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Chair
Cabinet

Budget 2020: Strategy and Process

Proposal

1. This paper seeks agreement to the strategy and process for Budget 2020. The proposed strategy supports the Government's wellbeing objectives through building on progress made in Budget 2019, including a strong focus on our wellbeing priorities, cross-government collaboration, and delivering remaining commitments in the Speech from the Throne, Coalition Agreement, and Confidence and Supply Agreement.

Executive Summary

2. Budget 2020 will see our Government deliver its second Wellbeing Budget. The first, in Budget 2019, marked a significant milestone for our commitment to embed a wellbeing approach into the heart of policymaking. It introduced new ways of working to support Budget decisions based on a holistic consideration of what matters to New Zealanders. These were developed through a cross-government focus on wellbeing outcomes, taking into account both present and future generations.
3. Ensuring that our second Wellbeing Budget achieves our world-leading ambitions will require Ministers and agencies to continue to embrace the changes we made in Budget 2019.
4. To support this, this paper proposes a strategy for Budget 2020 that includes:
 - Maintaining the five wellbeing outcomes prioritised in Budget 2019, but refining them to provide greater clarity on where we see the greatest opportunities to focus efforts in Budget 2020;
 - Building on the success of Ministerial and senior officials groups in Budget 2019 by appointing a Coordinating Minister for each Budget priority who will develop priority-aligned packages in collaboration with relevant portfolio Ministers;
 - Running a separate cost pressures process to give Budget decision-makers a clearer and earlier sense of the scale of these pressures; and

- Continuing to prioritise initiatives that demonstrate a clear, compelling, and well-evidenced contribution to our Government's wellbeing and policy commitments.
5. I expect there will be limited room available in the Budget allowances for discretionary initiatives, given we have a number of outstanding commitments in the Speech from the Throne, Coalition Agreement, and Confidence and Supply Agreement and there are significant cost pressures across many public services. This emphasises the need for Ministers and agencies to work together to ensure available funding is prioritised towards high-value initiatives that meaningfully address our wellbeing priorities.
 6. I do not propose altering the Government's fiscal strategy or spending intentions for Budget 2020 at this time. I will continue to monitor the economic situation over the coming months and report to Cabinet if conditions suggest a response is required.

Progressing our Government's Wellbeing Agenda

7. Our first Wellbeing Budget demonstrated a new approach to government, driven by the goal of lifting the wellbeing of New Zealanders. It marked a significant milestone for the Government's programme of change to embed a wellbeing approach into the heart of policymaking.
8. We know we cannot meaningfully address problems like child poverty, inequality, and climate change through continuing the traditional ways of working. Budgets have traditionally focussed on a limited set of economic data, been comprised of initiatives designed within agency silos and in pursuit of narrow objectives, and been developed centrally with limited consultation and sector expertise. Budget 2019 represented a significant departure from this.
9. In Budget 2019, we made meaningful progress toward delivering a Budget that:
 - Tracks progress against broader measures of success, including the health of our finances, natural resources, and people and communities;
 - Breaks down agency silos and works across government to assess, develop, and implement policies that improve wellbeing; and
 - Focuses on outcomes that meet the needs of present generations at the same time as thinking about the long-term impacts for future generations.
10. However, achieving genuine and enduring change in the way Budgets and policies are developed takes time. This is why we are committed to delivering a wellbeing approach in Budget 2020 and beyond.

11. Ensuring that our second Wellbeing Budget achieves our world-leading ambitions will require Ministers and agencies to continue to embrace the new ways of working introduced in Budget 2019. This includes focussing on:
 - Working closely together to co-design initiatives that provide collective solutions for our Government's wellbeing priorities;
 - Making use of the growing amount of evidence and wellbeing data to look beyond fiscal and economic implications and to ground initiative development in an evidence-based approach;
 - Collaborating in Ministerial and officials groups to prioritise Budget packages that demonstrate clear and compelling opportunities to progress wellbeing outcomes, both in the short term and for future generations; and
 - Maintaining a focus on delivery to ensure expected wellbeing outcomes are realised and progress is measured.
12. Achieving these aims will complement our Government's wider work programme to be progressed in Budget 2020. This includes delivering our remaining commitments in the Speech from the Throne, Coalition Agreement, and Confidence and Supply Agreement and addressing the significant cost pressures experienced across many of our core public services.

Economic Outlook and the Fiscal Strategy

Economic Context

13. The global economic outlook has weakened since the publication of the Treasury's *Budget Economic and Fiscal Forecasts 2019*. The global economy is experiencing a slowdown, with US-China trade tensions, continued policy uncertainty in Europe, and financial market volatility contributing to an emerging narrative of an imminent global downturn. Although labour markets in most developed countries remain strong, these events have led to heightened uncertainty, weakened confidence, and softer expectations for global growth.
14. While New Zealand's economy continues to perform solidly and better than many of our trading partners, there are signs that the deteriorating global outlook is beginning to affect domestic conditions. There remain a number of notable strengths in the economy, including a robust labour market, strong household income and consumption growth, and strong terms of trade. However, business confidence has fallen and export prices have recently declined. The Reserve Bank's decision to reduce the Official Cash Rate to 1% will provide some support to the economy but risks remain, notably the degree to which weaker business sentiment dampens investment activity and how global conditions impact demand for New Zealand exports.

15. At Budget 2019, the Treasury forecast a slight easing in growth in 2019/20 due to slowing population growth and subdued business investment. While the risk of an immediate recession in New Zealand remains low, given recent developments I now anticipate the outlook in their *Half-Year Economic and Fiscal Update 2019* (HYEFU) will show a slightly weaker picture for domestic growth. It remains unclear, however, the extent to which this reflects the beginning of a sustained period of slower growth or a short-term softening triggered by a period of unusual global economic uncertainty.
16. In the face of these challenging conditions, we made significant investments in Budget 2019. This included lifting forecast new operating spending from \$2.4 billion per annum to \$3.8 billion per annum, and committing to new capital spending of \$10.4 billion from the four-year capital allowance. Along with previous investments in Budget 2018, we have an expansionary fiscal policy. We are continuing to monitor global issues and the domestic economy and we will respond accordingly to further deteriorating conditions.

Fiscal Strategy and Budget Allowances

17. Given the uncertain economic outlook, I do not propose at this time to alter the Government's fiscal strategy for Budget 2020. We remain committed to the Budget Responsibility Rules (BRRs).
18. The BRRs do not only reflect sound fiscal management – they are an important foundation for the intergenerational wellbeing of New Zealanders. Maintaining debt at prudent levels has supported our resilience to risks, including our ability to respond to economic downturns; delivering operating surpluses over the economic cycle helps debt to remain on a stable trajectory over the medium term; and prioritising expenditure on high-value initiatives has supported the effective and efficient management of the Crown's resources.
19. The Treasury's forecasts presented at Budget 2019 showed the Government on track to achieve the BRRs, with operating surpluses across the forecast period and net core Crown debt remaining around 20% of GDP. It is uncertain how the weaker economic outlook will affect this. However, I expect the Treasury's next forecasts will show a weaker operating balance in 2019/20 than previously forecast and a slightly lower debt position following stronger than expected tax revenue over the final months of 2018/19.
20. The BRRs provide flexibility to respond to economic shocks if necessary. The operating balance and net debt targets have always been subject to economic conditions permitting. This reflects that in some circumstances it may be appropriate to provide fiscal support.

21. I will continue to monitor the economic situation over the next couple of months, including in the light of the Treasury's preparation of their HYEPU forecasts from October. I will report to Cabinet if conditions suggest additional fiscal support outside of the Budget cycle becomes appropriate.
22. At this point, I recommend that the operating allowance for Budget 2020 remains at \$3.0 billion (as set at Budget 2019) and the remaining multi-year capital allowance for Budgets 2021 to 2023 remains at \$4.4 billion. A new year of the rolling four-year capital allowance (2023/24) will be included in the forecast period in the *Budget Policy Statement 2020* and I propose to make a decision on additional funding to be included in the capital allowance for this year at that time.
23. As in Budget 2019, I propose authority be delegated to the Budget Ministers group (outlined in paragraph 56) to agree any changes to allowance settings in the *Budget Policy Statement 2020*.

Delivering Past Budget Commitments

24. Delivering the programmes and investments funded in Budgets 2018 and 2019 will provide important support to the economy and contribute to our Government's wellbeing objectives.
25. Budgets 2018 and 2019 represented a significant investment in public services and infrastructure. Ahead of Budget 2020, I am keen to have a strong understanding of how we are tracking towards delivering these commitments.
26. I will shortly write to Ministers seeking information on how they are progressing with delivering the most significant initiatives funded in recent Budgets. This includes how spending is tracking, whether expected outputs and outcomes are being realised, and what constraints agencies are experiencing where delivery is behind expectations. I thank these Ministers in advance for progressing this with their agencies and look forward to receiving the information in late October to discuss in Budget bilateral meetings in November. I will be taking into account the progress made on these initiatives as I assess Budget 2020 bids.

Priorities for Budget 2020

Review of the Budget 2019 Priorities

27. Central to Budget 2019 was the use of evidence-based priorities that identified the greatest opportunities for making a real difference to the wellbeing of New Zealanders. These priorities allowed Ministers and agencies to work together to collectively design strong wellbeing-focussed initiatives and ensured that the final Budget 2019 package represented a cohesive response to these issues.
28. Budget 2019 took the first steps toward tackling these problems. However, due to their large and complex nature, meaningful and enduring change will take time. As such, I previously indicated that I believed the Budget 2019 priorities should form the foundation of Budget 2020 [CAB-19-MIN-0174 refers].
29. We have reviewed the Budget priorities to consider whether any changes are appropriate after taking into account:
 - Further insights gained from Living Standards Framework data and analysis available since the priorities were originally agreed;
 - Additional sector expertise and feedback received through recent consultations with large agencies, Departmental Science Advisors, and a range of external stakeholders and non-governmental organisations; and
 - Funding decisions made through Budget 2019 and consideration of where additional funding could best support further progress.
30. The review found wide support for retaining the five Budget 2019 priorities. They remain areas where significant opportunity exists to tackle some of New Zealand's most important and long-standing policy issues and which cannot be addressed by a single Budget. However, it was felt there was value in tightening their wording to provide a clearer signal for agencies and stakeholders on where the Government wishes to concentrate its focus in this Budget.

Proposed Budget 2020 Priorities and Sub-Priorities

31. I recommend retaining the wellbeing outcomes targeted by the Budget 2019 priorities but propose refining their wording and introducing sub-priorities for each. In Budget 2020, priority will be given to initiatives that meaningfully address these sub-priorities. Any initiatives that support a priority's broader outcomes, while not addressing a specific sub-priority, will need to demonstrate high value to be considered in priority packages.
32. I propose the priorities and sub-priorities set out in Table 1 (overleaf) form the focus of investment in Budget 2020.

Table 1 – Priorities and Sub-Priorities for Budget 2020

<p>Just Transition – Supporting New Zealanders in the transition to a climate-resilient, sustainable, and low-emissions economy <i>The Government is committed to transitioning the economy to a productive, sustainable and low-emissions future.</i></p>
<p>Sub-Priority 1: Enable land use to deliver higher value and improved environmental outcomes <i>The Government wants to ensure that farmers, businesses, and communities are supported to reduce emissions and improve productivity through research, innovation, adopting new technologies, and changing business practices.</i></p>
<p>Sub-Priority 2: Promote a sustainable and affordable energy system <i>Shifting to a sustainable and affordable energy system is an important enabler of a low-emissions economy. This includes reducing barriers and improving incentives for innovative businesses to adopt and develop clean energy solutions.</i></p>
<p>Future of Work – Enabling all New Zealanders to benefit from new technologies and lift productivity through innovation <i>The Government is committed to ensuring New Zealand is well placed to thrive in a period of significant technological change, including from digitalisation and automation.</i></p>
<p>Sub-Priority 1: Enabling workers to adapt to technological change by continually upskilling, re-skilling, and participating in productive and fair employment <i>Technological change poses challenges and opportunities for the resilience and adaptability of our workforce’s skills and experiences. This suggests that workers will need to continuously refresh their skills to respond to the rapidly changing nature of work. The Government is committed to ensuring that no one is left behind and that workers have the chance to participate in the economy of the future.</i></p>
<p>Sub-Priority 2: Supporting businesses by enabling uptake of new technology and improving access to global markets, skills, and infrastructure <i>Technological change will pose challenges and opportunities for businesses. It will become increasingly important for business to be agile to respond to global trends and be early adopters of technology to remain competitive in a global marketplace.</i></p>
<p>Māori and Pacific – Lifting Māori and Pacific incomes, skills, and opportunities <i>The Government is committed to lifting the wellbeing of Māori and Pacific peoples and delivering opportunities for economic and social success.</i></p>
<p>Sub-Priority 1: Lifting Māori and Pacific peoples' skills, education, income and employment outcomes <i>Improving education and employment outcomes for Māori and Pacific peoples is critical for lifting wellbeing. This includes enabling improved participation and achievement for learners across all areas of the education system and improving access to skills development, employment, and resilient and well-paying jobs.</i></p>

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

Improving security of tenure and access to warm and dry homes will have a significant impact on wellbeing. This will involve a focus on improving housing quality for Māori and Pacific peoples as well as increasing the possibility of home ownership for these groups.

Child Wellbeing – Reducing child poverty and improving child wellbeing

The Government is committed to making New Zealand the best place in the world to be a child and meeting the targets set for poverty reduction in the Child Poverty Reduction Act 2018.

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

Unsuitable and/or insecure housing and inadequate incomes are significant issues in New Zealand, particularly for households that are disadvantaged in other areas. It contributes to poor health as well as poor child wellbeing outcomes.

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

Research shows that early intervention is most effective in addressing many of the issues facing families. Addressing family violence and sexual violence continues to be a Government priority and will require persistent attention to address what are often intergenerational issues.

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

The Government is committed to improving the health outcomes of all New Zealanders. Good health is fundamental to life satisfaction, sense of purpose, material standards of living, social connections, and cultural wellbeing.

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

Addressing mental health remains a priority for the Government. In any 12-month period, about one in five New Zealanders will have a diagnosable mental illness, with three-quarters of lifetime cases starting by the age of 25. Addressing these issues early in life can also significantly improve risk factors that would otherwise contribute to poor outcomes later, including interactions with the justice and welfare systems.

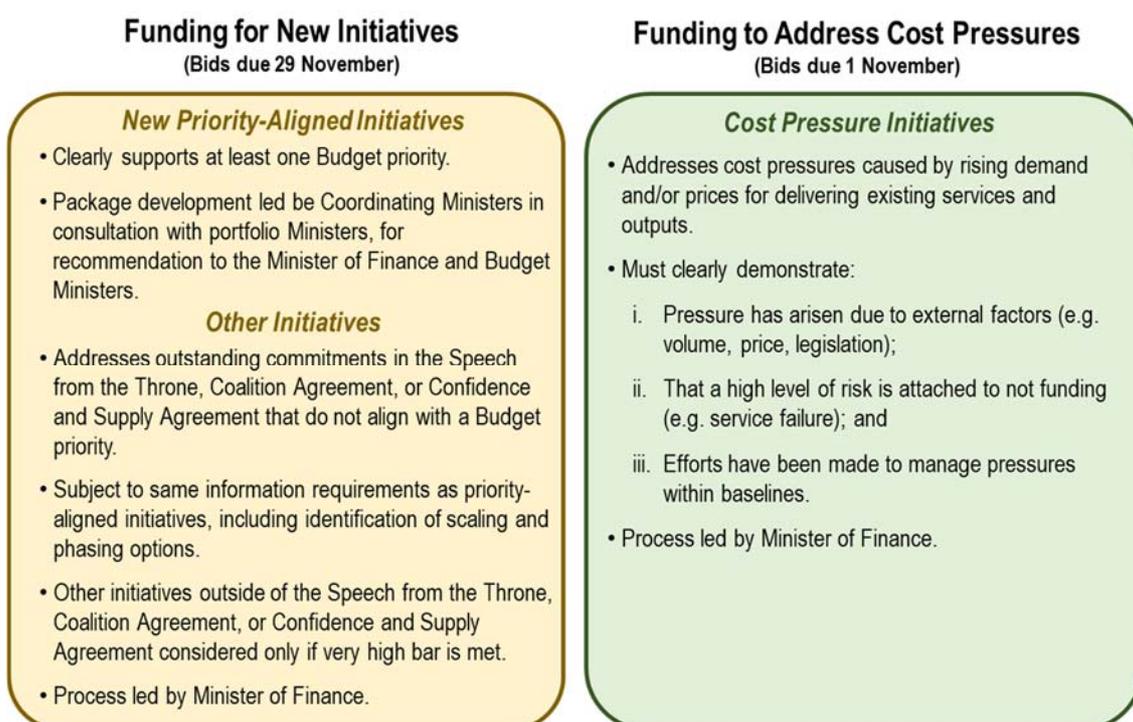
Sub-Priority 2: Delivering a sustainable and equitable public health and disability system

Equity of outcomes is a significant and ongoing issue in the health sector. Addressing this requires strengthening the health system to deliver equitable health wellbeing outcomes for all New Zealanders.

Process for Budget 2020

33. Budget 2020 will build on the changes introduced in the first Wellbeing Budget to embed a more collaborative Budget process anchored around the Government's wellbeing and policy commitments. Figure 1 summarises the scope of Budget 2020, which is discussed below.
34. The Treasury will provide further information for agencies on the process and expectations for Budget 2020 in guidance to be released in late September.

Figure 1 – Summary of scope for Budget 2020



New Priority-Aligned Initiatives

35. In Budget 2019, we made greater use of Ministerial subgroups and senior officials groups than has been typical in Budget processes. This led to notable examples of Ministers and agencies working across silos to co-develop packages, including to tackle domestic violence, improve sustainable land use, and break the cycle of reoffending. This collaborative approach utilising sector expertise is at the heart of a Wellbeing Budget.
36. This year I propose formalising this by appointing a Coordinating Minister for each of the five Budget priorities. These Ministers will work with relevant portfolio Ministers to develop and recommend a prioritised package of initiatives targeting their priority's wellbeing outcomes. Within each priority, emphasis will be given to initiatives that support one or more sub-priorities, but high-value initiatives that are within scope of the broader priority will also be considered. This process will focus only on bids seeking funding for new initiatives – a separate process will be run for bids that address cost pressures (see page 11).

37. I expect this new process will involve the following:
- Coordinating Ministers will be supported by secretariats of senior officials. The final composition of the secretariats will be agreed by the Minister of Finance and the Coordinating Minister.
 - Bids seeking funding for new initiatives will be due by 29 November 2019 and should be supported by: well-evidenced wellbeing analysis and intervention logic; detailed costings, scaling options, and identification of risks; and evidence of cross-agency collaboration. Following submission, initiatives will be provided to the relevant Coordinating Ministers and secretariats.
 - Coordinating Ministers will consult with Departmental Science Advisors as appropriate through the development of packages to leverage their sector expertise.
 - A draft package will be provided to me by each Coordinating Minister in late January. I will seek advice from the Treasury on the effectiveness, implementability, and priority alignment of each package and discuss this with Coordinating Ministers in early February. Budget Ministers will also consider the draft packages in February.
 - Coordinating Ministers will incorporate any feedback before resubmitting an updated and final package in late February for consideration by Cabinet Committees and Budget Ministers.
 - Cabinet will make final decisions on all Budget packages on the advice of Budget Ministers.
38. To ensure we deliver our Government's commitments, I propose that Coordinating Ministers give priority to any initiatives that align with a Budget priority and also address outstanding commitments made in the Coalition Agreement, Confidence and Supply Agreement, and Speech from the Throne.
39. I propose the following Ministers as Coordinating Ministers, who I intend to meet with in early October to discuss in more detail my expectations for this process:
- *Just Transition*: Hon David Parker
 - *Future of Work*: Hon Phil Twyford
 - *Māori and Pacific*: Hon Kelvin Davis
 - *Child Wellbeing*: Hon Tracey Martin
 - *Physical and Mental Wellbeing*: Hon Dr David Clark

Cost Pressure Initiatives

40. Agencies continue to face pressures due to rising demand and/or prices for existing services and outputs. Budget 2019 provided a significant investment in core public services, but I expect these pressures will again place notable pressure on the Budget allowances for Budget 2020.
41. This year I propose managing cost pressures through a separate process than that run for new initiatives. Given their non-discretionary nature, my intention is to get a clearer and earlier sense of the scale of cost pressures sought in Budget 2020 ahead of discussions on new-initiative packages.
42. To support this, I propose cost pressure submissions will be due by 1 November. While this is earlier than last year, these submissions will be in a “lighter touch” format than previously. I will then use bilateral meetings with Ministers in November to discuss these submissions in more detail. While final decisions on cost pressure allocations will not be made until the Budget Cabinet paper in April, as per normal, running this process earlier will enable a clearer understanding of the room available within Budget allowances for new discretionary initiatives.
43. In cost pressure submissions, I expect Ministers and agencies to demonstrate:
 - A clear understanding of the most significant cost drivers across their agency that are creating the pressure;
 - That a high level of risk is attached to not funding these pressures, such as service failure, significant disruption to services, or not meeting legislative requirements;
 - Where funding has already been provided in past Budgets to manage these, how has this been used and why is further funding required; and
 - What efforts have been made or are being made to manage the pressure within baselines, including reprioritising lower-value funding and/or reviewing current policy settings.
44. Ministers should only seek funding for cost pressures if they can demonstrate a clear and compelling need in the above areas. As discussed, I will be particularly looking at what funding has already been provided and how efforts have been made to reprioritise existing lower-value funding from within baselines.

Other Initiatives

45. The outstanding commitments contained in the Speech from the Throne, Coalition Agreement, and Confidence and Supply Agreement will be prioritised in Budget 2020. These will primarily be addressed through the appropriate priority packages. Where the commitments do not align with Budget priorities they will still be fulfilled through Budget 2020. As Minister, I will take the leadership of this process.

46. While these reflect commitments we have already made, they will be subject to the same information requirements as new priority-aligned initiatives. This includes a clear articulation of expected outcomes, well-evidenced wellbeing analysis, and consideration of scaling and phasing options that could be taken to deliver the commitment.
47. I will only consider on an exceptions basis initiatives that do not align with the Budget priorities, meet the criteria for a cost pressure, or relate to commitments in the Speech from the Throne, Coalition Agreement, or Confidence and Supply Agreement. These should be submitted alongside other new initiatives but will need to meet a very high bar to be considered for funding.
48. I propose that I will be the Coordinating Minister for these initiatives.

System Issues – Data and Digital, Capability, and Capital Initiatives

49. In Budget 2019, we introduced a system perspective for initiatives, focusing on workforce capability and data, digital, and ICT initiatives. As these initiatives draw on common inputs across the public sector and offer opportunities for system benefits, it is important that Budget decisions are made with a sector-wide view in mind. I intend to continue this through Budget 2020.
50. For initiatives with workforce capability implications, we need to ensure we are confident we can deliver our priorities, be realistic with what we can achieve, and ensure we are not bidding up the price of a limited workforce supply. In many cases, the public sector is already struggling to find the workforce to deliver priorities and we are competing with ourselves for the same staff and capabilities.
51. The Treasury will provide advice to myself and decision-makers on the achievability of initiatives that seek additional workforce capability. I expect the Treasury will consult with other Central Agencies and Functional Leads where appropriate to inform this view.
52. For initiatives with data, digital, and ICT components, I propose the Government Chief Digital Officer (GCDO) and Government Chief Data Steward (GCDS) will again assess these initiatives against a set of common investment principles. These principles, which will be a refreshed version of those endorsed by Cabinet earlier this year [CAB-19-MIN-0038 refers], will be endorsed by the Digital Government Partnership Group at the end of September.
53. The advice from the GCDO and GCDS will focus on:
 - How well initiatives align with the data, digital, and ICT investment principles;
 - The relative priority of initiatives from an overall system perspective, using existing frameworks like the Data Investment Framework where appropriate;
 - The achievability of the proposed solution and how confident they are that it can be delivered based on market and workforce constraints, technology maturity, delivery approach, and organisational readiness; and

- Identifying where agencies could benefit from coordination and collaboration using existing forums, for example the Digital Government Partnership working groups.
54. If Ministers expect to submit an initiative with a data, digital, or ICT component in Budget 2020, I encourage their agencies to engage with the GCDO and GCDS as early as possible to ensure it is designed consistent with the investment principles.
55. Finally, I intend to extend a system lens to significant capital initiatives this Budget. The introduction of the multi-year capital allowance has strengthened the need for a robust approach to capital initiatives given their lumpy and long-term nature and the capacity constraints faced in the construction sector. I have asked the Treasury to provide Budget Ministers with a system view of large capital initiatives in Budget 2020, focusing on achieving more effective prioritisation of investments, improving coordination and sequencing, and ensuring decisions are informed by a clear view of the long-term capital pipeline.

Decision-Making Processes and Ministerial Involvement

Budget Ministers and Cabinet Committees

56. I propose that Budget Ministers continue as a decision-making body in Budget 2020. They will meet at key points through the Budget 2020 process to review progress, consider priorities and trade-offs across packages, and ultimately to recommend a final Budget package to Cabinet in early April.
57. I recommend that Budget Ministers retain the same composition as in Budget 2019, consisting of the following Ministers:
- The Prime Minister;
 - The Deputy Prime Minister;
 - The Minister of Finance;
 - Associate Minister of Finance Dr David Clark; and
 - Associate Minister of Finance James Shaw.
58. I also propose involving Cabinet Committees at two points during the Budget 2020 process. The first is in November for Coordinating Ministers to update Committees on how their priority is progressing. The second will be in March to consider near-final Budget packages ahead of Cabinet.

Bilateral meetings

59. It is important that myself, or an Associate Minister of Finance, have an opportunity to meet with every portfolio Minister early in the Budget process to understand the pressures they are facing and their spending priorities. These discussions were very useful in Budget 2019 and I propose retaining them for Budget 2020.

60. Individual meetings with Ministers will be held in November. These will be the primary opportunity in Budget 2020 for bilateral discussions, with the remainder of the process focussed on Ministerial group meetings and the processes run by Coordinating Ministers.
61. As indicated, in addition to outlining their priorities for new funding in Budget 2020, I expect Ministers will discuss in these bilaterals the progress they have made delivering key Budget 2018 and Budget 2019 initiatives.

Key Dates for Budget 2020

62. Table 2 outlines the key dates that you need to be aware of for Budget 2020:

Table 2 – Key dates for Budget 2020

Item	Date
Budget 2020 – Guidance for Agencies released , including Budget initiative templates	Late September 2019
Meetings with Coordinating Ministers to set out my expectations for the priority packages and discuss initial focus areas	Early October 2019
Cost pressure submissions due along with information on progress delivering Budget 2018 and Budget 2019 commitments	1 November 2019
Coordinating Ministers update Cabinet Committees on progress with each priority	November 2019
Bilateral meetings with Ministers	November 2019
New spending initiatives due	29 November 2019
Draft priority packages due from Coordinating Ministers	Late January 2020
Meetings with Coordinating Ministers to discuss draft priority packages	Early February 2020
Final priority packages due from Coordinating Ministers	Late February 2020
Cabinet Committees consider near-final Budget packages	Late March 2020
Cabinet considers Budget 2020 paper	Early April 2020

Consultation

63. This paper was prepared by the Treasury. The Government Chief Digital Officer and Government Chief Data Steward were consulted regarding the process for data, digital, and ICT initiatives in Budget 2020.

Financial Implications

64. There are no direct fiscal implications resulting from this paper.

Human Rights

65. Budget 2020 will support Budget decisions based on a more holistic perspective of what matters for the wellbeing of all New Zealanders. This includes strengthening consideration of areas such as human rights alongside more traditional fiscal and economic considerations.
66. The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Legislative Implications

67. There are no legislative implications associated with this paper.

Regulatory Impact Analysis

68. There are no regulatory implications associated with this paper.

Gender Implications

69. The wellbeing analysis required through Budget 2020 will support a stronger focus on distributional impacts, including more clearly identifying and taking into account gender implications in Budget decision-making.

Disability Perspective

70. The wellbeing analysis required through Budget 2020 will support a stronger focus on distributional impacts, including more clearly identifying and taking into account any implications for people with disabilities in Budget decision-making.

Publicity and communication

71. The communication of policy decisions, the Budget strategy, and the *Budget Policy Statement* will be led by the Minister of Finance's office and co-ordinated by the Prime Minister's office.

Proactive Release

72. I propose delaying the release of this paper beyond the standard 30 business days as it will be released separately through the proactive release of Budget material following Budget 2020.

Recommendations

73. I recommend that Cabinet:

Wellbeing and Economic Context

- 1 **note** that the Wellbeing Budget marked a significant milestone for the Government's commitment to embed a wellbeing approach into policymaking;
- 2 **note** that Budget 2020 will build on the progress made in Budget 2019 by maintaining a focus on wellbeing priorities, cross-government collaboration, and delivering remaining Speech from the Throne, Coalition Agreement, and Confidence and Supply Agreement commitments;
- 3 **note** that the economic outlook has weakened since publication of the Treasury's *Budget Economic and Fiscal Forecasts 2019* driven by a combination of slower global growth and lower business confidence;
- 4 **note** that the Treasury's next *Half Year Economic and Fiscal Update 2019* will be published alongside the Government's *Budget Policy Statement 2020* in December;
- 5 **note** that I will continue to monitor the global and domestic economic situation and will report further to Cabinet on any additional fiscal support that may be required;

Fiscal Strategy and Budget Allowances

- 6 **note** that the Budget Responsibility Rules continue to underpin the Government's fiscal strategy;
- 7 **agree** that the operating and capital allowances for Budget 2020 will remain at this time as signalled in Budget 2019:
 - 7.1 *Operating Allowance*: \$3.0 billion per annum for Budget 2020 and \$2.4 billion per annum for Budgets 2021 to 2023;
 - 7.2 *Multi-Year Capital Allowance*: \$4.4 billion remaining in the multi-year capital allowance for Budgets 2020-2023;
- 8 **note** that an additional year of the rolling four-year capital allowance will be included in the forecast period in the *Budget Policy Statement 2020* and a decision will be made on the amount of funding to be included for this year at that time;
- 9 **delegate** authority to the Budget Ministers group to agree any changes to allowance settings in the *Budget Policy Statement 2020*;

Budget 2020 Priorities

- 10 **note** that the outstanding commitments from the Speech from the Throne, Coalition and Confidence and Supply Agreements will be prioritised in Budget 2020, either through the appropriate priority package or in their own right;
- 11 **note** that we have consulted with agencies, Departmental Science Advisors, and external stakeholders to review the Budget 2019 priorities;
- 12 **note** there was support for retaining focus on the five Budget priorities but also developing sub-priorities to provide greater clarity to agencies and stakeholders on the Government's areas of focus for Budget 2020;
- 13 **agree** that the following priorities and sub-priorities will form the focus for investment in Budget 2020:
 - 12.1 *Just Transition Priority: Supporting New Zealanders in the transition to a climate-resilient, sustainable, and low-emissions economy;*
 - i. Sub-Priority 1: Enable land use to deliver higher value and improved environmental outcomes;
 - ii. Sub-Priority 2: Promote a sustainable and affordable energy system;
 - 12.2 *Future of Work Priority: Enabling all New Zealanders to benefit from new technologies and lift productivity through innovation;*
 - i. Sub-Priority 1: Enabling workers to adapt to technological change by continually upskilling, re-skilling, and participating in productive and fair employment;
 - ii. Sub-Priority 2: Supporting businesses by enabling uptake of new technology and improving access to global markets, skills and infrastructure;
 - 12.3 *Māori and Pacific Priority: Lifting Māori and Pacific incomes, skills, and opportunities;*
 - i. Sub-Priority 1: Lifting Māori and Pacific peoples' skills, education, income, and employment outcomes;
 - ii. Sub-Priority 2: Improving Māori and Pacific health and housing outcomes through housing quality, affordability, and tenure;

12.4 *Child Wellbeing Priority: Reducing child poverty and improving child wellbeing;*

- i. Sub-Priority 1: Improving housing quality and income levels for low-income families;
- ii. Sub-Priority 2: Prevention and early intervention for children and whānau with the greatest needs, including continuing to address family violence and sexual violence;

12.5 *Physical and Mental Wellbeing Priority: Supporting improved health outcomes for all New Zealanders;*

- i. Sub-Priority 1: Strengthening existing mental health services in the health sector and beyond, with a focus on under 24-year-olds;
- ii. Sub-Priority 2: Delivering a sustainable and equitable public health and disability system;

Process for Budget 2020

- 14 **note** the Treasury will be releasing detailed guidance to agencies on the process and requirements for Budget 2020 in late September;
- 15 **note** that funding sought for cost pressures and outstanding commitments in the Speech from the Throne, Coalition Agreement, and Confidence and Supply Agreement will place significant pressure on the Budget allowances;
- 16 **agree** that to ensure we deliver on our wellbeing objectives, priority will be given to Budget initiatives that clearly and compellingly demonstrate they progress our wellbeing priorities agreed in recommendation 12;
- 17 **agree** that the following Coordinating Ministers will be appointed to lead development of packages of priority-aligned new initiatives, in collaboration with relevant portfolio Ministers, for recommendation to Budget Ministers:

16.1 *Just Transition*: Hon David Parker

16.2 *Future of Work*: Hon Phil Twyford

16.3 *Māori and Pacific*: Hon Kelvin Davis

16.4 *Child Wellbeing*: Hon Tracey Martin

16.5 *Physical and Mental Wellbeing*: Hon Dr David Clark

- 18 **agree** that all Budget bids that seek funding for new initiatives will be due by 29 November and will demonstrate:
- 17.1 A clear articulation of expected outcomes;
 - 17.2 Well-evidenced wellbeing analysis and intervention logic;
 - 17.3 Detailed costings, scaling options, and identification of risks; and
 - 17.4 Evidence of cross-agency collaboration where appropriate;
- 19 **note** that a separate process will be run for Budget bids that seek funding to address cost pressures;
- 20 **agree** that all Budget bids that seek funding to address cost pressures will be due by 1 November and will demonstrate:
- 19.1 A clear understanding of the most significant cost drivers across their agency creating the pressures;
 - 19.2 That a high level of risk is attached to not funding them;
 - 19.3 Where funding has previously been provided to manage these, how this has been used and why further funding is required; and
 - 19.4 What efforts have been made or are being made to manage pressures within baselines.
- 21 **note** that initiatives not aligned with the Budget priorities, that do not address a cost pressure, or that do not relate to commitments in the Speech from the Throne, Coalition Agreement, or Confidence and Supply Agreement will only be considered if they meet a very high bar;
- 22 **delegate** authority to the Digital Government Leadership Group to endorse and oversee the use of a set of investment principles to guide a data, digital, and ICT system perspective to be applied to relevant Budget initiatives;

Decision-Making Processes and Ministerial Involvement

- 23 **agree** that Budget Ministers will continue as a decision-making body in Budget 2020 to review progress, consider priorities and trade-offs across packages, and to recommend a final Budget package to Cabinet;

- 24 **agree** that Budget Ministers will consist of the following Ministers:
- 23.1 The Prime Minister;
 - 23.2 The Deputy Prime Minister;
 - 23.3 The Minister of Finance;
 - 23.4 Associate Minister of Finance Dr David Clark;
 - 23.5 Associate Minister of Finance James Shaw;
- 25 **note** that Cabinet Committees will be involved at two points during the Budget 2020 process:
- 24.1 In November to receive an update from Coordinating Ministers on how each priority is progressing; and
 - 24.2 In March to consider near-final Budget packages ahead of Cabinet;
- 26 **note** that the Minister of Finance, or an Associate Minister of Finance, will be meeting with all portfolio Ministers in November to discuss the pressures their agencies are facing and their spending priorities for Budget 2020.

Hon Grant Robertson
Minister of Finance

Date: