

The Treasury

Budget 2021 Information Release

August 2021

This document has been proactively released and is available on

- the **Budget website** from August 2021 to May 2022 only at <https://budget.govt.nz/information-release/2021>, and on
- the **Treasury website** from later in 2021 at <https://treasury.govt.nz/publications/information-release/budget-2021-information-release>.

Explanatory Note

Strategy letters were sent to all Portfolio Ministers. This document is an exemplar.

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [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
- [36] 9(2)(h) - to maintain legal professional privilege
- [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
- [40] Not in scope
- [42] 18(d) - information is already publicly available or will be publicly available soon.

Where information has been withheld, a numbered reference to the applicable section of the 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).

Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.

Hon Grant Robertson

MP for Wellington Central

Deputy Prime Minister

Minister of Finance

Minister for Infrastructure

Minister for Sport and Recreation

Minister for Racing



27 November 2020

[23]

Parliament Buildings
Wellington

Dear [23]

On Monday 23 November 2020, Cabinet agreed to the Budget 2021 strategy. A copy of the Minute recording Cabinet's decisions is attached to this letter for your information.

Context for Budget 2021

The approach to Budget 2021 and future Budgets will require greater discipline.

The Government has made its priorities clear –

- Keeping New Zealanders safe from COVID-19
- Accelerating the recovery
- Laying the foundations for the future

We need to shift our focus towards the drivers of wellbeing, and set a high bar for the value for money of all expenditure. New spending is not the only lever for achieving the Government's objectives. Ministers should consider all the levers available to them before making any requests for new funding, including:

- ensuring existing baseline expenditure is aligned to our priorities and is delivering value for money,
- delivering on the significant investments we have made over the past year, particularly focusing on ensuring that they are delivered on time and within budget, and
- progressing non-spending new initiatives, such as regulatory reforms, where they align with our priorities.

Process for Budget 2021

Cabinet has agreed that the Budget 2021 operating allowance will be set at \$2.625 billion per year, while the Multi-Year Capital Allowance for Budgets 2021 to 2024 will be \$7.8 billion.

In contrast to previous Budget processes, only Ministers who I have invited will be able to submit initiatives for consideration through Budget 2021. These initiatives will be limited to critical cost pressures and the highest priority manifesto commitments.

To assist in the invitation process, you are invited to write to me detailing any manifesto commitments and cost pressures in your portfolio that may need to be funded over the next three Budgets and how they align to the Government's priorities. To clarify, it is highly likely not all of these will be able to be addressed through Budget 2021, but I wish to have early discussions about options to manage and phase initiatives.

In considering what material to include in your letter to me, please note I expect that:

- initiatives seeking funding for critical cost pressures will need to demonstrate:
 - a high level of risk is attached to not funding these pressures, such as service failure, significant disruption to services, or not meeting legislative requirements,
 - that any personnel-related pressures are consistent with the Government Expectations on State Sector Employment Relations and the public sector pay restraint guidance issued by the Public Service Commissioner,
 - there is no scope to defer funding to future Budgets,
 - where funding has been provided in past funding rounds, this has been insufficient to manage these pressures, and
 - efforts have been made to meet these pressures within baselines before seeking further funding.
- reprioritisation opportunities or non-spending initiatives will be identified that will ease pressure on the allowances while still helping the Government to achieve its wellbeing objectives, and
- manifesto commitments will be limited to those that are specifically identified in key Government documents, including the Labour Party Manifesto and the Speech from the Throne, and demonstrate that they are high priority or time-sensitive as we have three Budgets to deliver on all these commitments.

In addition, I expect that you will provide a report by 29 January 2021 on progress on spending allocated via the COVID-19 Response and Recovery Fund (CRRF) in your portfolio area(s). An outline of the template for this report is attached to this letter.

The Associate Minister of Finance, Hon Dr Megan Woods, or I, will shortly meet with you to discuss Budget 2021 in more detail in relation to your Health portfolio. Please ensure that your letter is sent to me or Minister Woods five working days ahead of the meeting.

If you are invited to submit initiatives for consideration through Budget 2021, I will write to you before Christmas. Initiatives will be due by 29 January 2021. Guidance on Budget 2021, including how to submit initiatives, will be released by the Treasury in early December 2020.

Fiscal management expectations

I also wish to restate my expectations around fiscal management. Recent trends have impacted the Government's ability to maintain focus on delivering improved wellbeing outcomes through high-value initiatives, decreased visibility of trade-offs, and have impacted on the ability of agencies to implement and deliver new initiatives.

In addition to the requirements outlined in Cabinet Office Circular 18(2), I also expect, on an ongoing basis, that we will:

- limit out-of-cycle funding requests to those that are urgent,
- ensure that existing and future investment is high-value and supported by detailed policy development and clear cost benefit analysis,
- not support recommendations such as "agree in principle"; when the necessary policy work has not been undertaken,
- explicitly identify the trade-offs when determining spending decisions, ensuring that successful initiatives represent the best possible value for money, and clearly contribute to the wellbeing objectives and the Government's priorities,
- continue to closely monitor the actual spend of existing funding and the implementation of initiatives, in particular the spend made through the COVID-19 Response and Recovery Fund and New Zealand Upgrade Programme initiatives, and

- limit the use of tagged contingencies. Contingencies should be used only in instances where it would not be reasonable to appropriate funds, for example due to ongoing employment or commercial negotiations or litigation.

Thank you for your continued support in achieving our fiscal and wellbeing objectives. With your help, I look forward to delivering a successful Budget 2021.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Grant Robertson', is positioned in the center of the page. The signature is fluid and cursive, with the first name 'Grant' being more prominent than the last name 'Robertson'.

Hon Grant Robertson
Minister of Finance

Cc: [23]



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

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

Progress report on spending allocated via the CRRF

Note: This template provides an indication of the information that will be sought on CRRF initiatives in your portfolio. A more detailed Excel template will be circulated with the Budget Guidance material in early December, along with additional guidance on the information sought and how to complete the template.

Funding Allocated, Spent and Forecast

Funding Allocated					Expenditure		
<p><i>Please indicate sources of funding in the funding commentary if the funding has been allocated from different package (ex: CRRF1, CRRF2, B20, March 16 and etc)</i></p>					<ul style="list-style-type: none"> • <i>How much has been spent to date against the initiative?</i> • <i>How much is expected to be spent in rest of this financial year and future years?</i> • <i>Is there a detailed financial plan in place to distribute the funding?</i> 		
2020/2021 opex funding	Outyear opex funding	Total opex funding	Total capex funding	Funding commentary	Actual spending	Expected spending	Financial plan commentary

Delivery Progress

Describe the achievements of the initiative so far. What milestones and outcomes have been achieved? When do you expect other key milestones and outcomes to be achieved? Is there a current implementation plan in place?

Describe how the initiative's implementation has gone compared to the original proposal. Are key milestones still on track? Has spending followed expectations? Are there any risks and issues without clear mitigations in place?

Where milestones/outcomes/spending did not meet the objectives in the original proposal, why did this not happen?

Future Funding

What has changed since the initial proposal? How have the problem in question, and the possible solutions to the problem, changed since the initial proposal was submitted? What have you learned about the problem and addressing it since that proposal? Are there alternative ways the proposal objectives could be achieved?

[Where relevant] Why is funding for this initiative needed in the 2021/22 financial year and beyond? When answering this question, please provide outline why the issue will persist into the future.

Does the amount of funding requested for this initiative remain appropriate? Can unspent funding be returned to the centre? Could the proposal be achieved with less funding?