

# 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:** Bilateral Discussion: Minister of Finance and Minister of Climate Change and Statistics

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<b>Date:</b>	19 November 2019	<b>Report No:</b>	T2019/3633
		<b>File Number:</b>	SH-10-8

**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 Hon Shaw at your bilateral meeting.	2pm, Monday 25 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>
Alice Ansley	Analyst, Transitions, Regions, and Economic Development	[39]	N/A (mob) ✓
Natalie Labuschagne	Manager, Transitions, Regions, and Economic Development		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, the progress reporting letters on the Maintaining Statistical Products package (Vote Statistics) and the Productive and Sustainable Land Use package (Vote Environment and Climate Change portfolio) are attached to this report.

# Treasury Report: Bilateral Discussion: Minister of Finance and Minister of Climate Change and Statistics

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## Purpose of Report

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1. This report provides background information and advice for your Budget 2020 bilateral discussion with Minister Shaw regarding his Climate Change and Statistics portfolios at 2pm on Monday 25 November 2019, including:
  - context on existing funding, including funding received in recent Budgets; and
  - context on current policy considerations and initiatives for Budget 2020.
2. Attached to this report are three annexes:
  - Annex A provides talking points for your bilateral discussion;
  - Annex B provides a table of cost pressures, priority aligned and 'other' initiatives submitted for Climate Change and Statistics which we think Minister Shaw might raise; and
  - Annex C provides the progress reporting letters on the Maintaining Statistical Products package (Vote Statistics) and the Productive and Sustainable Land Use package (Vote Environment and Climate Change portfolio).
3. We have provided preliminary comments for the Budget 2020 initiatives. We will provide you with further advice, including funding recommendations for each cost pressure, and advice on priority aligned initiatives where it relates to our specific work programmes, as required.

## Climate Change portfolio

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### Context for Climate Change portfolio

4. The Minister for Climate Change is responsible for appropriations in Vote Environment, which have baseline funding of \$712.5 million in 2019/20. The main elements of the baseline are:
  - \$551 million for the allocation of New Zealand units to the economy;
  - \$189 million for the loss on sale of New Zealand units;
  - \$55 million for administering the Emission Trading Scheme including the impairment of debt; and
  - \$19.7 million for policy advice in relation to the domestic and international climate change programmes.
5. The total baseline change over the last two Budgets for the Climate Change portfolio is summarised in the table below. This table does not include the forecast-driven appropriations relating to the Emission Trading Scheme (ETS), which make up the bulk of the Climate Change baseline, and which change based on the forecast price of New Zealand units. This table instead focuses on the core Climate Change departmental annual operating expense, which is primarily used on domestic climate change policy work, as well as new non-departmental funding allocated for the independent Climate Change Commission (the Commission).

Budget Estimates	Total appropriations at Budget (\$m)	% increase (decrease) in total appropriations from previous Budget (\$m)
Budget 2017	12.898	
Budget 2018	19.494	51.14
Budget 2019	27.751	42.36

6. In Budgets 2018 and 2019, the Climate Change portfolio received a \$16 million per annum average operating increase, which is nearly a 115% increase to 2017 baseline levels.
7. This new investment is comprised of:
  - \$13 million per annum average in Budget 2019 for a productive and sustainable land use package, which included funding the Commission establishment and operations and domestic climate change policy advice, including response to the Commission’s recommendations<sup>1</sup>;
  - \$2.3 million per annum average in Budget 2018 to resource domestic climate change policy advice, specifically resource for the Zero Carbon Bill, Interim Climate Change Committee and amendments to the ETS; and
  - \$0.7 million per annum average in Budget 2018 for international climate change policy advice, specifically involvement in international carbon markets.
8. This investment represents the increased scale of work in the area of climate change, in line with the Government’s climate change priorities. This has put pressure on the Ministry for the Environment (MfE) and it is likely that MfE is finding it challenging to source the additional capability required to respond to their expanded work programme. This is something the Treasury is monitoring as part of the Treasury’s overall monitoring of capability pressures across the public sector.

Key climate change policy considerations

**Community Resilience work programme - Budget 2020 package**

9. A Budget 2020 package is being submitted by the Community Resilience cross-agency work-programme through the ‘Just Transitions’ investment priority track. [33]

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<sup>1</sup> The progress reporting letter on the Productive and Sustainable Land Use package (Vote Environment and Climate Change portfolio) is attached to this report.

### **Cost Pressures Submitted for the Climate Change Portfolio**

14. Associate Minister for the Environment, Minister Sage, is likely to submit one late cost pressure initiative relating to the ETS, for approximately \$2 million capex total over 20/21 and 21/22. This will be for the Environmental Protection Agency (EPA) to deliver operational and technical changes to the Emissions Trading Register (the Register). The Climate Change Response (Emissions Trading Reform) Amendment Bill, currently before the Environment Select Committee, will amend the Climate Change Response Act, requiring these changes to the Register, with a planned effective date of early 2021.
15. This funding will prepare the EPA, which has a current baseline of approximately \$20 million per annum, to make the required changes likely to be legislated. There is a risk that if these operational changes were to be delayed, the EPA may not meet its statutory obligations and/or the Crown could miss out on receiving units owed if the Register were to be disrupted.
16. The Treasury will provide you with further advice on the merits of this initiative, including scaling options, ahead of the development of the cost pressure package.

## Vote Statistics

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### Context for Vote Statistics

17. The Minister of Statistics is responsible for appropriations in Vote Statistics, which have baseline funding of \$166.385 million in 2019/20. The main elements of the baseline are:
- A total of just under \$55 million for the delivery of data and statistical information services relating to child poverty, population, environment, household economics, social conditions, and the labour market;
  - A total of just under \$51 million for the delivery of data and statistical information services relating to business and the economy; and
  - A total of just under \$33 million for system leadership for data and analytics across the public sector, oversight of the Integrated Data Infrastructure (IDI), statistical and data management advice, and the operation of access channels.
18. Total baseline change over the last two Budgets by Vote is summarised in the below table.

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	145.599	
Budget 2018	134.119	- 7.88%
Budget 2019	166.066	23.82%

19. Stats NZ successfully sought \$136.5 million at Budget 2019 with the aim of placing it on a sustainable financial footing in the face of increasing costs and decreasing revenues. However, late in the budget process, Stats NZ advised that it had been unsuccessful in seeking third party revenue (cost recovery for conducting surveys), and now would have to reprioritise in order to deliver on a number of the Government's and the Coalition's commitments. Stats NZ's reprioritisation in 2019 resulted in the discontinuation of a number of surveys from 2019 or 2020.<sup>2</sup>
20. Stats NZ has begun work on a long-term Data Investment Plan, which seeks to identify where to best direct investment in data over the coming decade. We understand that Minister Shaw intends to take an oral item to GOV seeking endorsement of the proposed approach / process along with an indicative timetable. Ideally, by June 2020 Stats NZ will have formed a view on where best to direct investment, which may form a bid at Budget 2021.

### Expected Budget bids for Vote Statistics

21. Stats NZ has not submitted any initiatives via the cost pressure track. There are, however, two initiatives that we would like to comment on.
22. **Census 2023** - It is a legislative requirement to hold a census every five years. The Treasury has worked closely with Stats NZ as it has narrowed down its options for the next census.

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<sup>2</sup> Energy Use Survey, Screen Survey, Accommodation Survey and Internet Survey Provider Survey.  
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- One of the shortlisted options was to hold the census in 2026 to provide more time for planning. We think this option is undesirable due to the failure to collect iwi affiliation and household data at census 2018. The other two options involve holding the next census in 2023. One is a “minimum viable product” approach, costed at approximately \$198 million; the other (which is Stats NZ’s preferred option) adds various additional features and services for a total cost of \$235 million.
- The Treasury has been working closely with Stats NZ as it develops a Single Stage Business Case to support its bid. Stats NZ has also decided to complete an Implementation Business Case in early 2020 for the preferred option. The Treasury supports this approach.
- Our initial view is that we support a census design somewhere between the minimum viable product and Stats NZ’s preferred approach. We think that this offers the best return for an acceptable level of risk. We are working with Stats NZ to work out exactly what this option would look like.

23. **Child Poverty persistence measure** - The Child Poverty Reduction Act 2018 (the Act) requires the Government Statistician to report each year on the percentage of children in poverty. One of the four primary measures defined in the Act, persistent poverty, cannot yet be reported on as there is currently no suitable data source available. Under the Act, the Government Statistician must commence reporting on persistent poverty for the 2025/26 financial year.

- This initiative will seek funding to develop the required data source. The size of this bid is unclear at this stage. Stats NZ proposes to convert the existing Household Economic Survey (HES), which was expanded in 2018 to collect data for annual measures of poverty, and continues to be the source of data for measuring net worth and expenditure, into two surveys:
  - i. A new stand-alone survey that is proposed to measure household expenditure and net worth; and
  - ii. A new rotating panel survey, which will involve repeat interviews of specific households within a panel over the life of that panel, to measure all of the poverty measures (including questions about material deprivation not captured by administrative data) and enable poverty persistence to be calculated.
- Stats NZ has informed us that this bid will be submitted under the Child Wellbeing priority. We agree with this assessment. We are encouraging Stats NZ to consider the overall fit between the proposed new panel surveys and the rest of their social statistics programme, so that any new investments form part of a coherent and efficient whole.



## Recommended Action

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We recommend that you:

- a. **note** the context and Budget 2020 information outlined in this report; and
- b. **use** the talking points in Annex A to guide your discussion with Hon Shaw.

Natalie Labuschagne  
**Manager, Transitions, Regions, and Economic Development**

Hon Grant Robertson  
**Minister of Finance**

## **Annex A: Talking Points for your Bilateral with Minister Shaw**

### Talking points for the Climate Change portfolio:

- What are your priorities for the Climate Change portfolio for Budget 2020?
- What are your priorities for the Community Resilience Budget 2020 package? How do you think this programme is progressing and what could be done to advance this work more effectively?
- [33]
  
- The Climate Change portfolio has received a 115% increase in baseline funding over the past two Budgets (excluding forecast appropriations relating to the ETS). How do you think MfE is making use of the significant increase in funding? Have there been any barriers to using this funding so far, or do you foresee any risks in the future?

### Talking points for the Statistics portfolio:

- Census 2023 budget bid
  - We need to think not just about the cost, but also about the risk in terms of successful delivery. Census 2023 needs to do its core job really well. My officials at the Treasury are inclined to favour options that require Stats NZ to do less by way of innovation and change, not because they are cheaper, but because they are lower-risk.
  - I appreciate that early certainty of funding for Stats NZ helps lower its risk.
  - Scalability between one and two? Does the Minister of Statistics have a view on the desirability of this?
  - Cost?
- Child Poverty Persistence Measure
  - I note that you have asked Stats NZ to think about its overall approach to investment in data collection and capability in the medium term. In a similar vein, we want to make sure we are thinking about the overall fit between the proposed new collection for the Child Poverty Persistence Measure, and the rest of our social statistics programme.

## Annex B: Submitted Budget 2020 Initiatives

### Climate Change portfolio

Initiative type	Title	Description	Funding Sought by Agency			Treasury Comments
			Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)	
Cost pressure	Environmental Protection Authority: Adjustments to the New Zealand Emissions Trading Register	Funding is sought to deliver operational and technical changes to the New Zealand Emissions Trading Register (the Register) to enable implementation of changes to the New Zealand Emissions Trading Scheme (NZETS) settings.	-	-	2	The current baseline of the Environment Protection Agency is \$20 million per annum, what pressure would be put on the EPA is this were to be funded through baselines? What risks would arise if this initiative were to be scaled?
[33]	[33]	[33]	[33]	[33]	[33]	[33]
[33]	[33]	[33]	[33]	[33]	[33]	[33]
[33]			[33]	[33]	[33]	

## Vote Statistics

Initiative type	Title	Description	Funding Sought by Agency	Treasury Comments
New spending other	Delivering New Zealand's next census of population and dwellings	This initiative provides funding to deliver the next census in 2023.	<p>Stats NZ have indicated the approximate cost for the following two options:</p> <ul style="list-style-type: none"> <li>• \$198 million – “minimum viable product:</li> <li>• \$235 million – “preferred option” that adds various additional features and services.</li> </ul>	TSY's initial view is that we support a census design somewhere between the minimum viable product and Stats NZ's preferred approach. We think this offers the best return for an acceptable level of risk. We are working with Stats NZ to work out exactly what this option would look like.
Priority Aligned	Child Poverty Persistence Measure.	The Child Poverty Reduction Act 2018 (CPR Act) requires the Government Statistician to report on child poverty persistence. Funding is sought to deliver this measure by extending the Household Economic Survey (HES).	The Treasury is not yet aware of the amount of funding that will be sought.	We agree with the assessment that this bid is priority aligning. We are encouraging Stats NZ to consider the overall fit between the proposed new panel surveys and the rest of their social statistics programme, so that any new investments form part of a coherent and efficient whole.
<b>Total</b>			<b>Unknown</b>	

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

Climate Change portfolio – this initiative sits across Vote Environment and the Climate Change portfolio

Budget	Title	Funding Allocated		
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)
2019	Productive and Sustainable Land Use (Environment portfolio – Essential Freshwater, Climate Change Commission and Government Response)	26.75	107	0.449
	<b>Total</b>	26.75	107	0.449

### Vote Statistics

Budget	Title	Funding Allocated		
		Opex Avg (\$m)	Opex Total (\$m)	Capex Total (\$m)
2019	Maintaining Statistical Products and Services, Data Services and Data System Leadership	34.125	136.50	-
	<b>Total</b>	34.125	136.50	-