

The Treasury

Budget 2020 Information Release

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Treasury Report: Budget 2020 - New Spending - Other Draft Package

Date:	24 January 2020	Report No:	T2020/10
		File Number:	BM-2-4-2020-5

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Discuss this report with officials at Budget Matters on 27 January 2020	Monday 27 January 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Timothy Holland	Analyst, Budget Management	[39]	N/A (mob) ✓
Alex Harrington	Manager, Budget Management	[23]	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Executive Summary

Ministers submitted new spending initiatives for Budget 2020 on 29 November 2019. Eighty-nine initiatives were submitted under the new spending – other category, seeking an annual average of \$1.3 billion in operating funding and \$4.9 billion in total capital. Vote teams have supported 47 of these initiatives and recommended an annual average of \$436 million in operating and \$2.2 billion in total capital.

You recently indicated you support around \$2 billion operating per annum for cost pressures out of the remaining Budget 2020 operating allowance of \$2.6 billion per annum. This leaves around \$600 million operating per annum to allocate across the five priority areas and the new spending – other package. We initially recommended spending around \$100 million per annum for new spending – other to remain inside allowances and fund effective packages across the five Budget priorities (T2019/3701 refers).

The majority of vote team supported operating funding relates to five initiatives (\$284 million per annum in total). The low level of discretion available regarding these five initiatives and the large amounts sought for each initiative will make it challenging to take forward a new spending – other package below \$100 million per annum. We have provided more detail on several significant initiatives and signalled where you will be receiving further advice or meeting Portfolio Ministers to discuss these.

Transport and Defence Ministers are seeking significant capital investment, with vote teams supporting \$1 billion and ^[33] million capital respectively. You will be receiving separate advice on these initiatives. Following the increase to the Multi-Year Capital Allowance (MYCA) announced at the 2020 Budget Policy Statement there is more capital funding available to accommodate investments of this size. Large capital investments, however, will have considerable operating funding requirements that will need to be accommodated within allowances.

The Treasury will provide a system-wide view of significant capital initiatives before you consider the draft Budget 2020 package as a whole. This advice will provide you with a sense of the attractiveness and achievability of significant capital investments, with commentary on both the market and agencies assessed capacity to deliver.

An annex of new spending – other initiatives is attached, grouped into three categories for discussion: recommended for funding; vote team supported, with discretion over funding; and not supported.

- We have recommended 24 initiatives for inclusion in the New Spending – Other package, with a recommended total annual average of \$369 million operating per annum and \$2 billion in total capital. This exceeds our previous recommended indicative funding allocation and under current settings you would need to make trade-offs against other new spending proposals.
- We have provided a list of initiatives supported by vote teams that we have assessed as lower priority for inclusion in the new spending – other package. Many of these present a strong case for funding, however, and you may wish to include these in the recommend new spending – other package or revisit these when you receive the five priority aligning packages.
- Below these, we provide a list of initiatives that were not supported by vote teams and we can provide more information if requested.

Coordinating Ministers will submit priority packages on Friday 31 January. We will then provide you advice across all Budget 2020 funding categories to assist you in developing a funding package to discuss at the Budget Ministers' Three meeting on 18 February.

Recommended Action

We recommend that you:

- a **note** that Ministers have submitted 89 Budget 2020 new spending – other initiatives seeking an annual average of \$1.3 billion in operating funding and \$4.9 billion in total capital.
- b **note** we have provided you with a package of initiatives grouped into three categories:
 - recommended for funding
 - vote team supported, with discretion over funding
 - not recommended for funding
- c **discuss** this report with officials at Budget Matters on Monday 27 January 2020.
Agree/disagree.

Alex Harrington
Manager, Budget Management

Hon Grant Robertson
Minister of Finance

Treasury Report: Budget 2020 - New Spending - Other Draft Package

Purpose of Report

1. This report provides you with a draft new spending – other package for consideration and discussion with Treasury officials at Budget Matters on Monday 27 January.

Background

2. Budget 2020 builds on the changes introduced in the first Wellbeing Budget to embed a more collaborative Budget process anchored around the Government’s wellbeing and policy commitments.
3. The Budget 2020 process sees new spending and cost pressure initiatives treated separately, with new spending initiatives that align with the Government’s five Budget 2020 priorities being considered by groups of relevant Ministers. New spending initiatives that fall outside the five priorities are termed “new spending – other” initiatives, and these are being considered by the Minister of Finance.
4. The remaining Budget 2020 operating allowance is \$2.6 billion per annum, with \$8.4 billion available in the Multi-Year Capital Allowance (MYCA). At this stage, you have indicated you prefer a cost pressure package of around \$2 billion operating per annum.
5. We previously recommended an indicative allocation of \$100 million for the new spending – other category to remain within the Budget 2020 operating allowance and provide funding for effective priority-aligning packages. The breakdown across spending categories is shown below in Table 1.

Table 1: Funding allocations under high and low cost pressure packages

Funding \$m	Low cost pressure package	High cost pressure package
Budget 2020 operating allowance	3,000	3,000
Pre-commitments	350	350
Between-Budget Contingency	40	50
Cost pressures	1,660	2,000
Priority allocations	875 (175 per priority)	500 (100 per priority)
New spending – other	75	100

6. [33]

7. In the Budget 2020 Strategy and Process Cabinet Paper, Cabinet agreed new spending – other initiatives would be considered on an exceptions only basis where they did not relate to commitments in the Speech from the Throne, Coalition Agreement, or Confidence and Supply Agreement. Further, these initiatives would be expected to provide a clear articulation of expected outcomes, clear alignment to the Government’s broader objectives and evidence they would strongly contribute to raising New Zealanders’ wellbeing.

Submitted Initiatives

8. Overall, departments submitted 89 initiatives under the New Spending – Other category, seeking an annual average of \$1.3 billion in operating funding and \$4.9 billion in total capital. The five largest initiatives by operating funding sought are shown below in Table 2.

Table 2– Five largest initiatives by operating funding sought

Portfolio	Title	Opex Average (\$m)	Capex Total (\$m)
Transport	Investment to enable rail activities to be funded under the Land Transport Management Act	80	-
Police	Next Generation Critical Communications (NGCC) establish Emergency Services critical communications capability	[33]	-
Statistics	Delivering New Zealand's next census of population and dwellings	[33]	
Defence	Defence Capability Plan 2019 - Contingent funding to support the introduction of new capabilities	42	635
Broadcasting, Communications and Digital Media	Transitional funding for the continued provision of mail services from New Zealand Post	33	-

9. The six largest portfolios by operating funding sought are shown below in Table 3.

Table 3 – Six largest portfolios by operating funding sought

Operating (\$m)	
Portfolio	Average
Transport	258
Broadcasting, Communications and Digital Media	149
Defence	[33]
Police	124
Foreign Affairs	117
GCSB/NZSIS	[33]

10. Departments indicated that 21 initiatives fulfilled outstanding commitments from the Speech from the Throne, the Coalition Agreement and the Confidence and Supply Agreement. These are show below in Table 4. Vote teams have assessed that only a small number of these initiatives are clearly aligned with an outstanding commitment.

Table 4 – Outstanding commitments signalled by departments

Portfolio	Title	Opex Average (\$m)	Capex Total (\$m)
Speech from the Throne			
Internal Affairs	Royal Commission of Inquiry into Abuse in Care	[25]	
Police	National security and critical response		
Police	Next Generation Critical Communications (NGCC) - establish emergency services critical communications capability		
Transport	Future of Rail – Rolling stock investment to support a resilient and reliable rail freight system		
Transport	Future of Rail – New Interisland ferries to support a resilient and reliable rail freight system		
Transport	Main North Line - Additional investment to deliver equivalent level of service and resilience of rail to road		
Transport	Future of Rail – Investment in improved resilience and reliability of core assets		
Transport	Investment to enable rail activities to be funded under the Land Transport Management Act		

Coalition Agreement			
Ethnic Communities	Inclusive local communities	[25]	
Racing	Revitalisation of New Zealand's racing industry		
Defence	Defence Capability Plan 2019 - Contingent funding to support the introduction of new capabilities		
Immigration	Secure real time platform - Capability expansion		
Justice	New and improved community legal services		
Police	Accelerating the phasing of the 1800 growth to 2022		
Transport	Regional aviation security screening		
Prime Minister and Cabinet	Safer communities fund (ongoing response to 15 March Terror Attacks)		
Confidence and Supply			
Māori Development	Ngāti Rārua Ātiawa Iwi Trust – Resolution of all issues and claims in relation to Whakarewa lands		
Māori Development	Wai 262 – Te Pae Tawhiti – Realising the benefits of partnership		
Immigration	Improving the system for refugee family reunification		
Justice	Increase public participation, openness and transparency around official information		
Transport	Survey of the wreck of the HMS Niagara		

Treasury Vote Team Assessments

11. Vote teams have supported funding for 47 of the 89 initiatives submitted under new spending – other. A full list of these is annexed. Vote teams have supported an annual average of \$436 million operating for these 47 initiatives, of an annual average of \$1.3 billion submitted. Vote teams have supported \$2.2 billion of \$4.9 billion total capital submitted.
12. The majority of vote team supported operating relates to five initiatives. Four are discussed below, alongside comments on several additional significant initiatives. More detail is available in the annexed package.

Transport - Investment to enable rail activities to be funded under the Land Transport Management Act

13. The Minister of Transport has sought an average of [33] million operating per annum to fund this initiative. The vote team has supported an average of [33] million operating per annum.
14. The initiative assumes that \$80 million operating per annum of land transport revenue will be reprioritised to fund network investment while [33] million will come from track user charges. The balance of approximately [33] per annum is being sought from the Crown. This is designed to support the implementation of the new planning and funding framework for rail agreed by Cabinet.
15. The vote team has indicated that while they agree that Crown funding will be required to support National Land Transport Fund (NLTF) investment in rail, the split between Crown funding and land transport revenue is negotiable. The next Government Policy Statement on Land Transport 2021 is currently under development, with Cabinet agreement to proceed to consultation likely to be sought in February or March 2020. While the vote team does not have access to in-depth information about the funding pressures on the NLTF, it considers that further reprioritisation of land transport revenue is possible in order to reduce the funding burden on the Crown.
16. The vote team recommends that you meet the Minister of Transport to discuss options for investment in the rail network between the Crown and land transport revenue and the associated trade-offs.

Police – Next generation critical communications (NGCC)

17. The Minister of Police has sought an annual average of [25] operating per annum to fund this initiative. The vote team has supported an annual average of [25]
18. The vote team considers the main options for further reducing the up-front costs would be to increase the level and bring forward the contribution from Emergency Service agencies. Advice on this has been provided to you ahead of your meeting about the NGCC programme on Tuesday 28 January [T2020/103 refers].

Statistics – Delivering New Zealand's next census of population and dwellings

19. The Minister of Statistics has sought an annual average of \$67 million operating per annum and \$13 million total capital to fund the next census. The vote team has supported \$59 million per annum and \$12 million total capital.
20. The vote team advises the costing model Stats NZ has used is robust and comprehensive. They are also convinced that any level of funding below the minimum viable option carries a substantial risk of unacceptably low response rates for some groups.
21. A portion of this relates to contingency funding. Stats NZ only accurately calculated the level of contingency funding for their preferred option. Stats NZ has agreed to calculate an accurate contingency on the minimum viable option and so the total sought may be revised down.
22. The vote team will provide advice within the next fortnight that outlines different funding options available for the census, outlining any risks these options carry. These could include options around phasing, funding the first years, or placing the majority of census funding in baselines with the additional increments sought in future budgets. The vote team can meet with you next week to discuss potential funding options if preferable.

Defence – Defence Capability Plan 2019 – Contingent funding to support the introduction of new capabilities

23. The Minister of Defence has sought [33] in this initiative to fund 63 projects over the forecast period. This consists of the three prioritised projects seeking capital funding [33] and the other 60 projects requiring operating funding in a tagged contingency, with their capital expenditure to be funded from NZDF's accumulated depreciation reserves.
24. The vote team has indicatively supported \$42 million per annum and \$635 million in total capital, as a minimum recommended option to implement [33]. Operating is primarily to account for the uplift in depreciation and capital charge required for the [33]. The vote team has also recommended that [33] of NZDF's accumulated depreciation is allocated to this project.
25. The three prioritised capability projects [33] are due to be considered by Cabinet in February 2020, and you will be provided with further information ahead of your meeting with Hon Mark on 10 February 2020.

Counter-terrorism related initiatives or initiatives relating to the March 15 Terror Attacks

26. The vote team has provided you with separate advice regarding nine initiatives related to the Government's Counter-Terrorism Strategy and a summary of their assessments (T2019/4155 refers). Although the initial assessments support a significantly scaled amount of funding, none of the initiatives appear to be in response to existing critical capability gaps. Deferral is therefore a possibility, and may be beneficial given the delay of the Royal Commission findings to April 2020, which may have financial implications.

Foreign Affairs/Official Development Assistance

27. The Minister of Foreign Affairs has submitted five initiatives in the new spending – other category, seeking a combined total of \$117 million per annum operating and \$125 million total capital.
28. This includes the 'Increasing New Zealand's International Assistance to Ensure Strong Governance and Inclusive Development' initiative, which seeks \$98 million per annum operating to increase to New Zealand's Official Development Assistance (ODA) to 0.3% of gross national income (GNI). This increase would provide additional funding to progress human rights, effective governance, gender equality, women's empowerment and child and youth wellbeing in Pacific countries that face challenges in these areas.
29. [34]

Recommended Package

30. We have grouped the new spending – other initiatives into three categories: recommended for funding; vote team supported, with discretion over funding; and not recommended for funding.
- a We recommend 24 initiatives totalling \$369 million per annum in operating and \$2 billion in capital for funding in the new spending – other package. This exceeds \$100 million per annum in operating and will put pressure on the remaining funding indications available for priority packages.
- b Vote teams support a further 26 initiatives, with funding supported totalling an additional \$65 million per annum in operating and \$115 million in additional total capital. We have assessed these as lower priority for inclusion in the new spending – other package. However, many of these present a strong case for funding and you may wish to include these in the recommend new spending – other package or revisit these when you receive the five priority aligning packages. We have provided some moderated amounts here for your consideration.

¹ based on 2018 figures, which are the most recently reported figures
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- c We have included a list of initiatives where vote teams did not support any level of funding and can provide further information on these if requested.
31. We recommended funding initiatives based on a high-level assessment of the following criteria:
- the level of discretion available and deferability
 - implementation readiness and clearly articulated outcomes
 - contribution to wellbeing domains and/or value for money
 - clear alignment to an outstanding commitment.
32. We have also considered workforce constraints for initiatives seeking additional policy/engagement staff, which we have applied additional scrutiny to.

Next Steps

33. Coordinating Ministers will submit draft priority-aligning packages on 31 January 2020. Following discussion of these draft packages with Coordinating Ministers we will provide you with advice across all Budget 2020 funding categories (cost pressures, new spending – other, and priority packages). This advice will test a draft package with you to discuss at the Budget Ministers meeting on 18 February 2020.
34. The Treasury will also coordinate advice on significant capital investments sought through Budget 2020 to consider alongside the draft package. This will include additional information and assessment regarding the relative attractiveness of significant investments and high-level commentary regarding both the market and agencies' assessed capacity to deliver investments.

Additional Detail Regarding Disability, Health and Social Sector Funding

[33]

Health funding

38. Table 5 below compares the flat-lined 2020/21 pressure submitted through Budget 2020 with the projected rising profile calculated by the Ministry of Health.

Table 5 – Health cost pressure funding amount and Ministry of Health funding profile

[33]