

# The Treasury and Office of the Minister of Finance

## Budget 2019 Information Release August 2019

This document has been proactively released by the Office of the Minister of Finance on the Treasury website at <https://treasury.govt.nz/publications/information-release/budget-2019-information-release>

### Information Withheld

Some information in this document has been withheld under one or more of the sections of the Official Information Act 1982.

### Key to sections of the Official Information Act 1982 under which information has been withheld:

Good reasons for withholding the information exist, as the making available of that information would be likely to:

- |      |   |          |
|------|---|----------|
| [1]  | prejudice the security or defence of New Zealand or the international relations of the Government of New Zealand  | 6(a)     |
| [4]  | prejudice the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial   | 6(c)     |
| [23] | damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements. | 6(e)(vi) |

Withholding the information is necessary for the following reasons and is not outweighed by other considerations, which make it desirable in the public interest to make it available:

- |      |  |             |
|------|--|-------------|
| [25] | to protect information where the making available of that information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information  | 9(2)(b)(ii) |
| [31] | to maintain the constitutional conventions for the time being which protect collective and individual ministerial responsibility   | 9(2)(f)(ii) |
| [33] | to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials   | 9(2)(f)(iv) |
| [34] | to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty | 9(2)(g)(i)  |
| [37] | to enable a Minister of the Crown or any department or organisation holding the information to carry out, without prejudice or disadvantage, negotiations (including commercial or industrial negotiations)  | 9(2)(i)     |
| [38] | to enable a Minister of the Crown or any department or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial or industrial negotiations)   | 9(2)(j)     |
| [39] | to prevent the disclosure or use of official information for improper gain or improper advantage   | 9(2)(k)     |

### Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © Crown copyright but are licensed for re-use under Creative Commons Attribution 4.0 International (CC BY 4.0) [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

### Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to [information@treasury.govt.nz](mailto:information@treasury.govt.nz).

## **Notes/Errata Specific to This Document**

Page 11 of document (bottom right of slide): This figure includes all of the funding allocated in the draft package for the Office of Māori Crown Relations – Te Arawhiti, across both Treaty Negotiations and Māori Crown Relations portfolios.



# Budget Ministers 1

**Budget 2019: The Wellbeing Budget**

**11 March 2019**

# Purpose of meeting and key questions

**Purpose:** To test the draft Budget package, with a view to refining what is included in the package ahead of the second Budget Ministers meeting, where we will decide what to take to Cabinet.

The key questions to discuss at this meeting are :

- Do the headline initiatives/packages within each priority area meet your objectives for Budget 2019?
- Are you comfortable with the split between cost pressures and spending in priorities as outlined on slide 8?
- What are the trade-offs required within the draft package to achieve our wellbeing outcomes for Budget 2019 and remain within the fiscal parameters?
- Are you comfortable with the Budget products strategy outlined on slide 19 to present the wellbeing Budget?

# Contents

- 1) Executive summary
- 2) Wellbeing, economic & fiscal context
- 3) Draft Budget package
- 4) Budget products
- 5) Next steps

# 1) Executive summary

- [33]  
[33] . This compares to operating allowances of \$9.6 billion (\$6.4 billion after pre-commitments) and a multi-year capital allowance of \$13.1 billion (\$8.9 billion after pre-commitments). It is of note how large the non-discretionary cost pressures are within these bids.
- The economic growth outlook for the economy compared with HYEUFU appears to be weaker. Preliminary tax forecasts are slightly lower than HYEUFU.
- Total savings from prioritisation submissions are \$412 million operating (\$103 million per annum), therefore the draft package we are discussing today is **\$9.8 billion operating (\$2.5 billion per annum)** and **\$6.3 billion total capital**. An overview of this package is shown on slides 7 and 8.
- In order to remain within the available fiscal headroom, we will need to prioritise initiatives and make some challenging trade-offs, particularly across priority and cost pressure initiatives. [33]  
[33]
- I would also like to discuss how we communicate the Wellbeing Budget to the public so that we can commence work on products.

*Note that all operating expenditure referred to is the total operating funding between 2018/19-2022/23 and all capital funding is a 10-year total.*

## 2) Wellbeing context

- The five Budget priorities are the anchor of the Wellbeing Budget. These were informed by evidence from the Treasury’s Living Standards Framework (LSF) about where substantive opportunities exist to make a difference to peoples’ wellbeing.
- Components of the LSF have also been used to assess the impact that each initiative could have on wellbeing.
- The LSF uses three dimensions for measuring wellbeing:
  - Wellbeing domains
  - Capitals (stocks of wellbeing), and
  - Risk to and resilience of the capitals and domains.

This Budget, we have focused on wellbeing domains and the timeframes when the impact of the initiative will begin to be felt:

- Short-term – Within 5 years
- Medium-term – 5-10 years
- Long-term – 10+ years

Most cost pressure initiatives will contribute to maintaining current levels of wellbeing, while other initiatives that involve new proposals, or allow the government to meet new legislative requirements aim to improve levels of wellbeing.

<b>Civic engagement &amp; governance</b>		Engagement with governance and civics incl. trust and perceptions of fairness
<b>Cultural identity</b>		Sense of identity, belonging and ability to be oneself. Existence value of cultural taonga.
<b>Environment</b>		The natural and physical environment and how it impacts people today
<b>Health</b>		Mental and physical health
<b>Housing</b>		Quality, suitability and affordability of our homes.
<b>Income and consumption</b>		Disposable income from all sources, spending, and material possessions.
<b>Jobs and earnings</b>		Job quality, availability and stability (including remuneration), Positive work environment. Freedom from unemployment
<b>Knowledge and skills</b>		People’s knowledge and skills
<b>Safety</b>		People’s safety and security (real and perceived). freedom from fear and risk of harm.
<b>Social connections</b>		Having positive social contacts and support network
<b>Subjective wellbeing</b>		Overall life satisfaction and sense of meaning and self
<b>Time-use</b>		The quality and quantity of people’s leisure and recreation time (that is, people’s free time where they are not working or doing chores)

## 2) Economic and fiscal context

### The Budget Policy Statement (BPS) outlined our key fiscal parameters

The BPS confirmed the following Budget allowances consistent with our Budget Responsibility Rules:

- Operating allowance of **\$2.4 billion per annum for Budget 2019** and \$2.4 billion per annum for Budget 2019 to 2021 (before pre-commitments). This amounts to a total of \$9.6 billion over four years.
- Capital allowance of **\$13.1 billion for Budgets 2019 to 2022** (before pre-commitments).

#### Pre-commitments against allowances

A pre-commitment is where the fiscal implications of an initiative have already been counted against a future allowance outside of the Budget process. As we are now in the decision-making phase for Budget 2019, I expect all decisions with fiscal implications to be taken as part of the Budget process to ensure consistent prioritisation.

**\$1.6 billion operating per annum and \$8.9 billion capital for Budgets 2019 to 2022 remains following pre-commitments. Major pre-commitments include:**

- One year of the Provincial Growth Fund
- Collective bargaining
- Auckland City Rail Link
- P-8As
- Mycoplasma Bovis
- Crown Infrastructure Partners

Treasury is in the process of preparing preliminary forecasts. At this stage, risks are skewed to the downside and tax is forecast to be a cumulative \$1.2 billion (0.3% of the cumulative tax take) lower than at HYEPU owing to weaker forecast economic growth.

# 3) Overview of Budget 2019 package

[33]

- The draft package has been developed based on the scope of the Budget (priority-aligned initiatives and non-discretionary cost pressures).
- Due to the number of initiatives submitted, we have removed initiatives from the process in early February that were clearly out of scope, and did not meet the high merit bar.
- In addition to the numbers above in Figure 1, the draft package includes cost pressures of \$6.1 billion operating and \$7.8 billion capital that do not yet align with the Budget priorities.
- I have also consulted Cabinet Committees on new spending and held a meeting with Finance Ministers on prioritised spending in baselines (1% exercise) to come to this package.

# 3) Headline initiatives in package

\$9.6 billion opex  
\$6.3 billion capex

	Priority A	Priority B	Priority C	Priority D	Priority E
New headline initiatives	\$394m opex [38] <b>Sustainable Land Use Package</b> [38] <b>Agriculture, energy and waste research</b> [33]	[38] [38] [38]	\$224m opex <b>Māori and Pacific Education Package</b> \$ [33] opex  <i>The following packages need to be incorporated into this package:</i> <ul style="list-style-type: none"> <li>Whānau ora</li> <li>Māori health and housing</li> </ul>	\$2.1b opex \$518m capex <b>Transforming the care system (OT)</b> \$704m opex \$175m capex <b>Addressing family and sexual violence</b> \$ 300m opex \$ 6m capex [33]  <i>Note that WEAG and further child poverty-related initiatives are yet to be included in this package.</i>	\$650m opex \$78m capital <b>Expanding access and choice to mental health services</b> [33]  <i>The mental health package is subject to further development.</i>
	Cost pressures for services in priorities	<b>KiwiRail cost pressures and rolling stock</b> \$ 404m capex	<b>Statistics NZ</b> \$ 136m opex  <b>Delivering cyber and digital strategies</b> \$ 96m opex \$10m capex		<b>Education pressures</b> [33]
Cost pressures	<b>Health</b> \$ 3.6b opex [33] capex [38]	<b>Education</b> [33]	<b>Transport</b> \$12m opex \$800m capex	<b>Justice sector</b> [33] \$9m capex  <b>Other cost pressures</b> \$1b opex \$2.6b capex	<b>Social Development</b> [33]

# 3) Priority A – Creating opportunities for productive businesses, regions and iwi and others to transition to a sustainable and low-emissions economy

13 initiatives operating [38] \$394m

Note that the PGF is also a significant investment aligned to this priority and Priorities B and C.

## Focus of draft package

Initiatives promoting productivity and contributing to a low-emissions and sustainable economy. Both elements have to be present; this means some initiatives to improve waste and pest management are not included.

## Headline initiatives/packages

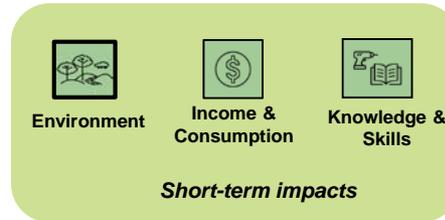
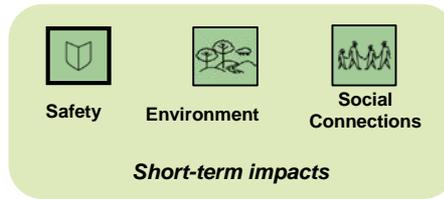
- Sustainable land use package
- Research into agricultural emissions, new energy, and waste
- Two large KiwiRail capital cost pressures (cost pressure and purchase of rolling stock)

## Feedback from Cabinet Committees

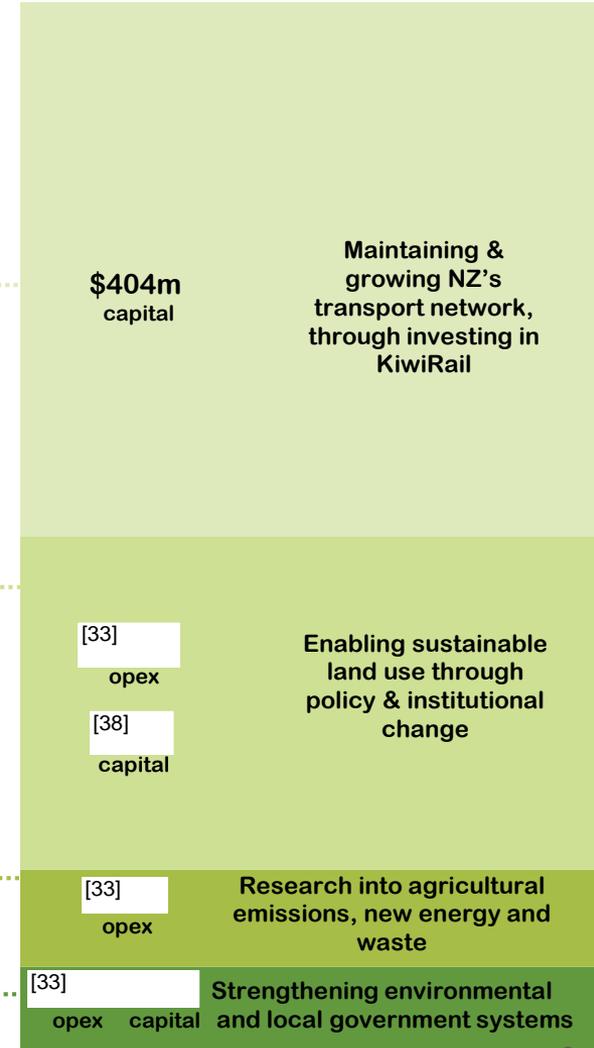
[34]

How do we use all levers to achieve transformative change for a low-emissions economy?

## Wellbeing Domains & Timing



## Summary of Package



# 3) Priority B – Supporting a thriving nation in the digital age through innovation, social and economic opportunities

**15 initiatives** [38]

## Focus of draft package

- Maintaining support for the Government’s data, digital, and cyber strategies.
- Increasing funding for programmes supporting NZ businesses to innovate, commercialise new products, and invest in R&D.
- Supporting NZers to participate in the digital age through initiatives promoting reskilling and digital literacy.

## Headline initiatives/packages

- [38] supporting new technologies across sectors such as transport, agriculture, forestry, and aviation.
- Reforming vocational education, while funded from reprioritisation rather than Budget allowances, also supports Future of Work objectives in this priority.

## Feedback from Cabinet Committees

[34]  
 [34]  
 Relevant Ministers will discuss options for this in bilateral meetings ahead of Budget Ministers 2.

## Wellbeing Domains & Timing

**Civic Engagement & Governance** **Income & Consumption**  
 Short-term impacts

**Civic Engagement & Governance** **Safety** **Time Use**  
 Short-term impacts

**Jobs & Earnings** **Knowledge & Skills** **Income & Consumption**  
 Short-term impacts

**Income & Consumption** **Environment** **Safety**  
 Short-term impacts

**Knowledge & Skills** **Social Connections** **Jobs & Earnings**  
 Short-term impacts

## Summary of Package

Supporting Statistics NZ deliver national statistics & enhanced wellbeing data	\$136m opex
Delivering government cyber and digital strategy & continuing RealMe online services	\$96m opex \$10m capital
Enhancing support for innovative businesses to develop new products and techniques	\$56m opex \$1m capital
[38]	
Supporting digital inclusion and learning for life	\$28m opex

# 3) Priority C – Lifting Māori and Pacific incomes, skills and opportunities

[33]

## Focus of draft package

- Empowering Māori and Pacific to take up economic opportunities
- Provision of services to Māori and Pacific in core areas (e.g. housing, Whānau Ora)
- Broader support of Māori and Pacific (including language, culture and identity)

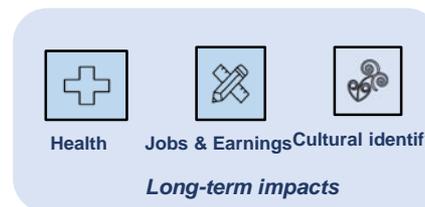
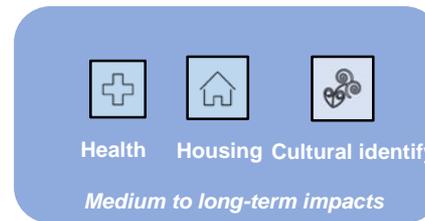
## Headline initiatives/packages

- Māori and Pacific Education Package
- Whānau Ora (to be improved)
- Māori health and housing (to be improved)

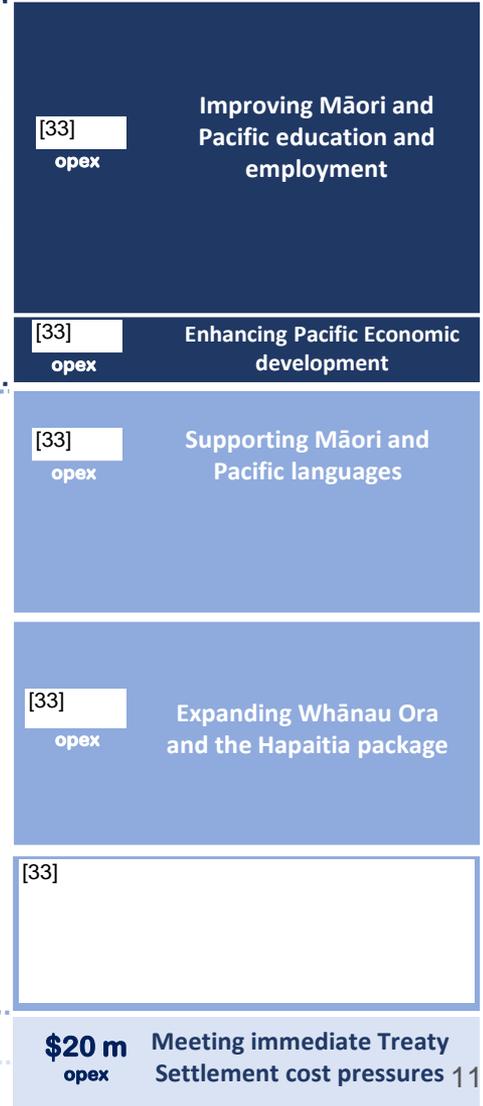
## Feedback from Cabinet Committees

[34]

## Wellbeing Domains & Timing



## Summary of Package



\$20 m  
opex

Meeting immediate Treaty Settlement cost pressures 11

# 3) Priority D – Reducing child poverty and improving child wellbeing, including addressing family violence

**45 initiatives operating**     **\$ 2.1b**     **\$518m capital**

## This package emphasises the child wellbeing strategy focus areas, in particular:

- Children and young people are safe and nurtured in their families, whanau and home
- Child poverty is reduced in line with the Government's intermediate and 10 year targets

[33]

## Headline initiatives/packages

- Transforming the care system
- Family Violence and Sexual Violence Package
- Improving incomes/addressing the cost of living (to come through WEAG changes)
- Child Poverty (further initiatives to come)

## Feedback from Cabinet Committees

[33]

At BM2 on Monday 25 March, information will be provided about how the initiatives in the draft package will impact on child poverty, as per the new PFA requirements.

## Wellbeing Domains & Timing

**Short-term impacts**

- Safety
- Knowledge & Skills
- Health

**Short to medium-term impacts**

- Knowledge and Skills
- Jobs & Earnings
- Subjective Wellbeing

**Short to medium-term impacts**

- Safety
- Health
- Subjective Wellbeing

**Short-term impacts**

- Income & consumption

**Long-term impacts**

- Knowledge & Skills
- Health

## Summary of Package

<b>\$704 m opex</b>	Oranga Tamariki Transformation with a focus on intensive interventions and transforming the care system
<b>\$175 m capital</b>	
[33]	Education-focussed initiatives that cut across child wellbeing focus areas, and ensure current services can be maintained.
<b>\$300 m opex</b>	Family Violence and Sexual Violence Package, with a focus on specialist services and integrated community responses.
<b>\$6 m capital</b>	
<b>\$276 m opex</b>	Improving child support settings for caring parents or caregivers
<b>\$148 m opex</b>	Data initiatives to improve understanding of child wellbeing and child poverty
<b>\$108 m opex</b>	Other child wellbeing-focussed initiatives

# 3) Priority E – Supporting mental wellbeing for all New Zealanders, with a special focus on under 24s

14 <sup>[33]</sup>  
initiatives

## Focus of current package

- Providing mental health services to people in need (early intervention to acute care)
- Building a pipeline for transformative prevention

## Headline initiatives/packages

Expanding access and choice of primary and community mental health and addiction responses

### Universal services

- Increased access to mental health teleservices and e-therapy programmes

[33]

### Targeted services

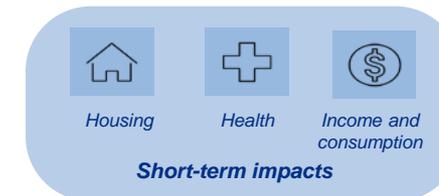
- Increased access to suicide prevention services for high-need populations
- Increased access to mental health services in decile 1-4 schools
- New multi-disciplinary team approach in primary care for complex health issues in high-need areas

## Feedback from Cabinet Committees

Further work is being undertaken to develop a mental health package  
Suggests more investment in primary care services.

[33]

## Wellbeing Domains & Timing



## Summary of Package

**\$131 m**  
opex Expanding services and testing new pilots

**\$137 m**  
opex Aims to meet minimum legislative requirements – driven by OT changes

**\$151 m**  
opex Keeps current services running (including pilots)

**\$230 m**  
opex Invests in social determinants of mental health – housing for homeless

**\$74 m**  
capex

# 3) Non-discretionary cost pressures

The number and quantum of genuine non-discretionary cost pressures in Budget 2019 are significant, and make up the majority of funding in this draft package.

Ministers will need to consider trade-offs between how much funding is provided to ensure that pressures are addressed in a sustainable way versus new spending in priority areas.

Area	Description	Opex (\$m)	Capex (\$m)	Wellbeing domains impacted to ensure current levels of wellbeing are maintained
Health	Keeps critical infrastructure and services running	[33]	[33] [38]	Health, Safety, Jobs & Earnings
Education	Maintains school property and other critical services	[33]		Jobs & Earnings, Knowledge & Skills, Safety
Transport	Fulfils commitment to build Auckland City Rail Link	12	800	Time Use, Environment, Jobs & Earnings
Social Development	Addresses cost pressures highlighted in the four-year stabilisation package	[33]		Jobs & Earnings, Income & Consumption, Subjective Wellbeing
Justice sector	Addresses various cost pressures related to Corrections, Courts, Justice, and Police	[38]	9	Health, Safety, Civic Engagement & Governance
Other cost pressures	Covers a wide range of genuine pressures driven by volume and/or price	1,000	2,600	-
<b>Total</b>		[38]		

# 3) Initiatives outside of priority areas

<b>26</b> <i>initiatives</i>	<b>\$83m</b> <i>operating (net of savings)</i>	<b>\$44m</b> <i>capital</i>
---------------------------------	---	--------------------------------

As per the scope of Budget 2019, initiatives not within priorities have not been included in the draft package unless they are of extremely high merit, outlined in the Coalition or Confidence and Supply Agreements, Speech from the Throne or there are risks attached to not funding.

## Significant initiatives in the draft package

- Increasing New Zealand's ODA (*\$114 million operating*)
- Supporting the New Zealand Racing Industry (<sup>[33]</sup> *million operating*)
- Applying GST to cross-border telecommunications 'roaming' services: savings initiative that raises revenue of *\$71.5 million*
- Funding WorkSafe to reduce the risk of harm for workers <sup>[33]</sup> and an operating portion to be funded by a new levy)
- Modernise and simplify New Zealand Superannuation and the Veteran's Pension: savings initiative that reduces operating expenses by *\$130 million*

Explanatory note: ODA funding is equal to 0.28% of Gross National Income (GNI). The difference between this figure and the final figure in Budget 19 is due to changes in reprioritisation and an increase in GNI forecasts at the budget economic and fiscal update.

## Pre-commitments

- P8-As (\$272 million operating, \$1.7 billion capital)
- Crown Infrastructure Partners (\$300 million capital)
- Increasing the refugee quota (\$140 million operating, \$7 million capital)
- Crown support for Unitec Institute of Technology (\$50 million capital)

# 3) Prioritisation

- Ministers were required to identify the lowest value/priority 1% of expenditure within their baselines.
- Not all Ministers with funding within scope completed the exercise. I will take these shortfalls into account when considering new funding initiatives submitted by those Ministers.
- A summary of Treasury’s assessment of the prioritisation initiatives follows:

Assessment	Identified by Ministers in their 1% (\$m)	Supported by the Treasury for returning to the centre (\$m)
<b>Green</b> (Support for prioritisation)	454	258*
<b>Amber</b> (Needs further consideration)	199	154
<b>Red</b> (Do not support for prioritisation)	[33]	
<b>Total</b>		

- Treasury is preparing advice for us to make decisions on “amber” initiatives, and \$412 million is currently being used to offset new spending.

\* Note that this excludes a prioritisation submission of \$196 million from Fees-Free underspends, which is set aside for the Reform of Vocational Education.

# 3) Non-spending initiatives

We have an opportunity to highlight other Government initiatives that impact each of the five priorities, but that are not seeking Budget funding. <sup>[34]</sup>

[34]

[34]

[33]

# 3) Public sector workforce constraints

[33]

- To ensure we deliver our commitments in Budget 2019, we need to consider agencies' capacity to implement initiatives.
- Many agencies already face constraints on their abilities to deliver, with limited capacity in the labour market to meet demands for staff.
- The draft package is estimated to fund 2,000+ additional public sector FTEs (excl. devolved frontline services, e.g. schools & DHBs).
- Market constraints are particularly tight for a number of workforces, including policy, data and insights, infrastructure, and ICT.
- I propose Portfolio Ministers are encouraged to consider credible staffing profiles and strategies for initiatives, including prioritising existing resources.

[33]

## 4) Budget products

- For Budget 2019, I propose that we have a forward looking, ‘annual report’ style document that brings together:
  - Wellbeing narrative of the Budget
  - Requirements of the Fiscal Strategy Report
  - Summary of Initiatives; and
  - New child poverty reporting requirements.
- This document would highlight the headline initiatives/packages within each priority area and demonstrate how Ministers have worked together across sectors to develop these.
- It is important that the products reflect the new approach that we have taken for our Wellbeing Budget.

# 5) Next steps

