

The Treasury

Budget 2021 Information Release

August 2021

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
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- [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
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Treasury Report: Budget 2021 - advice on invitations

Date:	Monday 14 December 2020	Report No:	T2020/3722
		File Number:	BM-2-1-2021

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	<p>Agree which initiatives identified by Ministers you would like to invite into the Budget 2021 process (Appendix One).</p> <p>Provide feedback on the draft invitation letter templates attached (Appendix Two).</p> <p>Refer a copy of this report and attachments to the Associate Minister of Finance Hon Dr Megan Woods.</p>	Tuesday 15 December 2020.

Contact for telephone discussion (if required)

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

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer a copy of this report and attachments to the Associate Minister of Finance (Hon Dr Megan Woods).

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Budget 2021 - advice on invitations

Purpose of Report

1. This report provides you with advice on which initiatives to invite into the Budget 2021 process.
2. Attached to this report are two appendices:
 - **Appendix One** contains two spreadsheets with lists of the cost pressure and manifesto commitment initiatives that Ministers have identified in their portfolios (excluding Education, Health, and Social Development and Employment for which we are proposing tailored approaches).
 - **Appendix Two** contains draft letter templates which Vote teams will use to prepare invitations.
3. We seek your confirmation of which initiatives you would like to invite into the process as well as any feedback on the draft letter templates by Tuesday 15 December 2020. This will allow us to prepare invitations for you to send on Friday 18 December 2020.

Background

4. The large volume of initiatives that have been submitted through recent Budgets have reduced the Government's ability to focus on delivering improved wellbeing outcomes through high-value spending, as well as the visibility of the key trade-offs and choices between initiatives.
5. Through the Budget 2021 strategy, you have set clear expectations of greater discipline and focus in annual budgeting which more effectively targets the drivers of wellbeing. As part of this, Cabinet agreed that for Budget 2021, Ministers will only be able to submit critical cost pressure and high-priority manifesto commitments initiatives that you have invited into the process [CAB-20-MIN-0483 refers].

Potential initiatives identified by Ministers

You recently sought information from Ministers to inform the next phase of Budget 2021...

6. In order to inform the invitation process, you recently wrote to your colleagues and asked them to submit letters by 9 December 2020 setting out the cost pressure and manifesto commitments within their portfolios over the next three Budgets. You are also meeting with a number of Ministers this week to discuss Budget 2021 in relation to their portfolios and have received separate advice to support you in these discussions.

...which has resulted in a significant number of potential initiatives being identified...

7. Based upon the letters that have been received, Ministers have identified approximately 148 cost pressure initiatives and 121 manifesto commitments that could be invited into the Budget 2021 process (although this excludes Education, Health, and Social Development and Employment initiatives). This includes two packages of initiatives developed by groups of Ministers relating to Justice and Māori Development.

8. We also note that a number of Ministers have not identified any initiatives for Budget 2021 in at least one of their portfolios, and a small number of reprioritisation initiatives have also been highlighted which could see funding returned to the centre or used to manage pressures on the Budget 2021 allowances.

Design and criteria for the invitation process

The invitation process can support focussed decision-making through Budget 2021...

9. The total amount of funding that Ministers are seeking is uncertain due to the early stage of initiative development and the cost of some initiatives has not been included. However, we estimate that the amount of funding required would significantly exceed the remaining Budget 2021 operating allowance and put pressure on the multi-year capital allowance.
10. Adhering to allowances will require the Government to make difficult choices around where to focus spending to achieve the best value-for-money. Significantly restricting the number of initiatives that are invited into the Budget 2021 process will allow us to provide you with better information and analysis on the spending choices that you have, including how these will support the Government's priorities and wellbeing objectives.

...by applying strict criteria about which initiatives to invite for most portfolios...

11. For the majority of portfolios, we recommend that you specify which initiatives you will invite into the Budget 2021 process based on the information that Ministers have provided. This will set clear and unambiguous boundaries about what initiatives can and cannot be submitted for Budget 2021.
12. In order to inform your decisions, Appendix 1 contains two spreadsheets with recommendations from Treasury Vote teams on whether to invite individual initiatives. These recommendations are based on an initial assessment of whether initiatives meet the following criteria:
 - **Cost pressures:** whether they appear to constitute a critical cost pressure as defined in the Budget 2021 strategy Cabinet paper (for instance, the level of risk if funding was not provided). Out of 148 initiatives that were identified, Vote teams have recommended inviting 91.
 - **Manifesto commitments:** whether they represent a genuine commitment that is explicitly set out in one or more key Government documents, and whether they could reasonably be deferred to future Budgets. Out of 121 initiatives that were identified, Vote teams have recommended inviting 48.
13. We note that these recommendations are based on limited information and do not consider the value-for-money of individual initiatives. Additionally, in the time available we have not been able to moderate or test the recommendations of Vote teams in a systematic way.
14. We seek your confirmation of which initiatives you would like to invite into the Budget 2021 process. In general, we recommend taking a strict approach if there is any doubt on whether an initiative meets the criteria for Budget 2021, particularly for manifesto commitments where there is likely to be more discretion on when funding is required. For example, Vote teams have recommended inviting 23 initiatives that could be deferred if you wanted to take a tougher approach.

...and taking tailored approaches about what is submitted under certain priority portfolios.

15. As discussed with you at today's Weekly Agency Meeting with the Treasury, we are proposing tailored approaches around invitations for the portfolios of Education, Health, and Social Development and Employment rather than specifying exactly which initiatives should be submitted. This reflects the significant amount of funding that these portfolios usually receive or are seeking, as well as their contribution to the Government's priorities.
16. In brief, Vote teams are proposing the following approaches for these portfolios:
 - **Education:** providing an indicative allocation which Minister Hipkins must use in designing a package, alongside certain conditions around what kinds of initiatives can be submitted. We are not proposing to provide an allocation for capital.
 - **Health:** specifying that an initiative must be submitted for the costs of the health and disability system reform, as well as manifesto commitments can be submitted. Any remaining initiatives that are submitted must meet the definition of critical cost pressures as per the Budget 2021 strategy Cabinet paper.
 - **Social Development and Employment:** if Ministers wish to proceed with an increase to main benefits, we recommend that further funding for the portfolio is limited and that you use your bilateral discussion to agree what remaining initiatives should be taken forward if any.
17. Further information on these proposed approaches to invitations is included in the relevant bilateral meeting reports. We can also build in any changes you may request following your bilateral meetings with Ministers.

Minister Woods will also take decisions on initiatives in your portfolios.

18. You have previously agreed that the Associate Minister of Finance Dr Megan Woods will take decisions on whether to invite you to submit initiatives within your portfolios of Finance, Infrastructure, Racing, and Sport and Recreation. We will provide her with a separate report on Tuesday 15 December 2020 regarding these portfolios.

Letters and dealing with late initiatives

19. Attached are draft invite letter templates on which we welcome any feedback from you or your office. The templates note that initiatives not invited into the Budget 2021 process must not be re-submitted through out-of-cycle funding requests unless there is a compelling case for urgency. Following your feedback, we have also included wording thanking Ministers who have identified initiatives in future Budgets but none for Budget 2021.
20. Given the compressed timeframes and limited information available, there is a risk that initiatives which present significant risk if they are not funded could be excluded from the Budget 2021 process. However, we do not recommend instituting a formal late initiatives process as this could provide an avenue for Ministers to debate your decisions. Instead, we propose to deal with any late initiatives that pose significant risk on an ad hoc basis.

Next Steps

21. Following your decisions on issuing invitations for Budget 2021, we will work with your office to finalise letters for you to send on Friday 18 December.
22. Initiatives are due by Friday 29 January 2021. We will provide you with further advice in January 2021 on the road-map for the rest of the Budget 2021 process, including the assessment and decision-making phases.

Recommended Action

We recommend that you:

- a **note** that Cabinet agreed that for Budget 2021, Ministers will only be able to submit critical cost pressure and high-priority manifesto commitments initiatives that you have invited into the process [CAB-20-MIN-0483 refers]
- b **note** that for most portfolios, we recommend that you specify which initiatives you will invite in order to set clear and unambiguous boundaries about what can and cannot be submitted for Budget 2021
- c **agree** which of the cost pressure and manifesto commitment initiatives you wish to invite into the Budget 2021 process using the separate cost pressure and manifesto spreadsheets attached in Appendix One

Agree / disagree.

- d **note** that we are proposing to set certain conditions around invitations for the portfolios of Education, Health, and Social Development and Employment rather than specifying exactly which initiatives should be submitted
- e **note** that the Associate Minister of Finance, Hon Dr Megan Woods will receive separate advice on whether to invite you to submit initiatives from your portfolios
- f **provide** any feedback on the draft invitation letter templates attached in Appendix Two
- g **note** that we will work with your office to finalise invitation letters for you to send on Friday 18 December 2020, and
- h **refer** a copy of this report and attachments to the Associate Minister of Finance, Hon Dr Megan Woods.

Refer / not referred.

Simon Duncan
Acting Manager, Budget Management

Hon Grant Robertson
Minister of Finance