

# 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
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## Treasury Report: Budget 2020 Bilateral with Minister Mahuta

|              |                  |                     |            |
|--------------|------------------|---------------------|------------|
| <b>Date:</b> | 12 November 2019 | <b>Report No:</b>   | T2019/3609 |
|              |                  | <b>File Number:</b> | DH-46-3    |

### Action sought

|   | Action sought   | Deadline                                       |
|---|---|--|
| <b>Minister of Finance</b><br>(Hon Grant Robertson) | <b>Note</b> the contents of this report, and<br><b>Discuss</b> the contents of this report with Minister Mahuta at your bilateral on Tuesday 19 November 2019 | <b>Before</b> 8.00am, Tuesday 19 November 2019 |

### Contact for telephone discussion (if required)

| Name        | Position                                   | Telephone | 1st Contact |
|-------------|--|-----------|-------------|
| [39]        | [39]                                       | [39]      | [23] ✓      |
| Nicky Lynch | Manager, Education and Population Agencies |           |             |

### 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 with Minister Mahuta

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### Purpose of Report

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1. The purpose of this report is to provide background information and advice for your Budget 2020 bilateral discussion with Minister Mahuta at 8.00am on Tuesday 19 November 2019 regarding the Māori Development and Local Government 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 suggested talking points for your bilateral discussion.
  - Annex B provides a full list of the cost pressure initiatives submitted for Māori Development and Local Government.
  - Annex C provides a full list of the Māori Development Portfolio initiatives selected for your request to Minister Mahuta on how TPK is delivering on past Budget commitments.
4. We have provided comments with preliminary assessments for Local Government cost pressure initiatives. We will provide you with further advice, including funding recommendations for each cost pressure, ahead of the package formation stage.

### Māori Development Portfolio: Context

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5. Vote Māori Development's annual operating expenditure is \$408.904 million. The annual capital expenditure is \$2.738 million (as at October Baseline Update 2019).
6. The large majority of funding is non-departmental totalling \$273.603 million. This is allocated as follows:
  - Te Ao Māori (Language, Culture and Identity) - \$106.704 million (39%)
  - Hapori Ora (including Whānau Ora and Whānau Leading Community Development) - \$80.637 million (29%)
  - Kāinga Ora - \$30.148 million (11%)
  - Pakihi Ora (Enterprising Whānau) - \$16.960 million (6%)
  - Ahuwhenua - \$16.011 million (6%)
  - Tūhonotanga ā-Tiriti (Crown Relationships with Whānau, Hapū and Iwi) - \$12.657 million (5%)
  - Kaiārahi mō āpōpō - \$9.886 million (4%)

7. Total baseline uplift over the last two Budgets is summarised in the table below (this information is 'as at Budget 2019'):

Vote Māori Development

| 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      | 309.699  |  |
| Budget 2018      | 307.543  | (0.7%)   |
| Budget 2019      | 357.569  | 16.3%  |

8. Vote Māori Development received funding for 11 new initiatives through Budget 2019. The majority of the 16.3% percent increase in Budget 2019 funding was \$80 million in operating funding over the forecast period for the Whānau Wellbeing Initiative, which aims to expand coverage of Whānau Ora (see T2019/3548 for more information on this). In addition:
- \$56.100 million of funding was allocated over the forecast period for the Whenua Māori Programme (of which \$32.600 million is to be channelled through Vote Māori Development).
  - \$33.840 million went to te reo Māori revitalisation initiatives (including Maihi Karauna and Maihi Māori and Māori Media Content), and
  - \$40.084 million to Papakāinga Development and Rural Housing Repairs for Better Whānau Wellbeing.
9. Smaller initiatives funded in 2019 included:
- \$6.008 million for Expanding the Cadetships Initiative to Improve Outcomes,
  - \$3.750 million for Modernising the Māori Wardens,
  - \$12.014 million for Marae Resilience and Whānau Development, and
  - \$21.787 million for the Kaupapa Māori approach to tackling reoffending.

*Key Māori Development Policy Issues*

- **TPK Strategic Direction** – TPK is in the process of restructuring its organisation to focus on system-level advice on Māori issues and monitoring the effectiveness of other government agencies at lifting Māori outcomes.
- **Māori Media Sector Shift Review** - Minister Mahuta is reviewing the Māori media sector with the intention to “explore the most effective and efficient way of funding and producing te reo and tikanga Māori content, and structuring the Māori media sector, to achieve the best outcomes” (CAB-18-MIN-0479).

- **Wai 262** – This is the development of a whole-of-government approach to address the issues raised by the 1991 Wai 262 claim and the Waitanqi Tribunal report, *Ko Aotearoa Tēnei* (2011).<sup>[38]</sup>
- **Whenua Reform** – Targeted changes are being made to Te Ture Whenua Māori Act 1993. These changes are designed to better support Māori land owners to achieve their land aspirations. A key programme of work within TPK is the Whenua Māori Programme aimed at improving the value derived by Māori from Māori Freehold Land.
- **Maihi Karauna** – The Maihi Karauna is the Crown’s Māori Language Strategy, and its release was a legislative requirement of the Te Ture mō Te Reo Māori 2016. It is the counter structure/support to Maihi Māori, which focuses on grassroots and community based te reo revitalisatio.
- **Kāinga Ora** – Kāinga Ora has improved Māori housing outcomes through repairing substandard houses, increasing housing options including building whānau capability and improving the capability of the Māori housing sector.

## Māori Development Portfolio: Budget 2020 Initiatives

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10. As at 10am 11 November, cost pressure bids seeking a combined total of \$14.97 billion operating over the forecast period (\$3.74 billion average per annum), and \$6.11 billion total capital has been submitted.
11. Minister Mahuta submitted three cost pressure bids totalling<sup>[33]</sup> in operating funding for Budget 2020, within the Vote Māori Development portfolio. Information on these initiatives can be found in Annex B. We have not provided comments on the Māori Development initiatives at this stage.
12. <sup>[33]</sup>

## Local Government Portfolio: Context

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13. The Local Government portfolio is one of seven portfolios supported by the Department of Internal Affairs (DIA), within Vote Internal Affairs.<sup>1</sup>
14. The Minister is responsible for appropriations totalling \$63.776 million operating funding in 2019/20 and \$0.050 million capital funding. These appropriations are for a range of purposes, including:
  - providing rates rebates to low-income residential ratepayers (\$53.500 million in 2019/20)
  - administering local government legislation, and

<sup>1</sup> The other portfolios are Internal Affairs, Ethnic Communities, Government Digital Services, Community and Voluntary Sector, Ministerial Services and Racing.

- assisting local authorities to comply with statutory obligations and mitigating risks to life from natural hazards.
15. Policy Advice for all DIA portfolios is funded through a Policy Advice MCA for which the Minister of Internal Affairs is responsible. The Policy Advice – Local Government category has operating funding of \$14.555 million in 2019/20.
16. The local government portfolio has received funding through Budget 2018, Budget 2019 and through between-Budget requests, summarised below:

| <b>Funding source</b>           | <b>Purpose</b>  | <b>Amount</b>   |
|---------------------------------|---|---|
| Budget 2018                     | To progress the Three Waters Review.  | \$3.000 million total operating funding (2018/19 and 2019/20)               |
| 2018 Between-Budget contingency | To advance a community wellbeing work programme.  | \$2.700 million operating funding (2018/19 only)                            |
| Budget 2019                     | To enhance relationships between local government and iwi/Māori, and grants to support bilingual towns and cities as part of the Maihi Karauna Maori language strategy.   | \$10.000 million total operating funding                                    |
| Budget 2019                     | To accelerate a local government reform programme (including Three Waters reform, community resilience and local government financial sustainability).  | \$10.000 million total operating funding (2019/20 – 2021/22)                |
| 2019 Between-Budget contingency | Crown contribution support a managed retreat in Matatā, Bay of Plenty, from a floodplain to avoid natural hazard risks. Cabinet agreed this request, with a requirement that approval of the Minister of Finance and Minister of Local Government is required before any expenditure is incurred. | \$5.019 million operating funding (2019/20 only)                            |
| 2019 Between-Budget contingency | Crown contributions to incentivise local authority investigations of Three Waters service delivery changes (for example, amalgamation of multiple suppliers). The Minister of Finance and Minister of Local Government have power to act to decide on any applications.                           | Unspecified amount  |
| Pre-commitment on Budget 2020   | Funding for the establishment costs and transition costs of a new Three Waters regulator.   | Tagged operating contingency of up to \$5.900 million (2019/20 and 2020/21) |

### *Declined Budget initiatives receiving between-Budget contingency funding*

17. Cabinet Office Circular CO (18) 2 provides that requests for between-Budget contingency funding should not have been previously considered and declined; cannot be met within existing baselines; and cannot be deferred until the next Budget. The initiatives funded through the 2019 between-Budget contingency were both declined Budget 2019 initiatives. We also note that DIA has not yet incurred expenses for the managed retreat in Matatā, nor have any funding requests from local authorities been received on Three Waters service delivery changes. This raises questions about how urgent the requests were at the time Cabinet considered them for between-budget funding.
18. You may wish to remind Minister Mahuta of your (and Cabinet's) expectations regarding declined Budget initiatives, particularly in light of the remaining amount in the between-Budget contingency.

### *Key local government policy issues*

19. Key issues in the portfolio include:
  - **Community Resilience work programme:** On 6 November, DEV considered a Cabinet paper providing an update on progress of the programme. We recently provided you with advice on the Cabinet paper [T2019/3469 refers]. We understand Ministers expressed frustration with progress and discussed coordination of the work programme at DEV. <sup>[33]</sup>
  - **Productivity Commission inquiry into Local Government Funding and Financing:** The Productivity Commission's draft report was released in July 2019, and its final report is due in November 2019. DIA is coordinating and leading the Government's response to the draft report.
  - **Three Waters Review:** During 2019, Cabinet agreed to a suite of reforms to three waters regulation (drinking, wastewater and stormwater), and to the establishment of a Crown Agent as a standalone drinking water regulator. This regulator will oversee the regulation of the drinking water system, and provide some overview of wastewater and stormwater regulations. We understand that the Minister intends <sup>[33]</sup>

It is also possible that additional funding will be sought at Budget 2021 to assist water suppliers to comply with the new regulations. This may include local authority water suppliers and Crown agents or departments (e.g. Department of Conservation or Department of Corrections).

### Local Government Portfolio: Budget 2020 Initiatives

20. Minister Mahuta submitted two cost pressure initiatives totalling <sup>[33]</sup> operating funding for Budget 2020, within the Local Government portfolio. Information on the initiatives and Treasury's initial views on them can be found in **Annex A**.
21. We are also aware that Minister Mahuta wishes to submit the following new spending initiatives at Budget 2020:

## Recommended Action

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We recommend that you:

- a **note** the contents of this report, and
- b **discuss** the contents of this report with Minister Mahuta at your bilateral on 19 November 2019.

Nicky Lynch  
**Manager, Education and Population Agencies**

Hon Grant Robertson  
**Minister of Finance**

## Annex A: Suggested Talking Points

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### **Māori Development Portfolio Talking Points:**

- How is TPK tracking on new initiatives that received funding through Budget 2019?
- What are your priorities for Vote Māori Development for Budget 2020?
- How confident are you about TPK's ability to deliver the Papakainga Housing Development project according to the original timeline?
- To what extent has TPK been able to engage successfully with agencies across government on the Maihi Karauna strategy? Will this be reflected in the planned cross-agency package bid for Budget 2020?

### **Local Government Portfolio Talking Points:**

- You may wish to remind Minister Mahuta of your expectations regarding accessing funding from the between-Budget contingency.
- What are your priorities for Local Government for Budget 2020?
- Ministers have been dissatisfied with progress on the community resilience work programme to date. What has caused this slower progress? Will further resourcing change the status quo or do we need more focus and better coordination?
- How are Internal Affairs portfolio Ministers collaborating for Budget 2020?
- What is the progress on developing new spending initiatives? <sup>[33]</sup>

## Annex B: Submitted Cost Pressure Initiatives

### Māori Development

| Title   | Description  | Funding Sought by Agency |                  |                   | Treasury Comments   |
|---|--|--------------------------|------------------|-------------------|---|
|   |  | Opex Avg (\$m)           | Opex Total (\$m) | Capex Total (\$m) |   |
| Strengthening infrastructure for delivering te reo Māori language revitalisation outcomes | This initiative will ensure that Te Taura Whiri is able to fulfil its responsibilities to coordinate cross-agency implementation of the Maihi Karauna strategy and ensure a secure and effective IT platform. It provides funding to engage IT capability to develop detailed business requirements to upgrade the existing ageing infrastructure to meet government cyber security and information standards and to drive the necessary internal processes, systems and governance to support effective implementation. It also provides funding for the development of a language planning hub for delivering workshops, translator certification and secretariat functions. | 0.549                    | 2.196            |                   | This is a regulatory/legislative driven cost pressure. There is a data, digital, ICT component. |
| Enabling and supporting Te Tumu Paeroa to comply  | This initiative seeks funding for Te Tumu Paeroa, the Māori Trustee, to comply with trustee obligations arising  | [33]                     |                  |                   | This is a regulatory/legislative driven cost pressure. [33]                                     |

|  |   |             |  |  |   |
|--|---|-------------|--|--|---|
| <p>with trustee obligations for whenua Māori beneficiaries</p>                                     | <p>from legislative and regulatory changes in relation to the 1,300 blocks of whenua Māori for which it is responsible. This includes requirements of the Trusts Act 2019 to provide basic trust information to all trust beneficiaries and trust information requested by a trust beneficiary to enforce terms of trust, mandatory Farm Environmental Plans, [33]</p> <p style="text-align: center;">This funding will ensure effective management and enhancement of a significant proportion of whenua Māori for the 244,000 individual trust beneficiaries.</p> |             |  |  |   |
| <p>Strengthening Te Puni Kōkiri monitoring function to lift state sector performance for Māori</p> | <p>This initiative seeks funding for increased personnel required to implement a strengthened Te Puni Kōkiri monitoring function to meet the requirements of the 1991 Ministry of Māori Development Act. To achieve Government's focus on lifting wellbeing outcomes for Māori, we need to strengthen the functions that monitor how effective programmes and services are. In December 2018, Cabinet noted the Ministry's new approach to the monitoring function. This includes leading monitoring</p>  | <p>[33]</p> |  |  | <p>This is a regulatory/legislative driven cost pressure.</p> |

|              |   |      |  |  |  |
|--------------|---|------|--|--|--|
|              | reviews of the 'adequacy' of agencies policies, programmes and services for Māori, improving state sector capability and performance for Māori through monitoring and reporting on Māori wellbeing, and developing tools that enable the step change required by the state sector reforms to improve Māori wellbeing. |      |  |  |  |
| <b>Total</b> |   | [33] |  |  |  |

#### Local Government

| Title   | Description  | Funding Sought by Agency |                  |                   | Treasury initial comments  |
|---|--|--------------------------|------------------|-------------------|--|
|   |  | Opex Avg (\$m)           | Opex Total (\$m) | Capex Total (\$m) |  |
| Ensuring the ongoing financial viability of the Chatham Islands Council | The initiative seeks funding to enable the Chatham Islands Council (the Council) to remain a going concern and to deliver the infrastructure and regulatory processes that are required by law of all local authorities in New Zealand. The Council is technically insolvent. The Crown provides ongoing funding of \$3.206 million per annum to the council. [25] | 0.971                    | 3.883            | -                 | Our initial view is that some additional funding will be required to avoid the council ceasing to operate. However further work is likely required to achieve sustainability in the longer-term, in terms of investment in the islands and council finances. The Government has provided support to the council since 2004, and the current support level accounts for 88% of the council's total revenue. |
| [33]  | [33]   | [33]                     | [33]             | [33]              | [33]   |

|       |      |      |  |      |      |
|-------|------|------|--|------|------|
| [33]  | [33] |      |  |      | [33] |
| Total |      | [33] |  | [33] |      |

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

### Māori Development

| Budget | Title  | Funding Allocated |                  |                   |
|--------|--|-------------------|------------------|-------------------|
|        |  | Opex Avg (\$m)    | Opex Total (\$m) | Capex Total (\$m) |
| 2018   | Papakāinga Housing Development – tagged contingency                            | 7.500             | 15.000           | -                 |
| 2018   | Enhancing education and employment outcomes for Rangatahi – tagged contingency | 3.750             | 15.000           | -                 |
| 2018   | Whenua Māori Reforms – tagged contingency                                      | 7.000             | 7.000            | -                 |
| 2019   | Papakāinga development and rural housing repairs for better whanau wellbeing   | 10.000            | 40.000           | -                 |
| 2019   | Social and economic development through whenua Māori                           | 13.501            | 54.005           | 2.107             |
| 2019   | Implementation of the Maihi Karauna Strategy                                   | 3.460             | 13.840           | -                 |
| 2019   | Innovative Te Reo Māori Media Content  | 7.000             | 14.000           | -                 |
|        | <b>Total</b>   | <b>52.211</b>     | <b>158.845</b>   | <b>2.107</b>      |