.2b) capital allowance in B19 – B21	\$2.800b	\$3.800b	\$2.300b	B19 - \$3.6b B20 - \$3.3b B21 - \$2.9b	19.2%

3. Outstanding issues

There are a number of areas that are still outstanding that we wish to draw your attention to ahead of Budget Ministers 3:

Conservation

We are still yet to land a decision on the amount of funding to increase the Conservation package by in the Budget package. The Vote team provided you with an aide memoire outlining three different options on Tuesday 20 March [T2018/730 refers]. These options included phased approaches to reaching a ^[33] in year four. A ^[33] percent increase would amount to a total funding increase of \$146 million over four years. A ^[33] percent increase would amount to a total funding increase of ^[33] over four years.

[33]

Late initiatives

We are aware of a number of late initiatives that have sought your agreement to enter the Budget process:

- **AOG Response to PFAS Contamination** (\$2.685 million operating over four years)
- **Climate Directorate Capability** (\$9.586 million operating over four years)

Mycoplasma Bovis

We are continuing to work on getting updated information on the potential funding required to address Mycoplasma Bovis and what the Crown's obligations are. We will update you with current information on Thursday 22 March at 12:30 pm.

Foreign Affairs

We have been working with your office on providing updated Budget packages for the Foreign Affairs portfolio.

Public and Transitional Housing

The Treasury Vote team has provided advice on options and updated costings for the additional public housing initiative [T2018/618 refers]. The draft package currently only includes placeholder numbers which will change depending on the option chosen [33]. The costings will need to be verified by MSD before including them in the draft package for agreement at Budget Ministers 3.

P8-As

We have provided advice on options to manage the fiscal impact of the P8-As [T2018/749 refers]. We have recommended that you discuss with the Minister of Defence a preferred approach for Budget 2018 ahead of Budget Ministers 3 on 26 March.

Maori Development

We would like to discuss the approach to Maori Development reprioritisation and to the [33] initiative which the Treasury considers is not investment ready. A range of options regarding the funding arrangements for Vote Maori Development in Budget 2018 was provided on 14 March [T2018/607 refers].

4. Initiatives identified at Budget Ministers 2 for further consideration

The below table outlines initiatives that were identified after Budget Ministers 2 as potential additional initiatives to add to the package

Initiatives identified at BM2 for further consideration		
Initiative	Workstream	Description
KiwiRail capital requirements	Infrastructure	<ul style="list-style-type: none"> [33] <u>Decision:</u> whether to include the initiative and at what funding level
TRC	Economic Development	<ul style="list-style-type: none"> [33]
Corrections - Transition Initiatives	Social Wellbeing	<ul style="list-style-type: none"> Currently not in the package [33] operating per annum) <u>Decision:</u> whether to include in the package based on impact on prison population numbers.
National Bowel Screening Programme	Social Wellbeing	<ul style="list-style-type: none"> Currently not in the package (\$16.771 million operating per annum) <u>Decision:</u> whether to include in the package or scale to one or two DHBs.
Housing First Expansion	Social Wellbeing	<ul style="list-style-type: none"> Currently not in the package (\$10.964 million per annum) <u>Decision:</u> whether to include in the package or scale to certain regions only.
Stabilising Funding for Community Law Centres	Social Wellbeing	<ul style="list-style-type: none"> Currently not in the package (\$2.180 million operating per annum) <u>Decision:</u> whether to include in the package. Given review of funding model, recommend one year only if added in.
[33]	Social Wellbeing	<ul style="list-style-type: none"> Currently not in the package [33] <u>Decision:</u> whether to include in the package. Treasury advice is this is not investment ready.
Conservation Package	Natural Resources	<ul style="list-style-type: none"> Currently in the package at [33] per annum. <u>Decision:</u> How much to increase the overall Conservation funding package by.
Foreign Affairs	Economic Development	<ul style="list-style-type: none"> Outstanding decisions still to be made on the overall package for Foreign Affairs. Treasury officials are currently developing different Budget package options

Initiative	Workstream	Description
Public media – supporting an informed democracy	Other	<ul style="list-style-type: none"> Currently not in the package (\$38 million per annum) <u>Decision:</u> Consider option of putting aside \$10 million in 18/19 to signal direction of travel following advisory groups recommendations at end of April. Minister Curran is going to present further options to office.
Defence White Paper 2016 (DWP 2016) - Contingent Funding for P-8A	Other	<ul style="list-style-type: none"> Currently not in the package [33] capital, [33] operating per annum) <u>Decision:</u> Consider advice on managing fiscal impact (T2018/749 refers) and how to reflect this initiative at BEFU (i.e. SFR).

Initiative	Workstream	Description
acquisition		
Total Increase to Updated Capital Package		\$309.300 million
Total Increase to Updated Operating Package		\$100.015 million per annum

5. Initiatives identified that could be further scaled

We have also identified further potential scaling opportunities. We have outlined the risks and other comments associated with each initiative identified in the capital and operating tables below, as well as identifying a revenue option.

Capital Initiatives for further scaling			
Initiative	Workstream	Current funding level	Scaling option
Schools Growth Package	Infrastructure	\$332.362 million capital [33] million operating (4 year total)	Reduce by [33] million capital. The scaled package funds expansions and new schools that have been confirmed as a high priority. It would reduce MoE's ability to plan for future school developments and likely a higher B19 budget bid.
One Billion Trees	Natural Resources	\$88.8 million capital \$36.44 million operating (total)	Currently in the package, this can be counted fully against the PGF (Reduce by \$88.8 million capital \$36.44 million operating (total)).
[33]	Other	[33]	
Public and Transitional Housing Supply	Social Wellbeing	\$68.531 million capital [33]	At a scaled amount (approximately 1/3 of the funding requested) this would deliver an additional 57 places and facilitate the contingency required for loan agreement with HNZ leaving the Government 161 places short of the 2,155 transitional housing target. The Public Housing component is not impacted by reducing the capital component. [33]

Initiative	Workstream	Current funding level	Scaling option
TRC	Economic Development	[33]	[33]
Possible scaling total			- \$369.412 million capital -\$92.36 million operating (total) or \$23.1 million average per annum

Operating Initiatives for further scaling			
Initiative	Workstream	Current funding level	Scaling option
Cost adjustment for Early Childhood Education	Social Wellbeing	\$26.777 million operating per annum	Remove in full, consistent with Vote team recommendation. Currently funded for a 1.6% rate increase, can also scale for a smaller percentage increase.
Cost adjustment for Schools Operations Grant	Social Wellbeing	\$18.656 million operating per annum	Remove in full, consistent with Vote team recommendation. Currently funded for a 1.6% rate increase, can also scale for a smaller percentage increase.
Expanding the Limited Service Volunteer Programme	Social Wellbeing	\$6.695 million operating per annum, \$1.0 million capital	Remove in full, consistent with Vote team recommendation.
Research and Development tax credit	Economic Development	\$256 million operating per annum	Look at changing the commencement date of the tax credit to July 2019– this could reduce the amount of funding required for Budget 2018 (potentially to nil). However, this could have adverse effects for businesses, and needs to be further worked through.
Possible scaling total			\$52.128 million operating

Revenue generating operating initiatives for further scaling		
Initiative	Current funding level	Scaling option
Increased Inland Revenue Compliance Activity	\$6.625 million operating per annum	Remove in full, consistent with Vote team recommendation and Minister Nash's offer at the "Other" workstream meeting. IRD will be in a better place to deliver on this initiative and potentially generate more savings next Budget. Note that this will remove savings of \$59.175 million per annum already factored into package calculations.
Total		\$52.55 million operating per annum

6. Next steps

You are meeting with Treasury officials at 12:30 pm on Thursday 22 March to discuss this material, and to go over any changes that may have arisen from the five workstream Minister meetings held on Tuesday and Wednesday this week.

The Treasury will then finalise the package for you to present at the third Budget Ministers meeting on Monday 26 March, where the purpose of the meeting is to make final decisions on the package for Budget 2018.

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