

The Treasury

Budget 2021 Information Release

August 2021

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Cabinet Document Details

Title: **Cabinet Minute: CAB-20-MIN-0483: Budget 2021: Strategy and Design**

Date: **25 November 2020**

Creator: Cabinet Office

No Information has been Withheld

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Cabinet

Minute of Decision

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Budget 2021: Strategy and Design

Portfolio **Finance**

On 23 November 2020, Cabinet:

Background

- 1 **noted** that:
 - 1.1 in March 2020, Cabinet agreed to an initial economic package in response to COVID-19 [CAB-20-MIN-0108] (the March package);
 - 1.2 in May 2020, Cabinet agreed to the COVID-19 Response and Recovery Fund Foundational Package [CAB-20-MIN-0219] (the May package);
 - 1.3 in July 2020, Cabinet agreed to the COVID-19 Response and Recovery Fund July Package [CAB-20-MIN-0328] (the July package);

Progressing the Government's Priorities

- 2 **noted** that the government's priorities for the next three years are:
 - 2.1 continuing to keep New Zealand safe from COVID-19;
 - 2.2 accelerating the recovery and rebuild from the impacts of COVID-19; and
 - 2.3 laying the foundations for the future, including addressing key issues such as climate change response, housing, and child poverty;
- 3 **noted** that the Public Finance Act 1989 now requires the government to set wellbeing objectives in the Budget Policy Statement, and to report against these in the Fiscal Strategy Report;
- 4 **noted** that the Minister of Finance intends to use the existing Budget priorities from the last two Wellbeing Budgets as wellbeing objectives for the purpose of the Budget Policy Statement, updating them to reflect the impact of the COVID-19 pandemic;
- 5 **noted** that the existing Budget priorities from the last two Wellbeing Budgets are:
 - 5.1 Just Transition;
 - 5.2 Future of Work;
 - 5.3 Māori and Pacific Peoples;

- 5.4 Child Wellbeing; and
- 5.5 Physical and Mental Wellbeing;

Economic Outlook and Fiscal Context

- 6 **noted** that the economic outlook remains uncertain and the fiscal environment is constrained, and that keeping debt under control will require stricter management of on-going spending;
- 7 **agreed** to the following operating and capital allowances for Budget 2021 to Budget 2024:
 - 7.1 operating allowances set at \$2.625 billion per annum;
 - 7.2 Multi-Year Capital Allowance set at \$7.8 billion total;

Strong Focus on Delivery, Existing Expenditure, and Non-Spending Initiatives

- 8 **agreed** that Ministers need to focus on all the levers available and not just the new spending allocated in the annual Budget, including:
 - 8.1 ensuring expenditure within existing baselines is aligned to government priorities and delivering value for money;
 - 8.2 delivering the significant investments made over the past year, in particular ensuring that they are delivered on time and within budget;
 - 8.3 progressing non-spending new initiatives, such as regulatory reforms, where they align to government priorities;
- 9 **invited** portfolio Ministers to consider the above levers before making any requests for new funding;
- 10 **agreed** that Budget Ministers will review the March Package and COVID-19 Response and Recovery Fund initiatives against other spending priorities through the main Budget 2021 process, to ensure value for money and free up headroom for new spending;
- 11 **invited** the Minister of Finance to engage with relevant portfolio Ministers in relation to the continued need for and ability to deliver on:
 - 11.1 initiatives funded through the March package and COVID-19 Response and Recovery Fund ahead of the Budget 2021 process; and
 - 11.2 recent capital investment decisions, to manage risk and ensure value for money;

Expectations on Fiscal Management

- 12 **noted** that given the constrained fiscal environment, stricter management of on-going spending is required;
- 13 **agreed** that all spending decisions must:
 - 13.1 be managed within allowances;
 - 13.2 consider trade-offs appropriately and transparently; and
 - 13.3 clearly demonstrate value for money;

- 14 **agreed** that there will be an extremely high hurdle that any out-of-cycle funding requests will need to meet;
- 15 **noted** that the Minister of Finance will not support agree in-principle recommendations for proposals that are not manifesto commitments;
- 16 **noted** that the Minister of Finance will be significantly limiting the use of tagged contingencies;
- 17 **noted** that the Minister of Finance intends to submit a public discussion document to Cabinet in early 2021 with proposals to reform the public finance system;

Budget 2021

- 18 **noted** that there are a number of cost pressures and manifesto commitments that need to be managed within allowances over the next three Budgets;
- 19 **agreed** to the following priorities for Budget 2021:
- 19.1 continuing the COVID-19 response;
 - 19.2 delivering priority and time-sensitive manifesto commitments;
 - 19.3 supporting core public services through managing critical cost pressures and manifesto commitments; and
 - 19.4 continuing to deliver on existing investments;
- 20 **noted** that the Minister of Finance will shortly write to portfolio Ministers and Chief Executives outlining his expectations around Budget 2021 and fiscal management;
- 21 **agreed** that for Budget 2021:
- 21.1 Ministers will submit initiatives only on the invitation of the Minister of Finance;
 - 21.2 these initiatives will be limited to the highest priority manifesto commitments and critical cost pressures;
 - 21.3 proposals that do not progress a priority manifesto commitment or address critical cost pressures will be out of scope for Budget 2021; and
 - 21.4 beyond this process, Ministers will work with agencies to identify any reprioritisation opportunities or non-spending initiatives that will ease pressure on the allowances while still helping the government to achieve its wellbeing objectives;
- 22 **noted** that the Minister of Finance and the Associate Minister of Finance (Hon Dr Megan Woods) will hold a small number of bilateral meetings with relevant Ministers to discuss critical cost pressures and priority manifesto commitments in their portfolios;
- 23 **noted** that following the above meetings, the Minister of Finance will invite select Ministers and their agencies to submit in-scope initiatives by 29 January 2021;

Cost Pressures

- 24 **agreed** that initiatives seeking funding to address cost pressures will be required to demonstrate:
- 24.1 a clear understanding of the most significant cost drivers across their portfolio that are creating the pressure;
 - 24.2 a high level of risk is attached to not funding them;
 - 24.3 where funding has already been provided in past funding rounds to manage these, how this has been used, and why further funding is required; and
 - 24.4 what efforts have been made or are being made to manage the pressure within baselines, including reprioritising lower-value funding and/or reviewing current policy settings;
- 25 **noted** that the Public Service Commission, in consultation with the Treasury, is preparing advice on updating the Government Expectations for State Sector Employment Relations and any further pay restraint guidance in early 2021;
- 26 **invited** the Ministerial Oversight Group for State Sector Employment Relations (MOGSSER) to provide oversight of Budget 2021 personnel initiatives to support effective prioritisation and management of personnel spending, and communicate restraint expectations;
- 27 **agreed** that Budget Ministers will continue as a decision-making body in Budget 2021 to review progress, consider priorities and trade-offs across packages, and to recommend a final Budget package to Cabinet;
- 28 **agreed** that Budget Ministers will consist of the following Ministers:
- 28.1 the Prime Minister;
 - 28.2 the Minister of Finance; and
 - 28.3 the Associate Minister of Finance (Hon Dr Megan Woods);
- 29 **noted** that the Treasury will be releasing further guidance to agencies on process and requirements for Budget 2021 in early December 2020;

COVID-19 Response and Recovery Fund Technical Matters

- 30 **noted** that Treasury's forecasts at the Pre-election Economic and Fiscal Update suggested that around \$5 billion of funding allocated from the COVID-19 Response and Recovery Fund may no longer need to be spent;
- 31 **agreed** that \$1 billion of the \$5 billion referred to in paragraph 30 above be returned to the COVID-19 Response and Recovery Fund;
- 32 **noted** that in July 2020, Cabinet agreed that any and all underspends related to initiatives in the July package be returned to the COVID-19 Response and Recovery Fund [CAB-20-MIN-0328];
- 33 **rescinded** the decision referred to in paragraph 32 above; and instead

34 **agreed** that any underspends associated with the July package be managed by returning funding to the Crown.

Michael Webster
Secretary of the Cabinet