

The Treasury

Budget 2016 Information Release

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[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
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[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
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[s18(c)(i)]	that the making available of the information requested would be contrary to the provisions of a specified enactment	
[40]	Not in scope	

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Chair
Cabinet

BUDGET 2016

Proposal

1. This paper seeks approval of the Budget 2016 package.

Executive Summary

2. Budget 2016 is being prepared against a backdrop of a growing economy, supported by strong levels of tourism and migration, a large pipeline of construction projects and low interest rates. The economy has strengthened since the Half Year Update and Treasury forecast economic growth to be around 3 per cent in each of the next three years.
3. The strengthening in the economy, together with prudent fiscal management, helps us stay on track to achieve our fiscal priorities. Forecasts of the operating balance before gains and losses (OBEGAL) are broadly in balance over the next three years, before surpluses rise. This sees net core Crown debt as a share of GDP peak at just below 27 per cent next year and reduce to our target of around 20 per cent by 2020.
4. Achieving our fiscal priorities will require ongoing restraint and a continued focus on getting better results for New Zealanders. A portion of spending has been brought forward into Budget 2016 to help key public services cope with stronger-than-expected population growth, and to invest in productivity-enhancing initiatives in areas such as tax and innovation. The operating allowance is now \$1.7 billion for Budget 2016, which is more than offset by a reduction in the Budget 2017 allowance to \$1.5 billion. More money is therefore available to pay off debt and achieve the Government's net debt objective. These allowances are broadly appropriate at this point in the economic cycle and given the risks to the global economy.

Table 1: New operating spending, savings and revenue in Budget 2016

	\$ million increase / (decrease)						
	2015/16	2016/17	2017/18	2018/19	2019/20	Total	Average
New spending	221	1,903	2,042	1,875	1,860	7,902	1,975
Savings/revenue	(19)	(82)	(235)	(360)	(467)	(1,163)	(291)
Net spending	202	1,820	1,808	1,515	1,393	6,739	1,685

5. The outlook for economic growth and investment is positive, but New Zealand's productivity growth remains relatively weak. Budget 2016 includes initiatives to improve the economic environment for businesses and support improved productivity. The centrepiece of this is an innovation package, which includes a set of science and innovation, and tertiary education initiatives focused on achieving a more diversified high-wage economy. It will help develop people with the skills they need to thrive in a successful and innovative New Zealand economy, as well as regional development initiatives that will ensure targeted investment and growth around the country. As already announced, an SME-friendly business tax package will make paying tax easier and more certain, reduce the burden of interest and penalties, and help smaller businesses tailor payments to their own circumstances.
6. Investing in core public infrastructure is another key focus of Budget 2016. The Budget provides \$2.6 billion gross of new capital investment. This includes Inland Revenue's Business Transformation, the School Property Programme, Regional Roads, [33]
[33] It also provides the last major tranche of funding to support the rebuilding of Christchurch as we move from recovery to regeneration. This Budget sees the final allocation of spending from the Future Investment Fund, which used the proceeds from the Government Share Offers. As part of our balance sheet strategy, existing capital has been reprioritised so that the new spend fits within our capital allowance.
7. The Budget provides for a significant package of social investment initiatives, which underwent detailed modelling to show how they will assist vulnerable people to change their lives and become more independent. The key initiative is a significant investment to begin the implementation of system-wide reform and investment in services and support provided to New Zealand's vulnerable children, young people and their families, following the Expert Advisory Panel report. Other initiatives include, among others, further investment in Better Public Services Result Area 1, Navigation Services for Short-Serving Prisoners and increased support for students with special educational needs. These initiatives apply rigorous and evidence-based investment practices to social services.
8. We have established two contingencies to help further support work that underpins the social investment approach. These contingencies are:
 - a. investment in data and analytics across Government; and
 - b. three place-based approaches in South Auckland, Northland / Te Tai Tokerau and Gisborne / Tairāwhiti.
9. Lastly, the Budget provides for significant new investment in the Health sector of \$2.2 billion over the next four years, alongside other key public services. The Budget delivers quality investment in a range of core public services, including education, social development, social housing, the justice sector, and defence and security. This package addresses strong population growth and other drivers of service demand that we have seen over the last 12 months.

Table 2: Operating spending in Budget 2016

\$ million	2015/16	2016/17	2017/18	2018/19	2019/20	Total	Average
Business Growth Agenda	21	369	341	291	355	1,377	344
Health	3	561	551	547	538	2,200	550
Education	78	126	124	156	271	755	189
Social Development	2	135	141	132	133	543	136
Social Housing	-	47	87	109	73	316	79
Justice Sector & Police	65	226	283	238	235	1,046	261
Defence	-	44	102	102	102	350	87
Communications Security & Intelligence	-	31	44	70	54	199	50
Other	51	296	301	168	36	852	213
Contingency	-	69	69	63	63	264	66
Total spending	221	1,903	2,042	1,875	1,860	7,902	1,975

Table 3: Capital spending in Budget 2016

	\$ million increase / (decrease)
Investments agreed before Budget 2016, including <ul style="list-style-type: none"> • Business Transformation (\$354 million) • KiwiRail (\$190 million) • Education PPP2 schools (\$152 million) • [38] • [33] 	[33, 38]
Education, including <ul style="list-style-type: none"> • Education PPP3 schools • School Property Programme • Christchurch Schools Rebuild • Online Teacher Registration Service [33]	579
Accelerated Regional Road Package Tranche 2	115
Unifying the NZ Fire Services	112
Building and housing – Auckland Vacant or Underutilised Land Programme	100
Other Investments	266
Gross Budget 2016 Capital Spend	2,604
Budget 2016 Capital Savings	(1,215)
Net Budget 2016 Capital Spend	1,389

Economic and Fiscal Context

The New Zealand economy has strengthened, despite global headwinds

- Budget 2016 is being prepared against a backdrop of a growing economy, supported by strong levels of tourism and migration, a large pipeline of construction projects and low interest rates. Households continue to benefit from solid real wage growth, with inflation low at 0.4 per cent in the year to March 2016. These factors have been able to offset the tough conditions in the dairy sector, where prices are expected to remain at relatively low levels for some time.
- Real GDP growth of around 3 per cent is forecast over the next three years, which is expected to reduce the unemployment rate to below 5 per cent by mid-2018. Inflation is forecast to remain low over the rest of this year, before reaching 2 per cent by the end of 2017, in part owing to a lower-for-longer outlook for interest rates. Following a reduction in the Official Cash Rate in March and another reduction expected, interest rates are likely to remain low over 2016 and 2017.

Figure 1: Real GDP

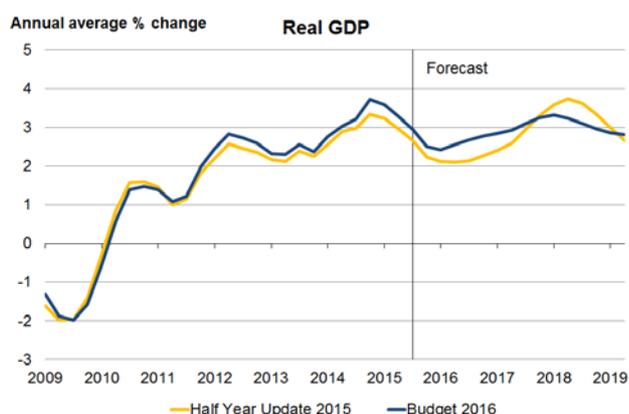
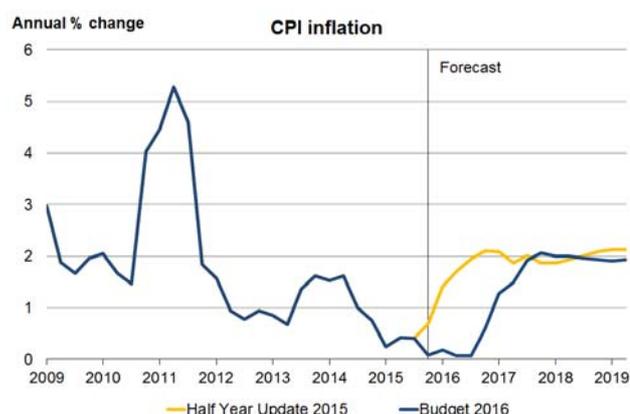


Figure 2: CPI inflation



- Forecast nominal GDP, which is a key driver of tax revenue, has been revised up by a cumulative \$17 billion over the five years to June 2020 compared with the Half Year Update. With actual and forecast inflation lower than previously, this revision reflects stronger real activity over the current fiscal year.
- However, global trading conditions will remain challenging. The outlook for trading partner growth has deteriorated since the Half Year Update in December, primarily due to weaker growth in China and other Asian economies. There are ongoing questions about the sustainability of China's transition to consumption and service sector-led growth, and many countries are struggling to exit the low growth, low inflation path they have experienced since the global financial crisis. If there were to be another downshift in growth, these countries have little room to reduce interest rates in response.

The fiscal outlook shows we are on track to achieve our priorities

- The upward revision to nominal GDP means revenue is now expected to increase at a slightly faster pace than was previously forecast. Core Crown expenses are forecast to rise in dollar terms, but fall as a share of GDP from 33.8 per cent of GDP in 2008/09 to 29.6 per cent of GDP in 2017/18. These tracks lead to growing operating surpluses. Forecasts show

the OBEGAL broadly in balance over the next few years, before rising from 2018/19 (Figure 3).

15. Net debt is expected to peak at 26.8 per cent of GDP next year, then gradually decline to 21.0 per cent of GDP in 2020/21, better than in the Half Year Update (Figure 4). Figures 3 and 4 show the preliminary fiscal forecasts for Budget 2016 – the final fiscal forecasts are likely to be slightly more positive.

Figure 3: Total Crown OBEGAL (preliminary Budget forecasts)

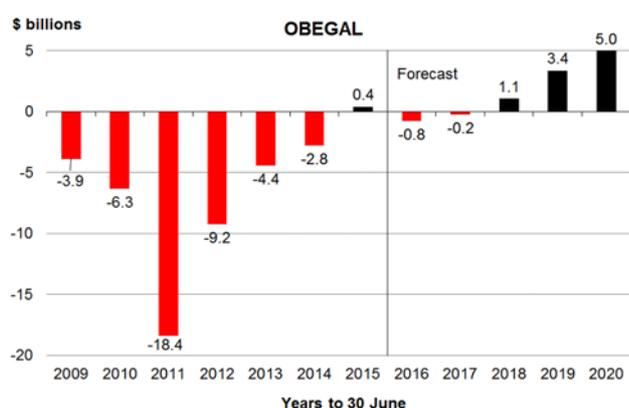
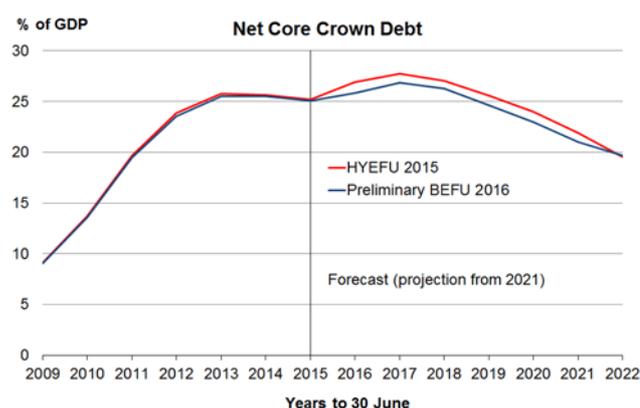


Figure 4: Net Core Crown debt (preliminary Budget forecasts)



16. Having achieved our previous objective of returning to surplus in 2014/15, the Government's key long-term fiscal anchor is to have net core Crown debt below 20 per cent of GDP. This level of debt would put New Zealand in a good position to cope with economic shocks or natural disasters, and maintains credibility with international lenders. To deliver this we need to ensure government spending is kept to a moderate level and operating and cash surpluses are generated. Spending restraint also means we are not placing excessive demands on taxpayers and allows room for the internationally competitive sectors of the economy to grow.

17. Consistent with our long-term fiscal objectives, the Government's fiscal priorities for the next five years are:

- a. maintaining rising OBEGAL surpluses so that cash surpluses are generated and net debt reduces to around 20 per cent of GDP in 2020
- b. reducing core Crown expenses below 30 per cent of GDP
- c. if economic and fiscal conditions allow, beginning to reduce income taxes, and
- d. using any further fiscal headroom – including from positive revenue surprises – to reduce net debt faster.

18. Overall, the preliminary Budget forecasts imply a greater likelihood of the Government achieving its fiscal priorities in the desired timeframes than was anticipated in December. Nevertheless, fiscal headroom remains limited and considerable uncertainty remains around these forecasts. Moreover, eight years on from the global financial crisis and five years after the Christchurch earthquakes, OBEGAL has only just returned to broad balance, the Government is running cash deficits, and net debt is still rising as a share of GDP.

19. Operating allowances have been changed from the *Budget Policy Statement*. A portion of spending has been brought forward into Budget 2016 to help key public services cope with stronger-than-expected population growth, and to invest in productivity-enhancing initiatives in areas such as tax and innovation. The operating allowance is now \$1.7 billion in Budget 2016 and \$1.5 billion in Budget 2017, thereafter rising by 2 per cent each Budget. These allowances remain well below those adopted in the mid-2000s and confirm our commitment to fiscal restraint. The change in operating allowances frees up around \$300 million per annum from the overall envelope previously signalled for Budgets 2016-2017, which will be used to ensure net core Crown debt is reduced to around 20 per cent of GDP in 2020.

Continued focus on capital investment and the Crown balance sheet

20. If the Crown's balance sheet is strong, governments can meet financial requirements over time without needing significant changes to existing tax and spending policies, even in the face of significant shocks.
21. We are continuing to strengthen the Crown's balance sheet through effectively and efficiently managing our assets and liabilities, including using private sector capital and disciplines where appropriate, getting better performance from Crown-owned entities and reprioritising capital spending to higher-value uses. We are implementing new requirements on agencies to improve capital management, such as Investor Confidence Ratings and Long-term Investment Plans.
22. In December 2015, Cabinet agreed to increase the allowance for capital expenditure in Budget 2016 by \$1 billion to provide room for high-value investments [CAB-15-MIN-0294]. Cabinet also noted that I would examine options through Budget 2016 to reprioritise existing capital to cover at least some of this increased investment. In this Budget, we have recycled around \$1.2 billion of capital to re-invest into core public infrastructure rather than taking on more debt. This has enabled us to live within our capital allowance.

Budget 2016 Package

23. Budget 2016 provides for four key packages of new spending:
 - a. Business package to build a more productive and competitive economy;
 - b. Investing in core public infrastructure;
 - c. Social investment for vulnerable people; and
 - d. Investment in Health, alongside other key public services.

Each package is described below.

Business package to build a more productive and competitive economy

24. The outlook for economy growth and investment are positive, but New Zealand's productivity growth remains relatively weak. Budget 2016 includes initiatives to improve the economic environment for businesses and support improved productivity. The innovation package

includes a set of initiatives that focuses on achieving a more diversified high-wage economy. It includes initiatives that will develop people with the skills they need to thrive in a successful and innovative New Zealand economy, as well as regional development initiatives that will ensure investment and growth around the country. Within science and innovation, there is \$373.8 million of additional investment over the next four years in the Marsden Fund, the Health Research Council, the Catalyst Fund, the Endeavour Fund, the Māori Innovation Fund, the Pre-Accelerator Fund and Accelerator Programme, as well as establishing a new fund for Strategic Science Investment.

25. As announced by the Prime Minister on 13 April, the Budget package includes \$185 million of new operating funding over four years for a SME-friendly tax package. This package will make paying tax easier and more certain, reduce the burden of interest and penalties, and help smaller businesses tailor payments to their own circumstances.

26. In addition, the Budget also confirms:

a. Pest Eradication: \$69.8 million over four years to eliminate Bovine Tuberculosis, \$16 million over four years to protect farmland, biodiversity and iconic landscapes from invasive wildling conifers; \$20.7 million in 2015/16 for Battle for our Birds which provides additional pest control in response to beech mast flowering; [33]

[33]

b. Regional Development: \$44 million over four years for the Regional Economic Development fund; \$2.4 million in 2016/17 for the Opotiki Harbour Development; \$12 million over four years for Regional Tourism Mid-Sized Facilities Grant and \$25 million for the Nga Haerenga portion of the New Zealand Cycle Trial.

c. Export Markets: \$52 million over four years for improving efficiency and effectiveness of the border sector, including the modernisation of the New Zealand Customs Service workforce.

d. Housing: \$100 million capital for the Auckland Vacant or Underutilised Crown Land Programme, and \$28 million over four years for large scale redevelopments as part of the broader social housing reform programme.

Investing in core public infrastructure

27. Budget 2016 includes a significant investment in our core infrastructure, including allocating \$2.6 billion of capital funding. This includes:

a. \$731 million of capital to provide new schools and classrooms;

b. \$354 million of capital (with operating of \$44 million in 2015/16 and \$487 million over the next four years) to invest in Inland Revenue's future revenue system;

[33]

d. \$190 million of capital for KiwiRail in 2016/17;

[33]

f. \$115 million of capital for tranche 2 of the accelerated regional road package;

- g. \$112 million repayable capital injection for the unification of rural fire services with the New Zealand Fire Service;
 - h. Up to \$24 million of capital to provide a safer working environment in our WINZ offices;
 - i. [33, 38]
 - j.
28. Budget 2016 also commits the last major tranche of funding to support the rebuilding of Christchurch as we move from recovery to regeneration. [33, 38]
[33, 38]

Social investment for vulnerable people

29. Budget 2016 continues to support our programme of social investment. Social investment is about improving the lives of New Zealanders by applying rigorous, evidence-based investment practices to social services, allowing better decision-making about which services deliver better results for targeted groups of people. As part of this, many initiatives considered in Budget 2016 underwent detailed cost-benefit modelling (CBAX) and external moderation to demonstrate the impact they would have in assisting vulnerable people to change their lives and become more independent.
30. There has been substantial investment in system-wide reform of the services and support provided to New Zealand's vulnerable children. Social investment initiatives in Budget 2016 include:
- a. \$168.4 million to begin the implementation of system-wide reform and investment in services and support provided to New Zealand's vulnerable children, young people and their families. The investment will deliver the initial components of system-wide reform as advised by the Expert Advisory Panel.
 - b. An additional \$50.3 million over four years for Better Public Services Result Area 1. This includes a number of components such as "\$3k to Christchurch" and active case management, packages of care through District Health Boards, and supporting ex-offenders into employment.
 - c. \$20 million over four years for Out-of-Gate Navigation Services for Short-Serving Prisoners. This is a provision of support to short-serving prisoners to help them reintegrate with their community by identifying basic needs such as accommodation and employment, and then navigating them to appropriate community-based services.
 - d. \$15.3 million over four years for increased support for students with special educational needs. This support enables the teacher to personalise class programmes to lift achievement of these students.

Place-based Approaches

31. Cabinet has considered three place-based approaches in South Auckland, Northland / Te Tai Tokerau and Gisborne / Tairāwhiti. Each of these intend to report back in July with a more detailed proposal including funding requirements. Alongside this, the Social Investment Unit will prepare a proposal for establishing an overarching function that looks across all place-based approaches and ensures these are set up and functioning to be successful, and we learn from what works and address what doesn't. It is proposed that a contingency be established which will fund the regional and national support functions required to ensure these place-based approaches are successful.

Data and Analytics

32. There will be further work across Government on data and analytics to underpin the social investment approach. Over the next two months, the cross-agency Information Group has been tasked with developing a system strategy to address the problem of agencies frequently dealing with the same people in a disconnected or uncoordinated way. Budget 2016 sets aside a contingency which will look to fund investment-ready initiatives that support sharing, within and outside the public service where appropriate, of operational and identified data. Any call on the contingency must be consistent with the system strategy.

Investment in Health package

33. Budget 2016 includes further significant increases to health spending. The package includes \$2.2 billion of new health operating funding over the next four years, including:
 - a. \$1.6 billion over four years for District Health Boards to manage demographic, cost and volume increases;
 - b. \$124 million for PHARMAC, which takes their 2016/17 funding to \$850 million, to enable investment in additional pharmaceuticals;
 - c. \$96 million over four years for an additional 2,000 elective surgeries per year (with a further 2,000 funded per year from the new funding to DHBs);
 - d. \$39 million to implement national bowel screening for 60-74 year olds.

Other Budget 2016 initiatives

34. Alongside these four main packages, Budget 2016 also provides for quality investment to deliver better public services. This covers a range of public services across government, including education, social development, social housing, justice sector, and defence and security. The Budget addresses strong population growth and other drivers of service demand.

Justice Sector and Police

35. Budget 2016 provides for significant increases for the Justice Sector. This is driven by several large volume and price pressures facing the sector, rather than major new policy

initiatives. The package includes \$980.7 million of operating funding over the next four years, including:

- a. \$232.4 million for the Ministry of Justice. Largely this will address legal aid demand pressures, the cost associated with the Christchurch Justice and Emergency Precinct and a number of other smaller initiatives such as Community Law Centres and Investing in Public Defence Services.
- b. \$491.2 million for the Department of Corrections, largely to address growth in the prison population above the rate projected by the Justice Sector Forecast and a number of other initiatives including the Mt Eden Facility.
- c. \$230.7 million for police wages.

Education

36. Budget 2016 provides for \$677.2 million over four years to fund increased costs within Vote Education. This includes \$437.7 million for demand pressures, particularly for Early Childhood Education. The package also includes \$43.1 million over four years for an operational grant targeted at children most at risk and ^[38] new partnership schools. There will be additional capital investment of \$731 million and \$141.2 million of operating funding over four years to provide new schools and classrooms.

Social Development

37. Budget 2016 provides significant investment of \$540.9 million over four years for Vote Social Development. This includes \$144.8 million over four years to provide for on-going Child, Youth and Family (CYF) cost pressures associated with policy changes, inflationary pressures on personnel costs and increasing client demand.
38. Budget 2016 also funds other priority areas in Social Development, including additional funding for Family Violence Response Coordination as well as other smaller targeted initiatives to help New Zealand's most vulnerable.

Social Housing

39. Budget 2016 allocates \$316.2 million over the next four years towards implementing the Government's Social Housing Reform Programme (SHRP). The SHRP is a series of cross-agency initiatives that will, over time, transform how social housing is provided, contribute to the supply of more social and affordable housing and improve the lives of vulnerable New Zealanders. The operating funding includes:
 - a. \$200 million for additional income-related rent subsidy payments. This funding will address cost pressures in the current Income-Related Rent Subsidy appropriation related to increased rents, as well as covering costs related to the redeveloped social housing places in Tamaki, and additional social housing places in Auckland.

- b. \$66.2 million for MSD to develop a long-term social housing purchasing strategy and implement other initiatives such as progressing a social housing liability valuation and reviewing the needs assessment model.
- c. \$41.1 million for emergency housing places in areas of high demand. It will also establish an Emergency Housing Special Needs Grant to meet the emergency housing needs of individuals and families.

Defence and Security

- 40. Budget 2016 provides ^[33] of operating funding over the next four years and ^[33] of capital for Communications Security & Intelligence, and Defence. This includes the third tranche of funding for the Defence Mid-point Rebalancing Review to maintain combat resource and border protection capabilities.

Other Initiatives

- 41. An increase of \$67 million over the next four years as well as \$11.6 million capital for a number of initiatives in Vote Internal Affairs including a core trusted Government domain, increased funding to the Local Government Commission, the response to the Smith/Traynor Inquiry, maintenance of the Waitangi Wharf, and a Crown contribution to the Fire Service.
- 42. This Budget delivers \$11.6 million for a Performing Arts Package over the next four years, with \$4.8 million for the New Zealand Symphony Orchestra, \$4 million for the Royal New Zealand Ballet, and \$2.8 million to consolidate and grow the reach and impact of kapa haka.

Savings to fund higher-priority spending

- 43. As we have done over the past seven years, Budget 2016 includes a significant amount of savings and revenue initiatives to fund new spending in higher-priority areas, as listed below. This includes a total of \$425 million over four years from increasing tobacco excise and \$326 million over four years from the removal of the Emission Trading Scheme one-for-two surrender obligation.

Table 4: Savings and Revenue in Budget 2016

	\$ million increase / (decrease)					
	2015/16	2016/17	2017/18	2018/19	2019/20	Total
Increases to Tobacco Excise and Excise Equivalent Duties (Four annual increases of 10% from January 2017)	-	(5)	(70)	(139)	(211)	(425)
Proposed GST Rules for Cross-Border Services and Intangibles	-	(30)	(40)	(40)	(40)	(150)
Emissions Trading Scheme – Removal of One for Two From January 2017	-	(23)	(67)	(108)	(128)	(326)
Non Resident Withholding Tax (closing loopholes)	-	(7)	(21)	(37)	(51)	(116)
Returning Canterbury Underspends	(3)	(2)	(18)	(19)	(20)	(62)
Expired Contingencies	(16)	(16)	(18)	(17)	(17)	(84)
Total	(19)	(82)	(235)	(360)	(467)	(1,163)

44. We will continue to focus on driving the best value from existing spending as we move towards embedding an investment approach for Budgets 2017 and beyond. This will provide better information on returns on investment, to support Ministers in making spending choices and apply these tools to baseline spending.
45. As noted above, approximately \$1.2 billion of capital savings have been found to reprioritise into core public infrastructure rather than taking on more debt. These savings include \$490 million from the early repayment of Auckland Council loans, [38] and \$112 million from higher Fire Service Levies, offsetting the impact of the capital injection into the Fire Service.

Contingencies for Between Budget Spending

46. The Budget package includes a contingency for between-Budget operating spending of up to \$50 million a year. There will also be a limit of \$200 million on the amount of the capital allowance available for allocation between Budgets.
47. In line with Cabinet Office guidelines, Ministers should only seek funding from the between-Budget contingency for urgent issues that cannot be deferred to Budget 2017. Such proposals should demonstrate that the initiative cannot be funded through reprioritisation of lower value activities and cannot be deferred until the next Budget. Proposals should not be submitted if the initiative could reasonably have been considered in this Budget, or was previously considered and declined.

48. Additional funding has been set aside in the Emerging Priorities Contingency, bringing the annual amount available for priority initiatives that arise between-Budgets to \$10 million in 2016/17 and 2017/18.

Moratorium on Papers with Financial Implications

49. Once the Budget 2016 package has been agreed by Cabinet, production of the Budget documents must be completed. In order to ensure that the documentation tabled in the House of Representatives on Budget Day is accurate, Ministers should not submit papers that have fiscal and/or appropriation implications for agreement by Cabinet Committees or Cabinet between now and Thursday 26 May 2016.

Consultation

50. This paper was prepared by the Treasury. The Budget package has been developed in line with the overall strategy agreed by Cabinet in September 2015 (CAB Min (15) 0078 refers), submissions in Four-year Plans, separate Cabinet consideration of some proposals, and a series of meetings between Ministers. The package was confirmed by Budget Ministers in a meeting on Monday 11 April.

Legislative Implications

51. The Appropriation (2016/17 Estimates) Bill, the Appropriation (2015/16 Supplementary Estimates) Bill, the Imprest Supply (First for 2016/17) Bill and the Imprest Supply (Second for 2016/17) Bill will give effect to Budget 2016.
52. Legislation will be required to effect the increase in Tobacco Excise and Excise Equivalent Duties and exclusion of tobacco from CPI adjustments to welfare payments. Parliamentary Counsel have been consulted. No slot on the legislative timetable has been agreed yet.

Regulatory Impact Analysis

53. The Regulatory Impact Analysis (RIA) requirements apply to the proposal to increase Tobacco Excise and Excise Equivalent Duties and a Regulatory Impact Statement (RIS) has been prepared and is attached.
54. The Regulatory Impact Analysis Team (RIAT) has reviewed the RIS prepared by Treasury and associated supporting material, and considers that the information and analysis summarised in the RIS meets the quality assurance criteria.
55. The RIS would benefit from empirical evidence on the impact of past excise changes to New Zealand smokers' behaviour as opposed to relying on overseas studies.

Publicity

56. Budget Day is Thursday 26 May. The Office of the Minister of Finance coordinates all communications relating to Budget 2016, including requests for early announcements. Written approval from the Prime Minister and me is required for any early announcements.

Recommendations

57. I recommend that Cabinet:

1. **note** that on 11 April 2016, Cabinet agreed to the technical Budget initiatives for Budget 2016 [*CAB Paper: 2016 Budget Technical Financial Recommendations*];
2. **note** that the economic outlook is positive and the Government's fiscal priorities are on track;
3. **note** that Budget 2016 will continue to help achieve the Government's four key priorities:
 - 3.1 responsibly managing the Government's finances;
 - 3.2 building a more productive and competitive economy;
 - 3.3 better public services; and
 - 3.4 rebuilding Christchurch;

Fiscal Strategy

4. **note** that the Government's fiscal strategy puts greater emphasis on a medium-term approach to fiscal management;
5. **agree** on these short-term fiscal priorities for the next five years:
 - 5.1 maintaining rising OBEGAL surpluses so that cash surpluses are generated and net debt reduces to around 20 per cent of GDP in 2020;
 - 5.2 reducing core Crown expenses below 30 per cent of GDP;
 - 5.3 if economic and fiscal conditions allow, beginning to reduce income taxes; and
 - 5.4 using any further fiscal headroom – including from positive revenue surprises – to reduce net debt faster.
6. **authorise** the Minister of Finance to finalise the fiscal priorities for inclusion into the Fiscal Strategy Report;
7. **agree** to rephase the operating allowances to \$1.7 billion in Budget 2016 and \$1.5 billion in Budget 2017 in order to meet spending priorities;

Budget 2016 Package

8. **note** Budget 2016 provides for four key packages of new spending:
 - 8.1 Business package to build a more productive and competitive economy;
 - 8.2 Investing in core public infrastructure;
 - 8.3 Social investment for vulnerable people; and
 - 8.4 Investment in Health, alongside other key public services;
9. **note** that new operating spending proposals in Budget 2016 have been partially offset by savings and revenue initiatives, resulting in a net increase in spending of \$1.7 billion a year on average over the forecast period;
10. **note** that gross new capital investment to be announced at Budget 2016 totals \$2.6 billion, including \$1.1 billion previously agreed by Cabinet;
11. **note** that new capital spending is largely offset by reprioritising existing capital from the balance sheet, including the final tranche of spending from the Future Investment Fund;
12. **agree** to the initiatives for Budget 2016 as set out in the financial recommendations accompanying this paper;
13. **agree** to increase Tobacco Excise and Excise Equivalent Duties by CPI+10% each January for four years beginning in January 2017 and exclude tobacco from CPI adjustments to welfare payments;
14. **agree** that expenses or capital expenditure against appropriations and capital injection authorisations set out in the 2016/17 Estimates and being sought in that Bill may be met from Imprest Supply until the Appropriation (2016/17 Estimates) Bill is enacted;
15. **authorise** the Minister of Finance and relevant Appropriation Ministers to approve changes to initiatives and appropriations where this proves necessary to finalise the 2016 Budget package;
16. [33]
17. **authorise** the Prime Minister, the Minister of Finance and the responsible Minister to draw down on this contingency;
18. **note** that where proposals require significant policy decisions, Cabinet agreement will still be required;

19. **agree** to establish a Data and Analytics contingency of ^[33] annum and \$10 million capital;
20. **agree** that any proposals seeking funding from the Data and Analytics contingency demonstrate consistency with the strategy currently under development by the cross-agency Information Group;
21. **agree** that any draw down on the Data and Analytics contingency will be subject to Cabinet approval;
22. **agree** to establish a Place-based Approach contingency ^[33] 2016/17 and \$5 million in 2017/18 and outyears;
23. **note** that funding for initiatives agreed as tagged contingencies will expire on 1 February 2017 unless otherwise stated;

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24. **agree** to a between-Budget contingency of \$50 million per annum for operating expenditure and a limit of \$200 million on the amount of the capital allowance available for allocation between Budgets;
25. **agree** that:
 - 25.1 proposals for funding from the between-Budget contingencies must be for urgent issues that cannot be deferred to Budget 2017; and
 - 25.2 Ministers will be expected to demonstrate that they have exhausted their search for opportunities to fund the initiative through reprioritisation of lower value activities;
26. **agree** that no papers with fiscal and/or appropriation implications for agreement by Cabinet or Cabinet committees be submitted between 25 April 2016 and 26 May 2016 so that Budget documentation is accurate;
27. **note** that all communications relating to Budget 2016 are coordinated by a Budget communications committee, and that any requests for early announcement will need to have both the written approval of the Minister of Finance and sign-off from the Prime Minister's office; and

28. **invite** the Minister of Finance to introduce the Appropriation (2016/17 Estimates) Bill, the Appropriation (2015/16 Supplementary Estimates) Bill, the Imprest Supply (First for 2016/17) Bill and the Imprest Supply (Second for 2016/17) Bill to give effect to Budget 2016.

Hon Bill English
Minister of Finance

Date: 21 April 2016