

The Treasury

Budget 2020 Information Release

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Treasury Report: Budget 2020 Bilateral Discussion: Associate Minister of Finance (Hon David Clark) and Minister of Police and Serious Fraud, Fisheries, Revenue and Small Business

Date:	6 November 2019	Report No:	T2019/3462
		File Number:	DH-44-4

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Note the contents of this report.	None
Associate Minister of Finance (Hon Dr David Clark)	Discuss the contents of this report with Minister Nash at your bilateral on 12 November 2019.	3pm, 12 November 2019

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
[34]	Analyst, Justice, Security and Government Services	[39]	N/A (mob) ✓
Colin Hall	Manager, Justice, Security and Government Services		[23]

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No.

Treasury Report: Budget 2020 Bilateral Discussion: Associate Minister of Finance (Hon David Clark) and Minister of Police and Serious Fraud, Fisheries, Revenue and Small Business

Executive Summary

On Tuesday 12 November 2019, Hons Clark and Nash will be meeting at 3pm for a Budget 2020 bilateral discussion regarding Hon Nash's Police and Serious Fraud, Fisheries, Revenue and Small Business portfolios.

Hon Nash has submitted six cost pressure initiatives for Budget 2020 across the Police and Serious Fraud, Fisheries, and Small Business portfolios. The initiatives seek a total of [33] in operating and [33] in capital funding.

The majority of the funding is being sought for the Police portfolio ([33] in operating and [33] funding).

No cost pressure initiatives have been submitted for the Revenue portfolio.

Recommended Action

We recommend that you:

- a **note** the context and cost pressure information outlined in this report, and
- b **use** the talking points in Annex A to guide your discussion at the bilateral with Hon Nash.

Colin Hall
Manager, Justice, Security and Government Services

Hon Grant Robertson
Minister of Finance

Hon Dr David Clark
Associate Minister of Finance

Treasury Report: Budget 2020 Bilateral Discussion: Associate Minister of Finance (Hon David Clark) and Minister of Police and Serious Fraud, Fisheries, Revenue and Small Business

Purpose of Report

1. This report provides background information and advice for the Budget 2020 bilateral discussion between Hons Clark and Nash at 3pm on Tuesday 12 November 2019, regarding his Police and Serious Fraud, Fisheries, Revenue and Small Business portfolios. It provides:
 - context on existing funding, including funding received in recent Budgets, and
 - an overview of cost pressures submitted for Budget 2020.
2. 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 Police and Serious Fraud, Fisheries, Revenue and Small Business, and
 - Annex C provides a list of the Police and Revenue successful Budget initiatives over the last two Budgets to help guide your discussion on delivering on past Budget commitments.
3. Also attached are letters from Hon Nash for his Police and Revenue portfolios outlining progress on delivering past Budget funding.
4. We have provided preliminary comments for significant cost pressure initiatives. We will provide you with further advice, including funding recommendations for each cost pressure, ahead of the development of the cost pressures package.

Context

Police and Serious Fraud

5. Vote Police's 2019/20 annual operating expenditure, pending OBU approval, is \$2.001 billion, predominantly departmental expenditure for services including primary response management, investigations, crime prevention and road safety.
6. The 2019/20 capital expenditure for Vote Police is \$159.990 million.
7. Vote Serious Fraud's 2019/20 operating expenditure is \$9.979 million, and annual capital expenditure is \$0.100 million. All operating expenditure is contained in the appropriation "Investigation and Prosecution of Serious Financial Crime".
8. The baseline uplift over the last two Budgets for Vote Police and Vote Serious Fraud is summarised in the tables below.

Vote Police

Budget Estimates	Total appropriations (4-year annual avg) at Budget (\$m)	% increase (decrease) in total appropriations (4-year annual avg) from previous Budget (\$m)
Budget 2017	1,811.554	
Budget 2018	1,923.126	6%
Budget 2019	2,103.949	9%

Vote Serious Fraud

Budget Estimates	Total appropriations (4-year annual avg) at Budget (\$m)	% increase (decrease) in total appropriations (4-year annual avg) from previous Budget (\$m)
Budget 2017	10.036	
Budget 2018	9.738	(3%)
Budget 2019	9.739	-

9. Vote Police expenditure was relatively stable between 2010 and 2017. The decisions to increase police officer numbers by 880 at Budget 2017 and by a further 920 at Budget 2018 have had a significant impact on operating expenditure which, combined with the impact of the 2018 collective bargaining, has led to baseline expenditure rising to over \$2 billion per annum.
10. Within Vote Police, the most significant funding provided in Budget 2019 was:
 - non-departmental operating expenditure for the firearms buy-back scheme (\$150 million),
 - the APEC21 security programme (\$72.500 million in multi-agency operating funding and \$8.626 million in capital funding), and
 - initiatives within the Family Violence and Sexual Violence package (\$47.678 million in operating funding and \$4.100 million in capital funding).
11. Aside from funding for specific initiatives outside the Serious Fraud Office's core business, baseline funding for Vote Serious Fraud has been more or less stable since a funding increase of \$2.030 million per annum in Budget 2015. Minister Nash sought funding at Budget 2019 for cost pressures on core business, as well as cost pressures within the Cabinet-mandated Anti-Corruption Work Programme, but this initiative was unsuccessful.

Fisheries

12. Fisheries' annual operating expenditure is \$109.454 million (four-year average), including \$102.742 million in departmental and \$6.712 million in non-departmental expenditure. There is no planned capital expenditure in Vote Fisheries.
13. Operating costs are driven primarily by fisheries management, enforcement and monitoring (\$56.415 million), policy advice (\$11.157 million) and operational advice on sustainability and management controls (\$30.881 million)¹.
14. The total baseline uplift over the last two Budgets for fisheries is summarised in the table below.

Vote Agriculture, Biosecurity, Fisheries and Food Safety (fisheries appropriations)

Budget Estimates	Total appropriations (4-year annual avg) at Budget (\$m)	% increase (decrease) in total appropriations (4-year annual avg) from previous Budget (\$m)
Budget 2017	109.081	
Budget 2018	110.048	0.89%
Budget 2019	109.454	(0.54%)

Revenue

15. Vote Revenue's 2019/20 annual operating expenditure, pending OBU approval, is \$6,922.620 million and capital expenditure is \$217.608 million. This includes \$6,141.510 million in non-departmental expenditure and \$998.718 million in departmental expenditure.
16. The changes in forecast departmental expenditure over the last two Budgets for Vote Revenue are summarised in the tables below²:

Vote Revenue

Budget Estimates	Departmental appropriations (4-year annual avg) at Budget (\$m)	% increase (decrease) in departmental appropriations (4-year annual avg) from previous Budget (\$m)
Budget 2017	1,004.936	
Budget 2018	961.000	(4.37%)
Budget 2019	912.680	(5.03%)

17. Departmental expenditure has been decreasing since 2017. Baseline departmental expenditure is forecast to decrease further by approximately a third from 2021/22 to 2022/23 as business transformation concludes and administrative savings are expected to be realised.

¹ Four-year annual averages.

² Table details departmental spending only as Vote Revenue's non-departmental expenditure relates mainly to its social policy obligations and writing down debt.

Small Business

18. The Minister for Small Business is not responsible for any appropriations. Accordingly, there is no baseline funding for this Ministerial portfolio. Instead, Small Business outputs, including policy advice, are funded through appropriations administered by other Ministers.
19. The following outputs in the Small Business portfolio are funded separately through Economic Development appropriations within Vote Business, Science, and Innovation:
 - Policy advice and ministerial servicing (\$1.523 million in 2019/20),
 - New Zealand Business Number (NZBN): a NZBN is a unique identifier for businesses,
 - E-Invoicing: this is the first in a range of digital innovations from the NZBN, which will allow businesses to generate and send e-invoices, and
 - Business.govt.nz: this website packages content and advice across government into tools and resources for small businesses.
20. In Budget 2019, the Small Business portfolio received \$7.100 million for the Business Connect initiative. Minister Faafoi has provided progress reporting on this initiative through the Commerce and Consumer Affairs portfolio.

Cost Pressures

21. As at 10am 5 November, cost pressure bids seeking a combined total of [33] operating funding over the forecast period ([33] average per annum) and [33] total capital funding have been submitted across all Ministerial portfolios for Budget 2020.
22. Minister Nash submitted six cost pressure initiatives across his Police and Serious Fraud, Fisheries, and Small Business portfolios, seeking a combined total of [33] in operating and [33] in capital funding. No cost pressure initiatives have been submitted for the Revenue portfolio.
23. Below are our initial comments on the initiatives, which we are yet to assess in detail. Titles, descriptions and comments are also set out in Annex B. A fuller assessment will be provided in due course.

Police and Serious Fraud

24. For Vote Police, Minister Nash submitted 3 cost pressure initiatives totalling [33] in operating and [33] in capital funding in Budget 2020.
25. [33]
26. An APEC21 initiative seeks funding for security cost commitments in the two years leading up to hosting APEC ([33] in operating and [33] in capital funding). We are generally supportive of the approach to identifying and closing gaps in existing security capability, but it will be necessary to ensure efficiencies are being maximised.

27. As part of the cross-agency response to family violence and sexual violence, a volume-driven initiative to address the high number of prosecutions for non-fatal strangulation seeks [33] in operational funding for specialist medical forensic services, including [33] for Vote Health. It will be important to understand whether other options for responding to the unanticipated number of strangulation prosecutions have been considered.
28. In addition to the cost pressure initiatives for Police, we understand \$15 million in operating funding may be sought from Cabinet as a pre-commitment against the Budget 2020 allowance to cover higher than anticipated expenditure on implementing the firearms buy-back in the current financial year.
29. In past Budgets, funding has been secured through Vote Police for assuring the critical communications system for Emergency Services (Police, Fire and Emergency New Zealand, St John and Wellington Free Ambulance). In Budget 2020, a Police-led initiative will seek funding for a new capability to replace the system, however, this will be submitted through the "Other initiatives" stream.
30. For Vote Serious Fraud, Minister Nash submitted one cost pressure initiative totalling [33] in operating and [33] in capital funding. This initiative seeks funding to address rising volume, price and personnel pressures faced by the Serious Fraud Office.

Fisheries

31. Minister Nash submitted two Fisheries cost pressure bids totalling [33] million in operating and [33] million in capital funding over four years for Budget 2020.
32. The bid entitled "Strengthening Core Fisheries Services to Meet Increased Demand" seeks funding for tangata whenua input and participation to meet new obligations under Treaty settlements; [33] and improvements to fisheries and aquaculture approvals in order to meet growing demand and statutory timeframes.
33. The bid entitled "Mitigating Fisheries System Risks" seeks funding for [33] and fisheries observer pay negotiations with the Public Service Association (PSA).
34. The Treasury's preferred approach is that agencies entering wage negotiations instead seek funding once negotiations are near completion. Therefore, there is the potential that wage increases for fisheries observers will not be funded part of the Budget package. Once wage negotiations are near completion, it will be possible to seek funding outside of the normal budget cycle.
35. The Treasury expects that some components of these bids may not meet the cost-pressure definition, which requires that costs are a result of external factors (e.g. volume, price or legislation) and have a high risk if unfunded (e.g. service failure). This may reduce initiatives by approximately \$5.500 million over four years, but further analysis will be required to confirm this.

Revenue

36. There are no cost pressure bids for Vote Revenue in Budget 2020.
37. A new spending bid is likely to be submitted for time-limited funding for compliance and enforcement activity. We understand the aim of the bid is to enable Inland Revenue to retain compliance and enforcement personnel that would otherwise be let go as existing time-limited funding expires.

Small Business

38. Minister Nash has submitted one cost pressure bid within the Small Business portfolio. This bid seeks [33] in operating funding across the forecast period to enable MBIE to meet increased demand and stakeholder expectations in the Small Business portfolio.
39. An initiative for policy capability cost pressures in the Small Business portfolio was submitted for Budget 2019, but the bid was triaged out.
40. The Vote team sees merit in further investigating the present initiative. The volume of work in the Small Business portfolio has increased significantly in the past two years, without commensurate funding increases. An increase in ministerial work has also redirected resourcing away from policy development and implementation.
41. MBIE has advised that, without additional funding for policy capability, there is a risk that statutory deadlines for OIAs and Parliamentary Questions will be missed, operational initiatives may not achieve their intended policy outcomes, and the Small Business Work Programme agreed by Cabinet may be delayed.
42. We anticipate new spending initiatives for the Small Business Work Programme will be submitted through the “Future of Work” priority for Budget 2020.

Annex A: Talking Points for your Bilateral with Minister Nash

Police and Serious Fraud

You may wish to:

- [33]
- Note the overall high cost of the APEC21 security programme [33] including contingency funding) - is the Minister confident that efficiencies have been maximised?
- Ask whether analysis has been undertaken of the significantly higher than anticipated volume of strangulation prosecutions (around 1700 per annum compared with a forecast of 14) - is there capacity to meet the resulting demand for medical experts including GPs to provide forensic services and attend court?

Fisheries

You may wish to:

- Note the preferred approach is likely to be that agencies seek funding once negotiations with the Public Service Association (PSA) are near completion – there is therefore a risk that wage increases for fisheries observers will not be funded as part of the Budget package. Once wage negotiations are near completion, it will be possible to seek funding outside of the normal budget cycle.
- Note there is uncertainty about whether some components of the fisheries cost-pressure bids meet the cost-pressure definition – the Treasury will undertake further analysis about whether all components are for costs arising from external factors (e.g. volume, price or legislation) and have a high risk if unfunded (e.g. service failure).

Revenue

You may wish to:

- Note that Inland Revenue is planning to submit a new spending initiative for time-limited funding for compliance and enforcement activity. What are the Minister's views on opportunities to internally fund the bid?
- Discuss the potential impact not funding the bid. What are the implications for Inland Revenue's operational capabilities, and what would be the effect on revenue integrity?

Small Business

You may wish to:

- Ask what risks there will be if this policy capability cost pressure is not funded through Budget 2020.

Annex B: Cost Pressure Initiatives

Police

Title	Description	Funding Sought by Agency			Treasury Comments
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)	
APEC21 Security Programme	The APEC21 Security Programme's key objective is to ensure New Zealand is SECURE – New Zealand will host a secure APEC year ensuring all APEC Leaders and attendees feel safe, secure and welcome. New Zealand is expected to provide a safe and secure APEC21 for up to 84 Internationally Protected Persons (including Leaders, spouses, Foreign and Trade Ministers) and delegates – and for all security personnel involved, and the New Zealand public	[33]	[33]	[33]	This initiative seeks funding for the marginal costs of providing security for APEC21. It seeks to identify and close gaps in existing security capability, but it will be necessary to ensure efficiencies are being maximised. The initiative does not address any possible additional implications arising from the recent SkyCity convention centre fire. [33]
FVSV – Specialist Responses to Strangulation	This initiative seeks funding to provide non-fatal strangulation forensic services for evidential purposes where non-fatal strangulation has occurred, and assist in ensuring there is evidential sufficiency to inform prosecutions pursuant to the Solicitor General Prosecution Guidelines.	[33]	[33]	-	As part of the cross-agency response to family violence and sexual violence, this is a volume-driven cost pressure for forensic medical services to address the high number of prosecutions following the introduction of near-fatal strangulation as a crime. It is unclear whether analysis has been undertaken of options for responding to the significantly higher than anticipated volume (around 1700 per annum compared with a forecast of 14). We would expect to see an assessment of potential capacity constraints to meet the demand for expert medical witnesses (GPs attending court).

Implementation of the Arms Legislation Act	This bid covers Police’s estimated costs to meet the requirements of the proposed new Arms Legislation Act as it is currently drafted, including the estimated cost of building and operating a firearms registry. These costs exclude any offset from cost recovery which is also allowed for in the proposed new legislation. Once the legislation is finalised and Cabinet has considered the extent and timing of cost recovery, we will be better able to assess the amount of Government funding needed. In the meantime we request that Contingency funding be provisioned in Budget 20 with draw-down against that subject to Cabinet’s approval of a final business case.	[33]	[33]	-	[33]
Total	[33]	[33]	[33]		

Serious Fraud

Title	Description	Funding Sought by Agency			Treasury Comments
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)	
Serious Fraud Office: Bid to address non-discretionary cost pressures	The SFO is facing increasing non-discretionary cost pressures that will compromise the agency's ability to effectively respond to serious financial crime and corruption. In the absence of additional funding, this pressure would severely restrict the SFO's capacity to investigate and prosecute new cases of serious and complex fraud from 2020/21. The threat of detection and apprehension would consequently be reduced in relation to serious financial crime. The financial wellbeing of New Zealanders and the country's reputation as a safe place to invest and do business would be adversely impacted.	[33]	[33]	[33]	From discussions with SFO, we understand that the agency has faced significant pressures on its core business for several years, and considers that it cannot put any further efficiencies in place without affecting its ability to perform its core business effectively.
Total		[33]	[33]	[33]	

Fisheries

Title	Description	Funding Sought by Agency			Treasury Comments
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)	
Mitigating Fisheries System Risks	This initiative seeks funding for [33] and fisheries observer pay negotiations with the Public Service Association (PSA).	[33]	[33]	[33]	The bid seeks funding for wage negotiations with the PSA, which have not yet begun. The Treasury's preferred approach is that agencies entering wage negotiations instead seek funding once negotiations are near completion. Therefore, there is the potential that wage increases for fisheries observers will not be funded as part of the Budget package. Once wage negotiations are near completion, it will be possible to seek funding outside of the normal budget cycle. [33] may not meet the cost-pressure definition, but further analysis will be required to determine this.
Strengthening Core Fisheries Services to Meet Increased Demand	This initiative seeks funding for tangata whenua input and participation to meet new obligations under Treaty settlements; [33] and improvements to fisheries and aquaculture approvals in order to meet growing demand and statutory timeframes.	[33]	[33]	[33]	The [33] may not meet the cost-pressure definition, but further analysis will be required to determine this.
Total		[33]	[33]	[33]	

Small Business

Title	Description	Funding Sought by Agency			Treasury Comments
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)	
Small Business Ministerial Support	The Small Business portfolio is responding to increased demand and expectations due to increase in the volume of ministerial requests, Official Information Act 1982 requests and Parliamentary Questions that has further increased following the transfer of responsibility of operational initiatives to the Small Business. This funding will allow additional ministerial servicing and policy capacity to respond to these demands and expectations and provide clearer and more aligned policy across the operational initiatives in the Small Business portfolio.	[33]	[33]	-	The Vote team sees merit in further investigating an increase in the funding for Small Business policy advice and ministerial servicing. The volume of work in the Small Business portfolio has increased significantly in the past two years, without commensurate funding increases. The volume of ministerial work has also redirected resourcing away from policy development and implementation. We will provide our final assessment by 21 November 2019.
Total		[33]	[33]	-	

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

Police

Budget	Title	Funding Allocated		
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)
2019	APEC21 Security: Ensuring APEC in 2021 is a safe and secure event	18.125	72.500	8.626
2019	Firearms Buy-Back Scheme	37.500	150.000	
2018	Striving Towards 1800 New Police	74.700	298.800	17.800
	Total	130.325	521.300	26.426

Revenue

Budget	Title	Funding Allocated		
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)
2018	Tax Compliance Activity – Funding to Collect Additional Revenue	6.625	26.500	-
	Total	6.625	26.500	-