

The Treasury and Office of the Minister of Finance

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Office of the Minister of Finance

Chair

Cabinet

BUDGET 2019: THE WELLBEING BUDGET

Proposal

1. This paper seeks approval of the Budget 2019 Package.

Executive Summary

2. This is New Zealand's first Wellbeing Budget. We have created a new approach to develop the Budget Package and put wellbeing at the heart of our decision-making. The Wellbeing Budget Package focuses on the five priorities that we agreed in the Budget Strategy Paper last September, as well as funding to maintain public services at the level New Zealanders expect. We used collaborative and evidence-based processes to identify our Wellbeing Budget priorities, develop Budget initiatives, and then to agree which new initiatives to fund in Budget 2019.
3. Budget 2019 will also be presented differently: a new document will bring together a range of previous Budget products into a single streamlined report. It will enable a much more cohesive and accessible wellbeing narrative for Budget 2019, with clear links to our Government's wider priorities.
4. Sound economic and fiscal conditions are important for raising living standards and improving intergenerational wellbeing. The Treasury's preliminary economic forecasts show that the economic outlook is broadly stable. The economy continues to expand at a pace that is close to trend and outstrips many OECD countries, supported by government spending, accommodative monetary policy, population growth, and continued growth abroad. Economic growth over the next four years is expected to average around 2.6% per year, while unemployment is expected to average 4.2%.

5. To achieve our objective of improving intergenerational wellbeing, and to maintain service levels of key public services, I recommend updating our Budget allowances:
- I propose increasing the operating allowance for Budget 2019 from \$2.4 billion per annum to \$3.8 billion per annum (\$15.1 billion over the forecast period).
 - The Budget 2019 Package commits \$10.5 billion of the \$13.1 billion multi-year capital allowance (MYCA) for Budgets 2019 to 2022, leaving only \$2.6 billion for future Budgets. I propose increasing the MYCA by \$1.7 billion to \$4.3 billion, to ensure it remains at a credible level.
 - I propose increasing the operating allowance for Budget 2020 from \$2.4 billion per annum to \$3.0 billion per annum, to ensure we can deliver our priorities and commitments.
6. The new investment in the Wellbeing Budget Package is outlined below:

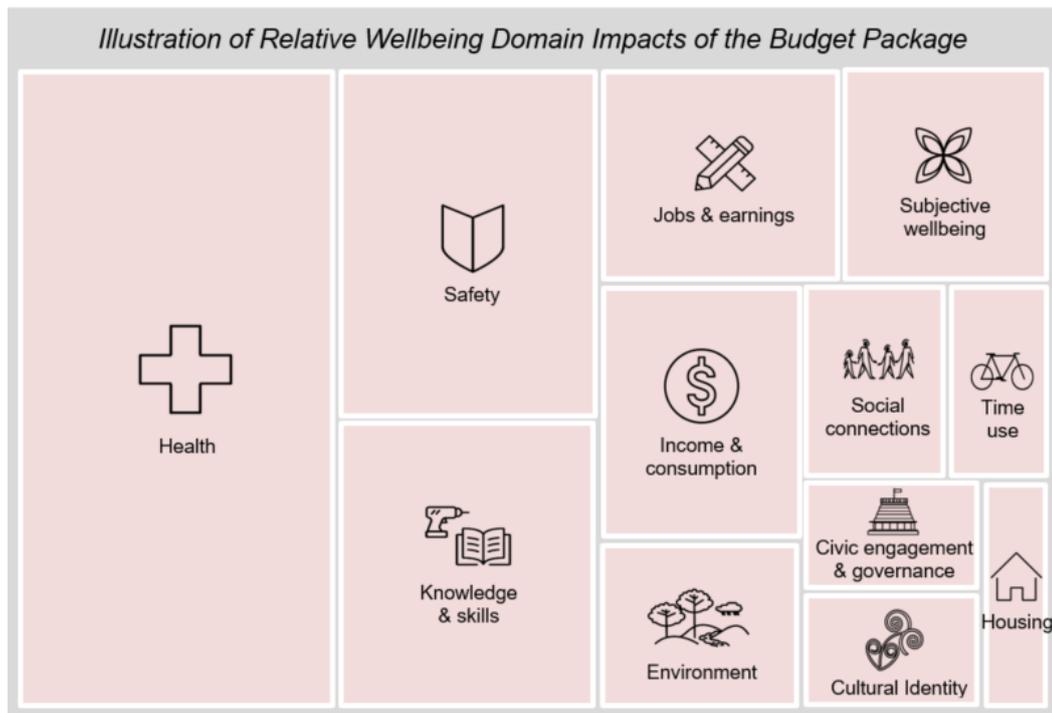
Priority Area (\$m)	Operating (total over forecast period)	Capital (total)
Priority A: Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy	[33]	3,099
Priority B: Supporting a thriving nation in the digital age through innovation, social and economic opportunities	[38]	[38]
Priority C: Lifting Māori and Pacific incomes, skills and opportunities ¹	631	5
Priority D: Reducing child poverty and improving child wellbeing, including addressing family violence	3,018	379
Priority E: Supporting mental wellbeing for all New Zealanders, with a special focus on under 24s	1,488	350
SUB-TOTAL	[38]	

7. In addition, there are significant cost pressures across government that need to be met and some additional costs to respond to the 15 March terror attacks.

Other Spending (\$m)	Operating (total over forecast period)	Capital (total)
Cost pressures (not covered within the priorities above)	7,727	4,661
[33]		
Not cost pressure or priority aligned	997	1,869
Prioritisation	(505)	-
[33]		
SUB-TOTAL	[33]	
GRAND TOTAL		

¹ Does not include \$120 million of other investments that target Māori included in Votes Health, Oranga Tamariki, Justice and Women.

8. The diagram below illustrates the relative wellbeing impacts of the Budget Package across the wellbeing domains in the Treasury's Living Standards Framework. Based on funding included in the package, it highlights the strong investment we are making in this Budget in the health of New Zealanders, as well as ensuring they are safe and secure. There is also a clear focus on education and skills, as well as enhancing economic opportunities.



9. [34]

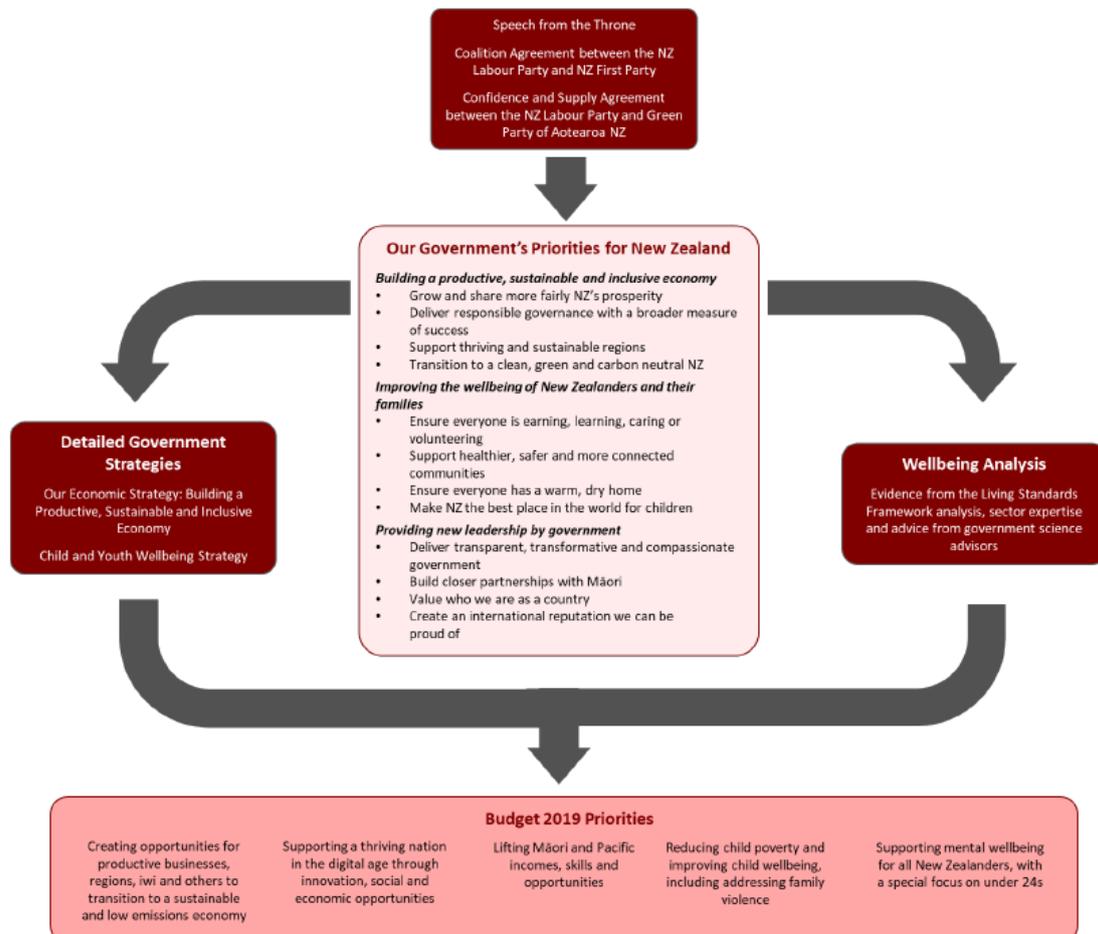
New Zealand's First Wellbeing Budget

10. I am pleased to seek Cabinet's approval to New Zealand's first 'Wellbeing Budget' package. This year we set out to take a different approach to the Budget, with wellbeing at the heart of it. This has guided how we have defined the outcomes we are aiming to deliver through Budget 2019, how we have set our Budget Strategy, and the process we have run to develop the Budget Package. This approach is a work in progress and will continue to develop in coming Budgets.
11. Economic growth plays a fundamental role in raising New Zealanders' wellbeing and living standards, but it is not an end in itself. To recognise this we have set out to measure our success and develop our priorities using a broad range of indicators. These reflect how we build a productive economy, support our people, protect our environment, and strengthen our communities and culture.

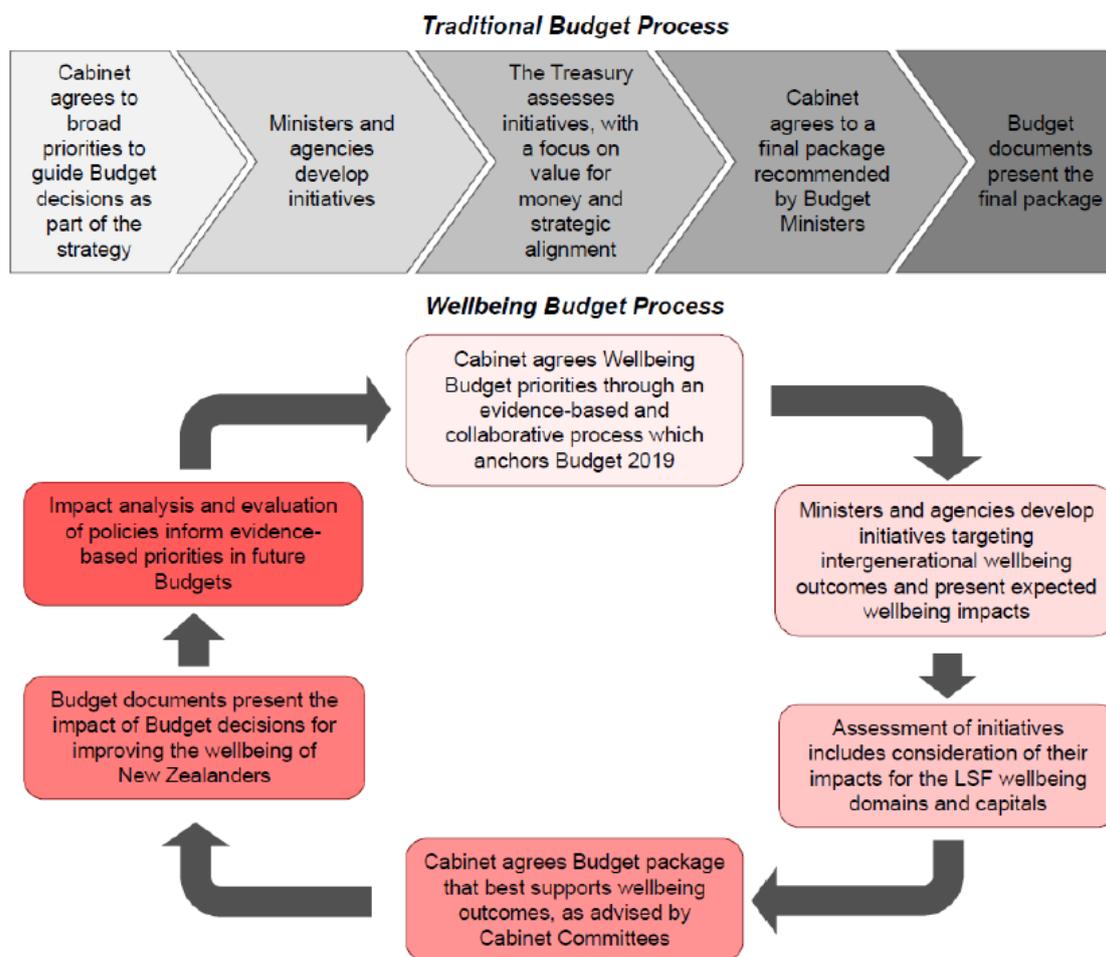
12. The *Budget Policy Statement (BPS)* included New Zealand’s first Wellbeing Outlook. This described the current state of wellbeing and the implications for future wellbeing. The Wellbeing Outlook showed that New Zealand has a high standard of living but too many people are being left out or left behind. It also showed that there are areas where we need to do better if we are to improve intergenerational wellbeing, such as addressing our greenhouse gas emissions, the quality of fresh water, and disparities in health and education outcomes. This Budget Package begins to address these issues.

Developing a Wellbeing Budget - Budget Strategy and Process

13. On 3 September 2018 I brought a paper to Cabinet where we agreed to the strategy and process for Budget 2019 [CAB-18-MIN-0428 refers]. This paper outlined five priorities to support our wellbeing ambitions. The priorities were developed by using evidence to identify opportunities to make the most significant gains in intergenerational wellbeing. We drew on the expertise of Ministers, agencies and Departmental Science Advisors, and used the Treasury’s Living Standards Framework to inform the development of these priorities. These align with the 12 outcomes agreed by the Cabinet Priorities Committee.



14. The 'Wellbeing Budget Package' presented in this paper is built around the five Budget priorities we agreed in September:
 - a. Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy;
 - b. Supporting a thriving nation in the digital age through innovation, social and economic opportunities;
 - c. Lifting Māori and Pacific incomes, skills and opportunities;
 - d. Reducing child poverty and improving child wellbeing, including addressing family violence; and
 - e. Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds.
15. Initiatives for new spending that were submitted for Budget 2019 had either to align with one of the priorities above, or be cost-pressures driven by demographics, market forces, regulation or legislation. For cost pressures, Ministers needed to demonstrate that there is a high level of risk associated with not funding these pressures. Some additional initiatives were not in either of these categories (for example relating to Coalition or Confidence and Supply Agreements).
16. In Budget 2019 we introduced processes to ensure a focus on our wellbeing objectives and to drive the necessary collaboration to achieve our objectives. These new processes included:
 - a. **Wellbeing analysis:** all initiatives included a wellbeing analysis that outlined how the outcomes of an initiative would affect the wellbeing domains and the four capitals (human, social, natural, financial & physical) in the Living Standards Framework.
 - b. **Collaboration:** in addition to taking a collaborative approach to the development of the Wellbeing Budget priorities, Ministers were asked to provide information about cross-agency and cross-portfolio collaboration in the development and implementation of their initiatives.
 - c. **Ongoing Ministerial involvement:** Cabinet Committees and Ministerial subgroups were involved in the development of each element of the Wellbeing Budget Package to ensure that the overall package prioritised initiatives that would enhance wellbeing, and that there was the necessary level of cross-portfolio collaboration to achieve outcomes.
 - d. **Prioritisation:** Ministers undertook a prioritisation exercise in their portfolios to identify lower value spending and to start to better align existing spending with our priorities.
 - e. **Non-spending initiatives:** our wellbeing objectives can be achieved through a range of policies and regulations that do not necessarily have fiscal implications. These complement our Wellbeing Budget and form part of our overall Wellbeing Budget Package.



Presenting the Wellbeing Budget

17. The Wellbeing Budget will also look different in terms of how we present it to the public. We are creating a new document that will bring together a range of previous Budget products into a single streamlined report. It will enable a much more cohesive and accessible wellbeing narrative for Budget 2019, with clear links to our Government's wider priorities.
18. The new document is modelled on a corporate 'annual report'. The first sections of the document will outline the 'why' and 'what' of our Wellbeing Approach, and the final section will focus on the financial statements. In doing so, it will bring together the Fiscal Strategy Report, Summary of Initiatives, Child Poverty Reporting (as required by the Child Poverty Reduction Act), Budget at a Glance, and other media toolkits. The document will focus on the Budget priorities and the flagship packages within each priority and I invite the Ministers responsible for these packages to be involved in forming the narrative on these.
19. Budget 2019 will also have a much stronger focus on presenting the information digitally. The Budget 2019 website will be more interactive than previous years, supporting greater accessibility and transparency.

Economic and Fiscal Outlook

20. To help inform our decisions for the Wellbeing Budget, the Treasury has provided an updated view of the economic and fiscal outlook.
21. Sound economic and fiscal conditions are important for raising living standards and improving intergenerational wellbeing. In particular, the affordability of spending depends on the tax revenue the Government expects to receive. This is largely driven by the outlook for nominal GDP.
22. The Treasury's preliminary economic forecasts show that the economic outlook is broadly stable. The economy continues to expand at a pace that is close to trend, ahead of the OECD average and many of our trading partners, supported by government spending, accommodative monetary policy, population growth, and continued growth abroad. Growth over the next four years is expected to average around 2.6% per year, while unemployment is expected to average 4.2%.
23. Nominal GDP is expected to be a cumulative \$6 billion lower over the forecast period than at the *Half Year Economic and Fiscal Update* (HYEFU), after adjusting for historical revisions. This change reflects mixed economic data since the HYEFU forecasts were finalised that point to a slightly softer near-term domestic growth outlook. Nominal GDP growth is supported by rising terms of trade and inflation around 2%.

Summary of Preliminary Economic Forecasts

June years		2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	5-year total
Economic growth ¹	Prelim BEFU	3.1	2.5	2.9	2.7	2.5	2.4	
	HYEFU	2.7	2.9	3.1	2.7	2.5	2.3	
Economic growth per capita ¹	Prelim BEFU	1.1	0.8	1.4	1.4	1.3	1.2	
	HYEFU	0.7	1.1	1.5	1.4	1.2	1.2	
Unemployment rate ²	Prelim BEFU	4.4	4.2	4.2	4.2	4.3	4.3	
	HYEFU	4.4	4.1	3.9	4.0	4.1	4.1	
CPI inflation ³	Prelim BEFU	1.5	1.9	2.0	2.0	2.0	2.0	
	HYEFU	1.5	2.0	2.0	2.0	2.0	2.0	
Current account balance ⁴	Prelim BEFU	-3.4	-3.6	-3.4	-3.3	-3.3	-3.5	
	HYEFU	-3.4	-3.5	-3.6	-3.6	-3.6	-3.7	
Nominal GDP ⁵	Prelim BEFU	5.5	4.1	5.4	5.2	4.8	4.6	
	HYEFU	5.5	4.3	5.6	5.1	4.7	4.5	
Nominal GDP ⁵ (\$billions)	Prelim BEFU	288.4	300.1	316.5	332.9	348.8	364.8	
	HYEFU	289.3	301.8	318.6	334.9	350.6	366.3	
	change	-0.9	-1.7	-2.1	-2.1	-1.8	-1.5	-9.1
	adj. change ⁶	-	-1.1	-1.5	-1.5	-1.2	-0.9	-6.2

1. Production GDP, annual average % change 2. June quarter 3. Annual % change 4. Annual as % of GDP
5. Expenditure measure 6. Change adjusted for starting point revisions to historical GDP data

24. The economic and tax forecasts will be finalised on 17 April and are likely to show a further slight softening in the near-term outlook, reflecting a mix of modestly weaker global growth, and heightened business uncertainty. However, the increased fiscal stimulus from higher spending allowances will likely see growth pickup over medium-term. Overall, this means that over the forecast period average annual real GDP growth will be close to the 2.6% average from the preliminary economic forecasts.

25. The fiscal position remains strong, but consistent with the economic outlook, the preliminary fiscal outlook is slightly weaker compared with the HYEPU reflecting slower growth in tax revenue.
26. There is a range of risks to the economic outlook that may lead to reduced or increased economic activity and hence lower or higher tax revenue. Risks to the domestic outlook are broadly balanced and include the uncertainty around the impact of business confidence on investment; the extent to which capacity pressures limit activity, particularly in the construction sector; and the level of net migration being higher or lower than expected.
27. Risks to the international outlook are prevalent and skewed to the downside. The Treasury assumes a fairly stable outlook for world growth, but if the global economy significantly deviates from this assumption then this could lead to reduced economic activity and lower tax revenue.

Budget Allowances for a Wellbeing Budget

28. In the Budget Policy Statement (BPS) we retained an operating allowance for Budget 2019 of \$2.4 billion per annum. At that time, I signalled that I would review the allowances once we were clearer on the level of need and the overall economic situation.
29. It is clear that significant investment is still necessary in order to meet cost pressures that have built up over the previous decade. This includes infrastructure and capital spending in health and education. In addition, there are key areas of investment needed to improve wellbeing, in particular mental health, child wellbeing, and domestic and sexual violence.
30. As we have discussed in Cabinet Committees when we were considering draft packages, the funding that Ministers sought significantly exceeded this available amount. We have been through a rigorous process to consider the competing priorities and determine which new initiatives we wish to progress, as well as the funding that is required to meet other obligations and ensure the continued delivery of important existing public services.
31. Bearing these factors in mind, in order to achieve what we want from this Wellbeing Budget, we need to increase the operating allowance by \$1.4 billion per annum, to \$3.8 billion per annum (\$15.1 billion over the forecast period).
32. In the BPS we signalled a move away from single-year capital allowances to a rolling multi-year capital allowance (MYCA). This new approach provides flexibility to meet medium-term investment objectives while ensuring that near-term fiscal strategy can be achieved. It also improves our ability to take a longer-term view of capital commitments and increases transparency, by tracking and reporting more clearly the cash impact of initiatives over time. The BPS included an MYCA of \$13.1 billion for Budgets 2019 to 2022.

33. The Budget Package commits \$10.5 billion of the MYCA. This will see significant funding dedicated to key areas including:
- a. the 10-year school property programme (\$1.2 billion);
 - b. Dunedin hospital redevelopment ^[33] ^[38]
 - c. other DHB capital investment including deficit support ^[33] ^[38]
 - d. Boeing P-8A Poseidon Aircraft (\$1.7 billion);
 - e. Auckland City Rail Link (\$1.4 billion);
 - f. KiwiRail (\$0.7 billion); and
 - g. the Provincial Growth Fund (\$0.9 billion) including funding for KiwiRail (\$0.3 billion).
34. This would leave only \$2.6 billion of the MYCA for future Budgets. I propose increasing the MYCA by \$1.7 billion, to \$4.3 billion, to ensure it remains at a credible level to deliver on priorities for future Budgets.
35. In the BPS we signalled an operating allowance for Budget 2020 of \$2.4 billion per annum. Given the priorities and pressures we have seen come through in Budget 2019 that we have been unable to fund, I propose increasing this to \$3.0 billion per annum, to ensure we can deliver our priorities and commitments.

Progress Against the Budget Responsibility Rules

36. ^[34]

37. ^[34]

38. An operating surplus is maintained across the forecast period. Due to a change in the accounting treatment for KiwiBuild since Budget 2018, the allocations for KiwiBuild are now considered operating rather than capital expenditure. This means the OBEGAL across the forecast period is significantly different than it would have been otherwise. The final fiscal forecasts will differ as they will incorporate the impact from the Treasury's updated view of the economic outlook and any other forecasting changes.

[34]

39. [34]

[34] Similarly, increases in allowances for future Budgets will ensure the Government is able to manage emerging pressures and deliver on our priorities.

40. [34]

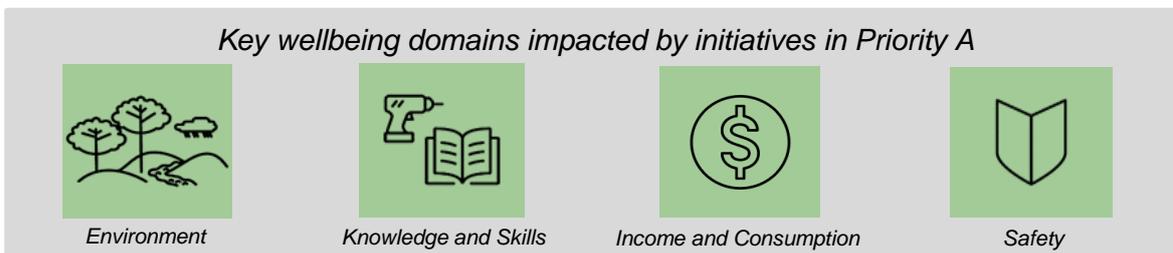
[34] We are still expecting to run operating surpluses, which means that we can fund current expenses out of current revenues and are not passing on the costs of today's spending to future generations. These forecast operating surpluses and economic growth keep net debt as a percentage of GDP on a stable or downward trajectory, which ensures the fiscal outlook remains sustainable. We will need to maintain discipline in our spending in future to keep debt on a stable trajectory.

41. The moderate increase in spending allowances set out above comes at a time when there are capacity constraints in the economy, but I expect these increases can be accommodated without unduly risking delays or exacerbating capacity constraints. However, there is a risk of future spending by agencies being lower than forecast if these capacity constraints continue.

The Wellbeing Budget Package

42. The Wellbeing Budget Package reflects the five priorities outlined above, as well as additional funding to maintain the delivery of important public services. It also continues to deliver on commitments we made in the Coalition Agreement, the Confidence and Supply Agreement, and the Speech from the Throne. Budget 2019 also reflects the Government's initial response to the 15 March terror attacks.

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



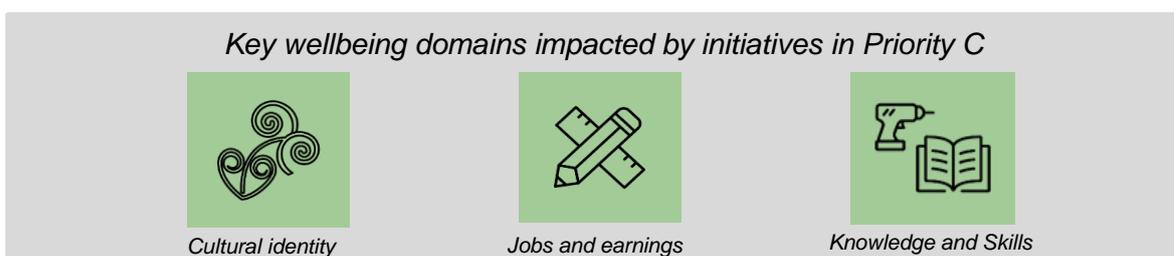
43. We want an economy that preserves and enhances our natural capital as an important foundation for our long-term wellbeing. Our Economic Strategy outlines our commitment to move towards a productive, sustainable, and inclusive economy. Priority A focuses on actions to enable a just transition to a low-carbon economy. This means doing the long-term planning required to ensure workers, businesses and communities are supported as we move away from a reliance on fossil fuels.
44. I consider the packages that we have developed in Priority A will make considerable progress toward our commitment to a just transition and low-carbon economy. These include:
- a. **The Sustainable Land Use package:** This package was created through collaboration between the Ministers with responsibility for the Environment, Conservation, Climate Change, Agriculture and Forestry portfolios. It aims to set up the institutions necessary to drive change, but combines them with transformative, on-the-ground assistance for land users to reduce their environmental impacts. Overall, this package receives \$229 million operating and ^[38] million capital expenditure.
 - b. **Support for rail and sustainable transport:** Transport is one of the key levers to improve both environmental outcomes, but also peoples' freedom to use their time effectively, and reduce their costs of living. Shifts in its use are also critical to meeting climate change goals. This package of initiatives, totalling more than \$1.4 billion, includes contributions from the Provincial Growth Fund, and will put KiwiRail on the 'reliable and resilient' path outlined in the Future of Rail paper.
 - c. **Research into agriculture, emissions and new energy:** An important part of the transition includes research into our current emissions profile, and ways to reduce them in the agriculture and energy sectors. We will inject \$68 million operating and \$28 million capital funding into research pools, regional facilities, schools and Scott Base in Antarctica.
45. Alongside this spending, we are making considerable changes to regulation to achieve the outcomes of Priority A. These include the Zero Carbon Bill, upcoming changes to the Emissions Trading Scheme, and Phase 2 of the Resource Management Act reforms.

Priority B: Supporting a thriving nation in the digital age through innovation, social and economic opportunities



46. Budget 2019 will take steps to ensure that New Zealand is well placed to thrive in the digital age and the rapidly changing world of work. The pace of technological change is driving significant change across economies and societies, with many of today's jobs predicted to not exist or be radically different in the future. It is vital we support businesses to invest in research and development, grow and develop industries, and provide workers the foundational skills they need to adapt.
47. Key initiatives in this priority include:
- a. **Venture capital investment:** Establishing a new fund to invest \$300 million into our venture capital markets through the New Zealand Venture Investment Fund (NZVIF). Funding will be from repurposing a small portion of future funding earmarked for the New Zealand Superannuation Fund, together with existing NZVIF assets.
 - b. **An Innovation Package:** This provides more than [38] to support innovative businesses to develop and commercialise products and adopt new technologies. It lifts government funding for high-performing business research and development (R&D) and incubator programmes, and funds an upgrade of New Zealand's satellite-based positioning system to enable new production techniques across industries such as agriculture, transport, forestry, and aviation.
 - c. **Reform of Vocational Education:** Funding the transformational changes to vocational education announced earlier this year. These reforms will introduce institutional changes to our vocational education system that will ensure it meets the future needs of learners, employers, and the regions.
48. The initiatives in this priority complement the significant changes already underway including R&D tax credits that were announced in Budget 2018 and the investment in Priority A to develop new energy technologies and industries. In addition, this priority includes support for the government's data, digital, and cyber security work.

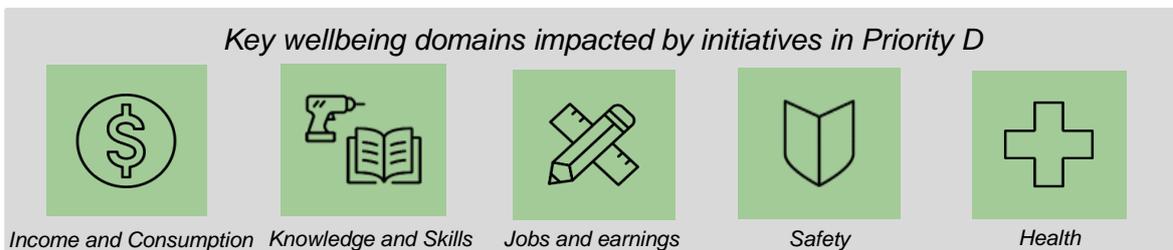
Priority C: Lifting Māori and Pacific incomes, skills and opportunities



49. Māori and Pacific peoples make a significant contribution to New Zealand across a range of different sectors. However, the indicators and evidence used to establish our priorities show that enduring inequities mean there is significant scope for this to be improved.
50. This Government has been active in identifying the potential drivers for change and the Budget 2019 Priority C package will affect a number of these through lifting the wellbeing of Māori and Pacific peoples. Priority C provides \$631 million for initiatives to directly lift the wellbeing in Māori and Pacific peoples. Other investments that target Māori are included in Votes Health, Oranga Tamariki, Justice and Women to the value of \$120 million.
51. Within this priority, there are a number of packages of initiatives that I view as critical to achieving these outcomes. These are:
- a. **Recognising the importance of whānau wellbeing.** A recent independent review of the Whānau Ora investment found that the whānau-centric approach is succeeding in enabling whānau to meet their aspirations to improve their wellbeing, and other analysis is showing that whānau have seen improvements across the wellbeing domains, particularly in the area of jobs and income. This package totals a [33]
[33]
[33] in an innovative whānau ora reintegration initiative for young Māori prisoners, which supports them and their whānau. Another significant investment of \$60 million will trial the transformation of Corrections rehabilitation and reintegration services to better support Māori.
 - b. **Revitalising Māori and Pacific Culture, Language and Communities.** In order for Māori and Pacific communities to thrive in New Zealand, we have invested over \$147 million in culture and community focussed areas. This includes \$38 million to restart Te Kotahitanga, \$40 million for the Māori Housing Network and \$12 million to support whānau, hapu and iwi to revitalise marae.
 - c. **Valuing the contribution and ensuring the wellbeing of Pacific communities.** Priority C represents the largest Pacific focused package in recent years. Totalling over \$113 million, significant initiatives include \$10 million to increase the Pacific Provider Workforce Development Fund to support a Pacific Health workforce pipeline, \$20 million to support Pacific languages to thrive in New Zealand's Pacific communities, and \$12 million to combat rheumatic fever, a disease that is particularly prevalent among Māori and Pacific peoples.

- d. **Other significant investments.** Totalling \$127 million, this category includes \$30 million to support Māori Crown Relations: Te Arawhiti, as well as Treaty Negotiations cost pressures.

Priority D: Reducing child poverty and improving child wellbeing, including addressing family violence



- 52. Budget 2019 builds on the Families Package and prioritises making New Zealand the best place in the world to be a child. It focuses on improving child wellbeing and addressing child poverty through lifting incomes. Up to 300,000 children live in poverty or hardship in New Zealand, and this can contribute to lasting wellbeing impacts in areas such as health, housing, and education.
- 53. We are also committed to breaking the intergenerational cycle of family violence. We know that exposure to family and sexual violence has impacts on child and youth wellbeing that persist throughout life: These people are more likely to attempt suicide, make up the majority of youth offenders, and are less likely to succeed in the education system and beyond. Exposure to violence as children also makes them more likely to be a perpetrator or victim of family violence in adulthood.
- 54. Key packages within this priority are:
 - a. **Supporting child wellbeing through education and reducing pressures on parents:** this includes funding to pay parental donations to deciles 1-7 schools, and significant investment in learning support, totalling \$915 million operating and \$88 million capital.
 - b. **Transforming the system for children in care:** this includes support for Oranga Tamariki to meet their legislative requirements and ensure that young people do not fall through the cracks. This transformation will be enabled through funding of \$781 million operating and [33]
 - c. **Improving incomes and addressing the cost of living:** the income support package includes changes to indexation settings for main benefits (to wage growth as we do for New Zealand Superannuation), a gradual lift in the abatement thresholds for main benefits to allow people to work more hours before their benefit reduces, and the removal of a sanction for failing to apply for child support. These changes are consistent with our vision for the welfare system and are first steps in responding to the Welfare Expert Advisory Group's (WEAG) recommendations. They also support our Child Poverty reduction objectives. This package will receive \$536 million operating funding.

- d. **Addressing family and sexual violence (FVSV):** this initiative will focus on prevention, specialist services and cross-agency and sector responses, through \$308 million operating and \$10 million capital funding. This response has been developed by the Joint Venture on FVSV and represents a strong collaboration across agencies to achieve the outcome of a significant reduction in FVSV.

Priority E: Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds



- 55. Budget 2019 takes seriously for the first time New Zealanders' mental health and wellbeing. We know that in any 12-month period, one in five New Zealanders will have a diagnosable mental illness, with most first occurring before the age of 25. We also know that poor mental health strongly affects life satisfaction, sense of purpose, material standards of living, social connections, and cultural wellbeing.
- 56. *He Ara Oranga – Report of the Government Inquiry into Mental Health and Addiction* identified a vast range of unmet needs. This package provides an initial response to the Inquiry to begin addressing the gaps in current services, particularly in early life or through early intervention. Early intervention can significantly reduce risk factors that would otherwise contribute to poor outcomes later in life. Key initiatives in the package are:
 - a. **Investment in primary mental health:** this will support a fundamental and transformational change to primary mental health, significantly improving access for all New Zealanders. There will also be a major focus on suicide reduction and funding for multi-disciplinary teams, to best improve the mental health of those in need across New Zealand (\$503 million).
 - b. **Emergency and transitional housing:** Safe housing is a key social determinant for positive mental health. Funding of [33] operating and [33] capital will provide 1,050 extra Housing First places, significantly increase the number of transitional housing placements, [33] [33]
 - c. **Transforming the care system:** in addition to funding in Priority D, this will provide wraparound support to young people leaving the statutory care or youth justice system. Funding of \$137 million is designated to help give our young people the services and skills they need to successfully transition into adulthood.

Cost Pressures

57. Maintaining wellbeing through ensuring that existing services are sufficiently funded is also a strong theme of our Wellbeing Budget. In Budget 2019 \$7.7 billion operating and \$4.7 billion capital has been provided for cost pressures outside of our priority areas. This will contribute to improved outcomes in the health, knowledge and skills, jobs and earnings and civic engagement and governance domains. Key components of the cost pressure package include:
- a. **Funding to support District Health Boards**, disability support services and in the broader health system. A total of [33] [38] [33] [38] will support provision of services, and the construction of Dunedin Hospital.
 - b. **Education funding for the school property 10-year programme** to improve jobs and earnings, and knowledge and skills (\$1.2 billion capital and associated operating).
 - c. We have also made significant pre-commitments to meet State sector pay claims, including pay equity, and to meet the costs of *Mycoplasma bovis*.
58. While we have included funding for cost pressures in the Budget 2019 package, my expectation is that Ministers will continue to work with their agencies to maintain a strong focus on the efficiency and effectiveness of the spending in their portfolios.

Other Initiatives

59. In addition to priority-aligning and non-discretionary cost pressure initiatives, I was presented with a range of other initiatives that had the potential to make an impact on wellbeing for New Zealanders. Overall, these initiatives have the greatest impact on the civic engagement and governance, safety and health domains. A total of \$997 million operating funding (net of savings) and \$1.9 billion capital will fund initiatives such as increasing Official Development Assistance, purchasing Boeing P-8A Poseidon aircraft, improving labour market regulatory compliance, and supporting research to counter kauri dieback. Capital funding of \$300 million has also been reprioritised from Crown Infrastructure Partners [33] [33]

Response to the 15 March Terror Attacks

60. We are still in the initial stages of identifying the response and required funding for the 15 March Terror Attacks. In addition to funding met through baselines and the between-Budget contingency, Budget 2019 will provide \$186 million in funding for urgent responses to the Terror Attacks. The majority of this funding is for the gun buy-back scheme [33] [33]

61. There are also a number of initiatives where decisions on funding can wait until after Budget 2019. The Minister of Finance and relevant portfolio Ministers will discuss the funding pressures and scrutinise proposals. If additional funding is required in the first instance it will be sought from the Between-Budget Contingency.

Other Initiatives that Support a Wellbeing Budget

Non-Spending Initiatives

62. As noted above, our wellbeing objectives can be achieved through a range of policies and regulations that do not necessarily have fiscal implications. These complement our spending initiatives and form part of our overall Wellbeing Budget Package.
63. I have outlined a number of non-spending initiatives that will form part of Budget 2019 earlier in this paper. There is scope to do more and I invite you to identify other initiatives in your portfolios that support our priorities and that we can communicate as part of our overall Wellbeing Budget Package. In addition, I will provide more information on the embedding of wellbeing in the Public Finance Act when I make announcements about our first Wellbeing Budget.

Initiatives Funded Through the Provincial Growth Fund

64. This Budget also makes major contributions to the prosperity of New Zealand's regions. A total of \$573 million operating and \$854 million capital has been allocated to the Provincial Growth Fund (PGF) from the Budget 2019 operating allowance and the Budget 2019–2022 MYCA.
65. Some of this funding has been used for initiatives that have already been announced, such as \$184 million for the One Billion Trees programme and \$108 million for the Tairāwhiti Roding Package. This Budget Package seeks agreement to a further contribution to the regions from the PGF. In particular, this paper notes that the PGF will make contributions of \$300 million towards KiwiRail regional rail projects.
66. Even after these significant investments, substantial funding remains in the PGF. Decisions on how this funding is to be invested will be made throughout this year and into 2020, in line with existing PGF decision-making processes.

[33]

Prioritisation

69. Ministers were asked to identify the lowest priority and/or lowest value one percent of their baselines to be considered for prioritisation. These initiatives were assessed in terms of the feasibility of ceasing funding and the likelihood and severity of associated risk.
70. In Budget 2019 this process was successful in reprioritising \$702 million for improving wellbeing outcomes for New Zealanders. While the prioritisation process has been effective for redirecting lower value and lower priority expenditure, it has also proven valuable for engagement on relative portfolio priorities and building confidence that baseline expenditure is worthwhile.
71. Following on from the Budget 2018 reprioritisation exercise, the Minister of Social Development and I commissioned a baseline review of the Ministry of Social Development (MSD). The review gave us a clearer understanding of MSD's performance and medium-term demand pressures, as well as identifying a list of programmes and initiatives to consider scaling or replacing. This directly informed which initiatives in Vote Social Development we have decided to fund.
72. We need to know more about what we are getting from our baseline expenditure, and I expect to commission another baseline review for Budget 2020. I am currently considering advice about the next steps for baseline reviews, including how they align with the current budget process and potential changes to the public finance system. I will shortly be seeking Cabinet approval for a work programme to explore changes to the public finance system to improve wellbeing, including how we can support Ministers to ensure that baseline expenditure supports wellbeing.

System Issues: Capability, Data and Digital Initiatives

73. In Budget 2019 we took a system-wide view of initiatives that had common components across the public sector, focusing on capability initiatives, and digital, data and ICT initiatives.

Capability

74. Capability initiatives (excluding those relating to devolved workforces) were reviewed to highlight both agency specific risks as well as common workforce issues. We identified shortages, or potential shortages, in several workforces and these were factored into the consideration of what we can deliver through this Budget Package.
75. We identified agencies requesting additional capability (in the form of extra staff) to maintain existing service levels. In some instances, these requests for additional capability have not been funded and I recommend that the responsible Ministers for those agencies work with affected agencies to prioritise their services within the funding available.

76. Relevant portfolio Ministers for the Ministry of Business, Innovation and Employment and Department of Internal Affairs have held successful prioritisation discussions resulting in a co-ordinated approach to the allocation of additional policy capability for priority work programmes. I encourage other groups of Ministers to adopt a similar approach in future.

Data and Digital

77. Government Chief Digital Officer (GCDO) and Government Chief Data Stewart (GCDS) evaluated those initiatives with a digital, data and ICT component using a set of agreed investment principles [GOV-19-MIN-0004 refers]. GCDO and GCDS also provided advice on the system level priority of these initiatives. As part of this evaluation process, GCDO and GCDS noted a number of conditions that should be placed on certain initiatives to ensure system-level value is achieved, manage risks and to ensure ongoing coordination. I recommend that GCDO and GCDS be directed to report back to Government Administration and Expenditure Review Committee (GOV) in March 2020 on the progress of initiatives included in this package in meeting these conditions (see Annex).

Future Wellbeing Work Programme

78. Budget 2019 represents a significant step forward in embedding a Wellbeing Approach into how our budget and policies are developed. Budget 2019 takes the first steps towards addressing the issues that the Budget priorities were designed to tackle. However, meaningful and enduring change though will take time due to the large and complex nature of the issues that we need to address.
79. To make genuine and enduring change, we need the whole system to be geared towards wellbeing. Looking ahead, we need to look at improving the broader ways in which the public finance system (e.g., budget, planning and accountability requirements for agencies) is managed and continue to work on cross-sector responses (both spending and non-spending) to ensure meaningful change in the priority areas that we need to focus on.
80. We are committed to continuing the progress through delivering a Wellbeing Budget in 2020. As part of the broader work to improve the public finance system, Budget 2020 will focus on ensuring that we meet any outstanding commitments in our Coalition Agreement, Confidence and Supply Agreement and the Speech from the Throne.
81. ^[33]

Between Budget Spending

Between-Budget Contingency

82. The Budget Package includes a contingency for between-Budget operating spending of [33]
[33]. This provides a buffer for any urgent matters that cannot wait until Budget 2020 and require funding in the 2019/20 financial year.
83. Ministers should only seek funding from the between-Budget contingency for urgent issues that cannot be deferred. Such proposals should demonstrate that the initiative cannot be funded through reprioritisation of lower value activities. Between-Budget proposals will be held to the same standards and requirements as initiatives submitted through the Budget process.

Tagged Contingencies

84. Funding for several initiatives has been set aside in tagged contingencies. Tagged contingencies are used when Cabinet agrees with the policy direction but further work is required before a decision is made to appropriate the funding (for example, the completion of a business case). Tagged contingencies are also used in circumstances where an initiative is commercially sensitive or negotiations have yet to take place (e.g. State sector wage negotiations).
85. Unless otherwise agreed, tagged contingencies expire on 1 February the year after they are established. Where necessary, Joint Ministers can agree to extend the expiry date.

Budget Night Legislation

86. I am currently considering proposals for Budget Night Legislation. I have confirmed that the following items will be progressed on Budget Night:

International Visitor Conservation and Tourism Levy (IVL)

87. The Minister of Tourism is seeking agreement to introduce legislation to introduce the International Visitor Conservation and Tourism Levy (IVL) under urgency on Budget night. This will enable the collection of the levy to begin on 1 July 2019. This will align the collection of the levy with the date of the implementation of the Electronic Travel Authority (ETA) as a condition of visa-waiver travel [DEV-18-MIN-0191 refers]. This means that communications about changes at the border can be streamlined.
88. The above will implement Cabinet decisions to introduce the IVL [DEV-18-MIN-0194 refers] and an ETA as a condition of visa-waiver travel [DEV-18-MIN-0191 refers].

New Zealand Business Number (NZBN)

89. On 3 April 2019, the Cabinet Economic Development Committee agreed to introduce a Bill on Budget Night to allow fees collected to maintain registers under the Companies Act 1993 to be used to fund the activities of the NZBN registrar [DEV-19-MIN-0065 refers].

90. The Leader of the House and I will work together to decide any further legislation that will be progressed on Budget Day.

Moratorium on Papers with Financial Implications

91. Once the Budget 2019 package has been agreed by Cabinet, production of the Budget documents must be completed. In order to ensure that the documentation tabled in the House of Representatives on Budget Day is accurate, Ministers cannot submit papers that have fiscal and/or appropriation implications for agreement by Cabinet Committees, Cabinet or Joint Ministers between now and Thursday 30 May 2019.

Consultation

92. This paper was prepared by the Treasury and the Minister of Finance. The Budget Package has been developed in line with the strategy agreed by Cabinet in September 2018, submissions by Ministers, Cabinet Committee discussions in November, March and April, and a series of meetings between Ministers.

Legislative Implications

93. The Appropriation (2019/20 Estimates) Bill, the Appropriation (2018/19 Supplementary Estimates) Bill, the Imprest Supply (First for 2019/20) Bill and the Imprest Supply (Second for 2019/20) Bill will give legislative effect to Budget 2019.

Regulatory Impact Analysis

94. There are no regulatory requirements for this paper.

Publicity

95. Budget Day is Thursday 30 May. The Office of the Minister of Finance coordinates all communications relating to Budget 2019, including requests for early announcements. Written approval from the Prime Minister and The Minister of Finance is required for any early announcements.

Proactive Release

96. Every year following Budget Day, the Treasury coordinates a proactive release of Budget documents. The aim of this release is to improve transparency of the Budget decision-making process. The 2019 release of documents will include this paper, along with other Budget Cabinet Papers such as the Budget Strategy Paper. Cabinet Committee materials and Budget Ministers briefings will also be released. I will consult with you during the process on the proposed release.

Recommendations

97. I recommend that Cabinet:

Economic and Fiscal Conditions

- 1 **note** that the Treasury's preliminary economic forecasts continue to show a robust economic outlook, but that nominal GDP and tax revenue are expected to be slightly lower than forecast at the *Half Year Economic and Fiscal Update* (HYEFU);
- 2 **note** the preliminary fiscal forecasts show the fiscal position remains strong, but the fiscal outlook is weaker than at HYEFU 2018;
- 3 **note** that final economic and tax forecasts for the Budget Economic and Fiscal Update are to be completed by 17 April and final fiscal forecasts are to be completed by 8 May;

Wellbeing Budget Package

- 4 **note** that the Wellbeing Budget 2019 supports investment in the following priorities:
 - 4.1 Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy;
 - 4.2 Supporting a thriving nation in the digital age through innovation, social and economic opportunities;
 - 4.3 Lifting Māori and Pacific incomes, skills and opportunities;
 - 4.4 Reducing child poverty and improving child wellbeing, including addressing family violence;
 - 4.5 Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds;
- 5 **note** that at the time of the Budget Policy Statement we agreed to review operating allowances for Budget 2019 of \$2.4 billion per annum and a multi-year capital allowance (MYCA) for Budgets 2019-2022 of \$13.1 billion as spending needs and economic conditions became clearer;
- 6 **agree** to the following final operating and capital packages, including prioritisation initiatives, as set out in the financial recommendations accompanying this paper:
 - 6.1 A net operating package of \$3.8 billion per annum (\$15.1 billion over the forecast period);
 - 6.2 A net capital package of \$10.5 billion;
- 7 **note** that this will allow the Government to make investments to support the key priority areas mentioned above to achieve advancements in wellbeing, and to ensure that key services are sustainable;

- 8 **agree** to increase the operating allowance for Budget 2020 from \$2.4 billion per annum to \$3.0 billion per annum, to ensure we can deliver our priorities and commitments;
- 9 [33]
- 10 **agree** that expenses or capital expenditure against appropriations and capital injection authorisations set out in the 2019/20 Estimates and being sought in that Bill may be met from Imprest Supply until the Appropriation (2018/19 Supplementary Estimates) Bill is enacted;
- 11 **authorise** the Minister of Finance and relevant Appropriation Ministers to approve changes to initiatives and appropriations where this proves necessary to finalise the 2019 Budget Package;
- 12 **authorise** the Minister of Finance to finalise the fiscal priorities and future allowances for inclusion in the Fiscal Strategy Report;

Response to 15 March Terror Attacks

- 13 **note** that the Budget 2019 package provides \$186 million in funding for immediate responses to the Terror Attacks, the majority of which is for the gun buy-back scheme;
- 14 [33]

System Initiatives

- 15 **note** that a number of agencies did not receive the full amount of capability funding that they sought through this Budget which means that decisions will need to be made on what can be delivered within the level of funding in 2019/20;
- 16 **agree** that relevant Ministers will have conversations with their agencies around priorities and what services will not be delivered or delivered to lower levels of standard in 2019/20 given resourcing constraints;
- 17 **direct** the Government Chief Digital Officer and the Government Chief Data Steward, in conjunction with the Treasury, to engage with agencies and report back to GOV in April 2020 with a status update of the conditions in relation to the digital, data and ICT initiatives outlined in the Annex to this paper;

Complementary Initiatives

- 18 **note** that non-spending initiatives and initiatives funded through the Provincial Growth Fund support the Government's priorities established in this Wellbeing Budget;

- 19 **invite** Ministers to identify further non-spending initiatives to support the Wellbeing Budget Package;

Future Wellbeing Budgets

- 20 **note** that I will consult with Ministers about retaining the five wellbeing priorities as the foundation for Budget 2020 and that in the meantime Ministers can continue to work together on these priority areas;

Budget Night Legislation

- 21 **agree** that the Immigration (International Visitor Conservation and Tourism Levy) Amendment Bill will be passed under urgency on 30 May;
- 22 **agree** that Budget Night legislation will also be used for allowing fees collected to maintain registers under the Companies Act 1993 to be used to fund the activities of the New Zealand Business Number registrar,
- 23 **agree** that further legislation will be progressed on Budget Day as agreed by the Minister of Finance and the Leader of the House;

General Matters

[33]

- 25 **agree** that:
- 26.1 proposals for funding from the between-Budget contingency must be for urgent issues that cannot be deferred to Budget 2020;
- 26.2 Ministers will be expected to demonstrate that they have exhausted their search for opportunities to fund the initiative through reprioritisation of lower value activities;
- 26 **agree** that no papers with fiscal and/or appropriation implications for agreement by Cabinet, Cabinet Committees or joint Ministers be submitted between 15 April 2019 and 30 May 2019 so that Budget documentation is accurate;
- 27 **note** that all communications relating to Budget 2019 are coordinated by a Budget communications committee, and that any requests for early announcement will need to have both the written approval of the Minister of Finance and sign-off from the Prime Minister's office; and

- 28 **invite** the Minister of Finance to introduce the Appropriation (2019/20 Estimates) Bill, the Appropriation (2018/19 Supplementary Estimates) Bill, the Imprest Supply (First for 2019/20) Bill and the Imprest Supply (Second for 2019/20) Bill to give effect to Budget 2019.

Hon Grant Robertson
Minister of Finance

Date: 15 April 2019

ANNEX: CONDITIONS RECOMMENDED ON DIGITAL, DATA AND ICT INITIATIVES

Agency	Initiative	Conditions
Business, Innovation and Employment	Business connect - Digitally connecting businesses with local and central government	Ministry for Business, Innovation and Employment to work with functional leads and the central agencies on the operating model and on-going operational costs.
Business, Innovation, Employment	MBIE Payroll system	Ministry for Business, Innovation and Employment to work with the Government Chief Data Officer and the State Services Commission to ensure that any market intervention is aligned with a system strategy for payroll.
Internal Affairs	Operation of the RealMe system asset	Department of Internal Affairs to investigate and consider options to reduce the annual operational cost of RealMe, whether through [33] [38] [33] [38] Department of Internal Affairs to discuss these with functional leads and central agencies.
Education	Data for wellbeing - Infrastructure, capability and measurement	Ministry of Education to work with functional leads to ensure that any data sharing capabilities (e.g. consolidated data warehouse; SISI repository) that provide a single client/unit view are built in a way that can be used across government.
Education	NCEA Online - Transforming Assessment for Learners	New Zealand Qualifications Authority should work with the Government Chief Operating Officer and the Government Chief Data Steward on an ongoing basis during development and deployment.
Environment	Strengthening the integrity of the environmental management system	Ministry for the Environment to work with functional leads to ensure that any consolidated data warehouse; mechanism for sharing data between agencies; a sector-based data exchange to provide a single client/unit view is built in a way that can be used across government.
Justice and Police	Preventing family violence and sexual violence - Cross-agency integrated community responses to ensure safety and improve wellbeing	Ministry of Justice to work with the Government Chief Data Officer to enable appropriate co-ordination across agencies that are implementing case management systems.
Land Information New Zealand	Enabling Innovation Package: Improved satellite based positioning to grow an innovative, safe and efficient New Zealand	Land Information New Zealand to engage with the Government Chief Digital Officer throughout the procurement process.
Social Development	Reducing risk in critical systems and implementing legislative changes	Ministry of Social Development to work with the Government Chief Data Officer to ensure governance and assurance arrangements are in place prior to the first tranche of funding being drawn down for the 'risk reduction' projects. Ongoing engagement expected on scope, sourcing arrangements and delivery approach (including concept-testing). Ministry of Social Development, Oranga Tamariki and Ministry of Housing and Urban Development to put in place joint governance arrangements for the Data Warehouse project.
Statistics New Zealand	New Zealand Census of Population and Dwellings – Next Census budget bid: Analysis planning and completion	Statistics New Zealand to ensure funding sought for future Census is based on robust costing of the end to end Census delivery, that incorporates lessons learned from the delivery of the previous 2018 Census