

# The Treasury

## Budget 2020 Information Release

### July 2020

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- [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
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# **Budget Ministers 3**

## **Emerging Budget 2020 Package**

**18 February 2020**

# Objectives

## **The objectives of this meeting are to discuss:**

1. The economic and fiscal picture, including a brief overview of the potential impact of COVID-19
2. The overall picture of the Budget 2020 packages:
  - Update on the cost pressure package
  - Overview of the 'new spending – other' package
  - Overview of priority-aligned packages as provided by Coordinating Ministers
  - Overview of capital investment
3. Trade-offs required between initiatives and packages

# Economic and Fiscal Outlook

- Compared to the *Half-Year Economic and Fiscal Update 2019 (HYEFU)*, the near-term outlook for the economy is expected to be weaker owing to the COVID-19 outbreak.
- At this stage, it appears the economic impact of the virus will be most strongly felt in the first half of 2020. Economic growth is expected to recover in 2020/21, resulting in a medium-term outlook that is broadly similar to HYEFU.
- The most recent Government month-end results show that most key fiscal indicators are broadly in line with HYEFU.
- The expected weaker near-term economic outlook is likely to adversely impact the fiscal outlook over the next few years.
- Additionally, there are some decisions (e.g. changes to ACC funding settings) which will weaken the surplus and net debt track.
- The Treasury will report on its preliminary economic forecasts on 21 February, while an updated view of the fiscal outlook will be available ahead of Cabinet considering the final Budget 2020 package.

# Economic impact of COVID-19

- The COVID-19 outbreak is having a negative effect on the economy, particularly tourism.
  - Education services are also at risk, and there are risks of disruption to exports (including meat, forestry, dairy and seafood).
- The economic impact is uncertain, and depends on the duration of the outbreak and the success in containing its spread.
  - The Treasury assumes that the negative effects will begin to ease in the next few weeks, with activity and prices quickly returning to normal.
- Extensive outbreaks in other countries, or ongoing infections and travel disruptions inside China, would lead to further disruption of economic activity in New Zealand.

# Budget 2020 Headline Figures

- Budget 2020 builds on the changes introduced in the first Wellbeing Budget. We are embedding a more collaborative process to develop priority-aligned and cost pressure packages.
- The packages are coming together well, but are still oversubscribed. Difficult trade-offs are required to take forward a final Budget package.

\$ billions	Operating per annum	Total capital (MYCA)
<b>Remaining Budget 2020 allowances*</b>	2.6	8.4
<b>Total submitted</b>	10.9	12.8

## Overall...

\$ millions

Pre-commitments	[33]
Draft Cost Pressures package	1,843
Draft 'New Spending – Other' package	373
Between-Budget Contingency	40
<b>Draft Total</b>	[33]

## Submitted by Priority Ministers

[33]

\*after pre-commitments of [33] operating per annum

# Cost Pressure Package: Update

- In December, we discussed draft high and low cost pressure packages of \$2 billion and \$1.6 billion per annum. Since then I have revised the draft cost pressure package to around \$1.8 billion per annum.
- This package supports existing service delivery levels and resilience, while leaving a small amount for new initiatives. This figure may change as a result of conversations with the Ministers of Education, Health, Defence and Foreign Affairs.

## Significant initiatives included in draft package

\$ millions	Per Annum
District Health Boards – Additional Support	710
Supporting Disabled New Zealanders To Live Good Lives	208
Enabling the continuation of the Mycoplasma bovis eradication programme <sup>1</sup>	102
Corrections (total)	61
Ongoing operation of the New Zealand Screen Production Grant - International	[33]
[33]	

## Significant initiatives excluded from draft package

\$ millions	Per Annum Sought
Defence baseline review cost pressures <sup>2</sup>	[33]
Maintaining the solvency of the ACC non-earners' account	220
Relieving workload pressures – DHB employed nursing and midwifery workforces	[33]
Funding DHB Holidays Act Remediation Liabilities	
Tuition Subsidy Increase	40
GCSB/NZSIS <sup>3</sup>	[33]
Sustaining access to Hospice specialist palliative care	

<sup>1</sup>This figure may be revisited regarding Mbovis underspends and whether to continue pursuing full eradication

<sup>2</sup>An indicative figure pending a final decision on the Defence cost pressure package

<sup>3</sup>Total cost pressure funding sought by the GCSB/NZSIS across a range of initiatives – I am currently discussing a scaled back version of this amount with Portfolio Ministers that addresses urgent priorities

**What is our level of comfort with progressing a \$1.8 billion cost pressure package given constraints on the overall Budget 2020 allowance, and the extent of cost pressures in particular sectors?**



# 'New Spending – Other'

- Ministers submitted bids of \$1.4 billion operating per annum in the 'new spending – other' area. The focus of this package is high-value initiatives that impact on our broader wellbeing objectives but do not align to one of the five Budget priorities.
- I have prioritised initiatives that address a political commitment, or where there is limited discretion. Currently, the package totals **\$373 million per annum**. I am still considering bids not included in the package for now.
- This package funds several significant capital investments, primarily in Votes Transport and Defence.

## Significant Initiatives – New Spending – Other Package (\$ millions)

Portfolio	Title	Opex avg	Capex Total
Transport	Investment to enable rail activities to be funded under the Land Transport Management Act	[33]	-
Police	Next generation critical communications (NGCC) establish Emergency Services critical communications capability		-
Statistics	Delivering New Zealand's next census of population and dwellings	59	12
Defence	Defence capability plan 2019 - contingent funding to support the introduction of new capabilities	[33]	
Broadcasting, Communications, Digital Media	Transitional funding for the continued provision of mail services from New Zealand Post	33	-
Foreign Affairs/ODA	Increasing New Zealand's international assistance to ensure strong governance and inclusive development	50	-
Transport	Future of rail – rolling stock investment to support a resilient and reliable rail freight system	-	396
Transport	Future of rail – investment in improved resilience and reliability of core assets	-	[33]
Transport	Future of rail – New Interisland ferries to support a resilient and reliable rail freight system	-	333
Internal Affairs	Preserving the nation's memory (PtNM)	-	[33]

**Are we comfortable with the overall approach and funding in this draft package?**

# 'New Spending – Other'

- Due to constraints on allowances, several initiatives were not included in the draft 'New Spending – Other' package, shown below

## **Significant Initiatives not included – New Spending – Other Package (\$ millions, amounts sought)**

[33]

# New Spending – Priority Packages

[33]

# Priority A – Just Transition

[33]

# Priority B – Future of Work

[33]

# Priority C – Māori and Pacific

[33]

# Priority C – Māori and Pacific

[33]

# Priority D – Child Wellbeing

[33]





# Priority E – Physical and Mental Wellbeing

[33]

# Capital and Workforce Constraints

## Capital investment

- Our additional investment in infrastructure through the New Zealand Upgrade means we need to consider market capacity and capability constraints carefully.

• [33]

- The capital investment panel has concerns about the capability and capacity of some agencies to deliver a significant uplift in new investment.

[33]

- Decisions on new investment in Budget 2020 should factor in progress in delivering on investment agreed in previous Budgets, and balance this against the need to signal an ongoing pipeline of investment.

## Workforce constraints

- Unemployment rates are at historical lows and recent surveys have outlined that labour market pressures in certain workforces are acute (construction in particular).
- The draft packages would fund significant FTE growth (estimated at over 2,500 additional staff). This is likely to create additional pressure in labour markets, and raises achievability concerns in relation to supported initiatives.

# Next Steps

We face several key decisions as we work towards a final Budget 2020 package:

- Are we comfortable with the balance between cost pressures and new investment?
  - As the package stands, there are still unfunded cost pressures that may require funding in future Budgets. New investment in Budget 2020 may compound these pressures.
- What do we consider an appropriate level of investment and what are our strategic priorities in sectors such as health, justice, welfare, education, and defence that support the wellbeing approach?
- Are we prepared to lift allowances to meet costs, with the consequential impact on deficit/surplus and net debt levels?

I propose to prepare a near-final Budget package (that will be subject to agreement by Budget Ministers) to share with Cabinet Committees in late March. I will provide more detail on this package as we work through revisions following the discussion today.

I will also have targeted discussions with the Ministers of Health, Education, Defence and Foreign Affairs.

# Next Steps

