

The Treasury

Budget 2021 Information Release

August 2021

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Treasury Report: Budget 2021 Strategy and Design

Date:	Thursday 12 November 2020	Report No:	T2020/3409
		File Number:	BM-2-1-2021

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree to an initial set of decisions on the strategy and design for Budget 2021	Before your meeting with the Treasury at 10am on Monday 16 November 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Ashleigh Brown	Senior Analyst, Budget Management	[39]	[35]
Gerald Lee	Senior Analyst, Budget Management		
Simon Duncan	Acting Manager, Budget Management		✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer a copy of the report and attachments to the Associate Ministers of Finance.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Budget 2021 Strategy and Design

Purpose of Report

1. This report seeks an initial set of decisions on the strategy and design for Budget 2021. It draws upon and summarises the more detailed content in the attached slide-pack on how Budget 2021 can reset expectations around fiscal management while also supporting your wellbeing objectives.
2. Also attached is a further slide pack providing preliminary fiscal strategy advice.

Context for Budget 2021

Wellbeing remains a key focus...

3. Long-term objectives around improving wellbeing remain important and have not lost their urgency. The Public Finance Act now requires the Government to set out the broad strategic priorities, policy goals and – for the first time – wellbeing objectives in the Budget Policy Statement (BPS), and to report against these in the Fiscal Strategy Report. The existing Wellbeing Budget Priorities are a good starting point, and could become your enduring wellbeing objectives (and outlined in the BPS).
4. You have indicated that these objectives will need to be updated to reflect COVID-19 more closely, and have also agreed that following this update they should be tested with the Chief Government Science Advisors [T2020/3318 refers].

...but new spending is not the only lever for achieving your wellbeing objectives.

5. The constrained fiscal environment has limited the ability to meet these objectives solely through targeted additional funding. Instead other policy tools come to the fore, including regulatory changes, value-for-money improvements within existing spending, and other non-spending options.
6. As well as increasing net debt, COVID-19 has created a structural fiscal deficit, with expenses exceeding revenue over the forecast period, even when the temporary costs of the COVID-19 response are excluded. While there remains space for temporary short-run support, stabilising debt will require stronger controls on new spending so the fiscal position can be improved over time and does not become unsustainable. Adjusting your fiscal targets can also support stronger controls by providing greater clarity on your fiscal strategy. The attached fiscal strategy slide pack provides further information on these points.
7. We have also seen considerable pressure on allowances over the last few Budgets, as well as a high and growing number of initiatives being submitted. Out-of-cycle spending and the use of tagged contingencies have also increased substantially: there is currently over [33] sitting in tagged contingencies. This impacts on the ability to maintain focus on delivering improved wellbeing outcomes through high-value initiatives, decreases visibility of trade-offs between maintaining existing services and funding new policy ideas, and impacts the ability of agencies to implement and deliver new initiatives.

Setting the Budget 2021 strategy

Budget allowances are already under substantial pressure...

8. As per Labour's Fiscal Strategy, the Budget 2021 operating allowance has been set at \$2.625 billion per annum, and the multi-year capital allowance at \$7.8 billion.
9. Based on initial information, Treasury Vote teams have indicated departments are likely to seek upwards of [33] for Budget 2021. Some of these pressures are demand-driven and may involve little discretion. The Fiscal Strategy also signals manifesto commitments of over \$700 million operating per annum from Budget 2021. To remain within allowances, hard choices between competing government objectives will be required.

...but Budget 2021 can help reset a disciplined approach to fiscal management...

10. In setting the Budget 2021 strategy, you have the opportunity to strengthen the Budget process in a way that resets expectations, supports your wellbeing objectives, and paves the way for long-term structural change to annual budgeting.

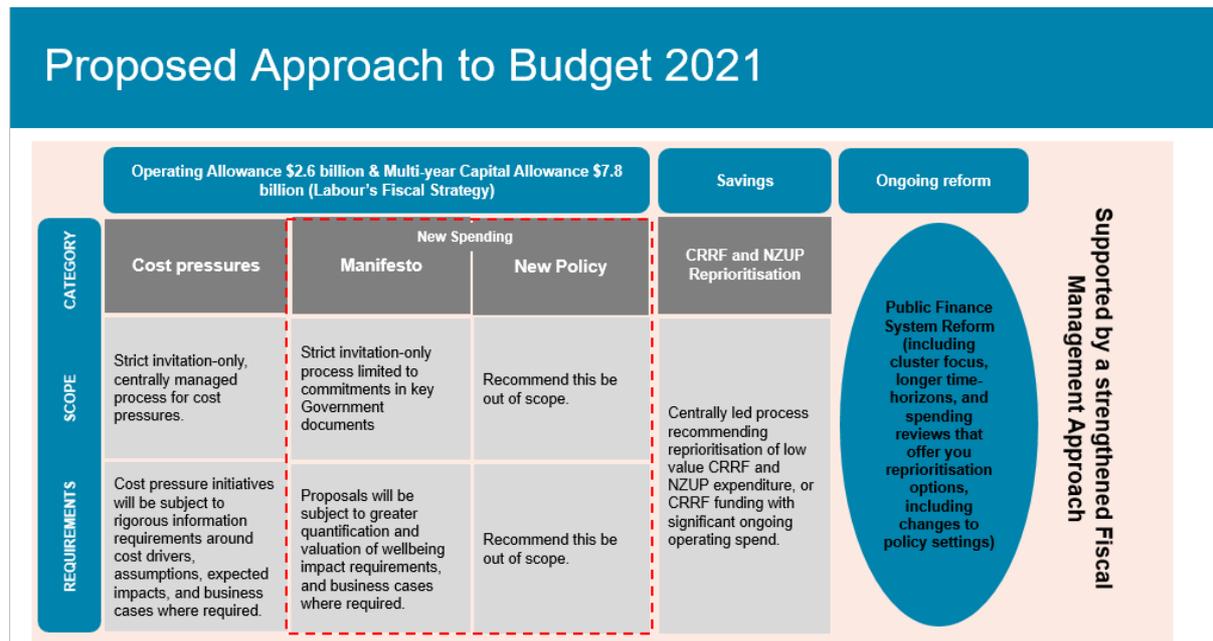
...with clear areas of focus...

11. You have indicated that the Budget 2021 priorities should be:
 - continuing the COVID-19 response,
 - delivering priority and time-sensitive manifesto commitments, and
 - supporting core public services through managing critical cost pressures,
12. We also recommend that Budget 2021 focus on:
 - strengthening the Fiscal Management Approach to reset expectations around expenditure and the Budget, and
 - delivering existing investments.

...and a tight process focussed on value-for-money and addressing key 'pain points'.

13. The following diagram from the attached slide pack summarises our proposed approach to Budget 2021.

Figure 1: Budget 2021 process



14. We understand that you wish to ensure an invitation-only process does not miss key cost pressures that then surface at the end of the Budget 2021 process. A potential way of mitigating this risk could be using focused bilateral meetings with Ministers to seek information on key portfolio pressures, or some other form of information-gathering. We can provide you with further advice on options to help manage this risk.

This strategy should be supported by longer-term changes to budgeting and policy settings.

15. Beyond Budget 2021, structural reform and active policy choices are required to manage pressures and control spending growth. This can be supported through changes to the Public Finance System such as:

- moving to a cluster model with aggregated funding pools,
- moving to a multi-year budgeting cycle, and
- systematic use of spending reviews that offer you reprioritisation options, including changes to policy settings.

Timeframes for Budget 2021

16. Due to the timing of the general election, decisions on the Budget 2021 strategy and process are occurring much later than usual. As a result, the timeframes for this Budget are tight, including the window within which the strategy needs to be agreed by Cabinet.

17. We propose the following high-level indicative timeline for Budget 2021. When developing this timeline we considered the following factors:

- Production timeframes (including associated risks of any compression).
- Timing and availability of Ministers (particularly around Christmas).

- Providing adequate time for the development of initiatives and a robust assessment and decision-making phase.

Table 1: Budget 2021 timeframes

Phase/Milestone	Date
Cabinet considers Budget 2021 Strategy	30 November 2020
Budget 2021 guidance released	7 December 2020
Bilaterals (if required) between portfolio Ministers and the Minister of Finance/Associate Minister of Finance	7 – 20 December 2020
Invitations sent to select Ministers to submit initiatives	Before Christmas 2020
Initiatives due from Ministers/agencies	30 January 2021
Assessment phase	February 2021
Budget Ministers 1 (context)	Mid-February 2021
Decision phase	March 2021
Decision-making Budget Ministers 2	Mid-March 2021
Decision-making Budget Ministers 3	Late-March 2021
Decision-making Budget Ministers 4 (if required)	Early April 2021
Cabinet considers Budget package	Early April 2021
Production Phase	April to mid-May 2021
Budget Day	Mid-May 2021

18. The proposed timeline above is purely indicative, and subject to your preferences, the Cabinet and Parliamentary sitting timetables for 2021, Ministerial availability, and further Ministerial engagement. When there is more clarity around the approach to Budget 2021, we will provide you with further advice with more detailed timeframes for the process.

Resetting expectations around fiscal management

19. To support resetting expectations around fiscal management across the public finance system, we are proposing steps to strengthen the Fiscal Management Approach such as additional hurdles to reduce out-of-cycle funding requests and ensure that budget allowances act as a hard constraint on on-going spending. These include (further detail can be found in the attached slide pack):
- strengthened institutional support for the Minister of Finance including a dedicated Associate Minister of Finance to drive work on expenditure control, and

- additional hurdles to constrain out-of-cycle funding such as requiring that all Cabinet papers with fiscal implications go to both policy and spending Cabinet committees.
20. We are also aware of a number of upcoming policy proposals with significant fiscal implications that are expected to be considered by Cabinet before the end of the year, including:
- **Decarbonising the public sector:** a package of initiatives regarding the public sector vehicle fleet and energy sources which may seek funding as pre-commitments against Budget allowances. Expected to be considered towards the end of November 2020.
 - **Medical certificates:** a pre-Christmas decision may be required around reinstating medical certificate requirements for Jobseeker Support – Health Condition or Disability, with likely fiscal implications irrespective of which policy option is chosen.
 - **Royal Commission into the Christchurch terrorist attacks:** a package of initiatives responding to the Commission’s findings.
21. While some of these initiatives have been signalled by the Prime Minister as short-term priorities for the Government, others are more discretionary and there are choices available to manage them.
22. In general, we recommend that you avoid making significant pre-commitments in advance of the Budget process as it reduces your ability to prioritise and assess the trade-offs of funding different initiatives. It also risks undermining fiscal management by setting early precedents around availability of out-of-cycle funding.
23. We recommend there should be a very high threshold for considering any out-of-cycle commitments and they be limited to policies:
- that the Government has publicly signalled as immediate priorities (such as those in the Prime Minister’s recent speech to the BusinessNZ Council), and
 - where there is a clear and compelling case for urgent funding due to high level of risk (such as certain COVID-19 related costs) and it cannot be met through reprioritisation within baselines.
24. The Treasury will provide you with further advice, including COVID-19 Response and Recovery Fund (CRRF) spending and NZUP capital spending reprioritisation options and options for managing wage pressures. This will enable you to be more specific in the Budget 2021 strategy paper about your expectations.
25. In order to get ahead of these upcoming requests, we recommend that you (or Budget Ministers) send a letter to your colleagues in advance of the Budget strategy being considered by Cabinet which sets out your expectations around out-of-cycle funding requests. This could also act as an early opportunity to highlight the tight and focussed nature of Budget 2021 in order to temper expectations. We can provide you with a draft letter in the week beginning 16 November 2020 if you wish to do so.

Next Steps

26. We seek your agreement to the high-level Budget 2021 strategy and design decisions signalled in the attached slide pack. We also welcome any feedback that you have on your objectives and preferences for Budget 2021, and how we can tailor the proposed approach to support you in achieving these.

Recommended Actions

We recommend that you:

Context for Budget 2021

- a **note** that long-term objectives around wellbeing remain significant and have not lost their urgency;
- b **note** that the constrained fiscal environment means the ability to meet these objectives through targeted funding has greatly diminished, and there has also been considerable pressure on allowances over the last three Budgets;
- c **note** the attached fiscal strategy slide pack which further details the constrained fiscal position;
- d **note** that the Budget 2021 allowances are set at \$2.625 billion operating per annum and \$7.8 billion total capital;
- e **note** that Labour's Fiscal Strategy indicates around \$800 million operating per annum in manifesto commitments for Budget 2021;
- f **note** that Treasury Vote teams have indicated known cost pressures in excess of the current allowances for Budget 2021;
- g **note** that Budget 2021 can help set a clear path for managing resource allocation over the next decade, and should support other policy tools in meeting wellbeing objectives;

Setting the Budget 2021 strategy

- h **agree** that the priorities for Budget 2021 should be:
 - continuing the COVID-19 response,
 - delivery of priority manifesto commitments,
 - cost pressure management to support core public services (already agreed in T2020/3318),
 - strengthened Fiscal Management Approach that resets the Budget to control expenditure growth, and
 - delivery of existing investments

Agree/disagree.

i **agree** to the following key strategy and design features of Budget 2021:

Initiatives for Budget 2021 should be invitation-only	<i>Agree</i>	<i>Disagree</i>
Cost pressures managed via a top down process	<i>Agree</i>	<i>Disagree</i>
New policy limited to highest priority manifesto commitments included in key Government documents	<i>Agree</i>	<i>Disagree</i>
Any new policy proposals outside the scope of manifesto commitments are out of scope for Budget 2021	<i>Agree</i>	<i>Disagree</i>
Indicate if you would like Treasury to provide further advice on a centrally led reprioritisation of CRRF spending and NZ Upgrade capital spending	<i>Agree</i>	<i>Disagree</i>

Timeframes for Budget 2021

j **note** that the timeframes for this Budget are shorter than usual, including the window within which the strategy should be agreed by Cabinet;

k **agree** for the Budget 2021 strategy paper to be considered by Cabinet on 30 November 2020;

Agree/disagree.

l **indicate** whether you have any other feedback on the proposed timeframes for Budget 2021 outlined in Table 1 above;

Yes/no.

Resetting expectations around fiscal management

m **note** that given the constrained fiscal environment, a stronger Fiscal Management Approach and institutions are required to support a more disciplined Budget process;

n **note** that a number of policy proposals with fiscal implications are expected to be considered by Cabinet before the end of the year;

o **agree** to send a letter to your ministerial colleagues in the near future outlining your expectations around out-of-cycle funding requests and your early thoughts on the approach to Budget 2021;

Agree/disagree.

p **indicate** whether you would like to receive further advice on options to strengthen the Fiscal Management Approach, as outlined in the slide pack;

Yes/no.

Referrals

- q **refer** a copy of this report and attachment to the Associate Ministers of Finance Hon Dr Megan Woods and Hon David Parker.

Refer/not referred.

Simon Duncan
Acting Manager, Budget Management

Hon Grant Robertson
Minister of Finance