

# The Treasury

## Budget 2020 Information Release

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### Cabinet Document Details

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- [29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
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- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
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Office of the Minister of Finance

Chair, Cabinet

## **BUDGET 2020 PACKAGE**

### **Proposal**

1. This paper seeks approval of the Budget 2020 Package.

### **Executive Summary**

2. New Zealand is facing its greatest health and economic challenge in over a generation. The COVID-19 pandemic continues to evolve, but it has already caused enormous social and economic disruption, with a distressing death toll. Governments round the world have provided an unprecedented response to cushion their economies and ensure public services support those affected.
3. Since the outbreak, Cabinet has agreed to a range of response and recovery measures. As at 27 March the Government has committed around \$19.6 billion to the COVID-19 response. This includes the \$12.1 billion Economic Response Package but does not include the Business Finance Guarantee Scheme, which could provide support to businesses of up to \$5 billion. At this point, it is difficult to quantify the costs to the government from this guarantee, however this should become clearer in the coming months.
4. While these measures reflect critical first-steps in responding to COVID-19, additional investment will be required. I therefore propose to establish a \$50 billion COVID-19 Response and Recovery Fund (CRRF) which will build on the investment made through the Economic Response Package, to support further actions. Proposals for the CRRF will focus on at least of one of the three pillars of 'Fighting the Virus', 'Cushioning the Impact', and 'Positioning for Recovery. They must also demonstrate that funding is required as a result of, or in response to, COVID-19.
5. I propose that in the near-term the CRRF for urgent matters will be approved via the CVD Committee or Cabinet at any time, while non-urgent matters will be considered by Cabinet on 11 May.
6. To ensure that the proposals funded represent the best investment of funds available during the recovery period, I propose that Budget Ministers oversee requests for funding through the CRRF.
7. I propose that the remainder of Budget 2020 is reoriented to focus on providing critical support for existing public services rather than new initiatives. Despite record investment, core public services faced rising demand and/or prices before COVID-19. These pressures have not gone away and it remains critical we address them. Doing so will complement and support the specific COVID-19 response and recovery.

8. Given the extraordinary government response to COVID-19, and the ongoing uncertainty around the outbreak, I do not recommend progressing the five Budget 2020 priority packages at this time. However, we remain committed to the wellbeing agenda and I would like to assure Ministers that I intend to reconsider these priority packages in the near future once circumstances permit.
9. I propose that Budget 2020 delivers \$12.6 billion of operating funding over the forecast period, and \$3.6 billion of capital investment in total to support the ongoing delivery of government services and complement New Zealand's response to, and recovery from, this crisis.
10. The table below outlines the overall funding allocations for the Budget 2020 Package.

Budget 2020 Spending (\$ millions)	Operating (average per annum)	Operating (total over forecast period)	Capital (total over ten years)
Pre-commitments	351	1,406	54
Cost Pressure Initiatives	2,745	10,981	3,538
General Between-Budget Contingency	40	160	-
Emerging Priorities Contingency	5	20	-
<b>TOTAL</b>	<b>3,142</b>	<b>12,567</b>	<b>3,592</b>

11. As a result of COVID-19, including the \$19.4 billion of expenditure already agreed by Cabinet to respond to the shock, early modelling by the Treasury indicates net core Crown debt would rise to around 37% of GDP in 2020/21. Factoring in the \$50 billion CRRF in this paper, net core Crown debt would rise to about 52% of GDP in 2020/21. These figures will be revised as the economic and fiscal impact of COVID-19 becomes clearer.
12. Given the high degree of uncertainty surrounding the economic and fiscal position, I am not proposing any changes in the allowances for future Budgets from those signalled at the Budget Policy Statement in December. However, these will need to be reviewed as a clearer picture emerges, and as we seek to stabilise debt following recovery from the impact of COVID-19.

## COVID-19 Response and Recovery Fund

13. New Zealand is facing its greatest health and economic challenge in over a generation. The COVID-19 pandemic continues to evolve, but it has already caused enormous social and economic disruption. Governments round the world have provided an unprecedented response to cushion their economies and ensure public services support those affected.
14. Since the outbreak, Cabinet has agreed to a range of response and recovery measures. As at 27 March the Government has committed around \$19.6 billion to the COVID-19 response. This includes the \$12.1 billion Economic Response Package but does not include the Business Finance Guarantee Scheme, which could provide support to businesses of up to \$5 billion. At this point, it is difficult to quantify the costs to the Government from this guarantee, however this should become clearer in the coming months. This is in addition to the \$12 billion we approved for the New Zealand Upgrade Programme earlier in the year.

15. To support these efforts, I propose to establish a \$50 billion COVID-19 Response and Recovery Fund (CRRF) which will build on the investment made through the Economic Response Package, to progress further measures and address COVID-19 related spending by agencies. I propose that any funding sought through the CRRF focus on three pillars of 'Fighting the Virus', 'Cushioning the Impact', and 'Positioning for Recovery', and that in order to be eligible for funding, proposals must demonstrate that:
  - 15.1. funding is needed as a direct result of COVID-19;
  - 15.2. funding is needed outside of the normal budget cycle to support the response and/or recovery from COVID-19; and
  - 15.3. the additional costs cannot be managed from existing baselines.
16. The CRRF will cover COVID-19 related operating and capital expenditure for both the response and recovery activities. This would mean any valuation impacts on the Crown's balance sheet (e.g. changes in the New Zealand Superannuation Fund asset portfolio), any reprioritisation of funding, or any spending from existing baselines are excluded from the fund.
17. At this stage, I envisage that the CRRF will be allocated during the coming fiscal year subsequent decisions required after the fund has been fully allocated would be considered as part of Budget 2021. In the first instance, I would strongly encourage Ministers to look at their existing baselines to manage any such costs.
18. I propose that any funding required for 2019/20 has separate decision-making streams – one for urgent matters and one for non-urgent matters (detailed below).
  - 18.1. Urgent matters are those for which expenditure needs to start soon. These matters can be approved by CVD and Cabinet at any time.
  - 18.2. Non-urgent matters are those for which expenditure can wait to start until mid-May. These matters will be consolidated, and considered together as a package by Cabinet on 11 May.
19. To support Ministers to make informed decisions, and to ensure that the proposals progressed through the CRRF reflect the best investment of funds available during the response and recovery period, I propose that Budget Ministers oversee requests for funding through the CRRF and advise Cabinet on requests to be prioritised.
20. A key focus of the CRRF will be to support our ongoing public health response to COVID-19. Budget 2020 provides a significant overall boost to funding for District Health Boards, and there will be a need for specific investments to support our response to, and recovery from, COVID-19. Personal Protective Equipment alone is likely to exhaust the health allocation that we have already set aside. I expect that the Minister of Health will bring a request for additional funding for COVID-19 in the next few weeks.

21. Similarly in the category of urgent responses are likely to be further support businesses (especially SMEs) and individuals affected by COVID-19. In developing these responses it is important that they are linked to medium and longer term approaches to supporting people to get back into training and work.
22. There will be a number of sector recovery packages, and specific initiatives designed to prepare for and support the recovery. Some of these may be required urgently, while others can be managed through the non-urgent process. The following are areas where work is either under way or will soon be.
  - 22.1. We already have strong infrastructure investment underway, and Ministers Jones and Twyford have begun an exercise to look for further infrastructure projects that could be brought forward.
  - 22.2. Housing is an area where there is both need and an opportunity to use the period of recovery to accelerate our building programme to meet housing need and create jobs.
  - 22.3. Training and Employment initiatives will be essential to transitioning people out of industries that are the most effected by COVID-19 and to support businesses to maintain apprentices and broader industry training.
  - 22.4. Packages for industries and sectors that have entirely lost their funding base as a result of COVID-19, such as Arts, Sport, Racing and Domestic Tourism.
  - 22.5. Support for vulnerable populations, including Maori and Pasifika
  - 22.6. Support for our Pacific neighbours, in particular through ODA.
23. This is not meant to be an exhaustive list. Some proposals that were made as part of the priorities for Budget 2020 can now be repurposed to focus on the COVID-19 response. I have asked the Treasury to draw together the complete list of the work that is underway or expected so we can scope out priorities and connections between work streams. We still want to apply a wellbeing lens and framework to what we fund, notwithstanding the extraordinary environment we find ourselves in.
24. On 27 March, I invoked section 25 of the Public Finance Act 1989 (PFA). In addition to the proposed process above, invoking section 25 enables Chief Executives of departments to incur expenses to meet this emergency without appropriation by Parliament. Section 25 is able to be used for four weeks from 27 March. Section 25 should be used only if it is not possible to incur expenditure under Imprest Supply and it is limited to covering only emergency expenditure. I will monitor the need for limitations in its scope, or the need for an extension beyond the initial period.

## **Reorienting Budget 2020**

25. Given the wide-reaching effects of COVID-19, and the broader Government response to the crisis, I propose Budget 2020 focuses on providing critical support for existing public services rather than new initiatives.

26. The packages of new spending initiatives developed to address the five Budget 2020 priorities are more discretionary. In many cases, it is unclear whether the initiatives would still be able to be delivered given stretched capacity and the COVID-19 work programmes underway within many agencies. It is also prudent to prioritise fiscal headroom for responding to the immediate crisis until its future path becomes clearer.
27. I regret that we will not be able to progress these packages in Budget 2020. However, I would like to assure you that we remain committed to the wellbeing agenda. The Priority packages developed for Budget 2020—and the collaborative processes used to develop them—delivered what we set out to achieve for Budget 2020: a Budget that would materially improve the wellbeing of New Zealanders and embed the wellbeing approach into policymaking. I therefore thank Ministers for their efforts to develop these packages together. I intend to reconsider them in the near future once circumstances permit.
28. As Ministers develop recovery packages for their sectors they may wish to consider whether any of the initiatives are appropriate for the sector in the near term.
29. Accordingly, the Budget 2020 package I propose in this paper primarily addresses cost pressures and outstanding commitments. These will maintain the critical public services New Zealand needs to overcome COVID-19.

### **COVID-19 Alert Level**

30. The Treasury's fiscal and economic modelling included in this paper has been based on the assumption that COVID-19 Level 4 restrictions will remain in place for around four weeks.
31. Changes to the Alert Level will impact New Zealand's fiscal and economic outlook. Officials will continue to update their models as additional information becomes available.

### **Fiscal Outlook**

32. The fiscal position has weakened significantly as a result of COVID-19. The Treasury's early modelling, incorporating all COVID-19 response spending agreed by Cabinet as of 27 March, shows net core Crown debt increasing to around 37% of GDP in 2020/21, and rising to around 42% of GDP by the end of the forecast period. OBEGAL will be in a deficit of around \$19 billion (6.5% of GDP) in the current and next financial year, and \$19 billion (6% of GDP) in the next financial year. We will not know the full extent of the initial impact from the COVID-19 on the government's fiscal outlook until the Treasury finalises its fiscal forecasts on 23 April.
33. Inclusion of the CRRF and the Budget 2020 package the Treasury's modelling, and assuming the CRRF is spent equally across 2019/20 and 2020/21, would increase the estimate of net core Crown debt to around 52% of GDP in 2020/21, rising to around 54% of GDP in 2023/24. OBEGAL deficits would be around \$45 billion and \$41 billion in each of 2019/20 and 2020/21. Both these will be dependent on when the remaining CRRF is spent.

34. These estimates will change as the economic and fiscal picture clarifies and we modify our response to the pandemic. In particular, they are likely to worsen if Alert Level 4 persists for longer than the four weeks currently assumed in the Treasury's economic forecasts. They also do not yet account for the full impact of COVID-19 on the wider government operations – for example, on the revenue of state owned enterprises or the impact on the value of the Crown's significant investment portfolios and long-term liabilities.
35. It is appropriate that we make full use of our strong balance sheet in order to respond to this shock. In the current circumstances, it is prudent to run large deficits to support the economy and to allow debt to rise in the short term as we fight the virus, cushion the impact on firms and workers, and position ourselves for the recovery.
36. Even after this substantial increase in debt, New Zealand's fiscal position is healthy in comparison to those of many advanced economies. Even before the impact of COVID-19, net debt in the UK and US was over 70% of GDP, over 120% in Italy and 150% Japan, based on IMF data. Debt is likely to rise substantially across the world, meaning New Zealand will likely continue to rank well compared to its international peers.
37. Under current modelling, net core Crown debt is likely to exceed the peak reached in the early 1990s. Debt will however remain well below historical levels, such as those reached in New Zealand's response to the Great Depression, when gross debt exceeded 200% of GDP.
38. However, our space to increase debt is not infinite, and we must carefully prioritise how we use our remaining fiscal headroom, both to respond to the immediate shock and to manage the recovery. Following the recovery, there will need to be a consolidation of the fiscal position and to stabilise net core Crown debt.
39. Given the high degree of uncertainty, and unknown duration of the current state of affairs, the exact level of Budget allowances required to achieve a prudent and sustainable fiscal position is impossible to estimate. As such, I am not proposing any change to these allowances at this time.

## **Economic Outlook**

40. The global economic outlook remains highly ambiguous as the spread and implications of COVID-19 continue to evolve. However, the ramifications are already significant, with people movements and economic activity materially impacted. Many major economies are implementing public health responses that are having significant impacts on their economic activity.
41. The economic impacts from COVID-19 depend on both the depth and persistence of the shock. The Treasury's latest economic forecasts show a very sharp fall in economic activity and similar rise in the unemployment rate. The Treasury estimates that real GDP will fall by around 20 percent in the June quarter of this year (compared to the March quarter). This is due to the impact of the COVID-19 Alert Level 4 restrictions, the total stop in tourism activity, and falling business and consumer confidence dampening demand.

42. The Treasury estimates that real GDP growth will then resume, but expects that the level of GDP will remain lower than previously forecast for several years. By mid-2022, the Treasury expects the level of real GDP to slightly higher than it was in mid-2019.
43. Commensurate with the large decline in economic activity, the Treasury forecasts large increases in the unemployment rate. Unemployment increases to a little over 10 percent by September 2020 (compared to its current level of 4 percent), and then falls slowly as economic activity resumes. However, the unemployment rate remains higher than it has been in recent history for some time; by June 2021 it is currently forecast to be around 8 percent, and by June 2022 it is forecast to be just below 6 percent.
44. These forecasts include the economic support measures that have already been announced to 27 March but do not take into account the policies that might be implemented with the \$50 billion CSRF.

### **Developing this Budget Package**

45. The Budget 2020 process Cabinet agreed to in September has positioned us well to deliver a Budget package focussed on maintaining and supporting core public services [CAB-19-MIN-0481 refers]. While the Priority-aligned packages will not be progressed at this stage, the robust process we undertook has helped to identify the highest-value and most critical pressures requiring funding.
46. Since the outbreak of COVID-19, we have reviewed the cost pressure and other packages to identify the most critical initiatives along with any potential impacts for initiatives from the outbreak. This has included identifying where:
  - 46.1. there was merit in scaling up funding allocations for initiatives in the near-final package in light of COVID-19 (e.g. where the outbreak was expected to increase demand for an existing service beyond what was sought in the original Budget submission);
  - 46.2. there were any high-value initiatives previously excluded from the near-final package that should be reconsidered in order to support the broader response and recovery; and
  - 46.3. there were any potential impacts for the feasibility or achievability of initiatives (e.g. due to likely programme delays).
47. The implementation of some initiatives included in the package may need to be delayed as a result of COVID-19, and our response to the pandemic. I consider that it is vital that these initiatives still receive certainty of funding through Budget 2020, and note that many initiatives depend on funding security in order to begin work. Officials will continue to monitor the impact that possible COVID-19 restrictions may have on the deliverability of funded initiatives, in order to support their smooth and effective roll-out.

### *Achievements Progressing our Wellbeing Agenda*

48. While I do not propose progressing the Priority-aligned packages at this stage, I would like to acknowledge their significant achievements towards delivering on this Government's commitment to embed the wellbeing approach into policymaking.
49. The process we ran for the Priority-aligned packages in Budget 2020 required Ministers and agencies to continue to embrace the new ways of working introduced in Budget 2019, our first Wellbeing Budget. It involved:
  - 49.1. a consultative process to identify the five Budget 2020 priorities through analysis of Living Standards Framework data and consultations with sector experts including Departmental Science Advisors, external stakeholders, and non-governmental organisations;
  - 49.2. appointing Coordinating Ministers for each Budget Priority, who worked in collaboration with relevant portfolio Ministers and sector experts to develop packages of Priority-aligned initiatives;
  - 49.3. continuing to use the growing amount of evidence and wellbeing data to ground initiative development in an evidence-based approach and look beyond fiscal and economic implications;
  - 49.4. expanding the focus of wellbeing analysis so that analysis was undertaken at both an initiative and sub-package level; and
  - 49.5. maintaining a focus on delivery to ensure expected wellbeing outcomes are realised and progress is measured.
50. We have always recognised that achieving genuine and enduring change in the way Budgets are developed requires time and sustained effort. To this end, the significant amount of work involved in this process for Budget 2020 represents another step forward to truly embedding a wellbeing approach across government.
51. As mentioned, I intend to reconsider the Priority-aligned packages developed through this process in the future once circumstances permit.

### **The Budget 2020 Package**

52. I am pleased to seek Cabinet's approval to a Budget 2020 package that I believe will maintain and support critical public services. It delivers \$12.6 billion of operating funding over the forecast period and \$3.6 billion of capital investment in total to ensure core government services can continue to support New Zealanders through COVID-19 and the subsequent recovery. It also delivers on a number of outstanding commitments made in the Speech from the Throne, the Coalition Agreement, and the Confidence and Supply Agreement that require funding.

### *Health (\$5.6 billion operating total and \$755 million capital total)*

53. Investment in the health sector has never been more critical. To ensure that the health sector is able to respond to the pandemic while maintaining the sustainable delivery of existing services, the Budget 2020 package invests significantly in areas that we know will make a difference to the wellbeing of New Zealanders.

54. Key initiatives in this area (which will be added to through the CRRF) include:
- 54.1. *Maintaining and Increasing the Combined Pharmaceutical Budget (\$160 million operating total)*. This investment provides funding for more medicines through an increase to the Combined Pharmaceutical Budget (the DHB's medicines budget managed by PHARMAC). It extends the existing agreed 2020/21 funding level into the future, and provides an uplift to increase the amount of publicly funded medicines available. This will both improve patients' access to well-evidenced medicinal treatments and improve health outcomes.
  - 54.2. *DHB Additional Support (\$3.9 billion operating total)*. This represents the largest ever annual investment in District Health Boards. This initiative provides funding to the 20 DHBs across New Zealand, so that they can continue providing essential health services for New Zealand's growing and changing population.
  - 54.3. *Supporting Disabled New Zealanders to Live Good Lives (\$832.5 million operating total)*. This initiative provides security of funding for services to people with long-term physical, intellectual and/or sensory impairment. It provides support by funding price and volume pressures in response to increased demand on Disability Support Services (DSS).

*Social Sector and Education (\$2<sup>1</sup> billion operating total and \$201.0 million capital total)*

55. The Budget 2020 Package provides substantial investment in both government and non-government social services, to support New Zealanders' education, employment, housing and broader life outcomes.
56. The Package includes investment in initiatives aimed at growing strong and resilient communities. It supports vulnerable and marginalised populations, with a particular focus on the elderly, people with disabilities, and victims of domestic violence. It also invests heavily in education, including providing almost \$80 million operating total to maintain learning support service delivery levels, and to address staffing pressures for English for Speakers of Other Languages, and students with high needs.
57. Key initiatives in this area include:
- 57.1. *Community Services: Family Violence Services (\$183 million operating total)*. This package will deliver the largest funding boost for family violence service providers in over a decade enabling them to recruit and develop highly capable staff and respond to the demand that they are facing. This funding resources crisis response services for victims of family violence, as well as providing support services for those experiencing elder abuse, treatment and help for family violence perpetrators. Resourcing is also provided for safe houses (refuges).

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<sup>1</sup> Note this includes \$588 million operating total of pre-commitments in Vote Education

- 57.2. *Cost adjustments for the Education Sector (\$375.1 million operating total).* The Budget 2020 package includes cost adjustments for ECE subsidies, Schools Operations Grants, Trades Academies, and Tertiary Education subsidies. Cost adjustments enable education providers to maintain existing levels of quality in the face of rising costs.
- 57.3. *Community Services: Keeping Community-Based Services Open for Disabled People (\$43.3 million operating total).* This funding enables community-based service providers funded by the Ministry of Social Development to support disabled people to participate in and contribute to their wider community. Services include participation in vocational and community-based day programmes, and the approach is based on the Enabling Good Lives principles which aim to enhance the mana and quality of life of disabled people.

*Primary Industries (\$436 million operating total and \$42 million capital total)*

58. New Zealand's primary industries play a critical role in growing our economy, and feeding our people. Budget 2020 invests in initiatives that will ensure our primary industries are supported and sustainable now, and into the future.
59. Funding in the Budget 2020 package will support our primary industries to continue their existing scope of operations, rebuild essential IT infrastructure, and prevent or mitigate the impacts of biosecurity threats
60. Key initiatives in this area include:
- 60.1. *Enabling the Continuation of the Mycoplasma Bovis Eradication Programme (\$193.5 million operating total).* This initiative provides funding to support operational activities, including surveillance, tracking, movement controls and culling infected animals, and also contribute to the legal liability for compensation costs, primarily associated with the loss of stock and milk production.
- 60.2. *Continuing MPI's Current Scope of Operations (\$126.1 million operating total).* This initiative provides funding to address price and inflationary pressures to ensure that the Ministry for Primary Industries is able to deliver its mandated activities.
- 60.3. *Rebuilding Forestry ETS Infrastructure to Meet Demand and Support the Transition to the Low Emissions Economy (\$43.4 million operating total and \$36.2 million capital total).* This initiative provides funding to enable the implementation of new business processes for the Forestry Emissions Trading Scheme administration. It also implements the reforms set out in the Climate Change Response (Emissions Trading Reform) Bill.

*Justice Sector (\$1.0 billion total operating total and \$169.7 million capital)*

61. The Budget 2020 Package provides funding to support a safe and equitable justice sector. The Package invests in community safety through maintaining infrastructure for courts, technology, inflationary pressures and investment in organisational change. The Package also provides funding that will enable continued access to justice services, such as funding for legal aid, community law centres, and the Canterbury Earthquakes Insurance Tribunal. Additionally, it provides funding for critical Crown Entities, including ongoing operational funding for the newly established Criminal Cases Review Commission.
62. Key initiatives in this area include:
  - 62.1. *Next Generation Critical Communications* [38]

This initiative will invest in replacing communications capabilities for Police, Fire and Ambulance to support healthier, safer and more connected communities.
  - 62.2. *Justice Property Health and Safety Remediation (\$36.9 million total operating funding, \$163.5 million capital funding)*. The initiative will invest in upgrading court buildings around New Zealand to meet health and safety requirements and improve the experience of attending court, including for victims.
  - 62.3. *Maintaining a Safe Prison Network (\$110.4 million operating total)*. This initiative provides funding to address operational cost and inflationary pressures, and will fund training for Corrections staff working in prisons. This will support the safety and security of both staff and prisoners.

*Arts and Culture (\$246.8 million operating total and \$37.5 million capital total)*

63. Budget 2020 reaffirms this Government's commitment to supporting arts and culture in New Zealand, ensuring that funding is available to preserve our nation's taonga, promote creativity, and celebrate its diversity and history. The package provides support for the local film industry and culturally significant historical collections, as well as ensuring the accessibility of public media platforms to diverse audiences, such as New Zealanders with hearing impairments and those from our Pacific communities.
64. Key initiatives in this area include:
  - 64.1. *Saving the Crown's Audio-visual Collections (\$5.3 million operating total and \$26.6 million capital total)*. The Crown's audio-visual heritage content is stored in at-risk formats includes a diverse range of broadcast news, documentaries, films, music, and oral histories. This collection captures the issues and experiences of New Zealanders through the decades, unique cultural events and defining moments in our nation's history. This initiative provides funding to ensure the preservation of this taonga for future generations.

- 64.2. *Sustaining Crucial Public Media Platforms (\$25 million operating total)*. This initiative provides funding to support the work of public media platforms that deliver content to under-served audiences. This funding will support the sustainability of the Pacific Media Network (PMN), disability media (captioning and audio descriptions) and community access radio stations, helping ensure that all New Zealanders have access to vital media content.
- 64.3. *Heritage New Zealand Pouhere Taonga Cost Pressure (\$6.0 million operating total)*. This initiative provides funding to adapt and open the Kate Sheppard House as a heritage and public education space. Funding provided by this initiative will also help ease financial pressures arising from increased insurance, IT, property management, accommodation, and staffing costs.

*Defence and Foreign Affairs (\$927.7 million total operating and \$898 million capital total)*

65. The Budget 2020 package includes \$666.3 million operating total for the Defence portfolio to fund pressures identified through the recent Baseline Review. This funding will support investment in foundational enablers, such as ICT and Defence estate infrastructure. It will also enhance military capability to support the delivery of Government defence and security policy priorities, in part through a capital contribution to replace the current Hercules C-130H fleet which play a vital role in supporting a broad suite of essential NZDF and Government activities.
66. The package also includes \$55.6 million for New Zealand to provide further Official Development Assistance (ODA) funding to Fiji, Vanuatu, Solomon Islands and Timor Leste. This funding will be used to support progress on human rights, effective governance, gender equality and women's empowerment, and child and youth-wellbeing. It will bring New Zealand's overall ODA spending to almost 33% of forecasted Gross National Income.

*Transport (\$197.1 million operating total and \$1.1 billion capital total)*

67. The Budget 2020 package includes \$197.1 million operating total and \$1.1 billion capital total to improve transportation. This investment will enhance the resiliency and reliability of national rail and ferry networks, and, over time, contribute to efforts to reduce our carbon footprint through decreasing emissions.

## **Between Budget Spending**

*Between-Budget Contingency*

68. The Budget 2020 package includes a contingency for between-Budget operating spending of \$160 million operating across the forecast period. This provides a buffer for any urgent matters that arise through 2020/21 that do not relate to COVID-19 and cannot wait until Budget 2021.
69. Ministers should only seek funding from the between-Budget contingency for urgent issues that cannot be deferred, could not have been foreseen, and cannot be funded through the reprioritisation of lower-value activities. Spending proposals will be held to the same standards and requirements as initiatives submitted through the standard Budget process.

### *Emerging Priorities Contingency*

70. The Budget Package also includes \$20 million operating in 2020/21 for the Emerging Priorities Contingency (EPC). The EPC provides funding to progress high-value activities requiring urgent funding outside of the Budget cycle as and when the opportunities become available. Calls on the EPC can be made by agreement from the Prime Minister, Minister of Finance, and the relevant portfolio Minister.
71. New funding has not been injected into the EPC since Budget 2016 and the fund is now nearly depleted.

### **Data, Digital and ICT Initiatives**

72. Building on the process undertaken in Budget 2019, the Government Chief Digital Officer (GCDO) and Government Chief Data Steward (GCDS) once again reviewed initiatives with a significant digital, data and ICT component using a set of agreed investment principles. GCDO and GCDS provided advice to the Treasury and Budget Secretariat Groups, which included a view of achievability and attractiveness of initiatives from an overall system perspective.
73. As part of this process, the GCDO and GCDS noted a number of conditions to place on certain initiatives to ensure system-level value is achieved, risks are managed, and to ensure ongoing coordination.
74. I recommend that the GCDO and GCDS be directed to report back to the Government Administration and Expenditure Review Committee (GOV) in March 2021 on the progress of initiatives included in this package in meeting these conditions. I also recommend that GCDO and GCDS be directed to report back, at the same time, progress against the conditions included in the Budget 2019 Cabinet paper.

### **DHB Deficits**

75. [33]

78. [33]

### **Urgent Budget Legislation**

79. The Leader of the House and I are currently considering proposals for legislation to be progressed under urgency on Budget Day. We are aware of the proposals listed below, and are considering which ones need to advance on Budget Day given current circumstances:

*79.1. Customs and Excise Tobacco Bill*

*79.2. Taxation (Budget 2020 Measures) Bill*

*79.3. Forests Amendment Bill dealing with the forestry supply chain*

*79.4. Fuel Industry Reform Bill (probably introduction only)*

[42]

*79.6. Strengthening Family Court Bill*

[33]

*79.8. Resource Management Amendment Bill to amend resource management processes in order to support economic recovery*

### **Moratorium on Papers with Financial Implications**

80. Once Cabinet has agreed to this Budget 2020 package, production of the Budget documents must be completed. In order to ensure that the documentation tabled in the House of Representatives on Budget Day is accurate, Ministers cannot submit papers that have fiscal and/or appropriation implications for agreement by Cabinet Committees, Cabinet, or Joint Ministers between now and 14 May.

81. It is likely the Government will need to make further policy decisions with fiscal costs related to COVID-19 once this Budget moratorium has commenced. To enable this, the fiscal costs from these decisions will be charged against the \$50 billion CSRF and be exempt from the Budget moratorium.

### **Legislative Implications**

82. The Appropriation (2020/21 Estimates) Bill, the Appropriation (2019/20 Supplementary Estimates) Bill, the Imprest Supply (First for 2020/21) Bill and the Imprest Supply (Second for 2020/21) Bill will give legislative effect to Budget 2020.

### **Impact Analysis**

83. There are no regulatory requirements for this paper.

84. There are no climate implications for this paper, although some of the initiatives included in the Budget 2020 package will contribute to progress on the Government's climate targets.
85. There are no population implications for this paper, although the spread of initiatives funded through Budget 2020 will affect a broad cross-section of New Zealanders, and includes significant targeted funding to support vulnerable and marginalised communities, including children living in poverty.

### **Human Rights**

86. There are no human rights implication for this paper.

### **Consultation**

87. This paper was prepared by the Treasury and the Minister of Finance. Given the time constraints consultation on the CRRF, and the Cost Pressure package and its operation have been limited. The Budget Package itself was the subject of the usual process of discussion between Ministers, and by the Budget Ministers group.

### **Communications**

88. I propose to continue with a Budget Day of 14 May, as announced in February.
89. The Office of the Minister of Finance will coordinate all communications relating to Budget 2020, including requests for early announcements. Written approval from the Prime Minister and the Minister of Finance is required for any early announcements.

### **Proactive Release**

90. Every year following Budget Day, the Treasury coordinates a proactive release of Budget documents. The aim of this release is to improve transparency of the Budget decision-making process.
91. The 2020 release of documents will include this paper, along with other Budget Cabinet Papers, such as the Budget Strategy Paper. Budget Ministers briefings will also be released. I will consult with you during the process on the proposed release.

## Recommendations

I recommend that Cabinet:

### *Economic and Fiscal Conditions*

1. **note** that the Treasury's fiscal and economic modelling included in this paper has been based on the assumption that COVID-19 Level 4 restrictions will remain in place for around four weeks;
2. **note** that changes to the Alert Level will impact New Zealand's fiscal and economic outlook;
3. **note** that the Treasury's economic forecasts show that the New Zealand economy is facing a recession larger than it faced during the Global Financial Crisis, with substantial falls in real GDP and significant increases to the unemployment rate;
4. **note** the Treasury's preliminary fiscal forecasts show the fiscal outlook being weaker than the Half Year Economic and Fiscal Update;
5. **note** the fiscal outlook will deteriorate much further in the Treasury's final fiscal forecasts that will be released in the 2020 Budget Economic and Fiscal Update;
6. **note** that final economic forecasts for the Budget Economic and Fiscal Update were finalised on 30 March, the tax forecasts on 2 April, and the fiscal forecasts are due to be completed by 23 April;

### *Responding to COVID-19*

7. **note** that COVID-19 poses the greatest health and economic challenges that New Zealand has faced in over a generation;
8. **note** that while the pandemic continues to evolve, it has already caused enormous social and economic disruption in New Zealand and around the world;
9. **note** that Cabinet has agreed to a range of immediate response and recovery measures, totalling \$19.6 billion as at 27 March;
10. **note** that on 27 March I invoked section 25 of the Public Finance Act 1989, which enables Chief Executives of departments to incur expenses to meet this emergency without an appropriation by Parliament;
11. **note** that while these measures have been critical first steps in supporting New Zealanders, the ongoing response to, and recovery from, COVID-19 will require additional investment;
12. **agree** to establish a \$50 billion COVID-19 Response and Recovery Fund to progress further measures and address urgent COVID-19 related spending by agencies;
13. **agree** that in order to be eligible for the COVID-19 Response and Recovery Fund, proposals must demonstrate that:

- 13.1. funding is needed as a direct result of COVID-19;
  - 13.2. funding is needed outside of the normal budget cycle to support the response and/or recovery from COVID-19; and
  - 13.3. the additional costs cannot be managed from existing baselines.
14. **agree** that to provide sufficient flexibility to respond in real-time to the crisis, while ensuring that investment is targeted to where it will be most effective, eligible requests for funding through the COVID-19 Response and Recovery Fund will be divided into two categories and progressed accordingly:
    - 14.1. Urgent matters are those for which expenditure needs to start soon. These matters can be approved by CVD or Cabinet at any time.
    - 14.2. Non-urgent matters are those for which expenditure can wait to start until mid-May. These matters will be consolidated, and considered together as a package by Cabinet on 11 May.
  15. **agree** that Budget Ministers will oversee requests for funding through the COVID-19 Support and Recovery Fund, and will advise Cabinet on requests to be prioritised;

#### *Budget 2020 Package*

16. **note** that the Budget 2020 package supports investment in initiatives that will ensure core government services can continue to support New Zealanders through COVID-19 and the subsequent recovery;
17. **note** that the Budget 2020 package also delivers on a number of outstanding commitments made in the Speech from the Throne, the Coalition Agreement, and the Confidence and Supply Agreement, that require funding and are complementary to, or supportive of, the Government's broader COVID-19 response;
18. **note** that the Priority-aligning packages collaboratively developed through the Budget 2020 process to invest in progress toward the five Budget Priority outcome areas, will not be progressed through Budget 2020 due to the need to prioritise funds in response to COVID-19, but will be revisited in the near future;
19. **note** that at the time of the Budget Policy Statement we agreed to increase the operating allowances for Budget 2020 to \$3 billion per annum and increase the capital allowance (MYCA) for Budgets 2020-2023 to \$8.4 billion;
20. **agree** to the following final operating and capital packages, as set out in the financial recommendations accompanying this paper:
  - 20.1. A net operating package of \$3.1 billion per annum (\$12.6 billion over the forecast period);
  - 20.2. A net capital package of \$3.6 billion;

21. **note** that net core Crown debt is expected to increase to around 37% of GDP in 2020/21 as a result of spending already agreed by Cabinet in response to COVID-19;
22. **note** that net core Crown debt is expected to rise further to around 52% of GDP in 2020/21 as a result of the proposal in this paper to establish a \$50 billion COVID-19 Response and Recovery Fund for further COVID-19 responses;
23. **note** that I am not proposing any change to future Budget allowances at this stage, but these will need to be reviewed at a later date when the fiscal impact of COVID-19 is clearer;
24. **agree** that expenses or capital expenditure against appropriations and capital injection authorisations set out in the 2020/21 Estimates and being sought in that Bill may be met from Imprest Supply until the Appropriation (2019/20 Supplementary Estimates) Bill is enacted;
25. **authorise** the Minister of Finance and relevant Appropriation Ministers to approve changes to initiatives and appropriations, and agree new significant financial recommendations, where production has been affected by COVID-19 and/or where this proves necessary to finalise the 2020 Budget Package;
26. **authorise** the Minister of Finance to finalise the fiscal priorities and future allowances for inclusion in the Fiscal Strategy Report;

[33]

### *System Initiatives*

29. **direct** agencies whose initiatives have been identified by Government Chief Digital Officer (GCDO) and/or the Government Chief Data Stewart (GCDS) as having a significant digital, data or ICT component to engage with GCDO and/or GCDS (as appropriate) to align the initiative with the investment principles and outcomes of the Strategy for a Digital Public Service and/or Data Investment Framework;
30. **note** that GCDO and GCDS will confirm with agencies whether they are covered by this recommendation following Budget Day;

31. **direct** the GCDO and the GCDS, in conjunction with the Treasury, to engage with agencies and report back to GOV in March 2021 with a status update of the conditions in relation to the digital, data and ICT initiatives and the conditions in the Annex to the Budget 2019 Cabinet paper [CAB-19-MIN-0174 refers];

*Urgent Budget Legislation*

32. **agree** that if any further legislation will be progressed on Budget Day it will be as agreed by the Minister of Finance and the Leader of the House;

*Between Budget Operating Contingency*

33. **agree** to establish a between-Budget operating contingency as set out below:

Item	\$m - increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Between-Budget operating contingency	-	40.000	40.000	40.000	40.000

34. **agree** that:
- 34.1. proposals for funding from the between-Budget contingency must be for urgent issues that cannot be deferred to Budget 2021 and could not have been foreseen;
  - 34.2. Ministers will be expected to demonstrate that they have exhausted their search for opportunities to fund the initiative through reprioritisation of lower value activities;
35. **agree** that, with the exception of the process outlined above for COVID-19-related expenditure, no papers with fiscal and/or appropriation implications be submitted for agreement by Cabinet, Cabinet Committees or joint Ministers between 6 April and Budget Day, 14 May, so that Budget documentation is accurate;

*Emerging Priorities Operating Contingency*

36. **agree** to increase the Emerging Priorities Operating Contingency as set out below:

Item	\$m - increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Emerging Priorities operating contingency	-	20.000	-	-	-

37. **note** that all communications relating to Budget 2020 are coordinated by a Budget communications committee, and that any requests for early announcement will need to have both the written approval of the Minister of Finance and sign-off from the Prime Minister's office; and

38. **invite** the Minister of Finance to introduce the Appropriation (2020/21 Estimates) Bill, the Appropriation (2019/20 Supplementary Estimates) Bill, the Imprest Supply (First for 2020/21) Bill and the Imprest Supply (Second for 2020/21) Bill to give effect to Budget 2020.

Authorised for lodgement.

Hon Grant Robertson  
Minister of Finance