

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: Budget 2020 Bilateral with Minister Salesa

Date:	11 November 2019	Report No:	T2019/3534
		File Number:	SH-18-2-9 (Housing and Urban Development)

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Note the contents of this report	None
Associate Minister of Finance (Hon Dr David Clark)	Discuss the contents of this report with Minister Salesa at your bilateral on 14 November 2019	4:30pm, 14 November 2019

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Gabrielle Groube	Analyst, Housing and Urban Growth	[39]	N/A (mob) ✓
Geraldine Treacher	Manager, Housing and Urban Growth	[23]	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Minister Salesa bilateral

Executive Summary

This report provides background information and talking points for your Budget 2020 bilateral discussion with Minister Salesa at 4:30pm on Thursday 14 November. The purpose of the bilateral is to discuss cost pressure bids and progress reporting in the Building and Construction, Ethnic Communities, and Customs portfolios.

Recommended Action

We recommend you **read** this report and attached material prior to your Budget 2020 bilateral discussion with Hon Jenny Salesa at 4:30pm on Thursday 14 November 2019.

Geraldine Treacher
Manager, Housing and Urban Growth

Hon Dr David Clark
Associate Minister of Finance

Treasury Report: Minister Salesa bilateral

Purpose of Report

1. The purpose of this report is to provide background information and advice for your Budget 2020 bilateral discussion with Minister Salesa at 4:30pm on Thursday 14 November 2019, regarding the Building and Construction, Ethnic Communities and Customs portfolios.
2. This report provides:
 - a Context on existing funding, including funding received in recent Budgets; and
 - b An overview of cost pressures submitted for Budget 2020.
3. Attached to this report are three annexes:
 - a Annex A provides talking points for your bilateral discussion.
 - b Annex B notes there are no cost pressure initiatives submitted in the Building and Construction, Ethnic Communities, and Customs portfolios.
 - c Annex C notes the single Customs initiatives selected for your request to Minister Salesa on how they are delivering on past Budget commitments. We have attached a copy of the Minister's progress reporting.

Building and Construction

Building and Construction Context and Cost Pressures

4. Building and Construction's annual operating expenditure is \$107.438 million. The annual capital expenditure is \$5.000 million.
5. Total baseline uplift over the last two Budgets by Vote is summarised in the below table. The volatility is mainly due to KiwiBuild funding going into the Vote and then being moved to Vote Housing and Urban Development, as well as the transfer of other funding to Vote Housing and Urban Development upon the establishment of the Ministry of Housing and Urban Development on 1 October 2018. Vote Building and Construction also includes funding for the Housing and Greater Christchurch Regeneration portfolios.

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	\$260.984	
Budget 2018	\$740.041	183.560%
Budget 2019	\$102.893	(86.100)%

6. A large amount of funding in Vote Building and Construction (\$27.804 million in 2019/20) is raised by the Building Levy. A legislative amendment is planned to expand the scope of the purpose of the levy, and therefore what the levy can be used to fund.
7. Minister Salesa did not submit any cost pressure bids in the Building and Construction portfolio.
8. At the bilateral Minister Salesa may want to discuss a Cabinet paper she intends to bring shortly seeking between-Budget contingency or Budget 2020 pre-commitment funding for the Construction Accord. This paper is being submitted now because funding to continue work on the Accord will be exhausted before Budget 2020, so a decision on further funding options or delaying and deprioritising Accord work is required ahead of Budget 2020 decisions.
9. We have advised Minister Salesa's officials that while the Treasury supports the Construction Accord as a work programme, we do not support this paper's funding request because it does not meet the criteria the Minister of Finance has set regarding requests to draw down the between-Budget contingency or pre-commit against Budget 2020. It does not meet the criteria because [33]

Following Budget 2019, the Ministry of Business, Innovation and Employment started Construction Accord work through reprioritising baseline funding from the "Weathertight Services" appropriation, but has recently discovered this will not be sufficient to fund the Accord until Budget 2020 decisions are made.

10. Note the "Weathertight Services" appropriation is often underspent; these underspends are used to meet funding gaps in other initiatives and appropriations such as the Construction Accord. This raises a potential future funding gap, as some significant weathertight claims may be filed in the near future. If these are filed they will significantly draw on the appropriation. Given the uncertain timing and frequent shifting of underspends, a proposal to change the appropriation into a multi-year appropriation was submitted to the Minister of Finance earlier this year. This proposal was not agreed due to transparency concerns. We do not recommend funding the Construction Accord through further "Weathertight Services" funding until there is certainty about whether there will be future significant funding draws on the appropriation.

Ethnic Communities

Ethnic Communities portfolio context

11. The Ethnic Communities portfolio is one of seven portfolios supported by the Department of Internal Affairs (DIA), within Vote Internal Affairs.¹ Minister Salesa has not submitted any cost pressure initiatives for Budget 2020, and wider Vote Internal Affairs cost pressure initiatives do not directly impact on the Ethnic Communities portfolio. We also understand that the Minister does not intend to submit any new spending initiatives for Budget 2020.
12. The Minister is responsible for an appropriation totalling \$0.520 million in 2019/20 for grants to assist ethnically diverse communities to participate in New Zealand society (via the Ethnic Communities Development Fund). The Office of Ethnic Communities is a business unit within DIA that provides the Minister with advice on policy and community engagement, and is responsible for the Ethnic Communities Development

¹ The other portfolios are Internal Affairs, Local Government, Government Digital Services, Community and Voluntary Sector, Ministerial Services and Racing.

Fund. Funding for the office totals \$6.332 million in 2019/20, provided via a category in an appropriation under the responsibility of the Minister for the Community and Voluntary Sector. All Ethnic Communities-related appropriations are funded through revenue Crown.

13. The key issues within the Ethnic Communities portfolio relate to the Government response to the 15 March terror attacks:
 - a In the immediate aftermath of the attacks, the Office of Ethnic Communities received additional operating funding of \$11.241 million over the forecast period (\$1.797 million from the between-Budget contingency and \$9.444 million through Budget 2019) to employ frontline community engagement staff in Christchurch and around the country, and to provide for additional grants funding.
 - b Through the recent 15 March terror attacks additional funding process, Cabinet agreed to set aside a tagged contingency of up to \$16 million operating funding over the forecast period to increase the Ethnic Communities Development Fund, subject to a review of the Fund's parameters. This review has now been completed and we expect this funding to be drawn-down in the near future.
 - c In response to feedback from ethnically diverse communities regarding the leadership and profile of the Office of Ethnic Communities, ^[33]

Customs

Customs Context

14. The New Zealand Customs Service is funded through Crown and third party revenue. The majority of funding comes through fees for cost recovery, with Crown funding making up just over a third of Customs' baseline. No cost pressures initiatives have been submitted for the Customs portfolio.
15. As at the 2019 October Baseline Update, budgeted operating expenses for the Customs portfolio for 2019/20 total \$231 million. Of these, \$223 million are departmental and \$8 million non-departmental.
16. Most (\$182 million) of the departmental operating expenses relate to Customs' clearance and enforcement operations. The balance comprises revenue collection, intelligence services, policy advice, and ministerial servicing. Non-departmental operating expenses almost wholly comprise a technical item to account for change in the doubtful debt provision.
17. The total baseline change over the last two Budgets for the Customs portfolio is summarised in the table below:

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	216.340	
Budget 2018	235.131	9.000
Budget 2019	249.143	6.000

18. The increase in Budget 2018 mainly reflected new Crown funding for the initiative “Drug Smuggling Networks - Strategic Disruption”. The increase in Budget 2019 mainly reflected new Crown funding for combating the sexual exploitation of children across our cyber border and an increase in levy-funded border clearance activity.
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Annex A: Talking points for your bilateral with Minister Salesa

You may want to discuss the clear expectations the Minister of Finance and Cabinet have set around seeking funding outside the Budget process. Minister Salesa has two upcoming Cabinet papers in the Building and Construction and Customs portfolios which do not meet the requirements for out of cycle funding requests.

Talking points for the Building and Construction portfolio:

- What are your priorities for the Building and Construction portfolio in Budget 2020?
- I understand you will soon submit a Cabinet paper seeking between-Budget contingency or Budget 2020 pre-commitment funding for the Construction Accord. [33]
 - it does not meet the criteria the Minister of Finance has set for out of cycle Budget requests.
 - The Accord has been funded until now through reprioritised baseline funding. When this decision was made, was the funding transferred considered to be sufficient to fund the Accord for one year? If so, what cost escalations have occurred for the funding to run out ahead of Budget 2020?
 - What will happen if funding is not provided? Can the Accord work be delayed or funded from other MBIE baseline funding until Budget 2020?

Talking points for the Ethnic Communities portfolio:

- How has the Ethnic Communities portfolio dealt with the challenges resulting from the 15 March terror attacks?
- What are your priorities for Ethnic Communities for Budget 2020?
- How are Internal Affairs portfolio Ministers collaborating for Budget 2020?

Talking points for the Customs portfolio:

- What are your priorities for the Customs portfolio in Budget 2020?

[33]

Annex B: Submitted Cost Pressure Initiatives

There are no cost pressure initiatives.

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

Customs

Budget	Title	Funding Allocated			
		Opex Avg (\$m)	Opex Total (\$m)	Capex (\$m)	Total
2018	Drug Smuggling Networks – Strategic Disruption	13.543	54.173	3.906	
	Total	13.543	54.173	3.906	