

The Treasury

Budget 2020 Information Release

July 2020

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- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
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Budget Ministers 1

Budget 2020: Scene Setting

30 September 2019

Purpose of meeting

The purpose of this meeting is to:

1. Hear from the Prime Minister's Chief Science Advisor, Professor Juliet Gerard, on how we are placed to start tracking against our wellbeing priorities and where Chief Science Advisors see highest value for Budget 2020 to focus
2. Set the scene for Budget 2020, including discussing the early economic and fiscal context
3. Understand the priorities and process for Budget 2020
4. Discuss how we can ensure Budget 2020 delivers our wellbeing and policy commitments while meeting our fiscal strategy

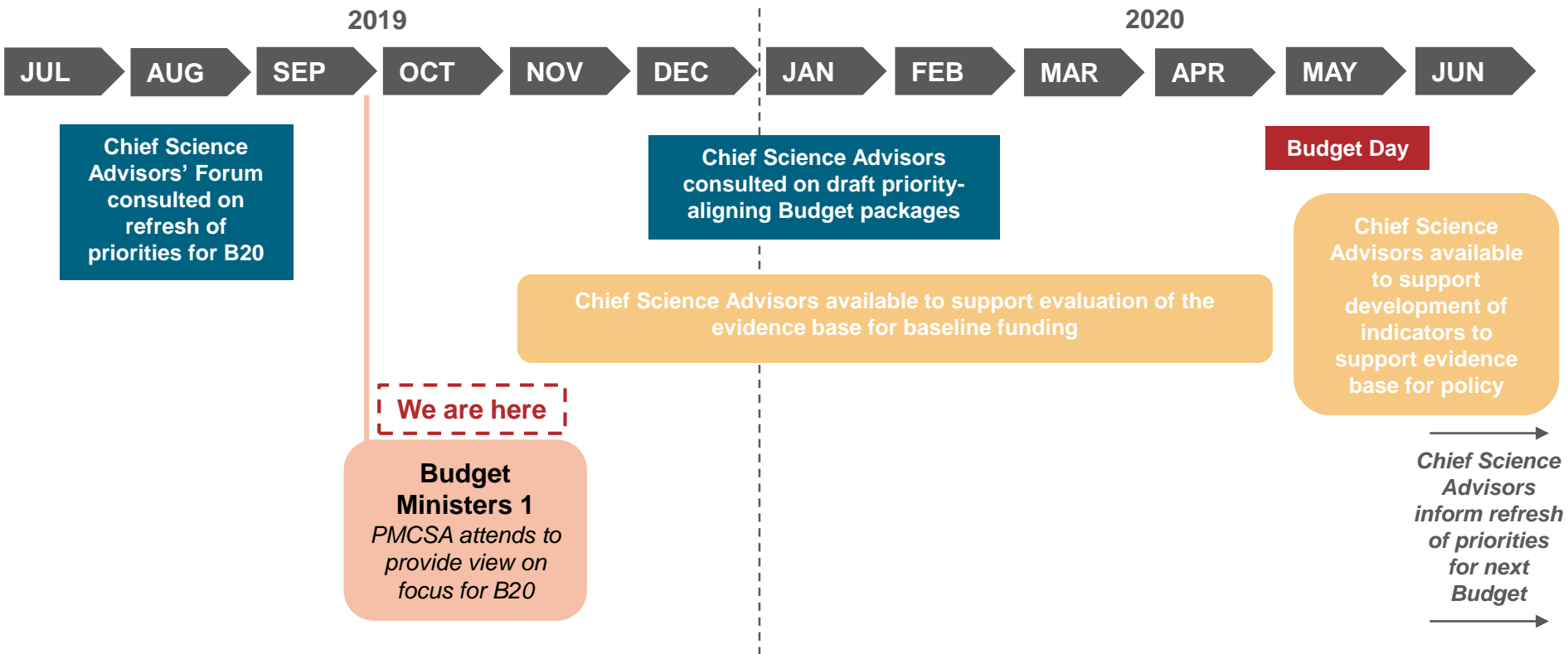
1) PMCSA on focus for Budget 2020

- The Prime Minister's Chief Science Advisor, Professor Juliet Gerrard, will join us to share her views on:
 - i. how we are placed to start tracking against our wellbeing priorities, including progress towards building a strong evidence base and timeframe challenges; and
 - ii. where Chief Science Advisors see the highest value for Budget 2020 to focus, including a report back from their workshop with the Treasury.
- Budget 2019 was the first time the Chief Science Advisors' Forum was consulted in Budget development, providing valuable independent views and expertise in the setting of the Budget priorities.
- Budget 2020 will build on this. Chief Science Advisors provided feedback in the recent refresh of the Budget priorities and will be consulted through the development of Budget 2020 priority packages.
- The Forum is also strengthening interactions with the Treasury. Tim Ng, the Treasury's Chief Economic Advisor, has joined the Forum and there is an evolving set of touch points through the Budget cycle (next slide).

Juliet will table a short document to support her discussion and answer any questions

1) PMCSA on focus for Budget 2020

- The following are the main touch points for Chief Science Advisors to inform the development of the Budget...

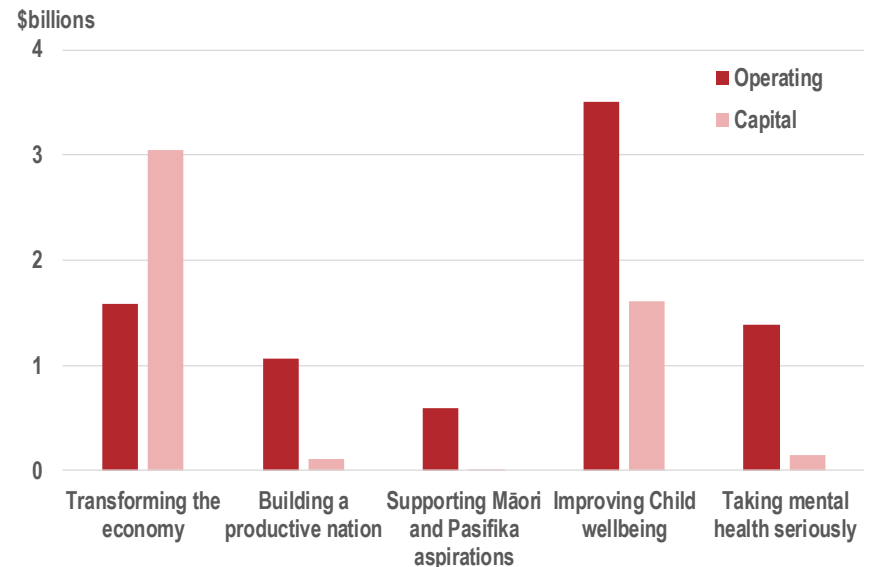


2) Scene-setting for Budget 2020

Budget 2020 will deliver our second Wellbeing Budget...

- Budget 2020 will build on the progress made in Budget 2019 to embed a wellbeing approach into policymaking.
- Our first Wellbeing Budget delivered significant progress through:
 - \$3.8 billion p.a. operating and \$10.4 billion capital investment in high-value initiatives – the largest Budget investment in over a decade
 - Anchoring investment decisions around five evidence-based wellbeing priorities
 - Introducing new processes to support cross-government collaboration and better incorporate sector expertise
 - Using wellbeing analysis to inform decision making and the public presentation of Budget information

Figure 1 – Budget 2019 funding by priority



*Operating funding is annual average over the forecast period and capital funding is 10-year total.

2) Scene-setting for Budget 2020

... amidst a slowing global economy and weaker fiscal outlook...

- The global economic outlook has weakened since Budget 2019. US-China trade tensions, uncertainty in Europe, and financial market volatility have led to growing uncertainty, weakened confidence, and softer expectations for global growth.
- New Zealand's economy continues to perform solidly and better than many. But there are signs the global outlook is affecting domestic conditions, particularly through business and consumer confidence and demand for exports.
- The Treasury's *Half-Year Economic and Fiscal Update 2019*, released in December, will likely show a slightly weaker economic and fiscal outlook over the near term than at Budget 2019.
- This will likely put additional pressure on the available fiscal headroom within our fiscal strategy.

Figure 2 – Real GDP growth



2) Scene-setting for Budget 2020

... and significant pressures on the Budget allowances

- Budget 2019 provided a significant investment in Government priorities and core public services, but there are similar pressures building for Budget 2020.
- There are a number of outstanding or partially-met commitments from the Speech from the Throne, Coalition Agreement, and Confidence and Supply Agreement that need to be met through Budget 2020. These include:

Commitments not yet begun...

- Increase the number of ECE centres and funding fully-qualified and registered teachers (Throne)
- Funding an annual free health check for seniors, including eye check (CA + Throne)
- Teen Health Checks for all Year 9 students (CA + Throne)
- GP fees subsidies, to reduce fees by \$10 a visit (Throne)
- Progressively increase the age for free breast screening to 74 (CA)

Commitments where the Government has started but there is more to do...

- Overhauling the welfare system (C&S Agreement)
- Strive towards 1800 new Police officers over three years (CA + Throne)
- Work to increase Research & Development spending to 2% of GDP over ten years (CA)
- Supporting training of 4000 young people as apprentices (Throne)

2) Scene-setting for Budget 2020

- There also remain significant cost pressures across the public sector from rising demand and/or prices for existing services and outputs.
- With a \$3 billion p.a. operating allowance (\$800 million p.a. less than Budget 2019), there will be significant pressure on Budget 2020 allowances.
- After meeting outstanding commitments and cost pressures, there will be limited funding available within allowances for new initiatives to progress our wellbeing and other priorities.

Table 1 – Budget allowances

	Budget 2020	Budget 2021	Budget 2022	Budget 2023
Operating allowances	\$3.0b	\$2.4b	\$2.4b	To be set in <i>Budget Policy Statement 2020</i>
Multi-year capital allowance	←	\$4.4b	→	

Given pressures on allowances, it is vital that Budget Ministers reinforce consistent messages to our colleagues on the need to:

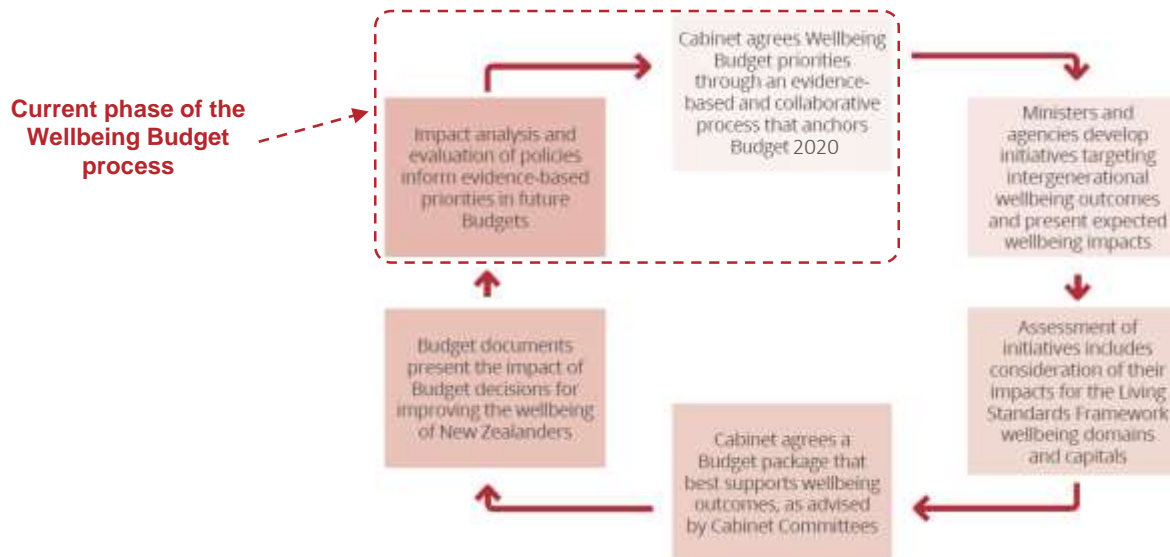
- i. **focus only on high-value initiatives** that meaningfully address Government priorities;
- ii. **work together to design collective solutions** to make the most of limited funding; and
- iii. **be realistic about what can be delivered**, taking into account past Budget initiatives and capacity constraints across government.

3) Budget 2020 priorities & process

Budget 2020 will be anchored by our wellbeing priorities...

- Budget 2020 will continue the focus on our five wellbeing priorities from Budget 2019, which have been reviewed and refined following:
 - insights from recent wellbeing data and analysis;
 - feedback from Chief Science Advisors, external stakeholders and NGOs; and
 - consideration of where additional funding can best support further progress following Budget 2019.
- Sub-priorities have been introduced for each priority to more clearly indicate our focus for Budget 2020.

Figure 3 – The annual Wellbeing Budget process



3) Budget 2020 priorities & process

Budget 2020 Priorities and Sub-Priorities

Just Transition Priority: Supporting New Zealanders in the transition to a climate-resilient, sustainable, and low-emissions economy

Sub-Priority 1: Enable land use to deliver higher value and improved environmental outcomes

Sub-Priority 2: Promote a sustainable and affordable energy system

Future of Work Priority: Enabling all New Zealanders to benefit from new technologies and lift productivity through innovation

Sub-Priority 1: Enabling workers to adapt to technological change by continually upskilling, re-skilling, and participating in productive and fair employment

Sub-Priority 2: Supporting businesses by enabling uptake of new technology and improving access to global markets, skills, and infrastructure

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

Sub-Priority 1: Lifting Māori and Pacific peoples' skills, education, and income and employment outcomes

Sub-Priority 2: Improving Māori and Pacific health and housing outcomes through housing quality, affordability, and tenure

Child Wellbeing Priority: Reducing child poverty and improving child wellbeing

Sub-Priority 1: Improving housing quality and income levels for low-income families

Sub-Priority 2: Prevention and early intervention for children and whānau with the greatest need, including continuing to address family violence and sexual violence

Physical and Mental Wellbeing: Supporting improved health outcomes for all New Zealanders

Sub-Priority 1: Strengthening existing mental health services in the health sector and beyond, with a focus on under 24-year-olds

Sub-Priority 2: Delivering a sustainable and equitable public health and disability system

3) Budget 2020 priorities & process

... and will continue to embrace new ways of working introduced in Budget 2019

- Budget 2020 will also build on the changes introduced in our first Wellbeing Budget to embed a more collaborative Budget process anchored around our wellbeing objectives.
- These include:
 - Appointing a Coordinating Minister for each Budget priority to develop priority-aligned packages in collaboration with relevant Ministers, building on the success of Ministerial groups in Budget 2019
 - Running a separate cost pressures process to provide a clearer and earlier sense of the scale of these pressures
 - Continuing to embed system perspectives in Budget decision making, through receiving views of GCDO, GCDS, Central Agencies, and Functional Leads on initiatives with public sector impacts/benefits (e.g. ICT, data, digital, workforce capability)
 - Consulting Cabinet Committees to review early progress with developing priority packages and to consider near-final Budget packages

4) Questions for discussion

1. What are the trade-offs required to deliver a Budget 2020 that achieves our outstanding commitments, as well as our wellbeing and fiscal objectives?
2. What are the headline initiatives we want to see in Budget 2020?
3. Are there decisions on outstanding commitments that we can take now to help shape the development of Budget 2020?
4. What approach do we want to take to addressing public sector cost pressures this Budget (e.g. bare minimum funding vs building capability)?
5. How can we best support Coordinating Ministers and other Ministerial colleagues to develop packages that deliver on the Government's priorities?

5) Next steps

