

# The Treasury

## Budget 2021 Information Release

### August 2021

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- [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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Date: 19 February 2021

To: Minister of Finance (Hon Grant Robertson)

Deadline: Before the Weekly Agency Meeting on 23 February 2021

## **Aide Memoire: Budget 2021 – approach to draft packages**

You will receive the Treasury’s preliminary economic and tax forecasts for the Budget Economic and Fiscal Update on 26 February 2021. Following this, we will be providing you with advice on draft Budget 2021 packages and Budget Ministers 2 material on 5 March 2021, alongside related advice on 4 March 2021 on the fiscal strategy and associated allowances for Budget 2021 and beyond.

This aide memoire outlines our proposed approach to developing the draft Budget 2021 packages, including the key choices and options that we will provide to you. We can discuss the contents of this advice with you at the Weekly Agency Meeting on 23 February 2021.

### **Background**

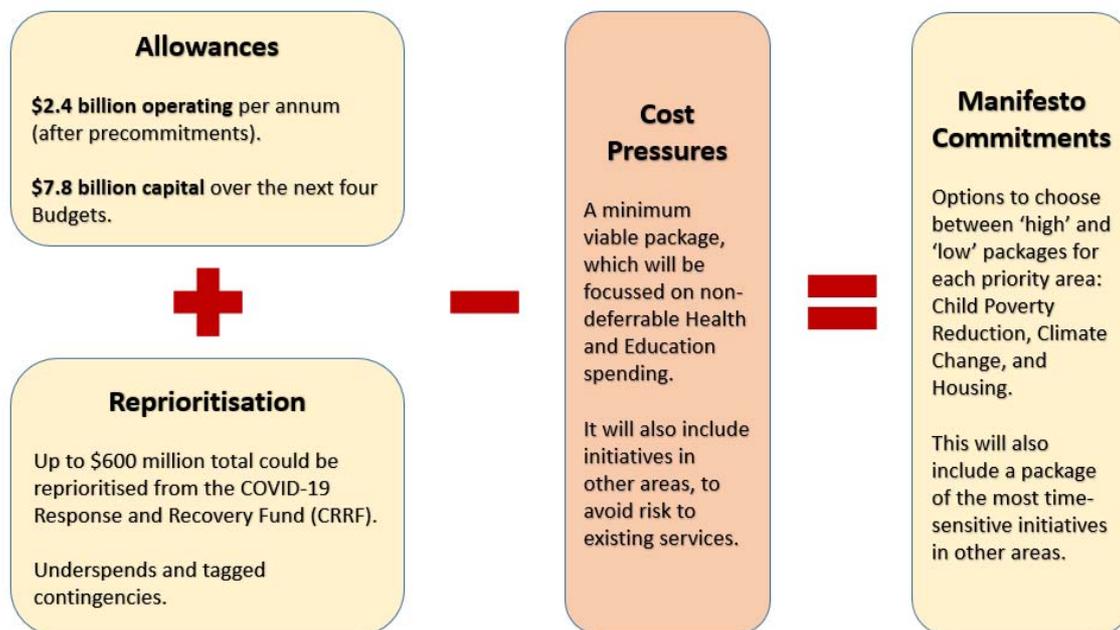
As highlighted at the Budget Ministers 1 meeting, allowances for Budget 2021 are significantly oversubscribed and trade-offs will have to be made in finalising a package. While Vote team assessments will help to identify initiatives that are not closely aligned with your priorities or are low value-for-money, considerable pressure on allowances will remain.

### **Proposed approach to package development**

In developing the options for draft packages, Budget 2021 provides an opportunity to focus your engagement with Budget Ministers on the key strategic choices around investment in the Government’s priority areas, instead of the marginal decisions on the 288 individual initiatives in Budget 2021.

We propose to take the following approach to forming draft packages (summarised in Figure 1 below).

Figure 1: approach to Budget 2021 package development



### Allowances

After precommitments, the remaining operating allowance for Budget 2021 is \$2.4 billion per annum. The multi-year capital allowance for the next four Budgets is \$7.8 billion. This excludes potential precommitments that are currently being considered around housing.

Due to the improved fiscal and economic outlook since the Half Year Economic and Fiscal Update, there is likely to be some room to increase this year's operating allowance to facilitate additional high-value spending. However, any increase will need to be balanced against existing long-term challenges to fiscal sustainability such as the ageing population. You can also stick to your signalled allowances and use this room to reduce debt levels and deficits, increasing fiscal space for spending in future years.

You will receive advice on the fiscal strategy including allowance settings for Budget 2021 and beyond on 4 March 2021.

### Reprioritisation

Savings and reprioritisation options can help to increase the fiscal headroom for Budget 2021 and allow you to make more substantial investments in key priority areas.

As part of our draft package advice, we will provide you with options for reprioritisation of underspent or low-value funding from the COVID-19 Response and Recovery Fund (CRRF). As signalled at the first Budget Ministers meeting, initial estimates from agencies are that \$600 million (total over the forecast period) of CRRF funding could be available for reprioritisation. However, this requires further investigation which is currently underway.

We are also investigating whether further savings could be achieved by expiring older tagged contingencies and bringing any underspends identified in the March Baseline Update back to the centre. There may also be options to use the recent downward Education forecast changes to manage pressure against allowances. These total -\$1.06 billion across the forecast period.

Other options include looking to fund high-value initiatives that relate to the impacts of COVID-19 from the CRRF rather than allowances.

### *Cost pressures*

Based on experience from recent Budgets, funding for non-discretionary cost pressures is likely to make up a significant proportion of the Budget 2021 package.

As part of their assessments, Vote teams are considering evidence of the criticality of these pressures as well as whether there are options available to manage them that do not require new funding. However, recent experience indicates that there is limited discretion around pressures that are associated with the provision of core public services. Decisions to scale or defer funding can provide more space for investment in priority initiatives, but can also lead to increased costs and greater risk of service failure.

We will provide you with a “minimum viable package” of critical cost pressures that pose significant risks if not funded. This package will likely focus on pressures in Health and Education given the rising costs of service provision in these sectors. As not all cost pressures can be funded, this package will still have associated service delivery risks.

### *Manifesto commitments*

Your key strategic choice for Budget 2021 is how to balance investment across the Government’s priority areas of child poverty reduction, climate change, and housing, while also funding critical cost pressures and managing within allowances.

In order to provide you with options for investment across these priorities, we will provide you with ‘high’ and ‘low’ draft packages for each priority area. As part of our advice, we will signal the broad trade-offs and risks associated with each package variation, including alignment with the Living Standards Framework and your Government’s wellbeing objectives. We will also draw out the impacts on Māori and Pacific peoples as per your direction at Budget Ministers 1. The size of each package will depend on the size and quality of the initiatives in each area, as well as the balance of the allowances after allowing for cost pressure funding.

For all other manifesto initiatives, we will provide you with a single package of the most time-sensitive commitments which require funding in Budget 2021. Significant trade-offs and sequencing across the next two Budgets will need to be made in order to accommodate cost pressure funding and investment in the three priority areas.

**Next steps**

We are available to discuss any feedback you have on our approach to package development at your Weekly Agency Meeting with the Treasury on 23 February 2021.

We will provide you with draft package advice and draft Budget Ministers 2 material on 5 March 2021.

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