

# 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: Prime Minister, Arts  
Culture and Heritage, Child Poverty Reduction Portfolios

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<b>Date:</b>	15 November 2019	<b>Report No:</b>	T2019/3424
		<b>File Number:</b>	DH-12-0 (Vote Analysis - General)

**Action sought**

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	<b>Action sought</b>	<b>Deadline</b>
Hon Grant Robertson <b>Minister of Finance</b>	<b>Discuss</b> the contents of this report with the Prime Minister at your bilateral on 21 November 2019	4.30pm, 21 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: Prime Minister, Arts Culture and Heritage, Child Poverty Reduction 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 the Prime Minister at 4.30pm on Thursday 21 November 2019, covering the Prime Minister, Arts, Culture and Heritage, and Child Poverty Reduction portfolios. A separate briefing will be provided to you covering the National Security and Intelligence portfolio, which will be discussed at the start of your bilateral meeting.
2. This report provides:
  - context on existing funding, including funding received in recent Budgets, and
  - an overview of cost pressure initiatives 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 Prime Minister and Arts, Culture and Heritage 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 Arts, Culture and Heritage's response is attached.
4. We have provided comments, including preliminary assessments, for 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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### ***Prime Minister Portfolio***

5. The Prime Minister portfolio is one of four portfolios in Vote Prime Minister and Cabinet, administered by the Department of the Prime Minister and Cabinet (DPMC). Budgeted operating expenses for the Prime Minister portfolio for 2019/20 total \$37.539 million. Of these, \$32.266 million are departmental and \$5.273 million non-departmental.
6. Departmental operating expenses wholly comprise policy advice and support services. Non-departmental operating expenses comprise payments to the Governor-General and Commissioners of Intelligence made under permanent legislative authority, expenses associated with Government House, and payments to the Prime Minister's Chief Science Advisor.
7. Budgeted capital expenditure for the Prime Minister portfolio for 2019/20 totals \$1.646 million. Of this, \$0.646 million is departmental and \$1.000 million non-departmental. The non-departmental capital expenditure comprises capital investment in Government House.

8. The total baseline change over the last two Budgets for the Prime Minister 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	31.833	
Budget 2018	34.734	9%
Budget 2019	35.172	1%

9. The baseline was relatively stable between Budget 2018 and Budget 2019. The increase in Budget 2018 largely reflected funding for policy advice on the new Child Poverty Reduction portfolio.

### **Arts, Culture and Heritage Portfolio**

10. The Arts, Culture and Heritage portfolio is one of two in Vote Arts, Culture and Heritage, administered by the Ministry for Culture and Heritage (MCH). Budgeted operating expenses for the Arts, Culture and Heritage portfolio for 2019/20 total \$214.961 million. Of these, \$34.382 million are departmental and \$180.579 million non-departmental.
11. Departmental operating expenses comprise policy advice, entity monitoring, ministerial servicing, heritage, and cultural diplomacy international programme services.
12. Around half (\$111 million) of non-departmental operating expenses comprises purchase of services from third party providers, mainly Crown entities such as Creative New Zealand, Heritage New Zealand, Te Papa, New Zealand Symphony Orchestra (NZSO), Nga Taonga Sound and Vision, and the New Zealand Film Commission. The balance comprises grants under the New Zealand Screen Production Grant – New Zealand scheme (\$29 million), Regional Culture and Heritage Fund grants (\$27 million), grants for supporting the strengthening of heritage buildings (\$9 million), and payments for maintenance of Commonwealth War Graves (\$3 million).
13. Budgeted capital expenditure for the Arts, Culture and Heritage portfolio for 2019/20 totals \$13.704 million. Of this, \$0.850 million is departmental and \$12.854 million non-departmental. The non-departmental capital expenditure comprises payments for Kate Sheppard House (\$5 million) and the National Erebus Memorial (\$3 million), and capital investment in Te Papa (\$3 million) and NZSO (\$2 million).
14. The total baseline change over the last two Budgets for the Arts, Culture and Heritage 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	152.245	
Budget 2018	152.761	0%
Budget 2019	171.918	13%

15. The increase in Budget 2019 mainly comprises additional funding for the New Zealand Screen Production Grant – New Zealand scheme, and capital investment in Te Papa's infrastructural assets, digital preservation of Nga Taonga's archive, and NZSO.

## Child Poverty Reduction Portfolio

16. There are no separate appropriations for which the Minister for Child Poverty Reduction is responsible; departmental baseline funding for this activity is sourced through a category in the “Policy Advice and Support Services” multi-category appropriation for which the Prime Minister is responsible. Budgeted operating expenses for this category for 2019/20 total \$2.246 million.
17. We do not expect the Prime Minister to submit any Budget 2020 initiatives for the Child Poverty Reduction portfolio. [33]
18. The Child Poverty Reduction Act 2018 requires the Government to set three- and ten-year reduction targets on the three primary measures of child poverty (set out in the table below).

	3-year target rate (2020/21)	10-year target rate (2027/28)
Low income, before housing costs – moving-line measure (BHC50) Baseline rate (2017/18) – 16.5%	10.5%	5%
Low income, after housing costs – fixed-line measure (AHC50) Baseline rate (2017/18) – 22.8%	18.8%	10%
Material hardship Baseline rate (2017/18) – 13.3%	10.3%	6%

19. Good progress has been made towards these targets through the Families Package and Budget 2019 income support changes. Modelling by the Treasury indicates that by 2020/21 the combined impacts of these changes are expected to reduce rates of child poverty by between 24% and 37% on the BHC50 measure, and between 22% and 30% on the AHC50 measure. It is not possible with available data for the Treasury to model the impact of policy changes on the material hardship measure.
20. Due to the time it takes to implement welfare changes, any Budget 2020 investment will not materially impact the 2020/21 targets, instead impacting the second target period. Initiatives funded in Budget 2020 would be implemented from April 2021, and only impact on incomes in the final three months of 2020/21. Reporting on the child poverty measures by Statistics NZ in early 2022 will include data from the 2020/21 Household Economic Survey, which runs from July to June (only capturing two months of data including any Budget 2020 changes).
21. New spending initiatives for Budget 2020 have not yet been submitted to the Treasury, and secretariat groups are still operating on early and evolving information. Further advice on particular initiatives with a child poverty impact will be provided during the package formation process in early 2020.

## Cost Pressures

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22. As at 14 November, cost pressure initiatives seeking a combined total of \$14.9 billion operating funding over the forecast period (\$3.7 billion average per annum) and \$6.1

billion total capital funding have been submitted for Budget 2020. This significantly oversubscribes the Budget 2020 allowances (currently set at \$2.7 billion operating funding per annum and \$4.4 billion capital funding available in the multi-year capital allowance for the next three budgets), even before any new spending initiatives have been submitted.

### **Prime Minister Portfolio**

23. The Prime Minister has submitted one cost pressure initiative within the Prime Minister portfolio for Budget 2020, **DPMC for the future – Corporate Resilience**, totalling [33] operating funding over four years. Information on this initiative can be found in **Annex B**. This initiative has not yet been formally assessed by the Vote team or moderated, but some initial views are outlined below:
- a The initiative has been scaled back to the “minimum viable” level at the request of the Prime Minister, relative to amount of funding DPMC was originally seeking.
  - b The larger element reflects the loss of corporate capability (ie, business services, IT, finance, etc.) that will occur from 2020/21 as funding for support of Canterbury Earthquake Recovery winds down. DPMC has relied on this time-limited resourcing to provide necessary corporate support for other new policy functions it has taken on in recent years, including in the National Security and Child Poverty Reduction portfolios. This raises questions as to why these new policy functions were not fully costed at the time decisions were taken for DPMC to undertake them, given they have created fiscal pressures that are now crystallising.
  - c The smaller accommodation element appears to be non-discretionary. We note that most of the cost increase relates to the shift as part of the Wellington Accommodation Project Tranche 2 of the National Security Group to the Bowen State building (Defence House), for which rent is higher than at the current premises at Pipitea House.

### **Arts, Culture and Heritage Portfolio**

24. The Minister for Arts, Culture and Heritage has submitted seven cost pressure initiatives within the Arts, Culture and Heritage portfolio for Budget 2020, totalling [33] operating funding over four years and [33] capital funding. Information on these initiatives can be found in **Annex B**. These initiatives have not yet been formally assessed by the Vote team or moderated, but some initial views are outlined below.
25. **Meet demand for the New Zealand Screen Production Grant** (\$60 million operating funding total):
- a In Budget 2019, \$25 million was committed to the New Zealand Screen Production Grant (NZSPG) – New Zealand scheme. This funding was only intended to cover the forecast expenditure for the 2019/20 financial year, and it was signalled that further funding would be required through Budget 2020 [CAB-19-MIN-0174.02 refers].
- [33]
- c The costs for this scheme continue to escalate. Currently there is a multi-year appropriation totalling \$89.458 million, which expires on 30 June 2021. Commitments to date already exceed this appropriation by about \$12 million, and are expected to exceed it by \$60 million at 30 June 2021. If additional funding is

not provided through Budget 2020, New Zealand will not be able to meet its existing grant obligations and the Crown will breach contractual terms.

- d We have concerns about the scheme's current policy settings and objectives, and its overarching value for money. We note that it is demand-driven, non-discretionary and uncapped, which effectively pre-commits future budgets as costs continue to escalate. In our view, this initiative is potentially scalable, but would require Ministers taking early decisions to amend the criteria of the scheme to reduce its cost.
- e The companion New Zealand Screen Production Grant – International scheme is facing similar pressures. The Minister for Economic Development has submitted a [33] cost pressure initiative for that scheme.

26. **Saving the Crown's Audio-Visual Collections** [33]

- a This initiative is essentially non-discretionary, as without additional funding for digitisation over 90 percent of collections will be lost. Such loss would risk statutory obligations being breached and negative reputational impacts for relevant institutions.
- b This initiative is scalable. However, this would require prioritisation choices about what material to digitise and what material should be permanently lost. We note that scaling would not reduce operating costs commensurately with capital costs, as the former are largely fixed under any scenario.

27. **Maintaining New Zealand Symphony Orchestra** ([33] funding over two years):

- a This initiative is also non-discretionary, as without additional funding there is significant risk of service delivery failure. We are supportive of providing additional time-limited funding ahead of the scheduled report-back on future options for the NZSO in two years' time.
- b This initiative could reasonably be scaled back to \$3 million over two years, matching the \$1.5 million additional operating funding recently agreed by Cabinet for the NZSO's 2020 work programme.

28. The **Heritage EQUIP – Renewal of multi-year appropriation funding** initiative [33] (funding total) in our view does not meet the criteria for consideration as a cost pressure, as it seeks to continue a previously time-limited programme. We note the current time-limited programme has not been formally evaluated [33]

There are risks with extending funding for programmes prior to necessary evaluation taking place. In our view, this initiative should be deferred for consideration until Budget 2021. Alternatively, the Prime Minister may wish to re-submit this as a non-priority aligning new spending initiative (perhaps seeking funding for just one year to allow the programme to continue, pending evaluation).

29. The other initiatives – **Reach and quality of Royal New Zealand Ballet, Heritage New Zealand Pouhere Taonga Cost Pressure, and Continuing to leverage the Antarctic Heritage Trust** [33] (funding total and [33] funding) – all contain components that seek to enhance rather than maintain existing service levels and so do not meet the cost pressures criteria. These initiatives are scalable.



## 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 Grant Robertson  
**Minister of Finance**

### **Prime Minister Portfolio:**

- What are your priorities for Budget 2020 for the Prime Minister portfolio?

### **Arts, Culture and Heritage Portfolio:**

- What are your priorities for Budget 2020 for the Arts, Culture and Heritage portfolio?
- Of the seven cost pressures initiatives submitted, which are the most pressing?
- What opportunities are there for scaling and/or deferring the cost pressures initiatives?
- Do you think any of these initiatives would be better suited for consideration as a non-priority aligning new spending initiative?
- What progress has been made on the request for joint report-back with the Minister for Economic Development to Cabinet Economic Development Committee in advance of Budget 2020 on the fiscal sustainability of the New Zealand Screen Production Grant schemes?

### **Child Poverty Reduction Portfolio:**

- What are your priorities for the Child Poverty Reduction portfolio?

## Annex B: Submitted Cost Pressure Initiatives

### Prime Minister Portfolio

Title	Description	Funding Sought by Agency			Treasury Comments
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)	
Positioning DPMC for the future – Corporate Resilience	<p>DPMC faces cost pressures and unfunded obligations arising from previous decisions by Cabinet. These pressures are largely driven by changes in DPMCs role and functions over the past five or so years, in response to Government priorities and emerging needs.</p> <p>The department faces a significant reduction in its overall baseline starting from 2020/21. That reduction brings these cost pressures to the fore, and limits options for reprioritisation to meet them.</p>	[33]		-	<p>Largely non-discretionary.</p> <p>Future decisions to increase DPMC policy functions should ideally be informed by full costings, rather than rely on availability of existing (especially time-limited) resources.</p>
<b>Total</b>		[33]		-	

## Arts, Culture and Heritage Portfolio

Title	Description	Funding Sought by Agency						Treasury Comments
		Opex (\$m)	Avg	Opex (\$m)	Total	Capex (\$m)	Total	
Maintaining New Zealand Symphony Orchestra delivery	This initiative seeks to address cost pressures arising from increases in personnel and orchestral costs to maintain delivery levels over the next two years while long-term options are developed for the NZSO's financial stability. The orchestral costs are primarily artist fees, venue costs, and touring costs for travel and accommodation.	[33]				-		<p>Non-discretionary – without additional funding there is significant risk of service delivery failure.</p> <p>Could realistically be scaled back to \$3 million over two years (matching the \$1.5 million additional operating recently agreed by Cabinet for the NZSO's 2020 work programme).</p> <p>Support scaled.</p>
Saving the Crown's Audio-Visual Collections	This initiative ensures audio-visual heritage content owned by the Crown and stored in at-risk formats are preserved for future generations. Without digital preservation, over 95% of at-risk content, including the Television New Zealand Archive, will be lost in less than a decade. Protected by the Public Records Act 2005 and National Library of New Zealand Act 2003, this taonga includes a diverse range of broadcast news and current affairs, documentaries, TV series, along with films, music, oral histories, and live recordings of community events. It captures the issues and experiences of people through the decades, unique cultural events and defining moments, New Zealand's environment and scenery, and New Zealand successes and tragedies over the last century.	[33]						<p>Non-discretionary – without additional funding for digitisation over 90% of collections will be lost.</p> <p>Such loss would risk statutory obligations being breached and negative reputational impacts for relevant institutions.</p> <p>Scalable – though would require prioritisation choices about what material to digitise and what material would be permanently lost.</p> <p>Support – potentially scaled.</p>

Title	Description	Funding Sought by Agency						Treasury Comments
		Opex (\$m)	Avg	Opex (\$m)	Total	Capex (\$m)	Total	
Meet demand for the New Zealand Screen Production Grant	This funding will meet increased demand from eligible New Zealand productions, in line with the demand-driven New Zealand Screen Production Grant – New Zealand. Together with the NZ Screen Production Grant – International (for which MBIE is responsible), these grants promote industry development and cultural benefits for New Zealand.	15.000		60.000		-		<p>Non-discretionary, given demand-driven and uncapped nature of current scheme. Grant commitments to date already exceed available funding by \$12 million and at current rates are expected to exceed it by \$60 million at 30 June 2021.</p> <p>[33]</p> <p>Potentially scalable, but would require Ministers taking early decisions to amend the criteria of the scheme to reduce its cost.</p> <p>Support (non-discretionary).</p>
Reach and quality of Royal New Zealand Ballet	This initiative seeks to address cost pressures on the RNZB due to price increases and a short-term reduction in earning ability. It also seeks to address growing demand for services in the upper North Island, in line with the growth of New Zealand's population.	[33]				-		<p>Some components of the initiative seek to enhance rather than maintain existing service levels, eg, expanded seasons, hiring of a specialist dance educator.</p> <p>Scalable – in particular, we note Crown funding makes up less than half of RNZB's total revenue, so RNZB should reasonably be expected to seek increased revenue from its other funding sources (eg, sponsorship) to meet cost pressures.</p>

Title	Description	Funding Sought by Agency						Treasury Comments
		Opex (\$m)	Avg	Opex (\$m)	Total	Capex (\$m)	Total	
Heritage EQUIP – Renewal of multi-year appropriation funding	This initiative provides funding to continue the previously time-limited Heritage EQUIP programme which supports earthquake strengthening of privately-owned heritage buildings, particularly in regional New Zealand. The funding will enable grant making for a further 220 upgrade projects, in response to significant increased demand arising from compliance with earthquake prone buildings regulatory requirements. Funding will also establish partnerships that leverage territorial authorities' requirement to engage owners of earthquake prone buildings.	[33]					-	<p>This initiative seeks to continue a previously time-limited programme, so does not meet the criteria for cost pressures.</p> <p>The Minister may wish to re-submit this as a non-priority aligning new spending initiative.</p> <p>The current programme has not yet been formally evaluated [33] There are risks with extending funding for programmes prior to proper evaluation being undertaken.</p> <p>If a decision is made to provide extra funding, then recommend this just be for one year, pending programme evaluation.</p> <p>Scalable.</p>
Heritage New Zealand Pouhere Taonga Cost Pressure	This funding will adapt and open Kate Sheppard House as a heritage and public education space, and help ease financial pressures arising from significantly increased costs for insurance, IT systems, property management, accommodation and staffing.	[33]						<p>Some components of the initiative seek to enhance rather than maintain existing service levels, eg, adapting Kate Sheppard House as a public education space, and so are unlikely to meet the criteria for cost pressures.</p> <p>Scalable.</p>

Title	Description	Funding Sought by Agency						Treasury Comments
		Opex (\$m)	Avg	Opex (\$m)	Total	Capex (\$m)	Total	
Continuing to leverage the Antarctic Heritage Trust	This initiative seeks core operational funding to address the increased cost pressure of continuing heritage conservation work in the Ross Dependency and delivering benefit to New Zealanders on the investment made in the preservation of Ross Dependency heritage assets and sites. This benefit is delivered through projects such as the Inspiring Explorers programme and ongoing media, outreach and exhibition programmes.	[33]				-		Some components of the initiative seek to enhance rather than maintain existing service levels, eg, upscaling the Inspiring Explorers programmes, and so are unlikely to meet the criteria for cost pressures.  Scalable.
<b>Total</b>		[33]						

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

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**Arts, Culture and Heritage Portfolio**

Budget	Title	Funding Allocated			
		Opex Avg (\$m)	Opex (\$m)	Total	Capex Total (\$m)
2019	Investment in Te Papa Tongarewa	[33]			-
	<b>Total</b>				-