

The Treasury

Budget 2018 Information Release

Release Document August 2018

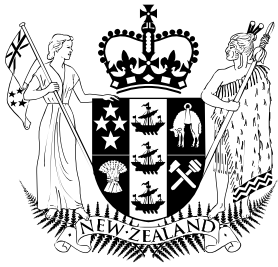
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.



Budget Ministers 4

Budget 2018: Final Package

3 April 2018

Purpose

The key objectives for this meeting are to:

- Discuss and reach agreement on outstanding issues from Budget Ministers 3 to land the final Budget 2018 package
- Agree on an approach to inform portfolio Ministers of the outcomes for their initiatives
- Agree on the approach to the Budget Cabinet Paper, including consultation and potential themes

We may also wish to discuss the approach to Budget announcements and the Budget production process.

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Executive Summary

- The Budget 2018 package aims to balance Ministerial priorities that were discussed at workstream meetings and bilateral discussions with a prioritisation of initiatives based on risk and scope.
- Overall, the Budget 2018 final operating package is **\$2.807 billion per annum** and the final capital package is **\$3.804 billion**.
- In order to meet significant cost pressures and difficult trade-offs, both the operating and capital packages for Budget 2018 are higher than signalled in the 2018 Budget Policy Statement (**\$2.600 billion** operating and **\$3.400 billion** capital).
- It was noted at Budget Ministers 3 that Budget 2018 operating and capital allowances will be adjusted once the final package numbers are confirmed at Budget Ministers 4.
- It is important that the increase in Budget 2018 allowances is limited to maintain the integrity of the Budget Responsibility Rules and build fiscal credibility.
- To help meet the emerging pressures beyond Budget 2018, we agreed at Budget Ministers 3 to increase the operating and capital allowances for Budget 2019 to 2021.
- Final decisions on all outstanding matters need to be taken at this meeting so a paper can be presented to Cabinet for consideration on Monday 9 April.

Overview of Budget 2018 Package

At Budget Ministers 3 on Monday 26 March, we considered an operating package of \$2.777 billion and a capital package of \$3.815 billion. The following table provides an overview of the final Budget package and outlines the Budget allowances we agreed for Budget 2019 to Budget 2021 .

Budget 2018 Initiatives

\$million*	Final Operating Package (average per annum)	Final Capital Package (Total)
Social Wellbeing	2070.110	209.873
Economic Development	662.936	543.617
Infrastructure	105.124	1,899.262
Natural Resources	76.151	160.150
Other	136.246	91.033
Pre-commitments	67.361	902.000
Between-Budget contingency	50.000	-
Reprioritisation	(169.809)	(3.000)
Revenue and savings initiatives	(191.456)	-
Total	2,806.663	3,803.574

Operating and Capital Allowances for Budget 2019 to 2021

Operating	2019/20	2020/21	2021/22
Budget 2019	\$2.4b	\$2.4b	\$2.4b
Budget 2020	-	\$2.4b	\$2.4b
Budget 2021	-	-	\$2.4b

Capital	Total
Budget 2019	\$3.7b
Budget 2020	\$3.4b
Budget 2021	\$3.0b

You noted that Budget 2018 operating and capital allowances will be adjusted once the final package numbers are confirmed at Budget Ministers 4.

*Please note that some of these totals will not add due to rounding.

Follow up from Budget Ministers 3

There are a number of initiatives and portfolios where final decisions are still required in order to finalise the Budget 2018 package. The table below outlines my recommendations for each of the areas, and seeks your agreement.

Follow up decisions that would impact allowances (\$m)					
Initiative	Descriptions	Operating (Ave)	Operating (Total)	Capital (Total)	Recommendation
Elective surgery (Health)	Identified as a priority at Budget Ministers 3. The final package reflects scaled funding as recommended by the Treasury.	31.500	126.000	-	<i>Agree/Disagree</i>
Teacher Aide Funding (Education)	Identified as a priority at Budget Ministers 3. The final package reflects scaled funding as recommended by the Treasury.	[33]		-	<i>Agree/Disagree</i>
Ongoing Resourcing Scheme (Education)	Part of this initiatives funds an increase in Teacher Aide hours and/or number of Teacher Aides. Flow on increase to this initiative as a result of adding in scaled funding for Teacher Aide Funding Rates.	1.730	6.920	-	<i>Agree/Disagree</i>
Te Kawa Matakura (Education)	Identified as a priority at Budget Ministers 3. The final package reflects scaled funding as recommended by the Treasury.	0.705	2.820	-	<i>Agree/Disagree</i>
Family Violence Agent (Justice)	The final packages includes one-off funding of \$2.0 million in 2018/19 to support policy work for a new agency.	0.500	2.000	-	<i>Agree/Disagree</i>
Improving the Measurement of Child Poverty in NZ (Statistics)	Increase size of the Household Economic Survey from the current scaled 15,000 option to 20,000 to enable the survey to provide reliable data on Maori families.	1.380	5.520	-	<i>Agree/Disagree</i>

Follow up from Budget Ministers 3 (continued)

Follow up decisions that would impact allowances (\$m)

Initiative	Descriptions	Operating (Ave)	Operating (Total)	Capital (Total)	Recommendation
Christchurch Insurance Tribunal (Justice)	This was outlined as a priority for Budget Ministers 3. One year of funding to start up the insurance tribunal with further funding sought through Budget 2019.	1.500	6.000	1.470	<i>Agree/Disagree</i>
[33]					<i>Agree/Disagree</i>
Additional Public Housing	Final package includes \$234 million which delivers around 1,642 additional places per annum. [33] It is recommended that a portion of the \$234 million (\$29 million) is set aside [33]	58.594	234.377	-	<i>Agree/Disagree</i>
Very Low Cost Access to GP Visits	Implementation costs to deliver the initiative to community service card holders.	0.758	3.032	-	<i>Agree/Disagree</i>
Oranga Tamariki Resilience	Funding to transition the CYRAS system to a cloud based system. CYRAS contains information on all children under state care and also makes payments to caregivers.	2.250	9.000	-	<i>Agree/Disagree</i>

Follow up from Budget Ministers 3 (continued)

Follow up decisions that would impact allowances (\$m)

Initiative	Descriptions	Operating (Ave)	Operating (Total)	Capital (Total)	Recommendation
MSD Resilience	At Budget Ministers 3, this was indicated as an initiative that could be deferred if required.	8.813	35.251	17.296	<i>Agree/Disagree</i>
Conservation	At Budget Ministers 3, it was noted that ongoing discussions were required on the Conservation package. Agreement is required on the final package.	45.405	181.620		<i>Agree/Disagree</i>
[38]					<i>Agree/Disagree</i>

Follow up from Budget Ministers 3 (continued)

There are a number of initiatives that require final decisions that will not impact on Budget allowances. The table below outlines my recommendations for each of the areas, and seeks your agreement.

Follow up decisions that would not impact allowances (\$m)

Initiative	Descriptions	Operating (Ave)	Operating (Total)	Capital (Total)	Recommendation
NEETs contingency	Since Budget Ministers 3, I am proposing we establish a tagged contingency for supporting NEETs (in particular young Maori) in meaningful education or employment, and to increase the reach of Māori warden's to deliver local initiatives to improve outcomes for Māori youth and whānau. This will be funded out of TPK's reprioritisation and thus does not impact the allowances.	2.500	10.000	-	<i>Agree/Disagree</i>
Whenua Māori Reforms Contingency	Since Budget Ministers 3, I am proposing we establish a tagged contingency for Māori Whenua reforms. When combined with TPKs existing resources, this would provide \$4.3 million operating and \$5.7 million capital to progress design, development and implementation of the reforms in 18/19. This will be funded out of TPK's reprioritisation and thus does not impact the allowances.	0.576	2.304	-	<i>Agree/Disagree</i>
[37]					<i>Agree/Disagree</i>

Follow up from Budget Ministers 3 (continued)

Follow-up Reprioritisation/Revenue decisions

Vote	Descriptions	Operating (Ave)	Operating (Total)	Capital (Total)	Recommendation
Vote Māori Development	Since Budget Ministers 3, I propose that we reprioritise a total of \$22.551 million from Vote Māori Development and that \$12.304 million of this is put into two contingencies – one for Māori NEETs and one for Whenua Māori Reforms. This leaves a total of \$10.247 million to be returned to the centre.	2.562	10.247	-	<i>Agree/Disagree</i>
Health Savings	Funding the primary care initiative in the Health portfolio (very low cost access to GP visits for community service card holders) will generate savings from MSD as a result of decreased use of the disability allowance for GP visits.	9.881	39.500	-	<i>Agree/Disagree</i>

Note that discussion on Foreign Affairs initiatives are ongoing.

In the instance that any other changes to the package are required between Budget Ministers 4 and the Budget Cabinet paper being considered on Monday 9 April, I recommend that these are agreed by the Minister of Finance and the Associate Minister of Finance, Hon Dr David Clark can jointly approve these changes.

Recommendation

Authorise the Minister of Finance and the Associate Minister of Finance, Hon Dr David Clark, to approve jointly any changes to the Budget package between Budget Ministers 4 and the Budget Cabinet paper being considered on Monday April 9. ***Agree/Disagree***

Budget Announcements

Tagged Contingencies

Tagged contingencies reflect funding that is ring fenced for a particular purpose and held in the centre (i.e. not appropriated into baselines). Cabinet may set up a tagged contingency for a Budget initiative if further work is required (such as a business case), or the initiative is commercially sensitive or negotiations have yet to take place. Typically, there is a high bar for setting aside funding in a tagged contingency given the opportunity cost of using this funding elsewhere.

Publication of Tagged Contingencies

Ministers decide on the publication of tagged contingencies in Budget documents, in the past only a handful of contingences have been published, as there are some risks attached to announcing contingencies ahead of completed policy analysis or negotiations.

There are currently 22 initiatives of the overall 159 initiatives that have been supported as tagged contingencies in Budget 2018, which are outlined on slide 11. These total ^[33] in operating (or an average of ^[33] per annum) over the forecast period and ^[33]

Given the number of initiatives and the amount of funding in contingency, we may need to consider early on which initiatives we announce.

Pre-Budget Day announcements

Communications related to the 2018 Budget are coordinated by a Budget communications committee, any requests for early announcement will need to have both written approval of the Minister of Finance and sign-off from the Prime Minister's office.

Contingencies in Budget 2018

The below initiatives are recommended to have funding set aside as a contingency in Budget 2018. I will be getting further advice from the Treasury during the production phase on which contingencies can be announced.

Workstream	Initiative	Funding recommended for contingency (\$m)		
		Total opex	Total capex	Total
Social Wellbeing	Corrections Holidays Act Compliance [33], [37], [38]	16	-	16
	[33], [37], [38]			
	[33], [37], [38]			
	Additional Public Housing [38]	234	-	234
	Enhanced housing support for people managed by Corrections	58	-	58
Infrastructure	Maori NEETs	10	-	10
	Maori Whenua Reforms	2	-	2
	Christchurch Regeneration Acceleration Facility	-	299	299
Natural Resources	Progressing the Dunedin Hospital Redevelopment [33]			
	Green Investment Fund	20	100	120
	Conservation	76	-	76
	Climate Change Commission [37]	2	-	2
	[38]			
Economic Development	[33]			
	Enabling science cooperation with Singapore	57	-	57
Other	Public Media - Supporting an Informed Democracy	10	-	10
	Defence White Paper 2016 (DWP 2016) - Contingent Operating funding for supporting the introduction of new capabilities	14	-	14
	Improving the Resilience of Business Critical Systems	35	17	53
Total		2,328	624	2,983

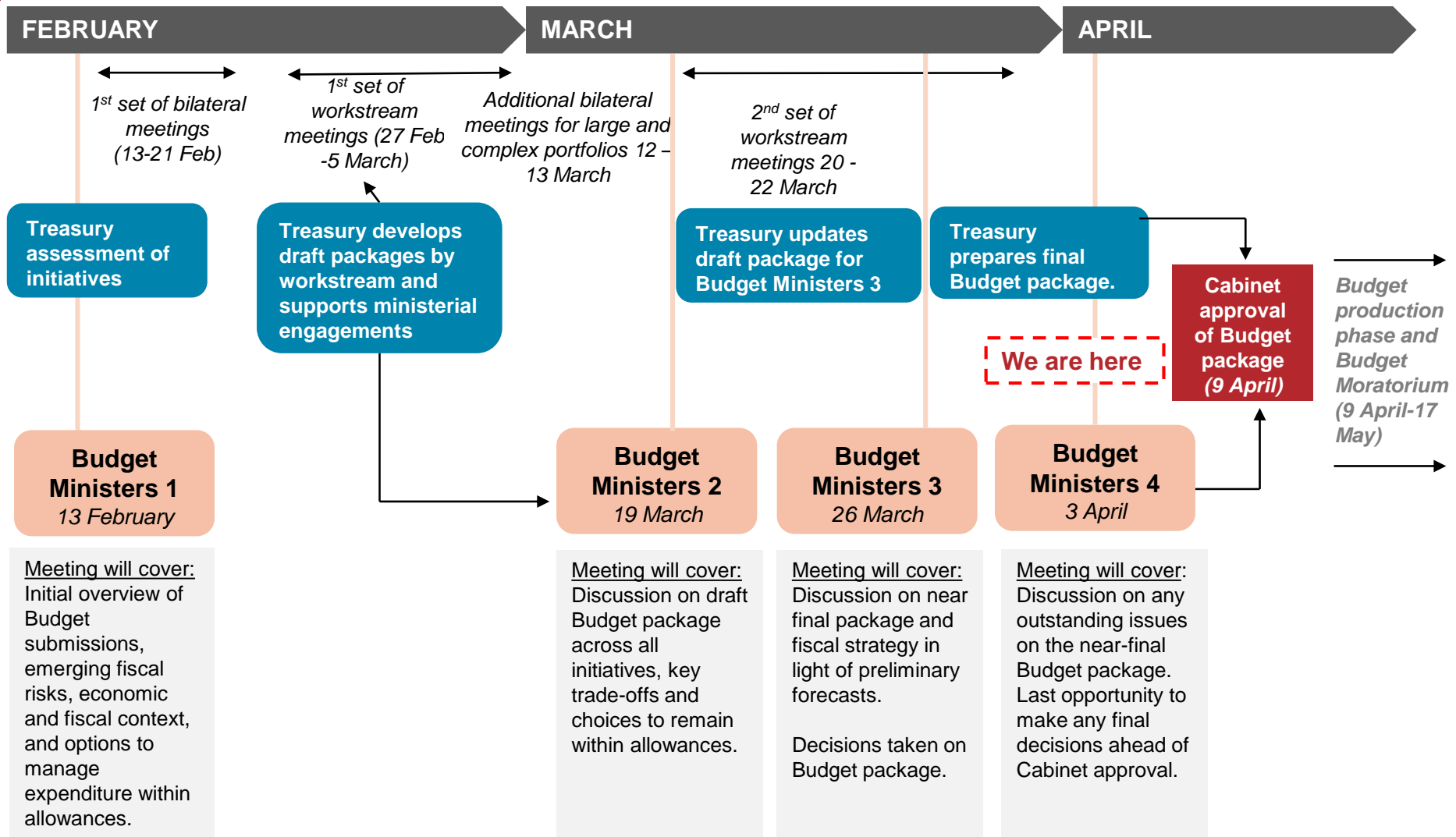
Upcoming Significant Budget Cabinet Paper

The Significant Budget Cabinet paper will be taken to Cabinet on Monday 9 April, and will be lodged on Friday 6 April. Our decisions today will inform the final package for this paper.

- The package can be presented in a number of ways to Cabinet – by workstreams (which Ministers are familiar with), or grouped by the Budget Policy Statement (BPS) priorities:
 - 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
- How we present the package in the Cabinet paper does not constrict us in how we wish to present the package on Budget Day, but may be useful for our colleagues at Cabinet.
- To give visibility of the Budget package ahead of Cabinet, I recommend that following the decisions made at Budget Ministers 4 today, we send an aide memoire to all portfolio Ministers, with the full Budget package.

Key decision	Recommendation
Whether to present the Budget 2018 package by workstream, or priority, or both in the Significant Cabinet Paper	Present package in cabinet paper grouped by BPS priorities Agree/disagree
How to inform our colleagues on the Budget package ahead of Cabinet	Send aide memoire to portfolio Ministers with the full Budget 2018 package Wednesday 4 April Agree/disagree

Next Steps in the Decision Making Phase



Budget 2018 Production Phase

Following Cabinet decisions on Monday 9 April, we will move into the production process for Budget 2018, leading up to Budget day on Thursday 17 May.

The following Budget documents are required under legislation

- Fiscal Strategy Report
- Budget Economic and Fiscal Update (BEFU)
- 2018/19 Estimates and 2017/18 Supplementary Estimates

Traditionally the following documents have been released on Budget Day to help communicate the Budget package:

- Budget speech
- Summary of initiatives
- Press releases
- Budget summary documents
- Budget website

Decisions will need to be taken on the number and/or focus of any pre-Budget announcements.

Over the next few weeks, we need to decide on which documents we present on Budget Day, and whether we tailor existing products such as the Budget summary documents. Given tight production deadlines, we need to start to plan these products now.

Annex 1: Budget 2018 Final Package by Portfolio and comparison to Budget 2017

The table below compares Budget 2018 Draft Operating Package with Budget 2017 Final Allocations (\$ million, average per annum)

(\$million, average operating per annum) Portfolio	Budget 2017 final allocation*	Budget 2018 Draft Package
Conservation	16.677	45.405
Corrections	174.333	132.527
Defence	112.181	84.705
Education	314.500	[33]
Foreign Affairs	25.952	222.958
Health	563.000	882.203
Housing and Urban Development	75.007	122.930
Other portfolios	522.000	620.748
Total	1,803.650	2,806.663

*These numbers are based on the Budget 2017 Summary of Initiatives document, which includes a breakdown of funding by Vote. These Votes have been aligned with the new portfolio structure where feasible, but may not reflect a one-for-one alignment.