

The Treasury

Budget 2020 Information Release

July 2020

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Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 6(b)(i) - to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government
- [5] 6(d) - to prevent endangerment of the safety of any person
- [9] 6(e)(iv) - to prevent serious damage to the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the stability, control, and adjustment of prices of goods and services, rents, and other costs, and rates of wages, salaries, and other incomes
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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Budget Ministers 2

Budget 2020: Update on Progress

9 December 2019

Purpose

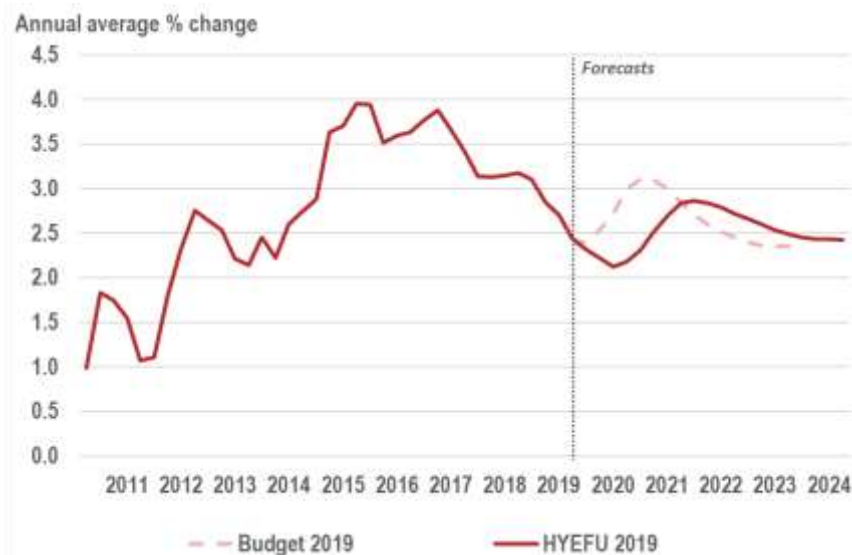
The key objectives for this meeting are to:

1. Provide an update on final HYEPU fiscal and economic forecasts
2. Discuss Budget 2020 initiatives that have been submitted
3. Discuss other business

Economic and Fiscal Outlook

- As expected, the Treasury's *Half-Year Economic and Fiscal Update 2019* shows a slightly weaker outlook than at Budget 2019.
- New Zealand's economic growth has eased over 2019 driven by slower growth in household consumption, softer business investment, and ongoing weakness and uncertainty in the global economy.
- While GDP growth is expected to slow to around 2% in the near term, it is forecast to pick up beginning in 2021 supported by higher government spending from the capital investment package and low interest rates.
- Despite the slightly weaker outlook, some areas of the economy continue to perform solidly, with the labour market and demand for our exports remaining firm despite the weaker global conditions.

Figure 1 – Real GDP growth



Economic and Fiscal Outlook

- The softer economic outlook combined with recent spending decisions has contributed to a weaker fiscal outlook.
- Tax revenue is expected to grow more slowly than forecast at Budget, while higher benefit payments combined with weaker forecasts for ACC and DHBs contribute to higher expenditure growth.
- An operating balance deficit of \$0.9 billion is now forecast in 2019/20 (0.3% of GDP), before surpluses return across the remainder of the forecast period.
- Net Core Crown debt is forecast to grow over the next three years to peak at 21.5% of GDP in 2021/22, before declining.

Figure 2 – Total Crown OBEGAL

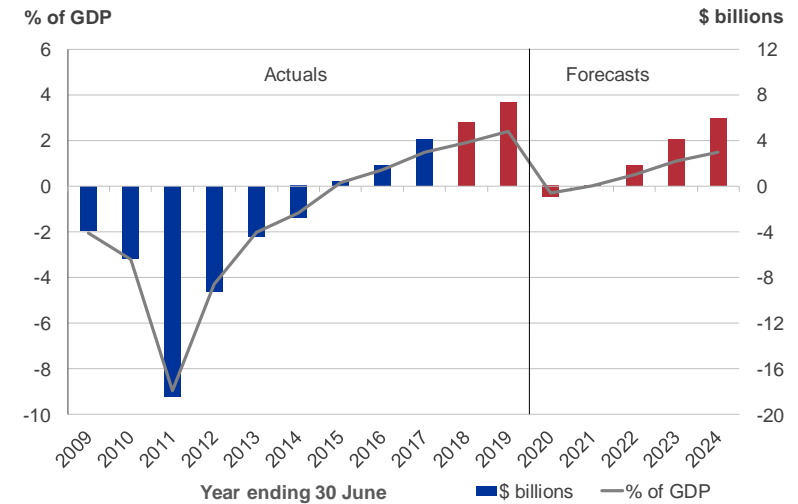
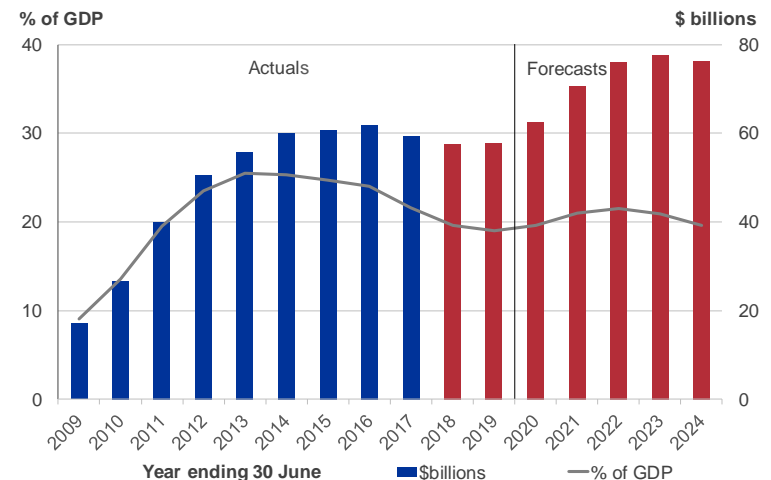


Figure 3 – Net Core Crown Debt



What Has Been Submitted?

\$ billions	Operating per annum	Total capital (MYCA)
Budget 2020 allowances	3.00	8.40
Total submitted across new spending and cost pressures	10.91	13.48

Cost pressures (194 initiatives)

\$ billions	Operating per annum	Total capital (MYCA)
Total submitted	3.71	6.11

New spending (417 initiatives)

[33]

Other	82	1.30	5.02
[33]			

Cost Pressures

- Ministers have sought \$3.7 billion per annum of operating funding for cost pressures.
- To stay within Budget allowances and still leave room for new spending, the Treasury has drafted “low” and “high” operating cost pressure packages.
- **The “low” cost pressure package would cost \$1.7 billion per annum.** It focuses on areas of expenditure critical to delivering core government services. It carries risks that may be detrimental to wider system sustainability and wellbeing outcomes. This would leave room for around \$175 million per annum for each of the five Budget priorities.
- **The “high” cost pressure package of \$2 billion per annum carries less risk.** It includes initiatives funded through the low package, with additional funding to maintain service delivery at current levels. This level of funding is more consistent with supporting system sustainability and wellbeing outcomes. This would leave room for around \$100 million per annum for each of the five Budget priorities.
- Several cost pressure initiatives indicate that they support an outstanding commitment from the Coalition Agreement, Confidence and Supply Agreement, or Speech from the Throne.

Table 1: indicative breakdown of “low” and “high” operating cost pressure allocations, annual averages

\$m	Low	High
Allowance	3,000	3,000
Pre-commitments	350	350
Funding for the five Budget priorities	875 (175 per priority)	500 (100 per priority)
Non-priority aligned new spending	75	100
Between-Budget contingency	40	50
Cost pressure allocation	1,660	2,000

Cost Pressures

This table provides examples of the types of choices between the “low” and “high” cost pressure packages.

Draft “Low” Cost Pressure Package	Draft “High” Cost Pressure Package
DHB Additional Support	
\$648m p.a. This amount reflects the amount sought by Health. The Treasury does not consider this amount adequate to enable DHBs to maintain core services and this level of funding does not address ongoing deficit concerns.	\$710m p.a. The Treasury considers this a sustainable level of funding to enable DHBs to provide core services and negotiate with workforces. Deficits will not increase to the same extent.
Primary Care Price and Volume Pressures (Health)	
Not supported. Not funding this pressure risks primary care providers withdrawing from low cost schemes and subsequent increases to GP co-payments	\$24m p.a – Fund in full.
Planned Care National Price Increase (Health)	
Not supported. Not funding this pressure will reduce the mix and complexity of Planned Care interventions delivered, and may carry reputational risk.	\$15m p.a. – Fund in full.
Transforming the Cross Government Disability Support System	
Not supported. Not funding this pressure compromises an ongoing transformation of the disability sector. The transformation is designed to provide a solution to the ongoing funding sustainability issues in the disability sector.	\$3m p.a. This funding is to continue pilots that are an important part of the solution to disability sustainability issues (please note \$208m p.a. has been included in high and low packages for disability system cost pressures – a separate initiative)
Maintaining a Safe and Effective Prison Network	
[33] Funding at this level primarily addresses wage pressures, and does not address the growing complexity of the prison population, and will require internal prioritisation.	[33] This option provides more funding to support core safety and effectiveness settings, including increased investment in custodial and health staffing to manage an increasingly complex prison population.
Continuing the Ministry for Primary Industries Current Scope of Operations	
\$28m p.a. Funding at this level only addresses remuneration pressures in the short term, and enables a continuation of core operations at current levels.	\$36m p.a. Provides full funding for the agreed remuneration increases across the forecast period, and address an upcoming funding cliff that will require either additional funding or reduction in service delivery.
Supporting Kōhanga Reo Cost Pressures	
\$6m p.a. Provides one year of funding to address an immediate funding cliff. This level of funding will likely reduce their ability to recruit and retain staff, and plan into outyears. Funding relates to a Treaty claim, which if unfunded carries a reputational risk to the Crown.	\$23m p.a. – Fund in full.

New Spending Initiatives

[33]

- New spending initiatives were submitted on 29 November, seeking \$7.25 billion operating per annum and \$7.29 billion in total capital. This is an unrealistically high number of initiatives, which could put pressure on the processes we have set up to develop packages.
- [33]
- The approach we take with funding cost pressures will determine how much we have available for new spending initiatives.
- [33]

Update on Priority Packages

[33]

Next Steps

