Supplementary Estimates of Appropriations for the year ending 30 June 2023

Report of the Finance and Expenditure Committee

June 2023

Contents

Ingrid Leary
Chairperson

Supplementary Estimates of Appropriations for the year ending 30 June 2023

Recommendation

The Finance and Expenditure Committee recommends that the Supplementary Estimates of Appropriations for the year ending 30 June 2023, as set out in Parliamentary Paper B.7, be accepted.

About the Supplementary Estimates

The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2023 details the changes to existing appropriations, and new appropriations proposed since the Estimates for 2022/23 were finalised. The document also shows proposed changes to capital injections for departments and offices of Parliament.

We held a hearing on the Supplementary Estimates with officials from the Treasury, as well as from the Ministry of Transport, the Ministry of Social Development, the Inland Revenue Department, the Ministry of Health, the Ministry of Housing and Urban Development, and the Ministry of Business, Innovation and Employment. We asked officials various questions about the Supplementary Estimates, but many could not be fully answered during the hearing. We therefore sent those questions to officials for written response. We have appended the responses to this document to assist the House when it considers the Appropriation (2022/23 Supplementary Estimates) Bill.

The committee is considering an alternative way to getting more focus, and therefore more value, from the process.

We have no further matters to bring to the attention of the House, and recommend that the Supplementary Estimates, as set out in Parliamentary Paper B.7, be accepted.

Appendix A—Committee procedure

Committee procedure

We met on 31 May and 21 June 2023 to consider the Supplementary Estimates of Appropriations for the year ending 30 June 2023. We held a hearing with the Treasury, the Inland Revenue Department, the Ministry of Housing and Urban Development, the Ministry of Health, the Ministry of Business, Innovation and Employment, the Ministry of Social Development, and the Ministry of Transport.

Committee members

Ingrid Leary (Chairperson)
Andrew Bayly
Hon Dr David Clark
Anna Lorck
Dan Rosewarne
Damien Smith
Chlöe Swarbrick
Hon Phil Twyford
Simon Watts
Helen White
Nicola Willis

Hon Michael Woodhouse participated in some of our consideration.

Evidence received

In addition to the standard Estimates document, we considered the following documents as evidence. They are available on the Parliament website, www.parliament.nz, along with a transcript of our hearing.

- The Treasury (Briefing for the Supplementary Estimates 2022/23)
- The Treasury (Responses to Post-Hearing Questions)

A recording of our hearing can be accessed online at the following link:

- Hearing of evidence 31 May 2023.

Appendix B—Responses to post-hearing questions

We attach the written responses we received from officials relating to the Supplementary Estimates of Appropriations for the year ending 30 June 2023.

Responses to Post-Hearing Questions for the 2022-23 Supplementary Estimates FEC Hearing

Submitted to the Finance and Expenditure Committee on 9 June 2023.

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General Questions

1. **How much additional funding was appropriated in the 2022/23 Supplementary Estimates, and what is Treasury's view of the inflationary impact of this additional funding?**

   The net increase to appropriations in the 2022/23 Supplementary Estimates is $17.988 billion. This amount will be different to the amount reflected in the 2022/23 Supplementary Estimates Bill, due to the approval approach for multi-year appropriations and permanent appropriations. The net increase in the Supplementary Estimates reflects additional authority to incur expenditure since the Main Estimates Act. For a number of reasons, the net increase in Supplementary Estimates will not be a good reflection of the impact on Government expenditure and therefore implications on inflation. The Treasury's latest view on inflation, including impacts of fiscal policy settings, is outlined in the Budget Economic and Fiscal Update 2023, rather than the 2022/23 Supplementary Estimates. Committee members will have an opportunity to raise these questions at FEC's forthcoming examination of the Budget Economic and Fiscal Update.

2. **What are the Treasury's assumptions around net migration and how do they compare with those of the Reserve Bank?**

   The Finance and Expenditure Committee is examining the Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2023. This question relates to information and analysis contained in the Budget Economic and Fiscal Update 2023, rather than the 2022/23 Supplementary Estimates. Committee members will have an opportunity to raise these questions at FEC's forthcoming examination of the Budget Economic and Fiscal Update.

3. **What is Treasury's estimate of the amount of income tax received in 2022/23 due to fiscal drag?**

   The Finance and Expenditure Committee is examining the Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2023. This question relates to information and analysis contained in the Budget Economic and Fiscal Update 2023, rather than the 2022/23 Supplementary Estimates. Committee members will have an opportunity to raise these questions at FEC's forthcoming examination of the Budget Economic and Fiscal Update.

4. **Can you provide comment about the forecasts of tobacco excise duty revenue. How do you take into account the Smokefree 2025 legislation? How do you reconcile tobacco excise duty forecasts with that policy? What are the assumptions made by the Treasury in calculating the forecast tobacco excise duty revenues (such as declining smoking rates, excise duty rates etc.)?**

   The Finance and Expenditure Committee is examining the Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2023. This question relates to information and analysis contained in the Budget Economic and Fiscal Update 2023, rather than the 2022/23 Supplementary Estimates. Committee members will have an opportunity to raise these questions at FEC's forthcoming examination of the Budget Economic and Fiscal Update.

5. **What funding has been provided for the development of the Income Protection Scheme policy in the Supplementary Estimates?**

The Finance and Expenditure Committee is examining the Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2023*.* This question relates to information and analysis contained in the Budget Economic and Fiscal Update 2023, rather than the 2022/23 Supplementary Estimates. Committee members will have an opportunity to raise these questions at FEC's forthcoming examination of the Budget Economic and Fiscal Update.

Vote Conservation

6. **Regarding the two new appropriations for Jobs for Nature created in the Supplementary Estimates, is this a reallocation of funding or new funding?**

This is a reallocation of current funding. It was the creation of two new Multi Year Appropriations (departmental and non-departmental) as J4N funding was spread across multiple different appropriations.

7. **Does this funding continue the current jobs for nature scheme, or does the scheme differ?**

It continues the current programme.

Vote Corrections

8. **There was a $174.681 million capital injection for the Department of Corrections, which included additional funding for Waikeria prison. Why is this additional funding needed? What will this additional funding be spent on (i.e. is it repairs following the riots, or additional facilities such as mental health facilities)?**

The figure of $174.681 million reflects the movement in appropriation between 2022/23 Mains Estimates and 2022/23 Supplementary Estimates. While it is not solely related to the Waikeria Prison build project, as noted on page 282 of the Corrections 2022/23 Supplementary Estimates this movement is largely related to cost escalation in the Waikeria build project. As seen across the construction sector, there have been increases in the cost of building materials alongside supply chain delays and pressures resulting in additional funding being required for the 2022/23 financial year as well as movement related to the capitalisation of Waikeria finance costs.

Vote Defence

9. **Within the appropriation Defence Capabilities MCA was additional funding of $109.759 million in the Supplementary Estimates. The description of reasons said that part of this was due to "the accounting of potential foreign exchange rate movements affecting the reported New Zealand Dollar value of hedged foreign currency expenditure".**

- **Are these exchange rate movement losses realised or unrealised?**
- **If they have been realised costs, what has been done around managing exchange rate risks?**

The Ministry fully hedges its foreign currency expenditure at the time the commitment is made to ensure the New Zealand dollar cost is confirmed and not subject to further exchange rate fluctuations. However, New Zealand accounting rules require the recording of all foreign exchange transactions at spot exchange rates, meaning the reported value of foreign currency transactions will vary depending on the exchange rate on the transaction date. The appropriation requires an allowance for exchange rate movements potentially increasing the reported value of expenditure, that could lead to a technical breach of appropriation. Such a breach would be technical (and unrealised) in nature as the NZD cash cost is locked in when the foreign exchange hedges are put in place, but the accounting recognition of expenditure will vary with the spot exchange rates.

Vote Defence Force

10. **The 2021/22 Supplementary Estimates included additional funding to cover the increase in the capital charge as a result of the higher revaluation of land and buildings.**

- **Were land and buildings revalued in 2022/23, and if so, was additional funding provided in the 2022/23 Supplementary Estimates to cover the increase in the capital charge on these?**

Land and buildings are scheduled for revaluation in 2022/23, however, any capital charge impact, and appropriation requirements, will be addressed through the 2023/24 Supplementary Estimates.

- **How much has been spent on assisting Ukraine, and from which appropriations within this Vote?**

The New Zealand Defence Force (NZDF) actual spending on assisting Ukraine for 2022 to 2023 financial year breakdown by appropriations are as follows:

Financial Year	Operations Contributing to New Zealand's Security, Stability and Interests ($000)	Military Capabilities in Support of a Rules-Based International Order ($000)	Protection of New Zealand and New Zealanders ($000)	Total ($000)
2021/2022 (Actual)	6,369	4,035	0	10,404
2022/2023 (YTD May)	12,281	0	307	12,588

Vote Housing and Urban Development

11. **The Supplementary Estimates included funding of $12,724 million for Kāinga Ora – Homes and Communities Crown Lending Facility. Over what period of time will the debt be repaid?**

The investment in Public Housing creates a long term asset which will serve multiple generations. The funding model enables Kāinga Ora to pay down debt over time, acknowledging that when the houses come closer to the end of their useful lives, the repaid debt will be required again to renew these properties to ensure they are fit for purpose.

This is standard financial management practice for an asset that you intend to keep in the long term to provide the most vulnerable a place to call home.

12. **In the Housing Programme Fair Value Impairment Loss and Inventory Disposal MCA was a reduction in the Sale of Land and Dwellings – Costs of $121.471 million in the Supplementary Estimates. Why was there such a large reduction in spending on this item (from $188.14 million initially appropriated to $66.669 million budgeted in 2022/23)?**

This appropriation covers the sale of dwellings and land through multiple programme's of work. Sales occur as a result of underwrites being triggered or on-selling current land held by the Crown.

Note the acquisition of dwelling and land are covered through other appropriations. Triggered KiwiBuild underwrites have declined due to market conditions resulting in a reduction of risk in potential Crown liability.

There are several developer agreements currently under consideration and development. We continue to work with developers to progress this activity. Forecast has been reduced in the current year to reflect the current status of the work programme and is therefore timing related.

Vote Revenue

13. **Why was there a blowout in the debt impairment for Inland Revenue?**

Between BEFU 2022 and the 2022/23 Supplementary Estimates, the *Impairment of Debt and Debt Write-Offs* appropriation increased by $344 million, from $841 million to $1,185 million.

This increase is due to:

- a $200 million contingency, refer the response to question 3 below,
- a $108 million increase based on the forecast debt and impairment position as at 30 June 2023. This assumes a growth in underlying debt consistent with previous years and reflects a marginal improvement in impairment rates based on the December 2022 interim valuation by the external valuer, and
- a $36 million increase from Cabinet decisions. During the year there were three increases in Use of Money Interest rates (UOMI). The increases aligned the UOMI rates with market interest rates. Increasing the UOMI increases the forecast debt in relation to unpaid interest which in turn increases the forecast level of impairment and write offs.

14. Does this increase in debt impairment of $344 million include an overpayment of the wage subsidy? If so, how much is related to the wage subsidy overpayments, and why did this situation occur?

The *Impairment of Debt and Debt Write-Offs* appropriation does not include wage subsidy overpayments. The Vote Social Development is responsible for the wage subsidy payments.

15. The increase in the appropriation Impairment of Debt and Debt Write-Offs in the Supplementary Estimates included $200 million in contingency funding. Can you provide a breakdown of what this additional contingency funding is for?

The *Impairment of Debt and Debt Write-Offs* appropriation is not established under a permanent legislative authority. A contingency of $200 million has been included in the 2022/23 Supplementary Estimates to reduce the risk of this appropriation breaching in the remainder of the year without legislative authority. This is consistent with previous years and is not unusual for appropriations which don't have a permanent legislative authority.

This contingency has been included to cover any unexpected large write-offs where the debt is not fully impaired, and any increases to the level of forecast overdue debt above the level forecast and/or changes in the impairment of this debt based on the final valuation by our external valuer. As an example, a deterioration of cashflows in the next six-month period, which increases average impairment by 2%, would result in a $130 million cost to the Crown. The contingency represents 2.4% of the forecast year-end overdue debt position.

Vote Social Development

16. The value of student loans was written down by $352.701 million in the Supplementary Estimates. Why was this, and what is the forecast looking ahead?

The forecast for Student Loans expenditure in 2022/23 was $352.701 million lower than forecast at Budget 2022, largely due to a lower number of loan recipients than previously forecast. This decrease in Student Loan recipients results in a $374 million reduction, which was partly offset by other factors (for more information, see Social Development - Supplementary Estimates of Appropriations 2022/23 - Budget 2023, page 895).

Looking ahead, the appropriation for Student Loans for 2023/24 is forecast to increase by $190 million, mainly due to an expected increase in the number of recipients. This increase in student loan recipients is expected increase expenditure by $161 million, which is in addition to other contributing factors (see Vote Social Development - Vol 9 Social Services and Community Sector - The Estimates of Appropriations 2023/24 - Budget 2023, pages 286-287).

17. Also, the amount appropriated for student allowances was reduced by $135.558 million in the Supplementary Estimates. Why was this, and what is the forecast looking ahead?

The forecast for Student Allowances expenditure in 2022/23 was $135.558 million lower than forecast at Budget 2022, largely due to a lower number of Student Allowance recipients than previously forecast. This decrease in Student Allowances recipients results in a $172 million reduction, which was partly offset by other factors (see Social Development - Supplementary Estimates of Appropriations 2022/23 - Budget 2023, pages 886-887).

Looking ahead, the appropriation for Student Allowances for 2023/24 is forecast to increase by $48 million, due to both an expected increase in the number of people receiving a Student Allowance, and the annual indexation of payment rates (see Vote Social Development - Vol 9 Social Services and Community Sector - The Estimates of Appropriations 2023/24 - Budget 2023, pages 265-266).

18. Has the amount on Special Needs Grants increased? If so why, when the social benefit rates have been adjusted for inflation?

No, the Budget 2023 forecast expenditure for Special Needs Grants for 2022/23 has fallen by $15.5m compared to what was expected at Budget 2022. This due to a lower expected number of grants ($36.6m), partly offset by a higher expected average payment per grant ($21.1m) (see Social Development - Supplementary Estimates of Appropriations 2022/23 - Budget 2023, pages 883-884).

19. What has been behind the additional spending on the Temporary Additional Support and Special Benefit payment?

Temporary Additional Support and the Special Benefit payment saw a $13.556 million increase for 2022/23 due to a higher average payment per person than previously forecast. This represents a 3% increase in the expected average payment, which is within the usual magnitude of forecast revisions.

(see Social Development - Supplementary Estimates of Appropriations 2022/23 - Budget 2023, page 883)

20. Why has there been an increase in spending on Jobseeker Support, given that the unemployment rate is lower than that forecast in the Budget?

This appropriation increased by $117.062 million to $3,544.834 million for 2022/23 mostly due to:

- $64.500 million for the supplementary estimates add-on to reduce the likelihood of an overspend
- $28.176 million for a higher average payment per person (before wage growth adjustments) than previously forecast
- $21.766 million for higher-than-expected wage growth adjustments than previously forecast
- $11.170 million for other factors relating to Policy, debt establishments and overseas pension recoveries
- Partly offsetting the above factors is:
  $8.550 million for a lower number of people than previously forecast
  (see Social Development - Supplementary Estimates of Appropriations 2022/23 - Budget 2023, page 884)

Vote Statistics

21. The 2023 Census of Population and Dwellings appropriation received an additional $80.92 million in the Supplementary Estimates. Why was this additional funding required, and what is the breakdown of the additional funding?

The 2023 Census received funding of $80.92 million in the Supplementary Estimates as follows:

Item	($ million)
Second tranche contingency drawdown (of $33m total contingency)	17.6
Capex/Opex swap	9.975
Out-of-cycle funding – Field collector wage increases	7.9
Cyclone Gabrielle extension	36.672
2028 Census planning	8.773
Total	**80.92**

The drawdown of $17.6 million, and the conversion of $10.5 million capital funding to $9.975 operating were both required to meet forecast costs exceeding the original business case base estimates due to:

- the delay in completing the 2018 Census, resulting in the 2023 Census starting behind schedule,
- additional resource required to get the 2023 Census back on schedule,
- overall levels of required resource being higher than initially planned, and
- the cost of key contracts, such as printing & postage, scanning and recruitment of short-term field labour coming in significantly higher than expected due to exceptional inflationary pressures.

Note that the $10.5 million capital funding was received when census funding was originally sought. As there was not a need to purchase capital assets it was swapped to operational funding as this allowed Stats NZ to fund census cost pressures as mentioned above.

The increase to field collector wages were required to reduce the recruitment risk. Following market research, Stats NZ’s external recruitment provider advised that pay rates as initially agreed were not sufficient and did not position those roles competitively in the job market, particularly in regions with increased competition for resource. Stats NZ met its recruitment targets for census collectors.

Funding for 2028 Census planning was received in Budget 22 and included in the Official Statistics Multi Category Appropriation. This was transferred to the 2023 Census of Population and Dwellings Multi-Year Appropriation as it was within the scope of this appropriation.
The additional funding to respond to the impact of Cyclone Gabrielle on the census collection operation is discussed below.

22. **Within this additional funding was $36.672 million in response to the impacts of Cyclone Gabrielle. Why was this additional funding necessary, and what was it spent on?**

The impacts of Cyclone Gabrielle, such as road network and connectivity issues; displaced households; health, safety, and wellbeing considerations; and changing community priorities and sentiment, created challenges for Stats NZ to execute a successful 2023 Census as initially planned, in cyclone-impacted areas.

Amending and extending the census operation through additional funding was required to secure the highest level of response possible in cyclone-impacted areas, while still producing quality and timely data.

Options to defer the Census came at significantly greater cost, would cause significant delays to data delivery, could require legislative amendments, require further consideration of potential impacts on the setting of electoral boundaries for the 2026 General Election, and could encounter further or equivalent levels of disruption.

The additional funding needed was calculated as follows:

Data Collection Extension	**($ million)**
Data Collection staff extension in red & amber zones (i.e. cyclone-impacted areas)	14.274
Data Collection extension in green zones (non-response follow-up)	7.278
Accommodation/Travel	1.781
IT Licences and Support costs	3.476
Print and Post	0.420
Logistics Costs	0.982
Address Verification/Response Reconciliation Team	0.436
Manual Intervention Team	0.890
Sub-total	**29.537**
Support costs to households/koha	1.000
Marketing, Communications and Engagement	3.300
Programme Costs	2.835
Total	**36.672**

Expenditure of this funding is being reported quarterly.

Vote Transport

23. **Can you provide a breakdown of the reduction in funding to the NLTP due to lower (i) fuel excise duty rates, (ii) road user charges, and (iii) public transport fares. Can you also provide details of the additional funding provided by the government to compensate for these reductions?**

$2.030 billion has been allocated by the Crown in the appropriation “Funding for Temporary Decreases in Fuel Excise Duty, Road User Charges, Public Transport Fares, and Railway Track User Charges’.

Original Appropriation	653,600
Adjustments to 2021/22	-

Adjustments for 2022/23	1,376,131
Adjusted Appropriation	2,029,731
Actual to 2021/22 Year End	410,950
Estimated Actual for 2022/23	1,618,781
Estimate for 2023/24	-
Estimated Appropriation Remaining	-

The estimated actuals for 2022/23 are broken down as follows:

Land transport revenue shortfall $1.449bn
Public transport increased costs $169.267m
Administration costs $850,000

The Crown is currently topping up reduced revenue from fuel excise duty and road user charges due to the temporary reductions. Half-fare public transport has not decreased revenue, nor has the reimbursement of track user charges to the National Land Transport Fund. The listed amount for railway track user charges is reimbursed to KiwiRail, rather than being allocated to the National Land Transport Fund as revenue. Meanwhile, the amount listed for half-fare public transport is provided to regional councils for the cost of implementing half-fares.

***24.* Can you provide a reconciliation of the amount of fuel excise duty revenue, and how much of the change has been due to impact of a lower fuel excise duty rate, versus other factors (such as a change in consumption).**

The Ministry of Transport does not anticipate that the reductions in petrol excise duty will significantly impact petrol demand or consumption. Fuel consumption is closely linked to economic activity rather than influenced by the rate of petrol excise duty. In general, the Ministry of Transport has observed that, likely unrelated to the reductions, petrol consumption has declined since 2019, while diesel consumption has largely returned to pre-COVID levels. The impact of COVID on personal travel, for example, continued working from home, is likely to be the predominant factor driving any consumption changes in petrol rather than the temporary change to the rate of petrol excise duty.

***25.* The appropriation Clean Vehicle Discount Scheme – Rebates received an additional $100 million in the Supplementary Estimates "to enable the scheme to remain financially sustainable". Why was this needed?**

An additional $100 million was needed for the Clean Car Discount to help ensure the financial sustainability of the scheme. The funding has been provided as a repayable Crown grant to:

- enable rebates to continue to be paid while the new schedule of rebates and charges takes effect. The new schedule comes into effect on 1 July 2023 and has been designed to better match rebate expenditure with sufficient revenue from charges

- act as a cash reserve for Waka Kotahi to manage any cashflow pressures caused by timing differences between the payment of rebates and the receipt of sufficient revenue from charges.

The $100 million would only be drawn on as required. This means that use of the Crown grant will reduce as soon as the proposed changes start impacting on the financial flows of the scheme.

26. **Can you provide a breakdown of the various funding streams for the clean vehicle discount scheme? (i.e. the amount funded via the levy, versus the amount funded through additional government funding).**

There are 6 appropriations relating to the Clean Vehicle Discount in the Vote Transport Supplementary Estimates relating to **two** sources of funding for the scheme :

- Charge Revenue
- Crown Grant (repayable from future Charge Revenue if future net revenue allows).

Charge Revenue

Section 9(1E-G) of the Land Transport Management Act 2003 enables Waka Kotahi to use charges collected under the Clean Vehicle Discount scheme to fund rebate expenditure and the scheme's administration costs. Details of expenditure funded under this PLA can be found in the following two appropriations:

	Estimated Expenditure 2022/23 ('000's)	Estimated Expenditure for 2023/24 ('000's)
Non-Departmental Output Expenses Clean Vehicle Discount Administration costs PLA	-	8,000
Non-Departmental Other Expenses Clean Vehicle Discount Rebates PLA	176,431	154,984

Crown Grant

To support the scheme's cashflows, addition Crown funding has been provided in the form of a grant. This grant is to be repayable through future net charge revenue, should future revenue be sufficient.

The **actual** amount of the Crown Grant drawn on for 2022/23 may differ from the below.

	Estimated Expenditure 2022/23 per the Supplementary Estimates ('000's)	Total Appropriation (whole of life for MYA, 2022/23 for annual appropriations)	Note

Non-Departmental Other Expenses Clean Vehicle Discount Scheme – Rebates	287,172	287,172	Includes the additional $100m top-up provided through Budget 2023
Non-Departmental Capital Expenses Clean Vehicle Discount Scheme – Capital Investment in Waka Kotahi NZ Transport Agency*	500	500	

There are two appropriations relating to **Crown grant funding** where funding was transferred out during 2022/23 and they will no longer be used

	Note
Non-Departmental Output Expenses Clean Vehicle Discount Scheme – Administration (MYA)	No expenditure was incurred under this appropriation
Non-Departmental Other Expenses – Clean Car Discount Scheme – Administration (MYA)	**$110,828** of expenditure was funded under this appropriation up to 2021/22 year end