

# The Treasury

## Budget 2020 Information Release

### July 2020

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- [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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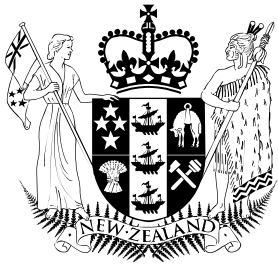
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## **Budget Ministers 4**

# **Finalising the Budget 2020 Package in the context of COVID-19**

**18 March 2020**

# Objectives

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

1. Provide an update on the economic and fiscal outlook, in light of COVID-19 developments
2. Provide an update on the draft Budget 2020 package, noting that this will be revised to take account of COVID-19
3. Set out the next steps in finalising Budget 2020

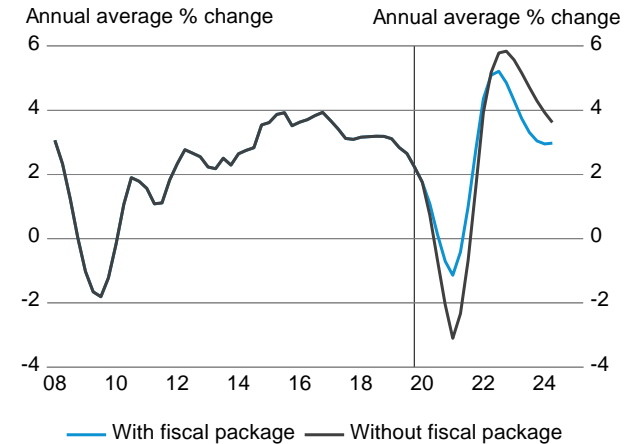
# Executive Summary

- Budget 2020 is being prepared in the midst of COVID-19, which will have a large negative impact on the economy and on the government's finances.
- In recent months we have been developing the Budget 2020 package. A process is now underway to revise the draft Budget package to take account of COVID-19, for instance where it is no longer feasible to deliver some initiatives.
- The draft Budget package as it stands would allow us to make meaningful progress on our five Budget priorities, as well as meeting outstanding Government commitments and addressing cost pressures. It totals <sup>[33]</sup>
- I intend to take a revised version of this package to Cabinet for agreement on 30 March. Beyond that, we need the flexibility to take further COVID-19 related spending decisions as necessary. This is being built into the process.

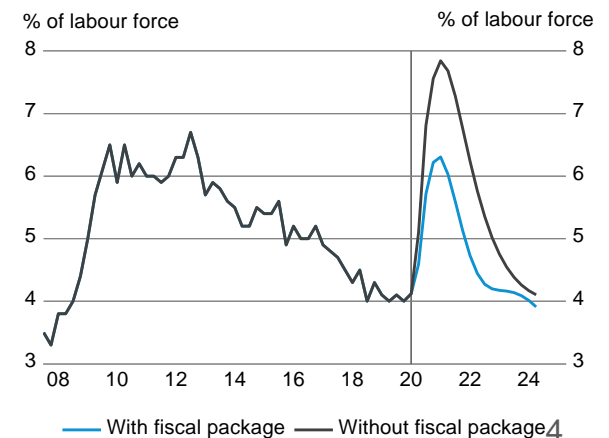
# COVID-19: Economic Impacts

- The situation is evolving rapidly, but it is clear that COVID-19 will have a large negative impact on the economy.
- Without the fiscal package announced on Tuesday, there would be a significant recession. The impact of the disease is becoming increasingly large, with the World Health Organisation declaring a global pandemic.
- The fiscal package provides a significant cushion to the economy, though a recession still seems almost certain, as does a significant increase in the unemployment rate.
- These are early estimates that the Treasury will continue to refine, as the COVID-19 situation develops, and we get information on the uptake of the economic support package.

## Real GDP Growth

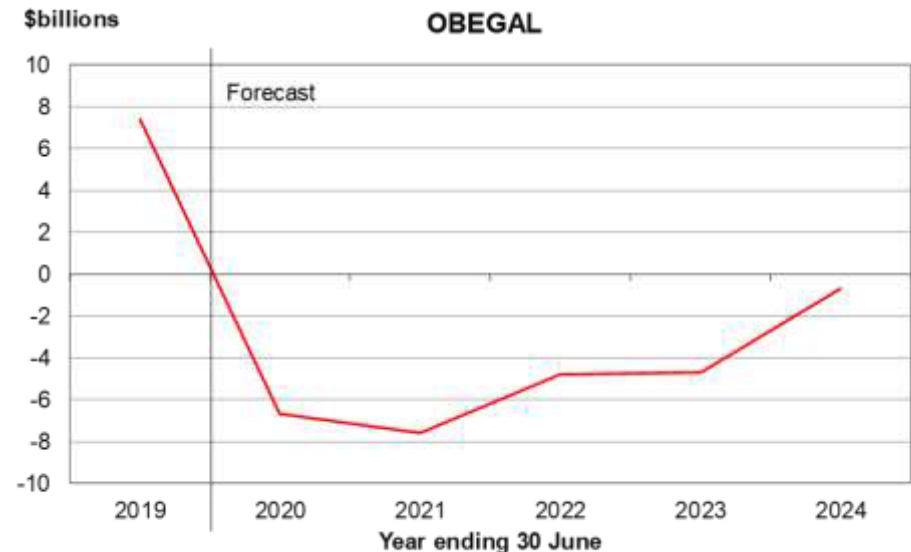
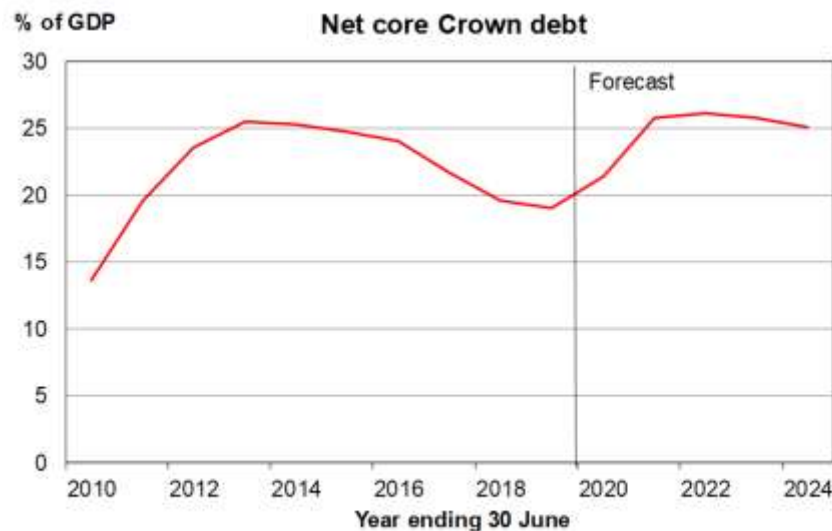


## Unemployment rate



# Fiscal Impact of Response

Early modelling of the economic and fiscal impact of the impact of COVID-19, and the response package, suggests **net core Crown debt rising above 25% of GDP** within two years, and **OBEGAL deficits across the forecast period**.



These results are based on the COVID-19 response package, a <sup>[33]</sup> billion Budget package, with other policy settings as at HYEUFU. It is possible the situation will appear much worse as more information becomes available and estimates are refined. **A period of fiscal rebuilding will inevitably be required to return to surplus and reduce debt.**

# Budget 2020 Draft Package

[33]

- Components are set out in the table opposite.
- Further detail on the packages is set out in slides 8 to 15.
- A process is underway to revisit the packages in light of COVID-19 to test whether initiatives are still feasible, deliverable and/or desirable. As such, numbers and initiatives may change.

\$ millions	Operating p.a.	Capital total
Cost Pressures	[33]	
New Spending - Other	350	2,205
Priority A: Just Transition	[33]	
Priority B: Future of Work		
Priority C: Maori and Pacific		
Priority D: Child Wellbeing		
Priority E: Physical and Mental Wellbeing		
Pre-commitments		
Between Budget Contingency	40	-
Emerging Priorities Contingency	5	-
Revenue Initiative (Purchase Price Allocation)	(39)	-
Remaining Education Initiatives	132	-
<b>TOTAL</b>	[33]	



# Draft Package vs Submissions

Budget allowances were heavily oversubscribed:

<b>\$ billions</b>	<b>Operating p.a.</b>	<b>Capital total (MYCA)</b>
Budget 2020 allowances	3.00	8.40
Total submitted across new spending and cost pressures	11.05	12.75

But initiatives in draft packages have been reduced to a more realistic level:

[33]

# Pre-Commitments

Cabinet has already agreed to the following pre-commitments against allowances:

Vote	Item	\$ millions		
		Opex average	Opex total over forecast period	Capex total
Regional Economic Development	Provincial Growth Fund: Investment in Skills and Infrastructure	143	573	-
Education [38]	School Property Programme	4	17	-
Justice	Amendments to the Criminal Cases Review Commission Bill	0	2	2
Health [38]	Investment to Increase Access to Medicines	8	30	-
Immigration	A New Approach to Employer-Assisted Work Visas and Regional Workforce Planning: The Job Gateway	2	8	-
Justice	Delivering the General Election and Referendum(s) in 2020	10	40	-
Internal Affairs	Standardising Classification for Commercial Video On-Demand Content	-	-	1
Revenue	Tax initiatives to support the Government's economic plan	20	80	-
Corrections	Initiatives Responding to the 15 March Terror Attacks: Additional Funding	-	-	1
Internal Affairs	Three Waters Review: Institutional Arrangements for a Drinking Water Regulator	1	6	-
Health	Strengthening the immunisation system and funding the response to the measles outbreak	10	40	-
Arts, Culture and Heritage [37]	Funding for the New Zealand Symphony Orchestra in 2020	-	-	2
Justice [38]	Provision of Public Information for the 2020 Referendums	3	12	-
Labour Market, Social Development	Employer-Assisted Work Visa System: Business Case on Implementing the Reforms	10	38	40
Speaker of the House	Exit of Bowen House for Seismic Strengthening Work and Future Parliamentary Accommodation	8	32	4
Social Development	Temporary Accommodation Assistance (Canterbury Earthquake) and Transitional Assistance Payment for Budget 2019 Income Support Package	0	1	-
Housing and Urban Development	Progressive Home Ownership Fund: Report-Back	1	3	-
Justice	Towards a Safe and Effective Criminal Justice System: Initial Response to the Final Reports and Recommendations	1	4	-
Energy and Resources [38]	Response to the Retail Fuel Market Study: Fuel Industry Bill	0	1	-
Education	Extending Eligibility to Student Support to People Affected by the Christchurch Mosques Terror Attack	-	-	0
Education	Associated Operating Costs of the Education Components of the Capital Investment Package	1	3	-
Local Government / Civil Defence	North Island Drought: Financial Assistance	3	10	-
<b>TOTAL</b>		<b>388</b>	<b>1,552</b>	<b>49</b>

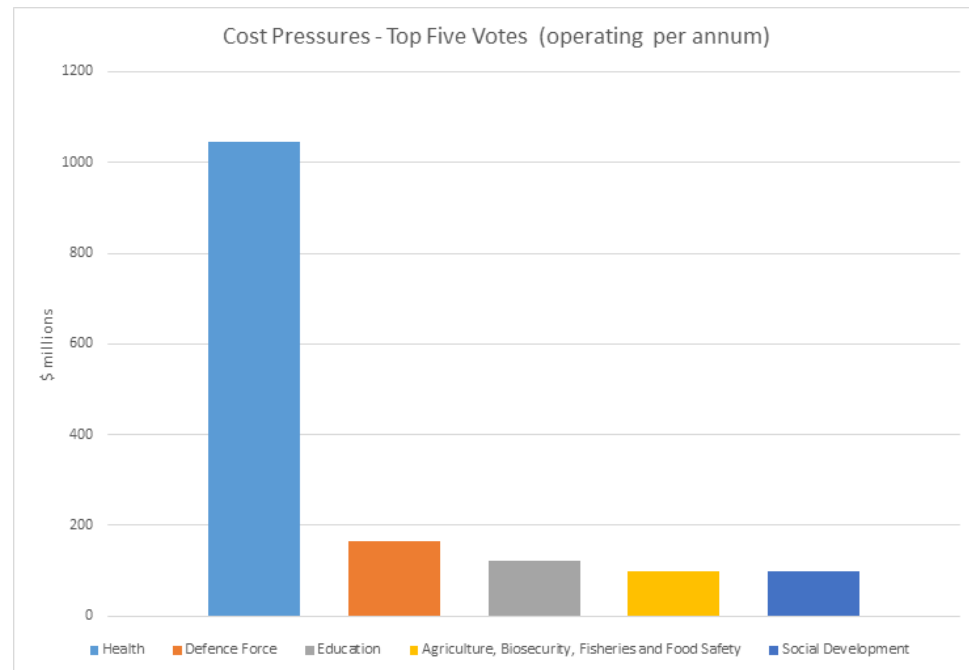
# Draft Cost Pressures Package

- The draft Budget package contains cost pressure funding of **\$2.0 billion p.a. operating, and \$1.2 billion total capital.**
- Cost pressure initiatives are driven by volume, price, personnel, or impending changes to legislation or regulation.
- Cost pressure funding will ensure ongoing delivery of core government services, help maintain service delivery at current levels of provision, avoid baseline 'funding cliffs,' reduce the risk of redundancies, and address price pressures.

## Large initiatives included in draft package

Item	\$m p.a. operating
District Health Boards – Additional Support	710
Supporting Disabled New Zealanders To Live Good Lives	208
Defence Cost Pressures: Budget 2020 Baseline Review	167
Ongoing operation of the New Zealand Screen Production Grant - International	[33]
Continuation of M. Bovis response	48

Item	\$m total capital
District Health Boards – Capital Investment	750



**NB: Numbers are subject to change**

# Draft 'New Spending – Other' Package

- Ministers submitted bids of \$1.3 billion operating p.a. in the 'new spending – other' area. The focus of this draft 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. The draft package totals **\$350 million operating p.a. and \$2.2 billion capital**.
- This draft package funds several significant capital investments, primarily in Votes Transport and Defence.

## Significant Initiatives in Draft 'New Spending – Other' Package

Portfolio	Title	\$m opex avg	\$m capex total
Police	Next generation critical communications (NGCC) establish Emergency Services critical communications capability	[33]	-
Defence	Defence capability plan 2019 - contingent funding to support the introduction of new capabilities	47	898
Transport	Investment to enable rail activities to be funded under the Land Transport Management Act	37	-
Broadcasting, Communications, Digital Media	Transitional funding for the continued provision of mail services from New Zealand Post	33	-
Transport	Future of Rail – New Interisland ferries to support a resilient and reliable rail freight system	-	400
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	-	246
Internal Affairs	Preserving the Nation's Memory	-	[33]













# District Health Board Deficits

NOTE: Due to the timing of DHB annual plan submissions, the numbers included in preliminary fiscal forecasts are based on the Ministry of Health's HYEPU submission. These numbers will be updated in advance of the final fiscal forecasts.

- The 2020 Budget Economic and Fiscal Update preliminary fiscal forecasts reflect a significant **structural deficit for the DHB sector of approximately \$1 billion per year.**
- The accumulation of deficits over recent years has led to a number of DHBs exhausting their cash reserves to make essential operational payments. This means that additional cash will need to be provided to DHBs to ensure they can make essential payments, e.g. for wages and medical supplies.

[33]

# Process From Here

- Following today's discussion, I will prepare a paper to take to Cabinet on 30 March to seek agreement to the Budget 2020 package.
- There is a process underway to revisit the draft package in light of COVID-19 to test whether initiatives are still feasible, deliverable and/or desirable. This will feed into the 30 March Cabinet paper.
- Once Cabinet decisions are taken, officials will prepare Budget documentation, including the economic and fiscal update, Estimates of Appropriations, and the Wellbeing Budget document.
- We need flexibility to take further COVID-19 related decisions after 30 March. To achieve this, I intend to:
  - set up a notional fund to meet COVID-19 costs
  - use “Additional Supplementary Estimates” to get Parliamentary approval for late decisions, as was done in 2011 for Christchurch earthquake-related expenditure
- I am still working towards a Budget Day of Thursday 14 May.