

The Treasury

Budget 2022 Information Release

August 2022

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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] Out of Scope
- [41] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment
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Treasury Report: Budget 2022 Bilateral: Hon Grant Robertson (Finance)

Date:	24 February 2022	Report No:	T2022/339
		File Number:	DH-15-2-1

Action sought

	Action sought	Deadline
Hon Dr Megan Woods Associate Minister of Finance	Discuss the contents of this report at your meeting with Hon Grant Robertson (Minister of Finance) on 1 March.	1 March 2022

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Tim Roper	Senior Analyst, Justice, Security and Government Services	[39]	N/A (mob) ✓
Awhi Fleming	Team Leader, Justice, Security and Government Services		N/A (mob)

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 2022 Bilateral: Hon Grant Robertson (Finance)

Executive Summary

This report provides you with advice about the Finance portfolio initiatives for Budget 2022 submitted by Hon Grant Robertson (Minister of Finance) to discuss at your meeting with him at 4.15 - 5.00pm on 1 March. You have delegation to act as Minister of Finance where matters relate to appropriations in Vote Finance for which the Minister of Finance is responsible.

The meeting will also cover your Housing portfolio initiatives, which this report does not cover.

The Minister of Finance has submitted five initiatives totalling [33] operating and [33] capital.

Of the five, two are cost pressures focused on funding the Treasury to undertake its departmental activities (i.e. are for staffing and overheads). Key factors to consider for these initiatives are the value being delivered by the Treasury, the degree to which labour market constraints impact delivery and whether the Treasury should be expected to absorb costs within baselines. The Vote team assessment, reflected in the draft package, is to support scaled funding of [33] million operating for the *Maintaining Treasury Capability* initiative (ID 13803) and full funding of \$3.350 million operating for the *Funding to Monitor* initiative (ID 13800).

The other three initiatives are primarily non-departmental new activities, for which there is more discretion about whether to fund. [33]

Recommended Action

We recommend that you **discuss** the contents of this report with Hon Grant Robertson (Minister of Finance) at your meeting on 1 March 2022.

A handwritten signature in black ink, appearing to be 'Awahi Fleming', enclosed in a thin black rectangular border.

Awahi Fleming
Team Leader, Justice, Security and Government Services

Hon Dr Megan Woods
Associate Minister of Finance

Treasury Report: Budget 2022 Bilateral: Hon Grant Robertson (Finance)

Purpose of Report

1. You are meeting with the Minister of Finance, Hon Grant Robertson, at 4.15 - 5.00pm on 1 March to discuss the Finance portfolio initiatives the Minister has submitted for consideration through Budget 2022. You have delegation as Associate Minister of Finance to act as Minister of Finance where matters relate to appropriations in Vote Finance for which the Minister of Finance is responsible. This report provides you with advice and talking points to support your discussion.
2. Four annexes are attached to this report:
 - Annex A provides a baseline summary for the Treasury.
 - Annex B provides talking points for your bilateral discussion with the Minister of Finance.
 - Annex C provides a full list of initiatives submitted in the Finance portfolio, the funding sought, the Treasury Vote team assessment and recommendation, and how this is reflected in the draft Budget 2022 package.
 - Annex D provides a suggested agenda for the meeting.
3. The meeting will also cover your Housing portfolio initiatives, which this report does not cover.

Context for Finance portfolio

4. There are five appropriation Ministers, with associated portfolios, included in Vote Finance.¹ The Finance portfolio, which is held by Hon Grant Robertson as Minister of Finance, is by far the largest and includes the main departmental operating expenses for the Treasury. Only the Minister of Finance submitted initiatives related to this Vote for Budget 2022.
5. The Treasury primarily delivers on its strategic intentions² through the provision of first-opinion advice to Ministers and through its central agency role in providing second-opinion advice and working with others within and beyond the public service. As a policy agency, Treasury's primary cost driver is its personnel. Treasury's personnel expenses account for approximately 68 percent of its total departmental expenses in the year to 30 June 2022.
6. As at the 2021 October Baseline Update, budgeted operating expenses for the Finance portfolio for 2021/22 total \$1,457 million (out of \$1,757 million across the Vote as a

¹ The other portfolios are Climate Change, State Owned Enterprises, Infrastructure, and Earthquake Commission.

² The Treasury's 2021-2025 Strategic Intentions set out four outcomes to achieve: a strong, growing and resilient economy for all; sustainable public finances that deliver intergenerational wellbeing; system leadership that supports a high-performing public service; and, compelling advice on New Zealand's biggest issues.

whole). Of these, \$108 million are departmental and \$4,503 million non-departmental. Further detail on Vote Finance baselines is provided in Annex A.

7. The Vote team’s analysis of the baseline indicates that there are no obvious opportunities for reprioritisation. Departmental baselines are under significant pressure, reflected in the two cost pressure initiatives seeking new departmental funding. On the non-departmental side, once spending activities covered by permanent legislative authority (PLA) are excluded, there is very little 'discretionary' spend. In support of our analysis we note the following points:
 - a The annual baseline for Finance portfolio departmental operating expenses (excluding PLA) has remained steady at around \$92 million over the period 2019/20 to 2021/22, though is set to reduce over time from about \$88 million in 2022/23 to \$86 million in each of 2025/26 and outyears.
 - b Once time-limited baseline funding ceases after 2021/22, the annual baseline for Finance portfolio non-departmental expenses (excluding PLA) reduces significantly to about \$34 million.
 - c Similarly, most non-departmental capital expenditure items (excluding PLA) represent one-off capital injections, excepting contributions to the NZ Superannuation Fund and refinancing of Kāinga Ora and Housing New Zealand Ltd debt, which are ongoing.
 - d While there have been unavoidable delays in some areas, e.g. Greater Christchurch Anchor Projects, necessitating funding transfers into subsequent years, no areas are consistently underspent.
8. The two tables below provide additional context by comparing Budget 2022 initiatives for the Finance portfolio with those submitted in Budget 2021. Table 1 compares the total amounts of operating and capital funding sought and funded / recommended for the Finance portfolio. Table 2 lists the key initiatives from each of Budget 2021 and Budget 2022, with initiatives in the same broad subject area listed side by side and amounts funded / recommended shown in brackets.

Table 1: Budget funding sought and funded/recommended

	Budget 2021		Budget 2022	
	Sought	Funded	Sought	Recommended (Package)
<i>Operating (\$m)</i>	[33]	30	[33]	[33]
<i>Capital (\$m)</i>		328		-

Table 2: Key initiatives

Budget 2021	Budget 2022
Recapitalising New Zealand Green Investment Finance Ltd (\$300 million funded)	[33]
Accelerating New Zealand's Economic Recovery - Laying the Foundation for a Better Future (\$25.239 million funded)	Maintaining Treasury Capability and Supporting Government Delivery ([33] recommended)
	Funding to Monitor other entities and functions (\$3.350 million recommended)
[33]	
Delivering New Zealand's contribution to the World Bank capital increase package (\$27.900 million funded)	[1,33]
Restoring the Productivity Commission's research and engagement capability (\$3.600 million funded)	

Initiatives submitted for Budget 2022

9. Five initiatives have been submitted by the Minister of Finance for consideration in Budget 2022. These are summarised in Annex C and discussed below.

1) Maintaining Treasury Capability and Supporting Government Delivery (ID 13803)

Funding sought: [33] operating
 Funding recommended and draft package: [33] operating

10. This initiative seeks to respond to capability and capacity issues facing the Treasury as a result of cost pressures and increased demand for fiscal and economic advice. It comprises three packages.
11. Package A (Foundation initiatives, the lowest cost option) seeks to maintain Treasury's existing staff numbers and capability levels. Cumulatively building on this are Packages B and C. Package B (Priority Response initiatives, the middle cost option), seeks to strengthen the Treasury's core Crown finance systems and capacity in key policy areas. Package C (Targeted Investment initiatives, the highest cost option) seeks to strengthen and expand the Treasury's systems and capacity.
12. This initiative includes a scaled, 'hybrid' option discussed with the Minister of Finance pre-submission that combines Package A with selected elements of Package B [33] and Package C [33]. The total cost of this 'hybrid' option is [33] over the forecast period (i.e. about [33] more than Package A).

³ Note that figures for this initiative have been reworked since the date of submission to exclude assumed remuneration increases over the forecast period. Applying this adjustment reduces the 'Funding sought' figure to [33]. All other figures quoted for this initiative incorporate this adjustment.

13. In our view the level of new funding as proposed in Package A will sufficiently avert risk of service delivery failure in the Treasury's core functions. We accept that the Treasury is clearly facing critical cost pressures: in addition to difficulties retaining staff and filling vacancies, there have been generic cost increases across the department's other significant inputs, e.g. accommodation and IT contracts.
14. Even though the Treasury has managed to find some savings, e.g. from disestablishing certain functions and reduced international travel during the pandemic, these have not been nearly enough to offset the cost pressures. In order to manage, the Treasury has had to rely on leaving positions unfilled. This is an unsustainable solution, as it places both work programme delivery and staff welfare at risk. Package A will enable the Treasury to meet personnel cost pressures by enabling it to ^[38] , as well as meet other recent unavoidable cost pressures.
15. Our assessment is that, as each of Packages B, C and the 'hybrid' option involve system and capacity strengthening and expansion, they fall outside the criteria for consideration as critical cost pressures in Budget 2022. On this basis, irrespective of merit, they should properly be deferred to a future Budget.
16. We accept that the Treasury's role requires it to respond to key government priorities and emerging issues in a dynamic environment. In order to manage resources, regular discussion between the department and its Minister about which activities to scale back or cease to provide capacity for, to deliver higher-priority activities, will continue to be necessary (as is the case for other agencies). This is alongside careful monitoring of spending against the available multi-year appropriation.
17. We also note that Package A is the most realistically achievable option in the current labour market, given it involves retaining existing staffing and so the lowest FTE requirement (32 to fill vacancies). By way of comparison, the 'hybrid' option requires an additional ^[33] new FTEs over and above Package A.

2) Funding to Monitor other entities and functions (ID 13800)

Funding sought: \$3.350 million operating

Funding recommended and draft package: \$3.350 million operating

18. This initiative seeks to provide for the cost of two additional monitoring functions that the Treasury has been directed to undertake but has not received the necessary funding for. These relate to the Government Support Package to support the delivery of housing and urban development infrastructure, and Reserve Bank of New Zealand (RBNZ) monitoring.
19. We support funding sought for this initiative, noting it meets the criteria for a critical cost pressure. The costings are reasonable, reflecting a mix of contractors for the Government Support Package activity, and new FTE and legal / consultant requirements for the RBNZ monitoring function.
20. We accept that the Treasury has no realistic capacity to absorb the costs for these functions, given existing baselines are already under significant pressure (and the subject of the separate cost pressure initiative ID 13803 discussed above). There are no realistic further scaling options.
21. Labour market capacity constraints are not expected to be an issue, noting only 2.5 new FTEs are being sought.

3) [33]

[33]

4) [33]

5) [1,33]

Capacity to deliver

38. The three initiatives that the Vote team supports all score between moderate and strong against the Value, Alignment and Delivery criteria for Budget 2022. Further, all three are implementation ready.
39. The Vote team recommended funding level for these three initiatives implies ^[33] new FTEs. In our view this is realistically achievable, noting the availability of necessary skill sets and the Treasury's track record in recruiting new staff to fill positions.⁵ This figure increases to ^[33] new FTEs under the 'hybrid' option for the *Maintaining Treasury Capability and Supporting Government Delivery* initiative (ID 13803). Costings, including assumed overheads, for the new FTEs appear reasonable.

⁵ [33]

Annex A: Baseline Summary for The Treasury

Departmental operating expenses for the Finance portfolio for 2021/22 include \$16 million provided under permanent legislative authority (PLA) for the operations of the New Zealand Debt Management function of the Treasury. There is also a \$12 million appropriation for provision of shared support services, totally cost recovered. The \$80 million balance comprises a multi-category appropriation covering the Treasury's core business activities including advice on policy, fiscal management and reporting, and investment management and asset performance.

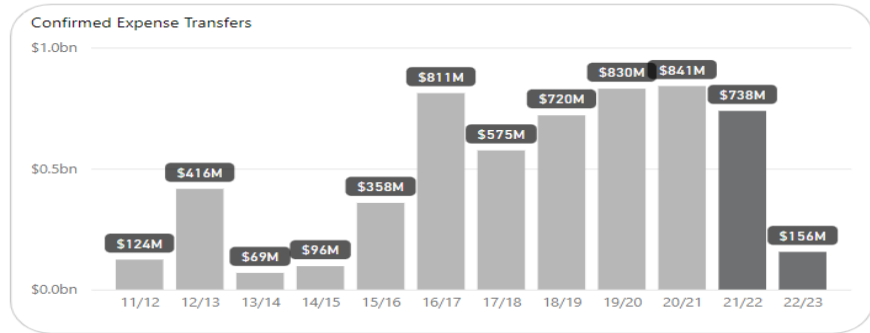
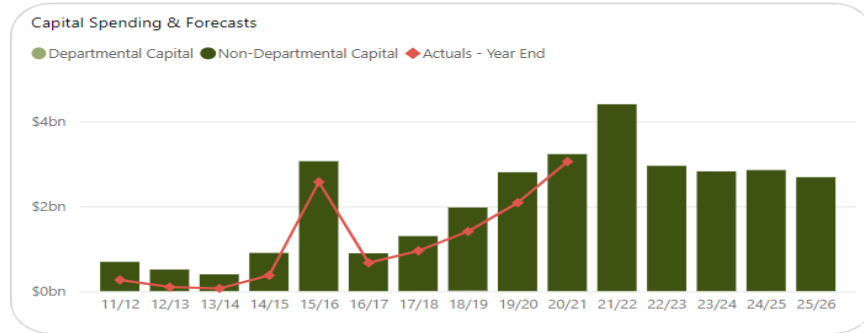
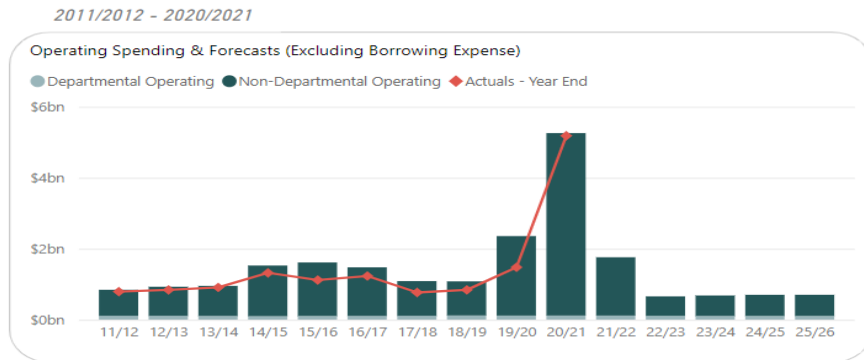
Non-departmental operating expenses for the Finance portfolio for 2021/22 include \$3,995 million provided for under PLA. By far the largest item is \$3,154 million for debt servicing. Other large operating PLAs are \$459 million for the Government Superannuation Fund unfunded liability, and \$327 million for payments and expenses in respect of guarantees and indemnities.

The \$508 million balance of non-departmental operating expenses mostly comprises \$220 million for Greater Christchurch Anchor Projects, \$38 million for management of these by Ōtākaro Ltd, and \$206 million for the Christchurch Regeneration Acceleration Facility. Funding for these activities ceases after 2021/22.

As at the 2021 October Baseline Update, budgeted capital expenditure for the Finance portfolio for 2021/22 totals \$4,197 million (out of \$4,403 million for the Vote as a whole). Of this, \$6 million is departmental (PLA) and \$4,191 million non-departmental.

Only \$28 million of non-departmental capital expenditure for the Finance portfolio is provided for under PLA. The \$4,163 million balance mainly comprises \$2,420 million for contributions to the NZ Superannuation Fund, \$1,150 million for loans to Air New Zealand, \$217 million for refinancing of Kāinga Ora and Housing New Zealand Ltd debt, \$114 million for Greater Christchurch anchor projects, and \$95 million for capital injections to Airways New Zealand.

Below is a standardised set of key indicators for Vote Finance as a whole. It shows historical and forecast trends for each of operating and capital spending from 2011/12 to 2025/26, some headline figures for 2020/21, and a time series of confirmed expense transfers.



Annex B: Talking Points

Maintaining Treasury Capability and Supporting Government Delivery (ID 13803)

- What would be the impact of the Treasury receiving funding just for the Package A component of its cost pressure initiative?
- Is the Minister comfortable not funding those elements of Packages B and C included in the 'hybrid' option, [33]
- What activities would the Minister discuss with the Treasury scaling back or ceasing as necessary to provide for other policy work / activities that are not currently funded?

[33]

[1,33]

Annex C: Submitted Initiatives

ID	Title	Description	Funding sought			Funding recommended (Vote team)			Funding recommended (draft package)			Treasury comments	Value	Alignment	Delivery
			Opex avg (\$m)	Opex total (\$m)	Capex total (\$m)	Opex avg (\$m)	Opex total (\$m)	Capex total (\$m)	Opex avg (\$m)	Opex total (\$m)	Capex total (\$m)				
13803	Maintaining Treasury Capability and Supporting Government Delivery	This initiative comprises three packages that collectively respond to significant additional demand for Treasury's fiscal and economic advice, and to capacity and capability risks arising from substantially declining baseline funding. The packages cover: (A) Foundation Initiatives - to ensure Treasury maintains existing staff numbers and capability to provide critical core fiscal and economic functions; (B) Priority Response Initiatives - to strengthen Treasury's core Crown finance systems and capacity in key policy areas to manage critical risks, respond to external demands and deliver key government priorities; and (C) Targeted Investment Initiatives - to further strengthen support in the areas of [33]	[33]			[33]			[33]			We assess that Package A (maintaining existing capability levels) is sufficient to avert risk of service delivery failure in core functions. We note that Treasury discussed a further, hybrid option with the Minister of Finance which combines Package A, some Package B [33] and the Package C [33] (total: [33] over the forecast period). However, our assessment is that the other packages, including the hybrid, involve system and capacity strengthening and expansion and so, irrespective of merit, do not meet critical cost pressure criteria and can be deferred. Further, Package A is the most realistically achievable option in the current labour market, as it involves the lowest FTE requirement.	4	4	3
13800	Funding to Monitor other entities and functions	Recently Treasury was asked to take on additional monitoring functions, however, little or no funding was provided for these new functions. This has resulted in a cost pressure within Treasury. Funding was provided for GSP in the form of \$0.500 million in year one and \$0.300 million in the outyears via a budget bid through Vote Housing in Budget 20. This funding was transferred into Vote Finance during the 2020 October Baseline Update from the Ministry of Housing and Urban Development. Treasury require an additional \$0.200m in 2021/22 and outyears. Treasury were given the role of monitor for RBNZ and require \$0.475m in 2021/22 and outyears.	0.838	3.350	-	0.838	3.350	-	0.838	3.350	-	This initiative meets the criteria for a critical cost pressure. The costings appear reasonable, reflecting a mix of new FTE and legal/consultant requirements for the RBNZ monitoring function, and contractors for the Government Support Package for delivery of housing and urban development infrastructure function. The amount sought for 2020/21 has been scaled as requested. Labour market capacity constraints are not expected to be an issue, noting only 2.5 new FTEs are being sought. Treasury has no realistic capacity to absorb the costs for these new, unfunded functions, given existing baseline are already under significant pressure (and the subject of a separate funding request). There are no realistic further scaling options.	4	4	3

[33]

[1,33]

Annex D: Suggested Agenda

Budget 2022 Bilateral between Hon Grant Robertson (Minister of Finance) and Hon Dr Megan Woods (Minister of Housing and Associate Minister of Finance) to discuss Housing and Finance portfolio initiatives

Time: 4.15 - 5.00pm, Tuesday 1 March 2022

Location: Teams meeting

Officials in attendance:

Housing portfolio initiatives:

[Not in scope]

Finance portfolio initiatives:

Treasury officials: Dr Caralee McLiesh (Secretary and Chief Executive); Struan Little (Deputy Secretary, Budget and Public Services); Glenn McStay (Chief Financial Officer)

Vote and Budget Team: Awhi Fleming (Vote Manager); Tim Roper (Vote Analyst); Sarah Bradley (Budget Team)

Suggested agenda:

4.15-4.20pm	Introductions as necessary
4.20-4.40pm	Discuss Housing portfolio initiatives – refer talking points in Annex B of Treasury Report prepared for Minister of Finance
4.50-5.00pm	Discuss Finance portfolio initiatives – refer talking points in Annex B of Treasury report prepared for Associate Minister of Finance
5.00pm	Meeting close