

# The Treasury

## Budget 2020 Information Release

### July 2020

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- [29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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**Treasury Report:** Budget 2020 Bilateral Briefing: Finance, Sport and Recreation, Earthquake Commission Portfolios

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<b>Date:</b>	7 November 2019	<b>Report No:</b>	T2019/3413
		<b>File Number:</b>	DH-15-0 (Vote Analysis - General)

**Action sought**

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	<b>Action sought</b>	<b>Deadline</b>
Hon Dr David Clark <b>Associate Minister of Finance</b>	<b>Discuss</b> the contents of this report with Minister Robertson at your bilateral on 13 November 2019.	3.00pm, Wednesday 13 November 2019

**Contact for telephone discussion (if required)**

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Tim Roper	Senior Analyst, Justice, Security & Government Services	[39]	N/A (mob) ✓
Simon Duncan	Team Leader, Justice, Security & Government Services		N/A (mob)

**Minister's Office actions (if required)**

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**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** Yes

# Treasury Report: Budget 2020 Bilateral Briefing: Finance, Sport and Recreation, Earthquake Commission Portfolios

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## Purpose of Report

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1. This report provides you with background information and advice for your Budget 2020 bilateral discussion with Minister Robertson at 3.00pm on Wednesday 13 November 2019, regarding the Finance, Sport and Recreation, and Earthquake Commission portfolios.
2. This report provides:
  - Context on existing funding, including funding received in recent Budgets, and
  - An overview of cost pressures submitted for Budget 2020.
3. Attached to this report are three annexes:
  - **Annex A** provides talking points for your bilateral discussion.
  - **Annex B** provides a full list of the cost pressure initiatives submitted for the Finance and Sport and Recreation portfolios.
  - **Annex C** provides a full list of initiatives associated with the portfolios being discussed that were selected for further information on how they were delivering on past Budget commitments. A copy of the Minister for Sport and Recreation's response is attached.
4. We have provided comments, including preliminary assessments, for two Budget 2020 cost pressure initiatives associated with the portfolios being discussed. We will provide you with further advice, including funding recommendations for each initiative, ahead of the package formation stage.

## Context

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### ***Finance Portfolio***

5. The Finance portfolio is one of seven portfolios in Vote Finance, administered by the Treasury. As at 2019 October Baseline Update, budgeted operating expenses for the Finance portfolio for 2019/20 total \$4.031 billion. Of these, \$97 million are departmental and \$3.934 billion non-departmental.
6. Departmental operating expenses comprise \$10 million provided under permanent legislative authority (PLA) for the operations of the New Zealand Debt Management function of the Treasury. There is also a \$10 million appropriation for provision of shared support services, totally cost recovered. The \$77 million balance comprises a multi-category appropriation covering Treasury's core business activities including advice on policy, fiscal management and reporting, and investment management and asset performance.

7. Non-departmental expenses comprise \$3.755 billion provided for under PLA. By far the largest item is \$3.076 billion for debt servicing. Other large PLAs are \$444 million for the Government Superannuation Fund unfunded liability, and \$174 million for the deficiency in EQC's Natural Disaster Fund.
8. The \$179 million balance of 'discretionary' non-departmental operating expenses mostly comprises \$121 million for impairment of the Crown's investment in Southern Response Earthquake Services, and \$35 million for costs associated with New Zealand House, London.
9. As at 2019 October Baseline Update, budgeted capital expenditure for the Finance portfolio for 2019/20 totals \$1.990 billion. Of this, \$6 million is departmental and \$1.984 billion non-departmental.
10. Non-departmental capital expenditure mainly comprises \$1.460 billion for contributions to the New Zealand Superannuation Fund. Other large items are \$251 million for refinancing of HNZC and HNZ Ltd debt, \$121 million for equity injection to Southern Response Earthquake Services, and \$78 million for equity injection to Tamaki Regeneration Company Ltd.

*Baseline changes – departmental*

11. Total departmental baseline changes over the last two Budgets for the Finance portfolio are summarised in the table below:

Budget Estimates	Total appropriations (4 year annual avg) at Budget (\$m)	% increase (decrease) from previous Budget
Budget 2017	95.693	
Budget 2018	96.835	1%
Budget 2019	96.383	0%

12. In Budget 2019, Treasury received an additional \$5 million p.a. to ensure it would have capacity to effectively and sustainably deliver its core functions, support the Government's priority work programmes and develop and implement a wellbeing approach. For the purposes of the above table, this was offset by a decrease in forecast departmental capital expenditure in Budget 2019 relative to Budget 2018 (with the large capital spend in 2018/19 relating to fit-out of Treasury's new premises).
13. A further cost pressures initiative has been submitted for Budget 2020 (see below).

*Baseline changes – non-departmental*

14. Total non-departmental baseline changes over the last two Budgets for the Finance portfolio are summarised in the table below:

Budget Estimates	Total appropriations (4 year annual avg) at Budget (\$m)	% increase (decrease) from previous Budget
Budget 2017	4,323.093	
Budget 2018	6,112.640	41%
Budget 2019	6,030.553	-1%

15. The main driver behind the significant increase in the non-departmental baseline in Budget 2018 was the re-instatement of contributions to the New Zealand Superannuation Fund.

**Sport and Recreation Portfolio**

16. As at 2019 October Baseline Update, budgeted operating expenses for the Sport and Recreation portfolio for 2019/20 total \$93 million.
17. Of these, nearly all are non-departmental expenses. These comprise \$62 million for high performance sport, \$23 million for sport and recreation programmes, \$4 million for Prime Minister’s Sport Scholarships, and \$3 million for sports anti-doping. The first two are outputs purchased from Sport New Zealand, and the last an output purchased from Drugfree Sport NZ.
18. There is no capital expenditure for the Sport and Recreation portfolio.
19. The total baseline change over the last two Budgets for the Sport and Recreation portfolio is summarised in the table below:

Budget Estimates	Total appropriations (4 year annual avg) at Budget (\$m)	% increase (decrease) from previous Budget
Budget 2017	89.195	
Budget 2018	89.195	0%
Budget 2019	97.506	9%

20. The increase in Budget 2019 reflects new funding for the “Supporting schools and early learning settings to improve wellbeing through healthy eating and quality physical activity” initiative.

**Earthquake Commission Portfolio**

21. As at 2019 October Baseline Update, budgeted operating expenses for the Earthquake Commission portfolio for 2019/20 total \$300 million. These comprise a single time-limited item for costs associated with on-sold Canterbury properties. There is no capital expenditure for the Earthquake Commission portfolio.
22. Minister Robertson has not submitted any cost pressure initiatives within the Earthquake Commission portfolio for Budget 2020.

## Cost Pressures

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23. As at 7 November 2019, cost pressure initiatives seeking a combined total of \$14.9 billion operating over the forecast period (\$3.7 billion average per annum), and \$6.1 billion total capital have been submitted. This significantly oversubscribes the Budget 2020 allowances (currently set at \$2.7 billion operating per annum and \$4.4 billion capital available in the multi-year capital allowance for the next three budgets), even before any new spending initiatives have been submitted.

### **Finance Portfolio**

24. Minister Robertson has submitted one cost pressure initiative within the Finance portfolio for Budget 2020, totalling [33] over four years. Information on the initiative can be found in **Annex B**. This initiative has not yet been formally assessed by the Vote team or moderated. However, some initial views are outlined below:
- a Aspects of the initiative do not appear to meet the narrow definition of cost pressures<sup>1</sup>, so it may be better suited for consideration through the non-priority aligning track for new spending initiatives.
  - b Very little information has been provided about what will be purchased with additional funding and the assumptions underpinning the costings.
  - c It is not obvious that pressures are continuing to increase. A number of significant work programmes are tailing off (e.g. establishing the Infrastructure Commission, Green Investment Fund, Christchurch Global Settlement), and others are at a better state than a year ago. Further, there are choices for Ministers about what extent Treasury needs to be involved in new work streams, as well as existing ones, to help remain within budget.
  - d The largest component of this initiative – ensuring the Treasury’s systems and processes are robust and secure – is core business for the agency. An alternative approach would be for the Treasury to fund this component internally and seek additional funding for more discretionary and/or lower priority work programmes.

### **Sport and Recreation Portfolio**

25. Minister Robertson has submitted a cost pressure initiative within the Sport and Recreation portfolio for Budget 2020, totalling [33] over the forecast period. Information on the initiative can be found in **Annex B**. This initiative has not yet been formally assessed by the Vote team or moderated. However, some initial views are outlined below:
- a Some elements seek to enhance rather than maintain existing services, and so do not appear to meet the narrow definition of cost pressures. Like the Finance portfolio cost pressures initiative above, this initiative may be better suited for consideration through the non-priority aligning track for new spending initiatives.
  - b The initiative seeks a significant ongoing increase in the Sport and Recreation portfolio baseline [33] Ministers have choices around the timing (eg, deferring) and scaling of this initiative.

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<sup>1</sup> This year, cost pressure initiatives are limited to pressures driven by: (i) volume or price, including volume/price-driven personnel pressures; or (ii) existing or impending legislation or regulation. The pressures must also be non-discretionary (ie, they present significant risks if not funded).

26. We understand the Ministry for Culture and Heritage provided similar advice to Sport New Zealand prior to the initiative being submitted, but that this was ignored. This highlights the problematic nature of this unusual situation where a Crown entity is responsible for both policy advice on, and purchase and provision of services in, a particular area. In all other areas departments lead policy advice, thereby avoiding these sorts of conflicts.

## **Recommended Action**

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We recommend that you **note** the contents of this report.

Simon Duncan  
**Team Leader, Justice, Security & Government Services**

Hon Dr David Clark  
**Associate Minister of Finance**

## Annex A: Talking Points for your Bilateral with Minister Robertson

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### **Finance Portfolio:**

- What are your priorities for Budget 2020 for the Finance portfolio?
- A number of significant work programmes are tailing off and others are at a better state than a year ago. What are the highest-priority areas of work that you consider Treasury needs to be involved in?
- What opportunities are there for scaling and/or deferring the cost pressures initiative?
- Do you think this initiative would be better suited for consideration as a non-priority aligning new spending initiative?

### **Sport and Recreation Portfolio:**

- What are your priorities for Budget 2020 for the Sport and Recreation portfolio?
- The cost pressures initiative seeks an ongoing 19% p.a. increase in Vote Sport and Recreation baselines, and some of this appears to be for enhancing rather than maintaining existing services. What opportunities are there for scaling and/or deferring this initiative?
- Do you think this initiative would be better suited for consideration as a non-priority aligning new spending initiative?
- What is your view about the appropriateness of Sport New Zealand being responsible for both policy advice on (including preparing of Budget initiatives), and purchase and provision of services in, the sport and recreation area, and how should any potential conflicts of interest best be managed?

### **Earthquake Commission Portfolio:**

We have no suggested talking points for you to raise with the Minister.

## Annex B: Submitted Cost Pressure Initiatives

### Finance Portfolio

Title	Description	Funding Sought by Agency						Treasury Comments
		Opex (\$m)	Avg	Opex (\$m)	Total	Capex (\$m)	Total	
Strengthening integrity, accelerating Wellbeing and support for APEC	<p>This initiative seeks funding for:</p> <ul style="list-style-type: none"> <li>Strengthening the Treasury – need to strengthen the core systems and processes of the Treasury to better prevent and manage risks and increase performance. This will respond to the findings of the Murray Jack Inquiry.</li> <li>Accelerating the implementation of the Wellbeing approach – following the successful delivery of the Wellbeing Budget, a key focus is to further develop and embed wellbeing throughout the State Sector.</li> <li>APEC 2021 – As part of APEC 2021, the Treasury is responsible for hosting the Finance Ministers' Process, a forum of finance ministers and officials focused on addressing regional macroeconomic and financial issues.</li> </ul>	[33]					-	<p>The Vote team's early view is that some elements of this initiative do not constitute cost pressures. There is also a question around how the APEC component might fit in with any APEC-related initiative submitted by the Minister for Foreign Affairs and Trade.</p> <p>We note that Treasury's involvement in a number of high-profile work areas is coming to an end. There are choices for the Minister about what extent Treasury needs to be involved in new work streams, as well as existing ones, to help remain within budget.</p> <p>We have some questions about the underlying assumptions (e.g. 38 FTEs needing to be reprioritised in the absence of new funding), which we will discuss with the department over the next fortnight.</p> <p>This initiative is scalable and potentially deferrable.</p>
<b>Total</b>		[33]					-	

## Sport and Recreation Portfolio

Title	Description	Funding Sought by Agency						Treasury Comments
		Opex (\$m)	Avg	Opex (\$m)	Total	Capex (\$m)	Total	
Addressing cost pressures to maintain New Zealand's high performance sporting success	This initiative seeks funding to address cost pressures impacting the high-performance sport system's ability to maintain Aotearoa's reputation as one of the most successful sporting nations. It provides sufficient resourcing to enable the high performance system to address critical and growing system risks around increasingly complex doping, athlete wellbeing and integrity challenges, and provides capability and capacity to enable national sport organisations to better manage these issues.	[33]				-		<p>This initiative seeks a significant (19%) increase to the ongoing annual baseline for Vote Sport and Recreation.</p> <p>New funding sought is across three areas:</p> <ul style="list-style-type: none"> <li>• High Performance Sport NZ – 67%</li> <li>• Drug Free Sport NZ – 10%</li> <li>• National Sporting Organisations and Integrity – 22%</li> </ul> <p>Our early view is that it is questionable whether all of the components of the initiative represent cost pressures. For example, some of the proposed funding is for increasing the number of athletes coming through and future-proofing the ongoing talent pipeline – both arguably new spending as opposed to maintaining current service levels.</p> <p>The initiative is scalable and potentially deferrable.</p>
<b>Total</b>		[33]				-		

## Annex C: Delivering on past Budget Commitments – Initiatives within Scope

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### Sport and Recreation Portfolio

Budget	Title	Funding Allocated		
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)
2019	Supporting schools and early learning settings to improve wellbeing through Healthy eating and quality physical activity	11.895	47.580	-
	<b>Total</b>	<b>11.895</b>	<b>47.580</b>	<b>-</b>