

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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- [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.

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Treasury Report: Budget 2021: Draft Budget Ministers 3 Slides

Date:	24 March 2021	Report No:	T2021/722
		File Number:	BM-2-1-2021

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>Provide feedback on the draft Budget Ministers 3 slides (Annex One) and outstanding decisions table (Annex Two) attached.</p> <p>Note that Budget Ministers 3 is a critical decision-making point.</p> <p>Agree to the intended approach to communicating Budget Ministers 3 decisions with agencies.</p>	25 March 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Eliza Thurlow	Analyst, Budget Management	[39]	N/A (mob) ✓
Tom Hall	Manager, Budget Management	[35]	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Budget 2021: Draft Budget Ministers 3 Slides

Purpose of Report

1. This report provides you with draft slides ahead of Budget Ministers 3 for your feedback, seeks your agreement to the proposed approach to sharing decisions made at Budget Ministers 3 with agencies, and seeks your feedback on outstanding decisions.
2. Attached to this report are two annexes:
 - a **Annex One** contains the draft slides for Budget Ministers 3 for your feedback.
 - b **Annex Two** contains a list of changes made following your feedback at the Weekly Agency Meeting on Monday 22 March 2021, as well as outstanding issues on which we are seeking your decisions.
 - c **Annex Three** contains information on initiatives submitted by Māori Ministers for consideration as part of a Māori Budget package, as well as initiatives that we have identified to date as directly targeting Māori.
 - d **Annex Four** contains material relevant to the Child Poverty Report on which we also welcome your feedback.
3. We seek your feedback on the draft slides and outstanding decisions by Thursday 25 March 2021 to allow us to incorporate any changes ahead of providing final slides on Friday 26 March 2021.

Draft Package Summary

The near-final package includes changes conveyed at the Weekly Agency Meeting

4. Tables 1 and 2 provide an overview of the near-final package, including the majority of decisions you outlined at the Weekly Agency Meeting (see Annex Two). The draft package contains \$3.9 billion operating funding per annum across the operating forecast period, and \$3.6 billion total capital funding over the ten-year capital forecast period.¹ \$3.8 billion total is proposed for funding from the COVID-19 Response and Recovery Fund (CRRF), once the reprioritisation of underspends is accounted for.
5. Tables 1 and 2 reflect data as at 10am Wednesday 24 March 2021. Figures in the draft slides will be updated following your confirmation of outstanding decisions. The 'Cost Pressures' figures included in Table 1 exclude Vote Education and Tertiary Education cost pressure initiatives, as these are reflected in the 'Revised Education' amount.
6. A final Budget 2021 significant package annex listing all included and excluded initiatives will be provided alongside the final Budget Ministers 3 slides.
7. Three late Vote Health initiatives are included in the 'TBC' amount for discussion at Budget Ministers 3.

¹ The operating forecast period covers 2020/21-2024/25. The capital forecast period covers 2020/21-2029/30. Subsequent references to the forecast period refer to these periods.

Table 1: Revised Budget 2021 package (impact on allowances)

	Operating (\$m p.a.)	Capital (\$m 10 year total)
Funding charged against Budget 2021 allowances		
Pre-commitments	216	11
Between-Budget Contingency	40	-
Emerging Priorities Contingency	5	-
Cost Pressures*	1,874	1,412
Manifesto: Child Wellbeing	649	1
Manifesto: Climate Change	96	372
Manifesto: Housing	145	-
Manifesto: Other	448	1074
Revised Education**	464	762
Sub-total	3,936	3,634
Funding charged against Budget 2022 allowances		
Second main benefit increase and other changes ²	607	-
Sub-total	607	-
Total	4,543	3,634
TBC (Health)***	11	6

Table 2: Revised Budget 2021 package (impact on CRRF)

	Operating (\$m total)	Capital (\$m 10 year total)
Reprioritisation	(913) ³	
Housing Acceleration Fund	2,800	1,000
Other initiatives	475	404
Total	3,766	

*Does not include Vote Education and Vote Tertiary Education cost pressure initiatives.

**Reflects only the department-sought amount.

***Three late Vote Health initiatives

8. The draft Budget 2021 package seeks funding of \$3.9 billion operating per annum over the forecast period. If agreed by Budget Ministers, this would be a large increase above the \$2.625 billion per annum operating allowance recently and publicly announced through the Budget Policy Statement 2021.

9. [34]

² This would be a pre-commitment against the Budget 2022 operating allowance of \$607 million per annum. Charging the second main benefit increase against the Budget 2021 operating allowance would be \$466 million per annum. This difference is a result of the second main benefit increase being counted against an additional outyear (2025/26) than if it was charged against the Budget 2021 allowance. Capital funding for student loans would not be charged against Budget allowances on the basis that these are considered fiscally neutral.

³ This figure is as at 5pm on Tuesday 23 March 2021 and will be confirmed in the final version of the Budget Ministers 3 slides.

Proposed impact of decisions on the CRRF

10. At the Weekly Agency Meeting on 22 March 2021, you also indicated a preference for the balance of the CRRF to remain above \$5.0 billion after accounting for CRRF funding initiatives. The current quantum of funding proposed to be charged against the CRRF is \$4.7 billion, less \$0.9 billion of reprioritised underspends to be returned to the CRRF.
11. The current balance of the CRRF is \$9.0 billion. The remaining balance of the CRRF will be \$5.2 billion if all initiatives proposed for CRRF funding through Budget 2021 and all proposed reprioritisation is agreed.

Budget Ministers 3

12. As numerous decisions are still outstanding, the impact, wellbeing and distributional analysis will be updated in the draft slides once your decisions have been provided.

Budget Ministers 3 is the key decision-making point

13. Budget Ministers 3 is the key decision-making point ahead of Cabinet consideration of the Budget 2021 significant package. Decisions on almost all the Budget 2021 package must be made at Budget Ministers 3 to allow sufficient time for Cabinet financial recommendations to be produced ahead of Cabinet consideration of the Budget 2021 significant package.
14. **While there is scope for a small number of decisions to be left outstanding or agreed at Budget Ministers 4, delays to decisions on more than a handful of marginal initiatives would pose significant risk to the production of the Cabinet paper and Cabinet financial recommendations, with flow-on implications for Budget Day.**

Informing agencies of Budget Ministers 3 decisions

15. Considering the compressed timeframes, we recommend providing relevant agencies with as much notice as possible to allow adequate time to prepare Cabinet financial recommendations.
16. We seek your agreement for us to inform agencies of Budget Ministers' decisions by bilaterally informing initiatives in CFISnet immediately following Budget Ministers 3 on Monday 29 March 2021.

Budget Ministers 3 slides contain He Ara Waiora analysis and updated wellbeing information

17. As previously signalled to you (T2021/359 refers), we have undertaken a light-touch approach to incorporating He Ara Waiora analysis into Budget 2021. We have considered the extent to which He Ara Waiora principles were reflected in initiatives. We focused on initiatives which significantly impact on Māori, and took a higher-level view across other initiatives.
18. The draft slides include an overview of the He Ara Waiora framework, and a table summarising the key themes from our analysis. Overall, while some initiatives strongly aligned with the principles of He Ara Waiora, others demonstrate opportunities for further development. For example, the principle of kotahitanga highlighted the need for agencies to work in a coordinated and collaborative manner, and with iwi and Maori, rather than working in silos. Ideally, proposals relevant to iwi and Māori would show evidence of prior engagement, rather than promising it at a future date.

19. Looking forward, we are exploring options to improve departments' understanding of He Ara Waiora and further integrate it into the Budget process.

Outstanding Decisions

20. Annex Two contains a list of changes we have made in response to your feedback from the Weekly Agency Meeting, as well as a number of outstanding issues on which we require decisions. We seek your decisions on these outstanding issues in order for these to be incorporated into the near-final package ahead of Budget Ministers 3.
21. A revised housing package has now been reflected in the near-final package. The housing affordability placeholder initiative has now been resubmitted as discrete components. This includes a revised Māori housing initiative which replaces the previous three initiatives across Vote Housing and Urban Development and Vote Māori Development. There are some outstanding decisions and advice needed on the revised housing package, and the Vote team will provide additional advice before Budget Ministers 3 in coordination with the Ministry of Housing and Urban Development.
22. On 22 March 2021, the Minister for Education, Hon Chris Hipkins, wrote to you outlining a new education package for Budget 2021. The amounts sought in Vote Education and Vote Tertiary Education now total \$1.855 billion operating and \$762 million capital funding. On 23 March 2021, the Treasury Vote team provided you with an Aide Memoire [T2021/744 refers] summarising the initiatives submitted and providing options for further scaling. We seek your confirmation via Annex Two of what initiatives in the revised Education sub-package should be included in the draft Budget 2021 package.
23. On 23 March 2021 the Associate Minister of Finance, Hon Dr Megan Woods, agreed to include two of the three late Vote Finance initiatives in the near-final package and has requested this decision be put before Budget Ministers. The two initiatives have now been included in the near-final package.

Initiative	Total recommended funding
13433 – Restoring the Productivity Commission's research and engagement capability	\$3.600m opex
13438 – Delivering New Zealand's contribution to the World Bank capital increase package	\$27.900m capex
[33]	

Next Steps

24. Your feedback will be incorporated into the final Budget Ministers 3 slides, which will be provided on Friday 26 March 2021, ahead of Budget Ministers 3 on Monday 29 March 2021.
25. Other key milestones leading up to Cabinet's consideration of the Budget 2021 package on 12 April 2021 are:
- **25 March:** Treasury Report sent to you with the technical Budget 2021 package Cabinet paper.
 - **26 March:** Treasury Report sent to you with the preliminary fiscal forecasts.
 - **1 April:** Treasury Report to be sent to you with the draft significant Budget 2021 Cabinet paper, and technical Budget 2021 package Cabinet paper lodged with the Cabinet Office.

- **6 April:** Budget Ministers 4 meeting (to be held only if required) and Cabinet considers the technical Budget 2021 package.
- **8 April:** Treasury Report sent to you with the final economic forecasts.
- **9 April:** Significant Budget 2021 Cabinet paper lodged with the Cabinet Office, and email sent to your office with the near-final tax forecasts.

Recommended Action

We recommend that you:

- a **agree** that the Budget Ministers 3 meeting on Monday 29 March 2021 will finalise the Budget 2021 package that you submit to Cabinet for approval on 12 April 2021,
Agree/disagree
- b **provide** feedback on the draft Budget Ministers 3 slides attached as Annex One by 25 March 2021,
- c **note** the changes outlined in Annex Two that we have made to the draft Budget 2021 package as a result of recent feedback,
- d **agree** to make the outstanding decisions, as set out in Annex Two, and
Agree/disagree.
- e **direct** the Treasury to inform agencies of Budget Ministers' decisions by bilateralising initiatives in CFISnet immediately following Budget Ministers 3 on Monday 29 March 2021.
Agree/disagree

Tom Hall
Manager, Budget Management

Hon Grant Robertson
Minister of Finance