

The Treasury

Budget 2022 Information Release

August 2022

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Treasury Report: Budget 2022 – Strategy and Design

Date:	13 August 2021	Report No:	T2021/1869
		File Number:	BM-2-14-2021

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>Agree to the strategy and design for Budget 2022.</p> <p>Refer a copy of this report and attachments to Budget Ministers (Prime Minister and Associate Minister of Finance Hon Dr Megan Woods).</p>	16 August 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Gerald Lee	Senior Analyst, Budget Management	[39]	[35] ✓
Hamish Dick	Graduate Analyst, Budget Management		
Simon Duncan	Team Leader, Budget Management		

Minister's Office actions (if required)

Return the signed report to the Treasury.

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

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Budget 2022 – Strategy and Design

Purpose of Report

1. This report seeks your agreement to the overall strategy and design for Budget 2022. It provides an overview of the more detailed content in the attached slide pack, which includes sections on context, strategy, design and implications for beyond Budget 2022.
2. We are meeting with you to discuss this report and slide pack on Monday 16 August and an agenda for this meeting is attached.
3. We have provided an initial assessment of the emerging themes in the economic outlook and what this could mean for the fiscal outlook and fiscal policy. Ahead of the Budget Policy Statement (BPS) 2022, we will provide you with further advice to support decisions on your current fiscal strategy, including allowances.

Context

The economy has recovered more quickly than forecast at Budget 2021

4. Given the interest in understanding recent changes to economic conditions, we have prepared an interim update to the Treasury's main economic forecasts that were published in the *Budget Update*. This interim update is not as comprehensive as a full Economic and Fiscal Update forecast but is useful for illustrating how changes to the economic outlook could impact on the fiscal position and fiscal policy over the near term. We will provide more detailed advice following preliminary forecasts later in the year, by which stage the economic outlook will be clearer.
5. Early indications are that the Government's 30 June 2021 fiscal outturn will be much stronger than expected at Budget 2021. In particular, tax revenue has increased significantly on *Budget Update* forecasts due to the improved economic outlook. This will be partially offset by higher forecast expenditure, before factoring in any changes to Budget allowances.

Your current Budget allowances are significantly constrained

6. Your current Budget 2022 allowances (after precommitments) of \$1.7 billion operating per annum (across the Budget 2022 forecast period) are unlikely to be able to sufficiently fund cost pressures alongside your manifesto priorities (including Health sector reform, addressing climate change, and funding for the Justice and Natural Resources clusters), unless savings or revenue options are progressed.
7. In the absence of changes to policy settings, cost pressures will continue to require a significant portion of Budget allowances each year, averaging \$2.3 billion operating per annum and \$3.4 billion capital (ten-year total) over the last three Budgets. You have \$5.9 billion remaining in your multi-year capital allowance for allocation across Budgets 2022 to 2024.

The improved economic outlook means that demand-side support is no longer needed

8. Your fiscal strategy for the last two Budgets has focused on supporting the economy through the COVID-19 downturn. Updated forecasts are a good indication that your focus at Budget 2022 should shift to sustaining the recovery and constraining spending growth to minimise risks of overheating the economy. Any additional spending in the short term will increase these risks – even initiatives that have substantial long-term benefits. New ongoing spending could also exacerbate medium-term fiscal sustainability challenges.
9. New spending should therefore meet a higher justification threshold from a macroeconomic perspective. To this end, we suggest a greater focus on value-for-money assessment and ensuring that proposals are either aligned with your strategic priorities, addressing long term expenditure pressures, or alleviating capacity constraints. If you wish to increase spending now, there are options for the composition, phasing and overall level of new expenditure that will help you manage the macroeconomic and fiscal impacts.

Budget 2022 provides an opportunity to progress Government priorities

10. You have indicated that your next two Budgets will continue to make progress against the Government's three goals for this term of:
 - keeping New Zealanders safe from COVID-19
 - accelerating the recovery and rebuild from the impacts of COVID-19, and
 - laying the foundations for the future, including addressing key issues such as climate change, housing affordability and child poverty.
11. You have also publicly indicated two areas of focus for investment in Budget 2022:
 - addressing climate change by investing to reduce greenhouse gas emissions and secure a just transition, and
 - supporting the success of health reforms by implementing a transitional multi-year funding package.
12. Through the Budget 2022 strategy Cabinet paper you have an opportunity to communicate your Budget 2022 priorities to your Cabinet colleagues. We ask that you inform the Treasury what you would like these priorities to be, and whether you have any particular areas of focus for new spending in Budget 2022 in addition to those listed in paragraph 9 [recommendation a refers].
13. Moreover, as part of developing the BPS, you have an opportunity to consider whether the current wellbeing objectives are still fit-for-purpose. In particular, you requested advice on whether:
 - references to COVID-19 could be removed, and
 - housing affordability issues could be more directly expressed.
14. We recommend that that specific references to COVID-19 are removed from the objectives for Budget 2022. Continuing to support New Zealand's economic recovery from the pandemic (with a focus on those most impacted) implicitly underpins all wellbeing objectives. We also recommend that you include specific references to housing in three of your wellbeing objectives [recommendation b refers].

Criteria for accessing the COVID-19 Response and Recovery Fund should be tightened

15. The COVID-19 Response and Recovery Fund (CRRF) is your primary fiscal lever to support the Government's response to COVID-19. The balance of the CRRF is just over \$4.7 billion (as at 13 August 2021). The CRRF is likely to come under further pressure as funding may be required for (amongst other things) managed isolation and quarantine (MIQ) and vaccines. A significant resurgence of COVID-19 in the community would deplete the remaining CRRF.
16. We recommend that you tighten the criteria for accessing the CRRF, formalising your current approach, and that you communicate this to your Cabinet colleagues [recommendation c refers].
17. You may wish to undertake a further CRRF reprioritisation exercise, similar to that for Budget 2021 [as in T2020/3163 and T2021/200]. Such an exercise would require additional resources to successfully implement and should be considered against the existing complexity of Budget 2022.

Budget 2022 should strengthen targeted value-for-money analysis

18. Our proposed value-for-money approach builds on Budget 2021 by providing a more systematic structure for advice on the prioritisation of initiatives, and there is an opportunity for value-for-money analysis to play a greater role at times when there is relatively more flexibility in your short-term intentions and long-term objectives for fiscal policy. Our approach to value-for-money assessment incorporates three components:
 - **value** – including wellbeing analysis
 - **alignment** – alignment to Government priorities and strategies, and
 - **delivery** – assurance of effective and efficient delivery.
19. A forthcoming Treasury Report on 27 August will provide more detailed advice on our approach to value-for-money assessment and will seek your agreement to the scope of this assessment for Budget 2022.

Design

20. Initiatives considered through Budget 2022 may be broken down into five types: Government manifesto priorities; Climate Fund initiatives; Health sector reform initiatives (cost pressures and sector rebase); cluster initiatives (Justice and Natural Resources); and cost pressures.
21. Cost pressure, manifesto and Climate Fund initiatives should all be included in the Budget 2022 process by invitation only. We understand that your office will provide a list of Government manifesto priority initiatives to be invited into the Budget 2022 process. We can provide advice to support your decisions on cost pressure and Climate Fund invitations.
22. Budget 2022 will be inherently complicated to implement. However, the Treasury will still provide coordinated package advice that allows you and Budget Ministers to look across all initiative types, with core information requirements the same for all initiatives.

23. We propose the following key milestones for Budget 2022. Further details are included in the attached slide pack.

Date	Milestone
2021	
Tuesday 24 August	Budget Ministers 1: Strategy and design
Monday 30 August	Budget 2022 strategy considered by Cabinet
Tuesday 31 August	Budget strategy letters to all portfolio Ministers
Friday 17 September	Ministers submit invitation intention letters (excl. cluster Ministers)
Friday 24 September	Budget 2022 guidance for agencies (relevant to all initiative types)
Monday 4 October	Budget Ministers 2: Setting the scene and initiative invitations
Monday 11 October	Budget 2022 invitations sent
Early November	Preliminary <i>Half Year Update</i> fiscal forecasts
Late November	Final <i>Half Year Update</i> fiscal forecasts
Friday 3 December	All Budget 2022 initiatives submitted to the Treasury
Mid-December	<i>Half Year Update</i> and <i>Budget Policy Statement</i>
December to February	Treasury assessment of initiatives
2022	
Tuesday 15 February	Budget Ministers 3: Draft package
Tuesday 8 March	Budget Ministers 4: Near-final package
Mid-March	Preliminary <i>Budget Update</i> fiscal forecasts (TBC)
Wednesday 16 March	Budget Ministers 5: Final package
Monday 4 April	Budget 2022 package considered by Cabinet
Late April	Final <i>Budget Update</i> fiscal forecasts

24. At this stage, we ask that you agree to the key Budget 2022 milestones for the remainder of 2021. Key milestones for 2022 are indicative only and are subject to your preferences, the Cabinet and Parliamentary sitting timetables for 2022, Ministerial availability, forecast timings for the *Budget Update*, and your decision on the date for Budget Day. We will provide further advice on the timetable for 2022 later this year.

Next Steps

25. We are meeting with you on 16 August 2021 at 3.00pm to discuss your decisions on Budget 2022 strategy and design. An agenda for this meeting is attached.
26. Following this discussion, we propose the following key milestones in the lead up to Cabinet considering the Budget 2022 strategy paper:
- **18 August:** Draft Budget Ministers material provided for your feedback.
 - **20 August:** Treasury Report sent to you with first draft of the Budget 2022 strategy and design Cabinet paper and final material for your meeting with Budget Ministers.
 - **24 August:** Meeting with Budget Ministers ahead of taking the strategy and design paper to Cabinet.
 - **25 August:** Second draft of the Budget 2022 strategy and design Cabinet paper.
 - **27 August:** Budget 2022 strategy and design paper lodged with Cabinet Office.
 - **30 August:** Budget 2022 strategy and design paper considered by Cabinet.

Recommended Action

We recommend that you:

Strategy for Budget 2022

- a **inform** the Treasury of your Budget priorities for Budget 2022 for inclusion in the Budget 2022 strategy and design Cabinet paper;
- b **agree**, subject to the Treasury's consultation with the Chief Science Advisors, to remove specific references to COVID-19 from all of your wellbeing objectives and to include specific references to housing in three of your five wellbeing objectives, so that these objectives will read as follows:
 - a. **Just Transition** – Supporting the transition to a climate-resilient, sustainable and low-emissions economy while providing for greater housing affordability.
 - b. **Future of Work** – Enabling all New Zealanders and New Zealand businesses to benefit from new technologies and lift productivity and wages through innovation.
 - c. **Physical and Mental Wellbeing** – Supporting improved health outcomes for all New Zealanders.
 - d. **Māori and Pacific** – Lifting Māori and Pacific incomes, skills and opportunities, including through access to affordable, safe and stable housing.
 - e. **Child Wellbeing** – Reducing child poverty and improving child wellbeing, including through access to affordable, safe and stable housing.

Agree/disagree

- c **agree** to tighten the criteria for accessing the COVID-19 Response and Recovery Fund, and communicate this to your Cabinet colleagues, so that all new funding is either:
 - a. responding to a COVID-19 resurgence (including economic support measures and public health response costs)
 - b. continuing the vaccine rollout
 - c. maintaining the managed isolation and quarantine system, or
 - d. funding significant policy changes resulting from the *Reconnecting New Zealanders* work programme.

Agree/disagree

- d **indicate** whether you would like to run a COVID-19 Response and Recovery Fund reprioritisation exercise as part of Budget 2022, noting the complexity this would add to the Budget 2022 process;

Yes/no

- e **note** that a forthcoming Treasury Report on 27 August [T2021/2015] will seek your agreement to the scope of wellbeing and value-for-money analysis in Budget 2022 and provide more detailed advice on this element of the Budget process;

Process and timeframes for Budget 2022

f **agree** to the following as five different types of initiatives to be progressed through the Budget process, noting the complexity that this embeds in the Budget 2022 process, compared to the Budget 2021 process:

- a. Government manifesto priorities
- b. Climate Fund
- c. Health sector reform
- d. Clusters (Justice and Natural Resources), and
- e. Cost pressures.

Agree/disagree

g **agree** to the table of key (final and indicative) milestones for Budget 2022, as detailed in paragraphs 21 and 22 of this report;

Agree/disagree

h **agree** to a Budget Ministers meeting on the following date in 2021:

- a. **Budget Ministers 2: Setting the Scene and Initiative Invitations – Monday 4 October**

Agree/disagree

i **agree-in-principle** to Budget Ministers meetings on the following dates in 2022:

- a. **Budget Ministers 3: Draft Package – Tuesday 15 February**
- b. **Budget Ministers 4: Near-final Package – Tuesday 8 March**
- c. **Budget Ministers 5: Final Package – Wednesday 16 March**

Agree/disagree

Next Steps

j **discuss** this report and your decisions on the Budget 2022 strategy and design with officials on Monday 16 August 2021; and

k **refer** a copy of this report and attachments to Budget Ministers (Prime Minister and Associate Minister of Finance, Hon Dr Megan Woods).

Referred/not referred

Simon Duncan
Team Leader, Budget Management

Hon Grant Robertson
Minister of Finance