

The Treasury

Budget 2022 Information Release

August 2022

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- [36] 9(2)(h) - to maintain legal professional privilege
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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
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Treasury Report: Draft Budget Ministers 4 Material

Date:	4 March 2022	Report No:	T2022/435
		File Number:	BM-2-4-2022-5

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Discuss your feedback on the attached material with officials at Budget Matters on 7 March.	7 March 2022

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Eliza Thurlow	Analyst, Budget Management	[39]	N/A (mob) ✓
Sarah Bradley	Analyst, Budget Management		N/A (mob)
Gerald Lee	Acting Team Leader, Budget Management	[35]	

Minister of Finance'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: Draft Budget Ministers 4 Material

Purpose of Report

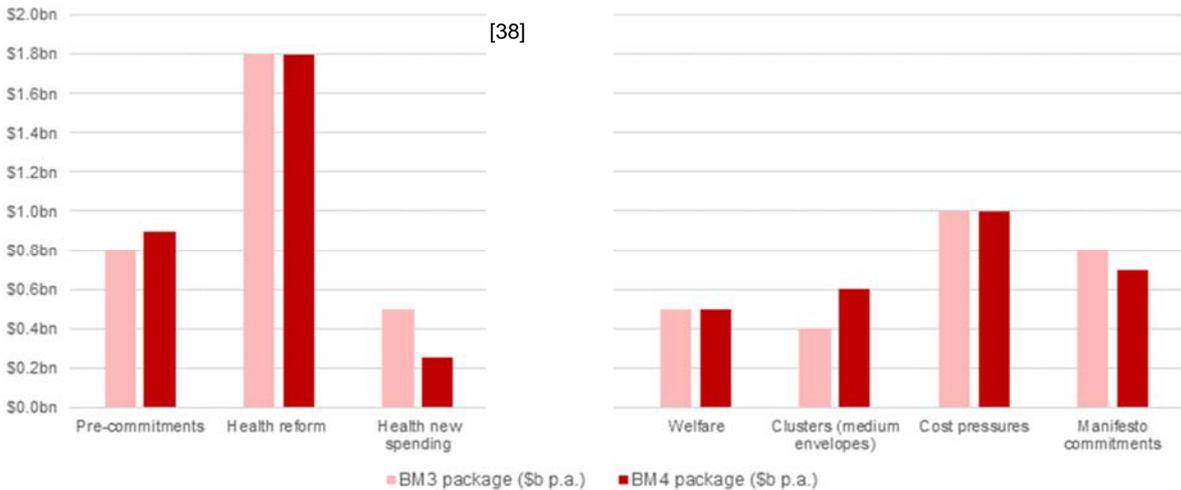
1. You are meeting with Budget Ministers at 3.30pm on 9 March 2022 to discuss the revised Budget 2022 package (BM4). This report provides you with draft Budget Ministers 4 material for your feedback.

Budget Ministers 4 Package

The Budget 2022 operating allowance is still significantly oversubscribed...

2. The revised package presented in the BM4 slides amounts to [38] compared to the \$6.0 billion per annum Budget 2022 operating allowance. In addition, the capital package totals \$4.5 billion while the CERF package is [38]
3. The operating amount for BM4 is significantly higher than the previously reported BM3 package amount of [38] Figure 1 summarises other changes to the main sub-packages between BM3 and BM4, particularly an
 - increase in the level of agreed precommitments, and
 - frontloading of cluster envelopes.
4. Combined with an error in the BM3 figures where a disability initiative was incorrectly classified, the increases outlined above have more than offset decreases in other sub-packages.

Figure 1: Changes to operating part of Budget 2022 package



... and the Health, Welfare, Education, and Climate sub-packages have been revised

5. Since BM3, revised sub-packages have been proposed by Ministers and agencies for Health, Welfare and Education spending. You will also be receiving advice on revisions to the Climate Emergency Response Fund (CERF) package.
6. Given the significant quantum of funding sought in each of these areas, we suggest seeking Ministers' decisions on the sub-packages at BM4 to allow for more detailed

consideration of other parts of the package in future meetings. However, in order to manage to allowances, you also have the option of revising down these envelopes and asking for further changes.

7. The presentation of the sub-packages and key choices around them are outlined below:
 - **Health** – the draft package for BM4 reflects the \$2.0 billion new spending package (split over the Budget 2022 and Budget 2023 operating allowances) provided to you by the Treasury Vote team on Tuesday 1 March [T2022/410 refers]. As the Treasury’s near-final advice on funding for the rebase and cost pressures will be provided ahead of BM5, the BM4 package reflects the original Vote team recommended amount for these initiatives.
 - **Welfare** – the draft package reflects the revised welfare sub-package submitted by the Minister of Social Development following your bilateral meeting, totalling [38] operating funding. The Treasury provided you with advice on Thursday 3 March with alternative options for this sub-package [T2022/402 refers].
 - **Education** – the draft package reflects the revised sub-package submitted to you by the Minister of Education, totalling [38] operating and [38] capital funding. The Treasury is providing you with advice today on how this sub-package could be brought within a total envelope of \$2.0 billion operating and capital funding [T2022/453 refers].
 - **Climate** – As in the BM3 package, the Climate Emergency Response Fund (CERF) package for BM4 reflects what has been submitted in the Climate CE ‘high priority’ package. The slides propose that Ministers consider a range of further changes to this package, reflecting discussions at the BM3 meeting. You will be receiving advice from the Treasury Climate Change team on Monday 7 March regarding these proposed changes [T2022/429 refers]. The aggregate impact would reduce the size of the CERF package by \$1.15 billion, to a new size of \$2.4 billion.
8. Scaling and phasing options have been applied to some cost pressure and manifesto commitment initiatives following bilateral meetings, though the overall impact on the size of the package is not significant. Ministers are asked to consider whether these sub-packages should be kept at the same level, requiring downward revisions in other sub-packages, or whether further scaling and phasing should be explored. The manifesto commitment slide also highlights specific choices around the phasing of the Social Unemployment Insurance scheme.

Further Options to Manage Within Allowances

9. In addition to options around revising or scaling sub-packages, the slides also outline ways you could manage to the \$6.0 billion per annum operating allowance. These include options for potential savings from reprioritising tagged contingencies, and phasing and scaling options for initiatives with significant delivery risks or workforce implications.
10. While it is not currently included in the slides, you also have the option of using underspends around COVID-19 Response and Recovery Fund (CRRF) initiatives, particularly the Managed Isolation and Quarantine system (approximately \$200 million per annum) and the Leave Support Scheme/Short-Term Absence Payment (approximately \$125 million per annum).

11. However, offsetting Budget 2022 allocations against time-limited savings may result in higher levels of baseline expenditure in outyears relative to what is included in the Treasury's fiscal forecasts. The timing and spread of new expenditure, as well as the nature of any offsetting savings or reprioritisation, could therefore impact the Government's forecast return to surplus, the sustainability of your fiscal strategy (T2022/244 refers), and your ability to meet the proposed new OBEGAL rule of targeting small surpluses over the medium to long term (T2022/37 refers).
12. For the above reasons, we would recommend against using CRRF underspends to manage pressure against the allowances. Regardless, we seek a steer from you on whether you would like to raise this further option at Budget Ministers 4.

Workforce Analysis

13. In the draft Budget Ministers 4 slides, we have provided a new approximate range of total FTE and contractors proposed in the draft scaled package.
14. We are approaching the limits of cross-Budget or second-opinion quantitative analysis Treasury can provide on workforce questions, based on the data available. If Budget Ministers would like further workforce analysis, we can continue to provide limited quantitative estimates and qualitative analysis based on submitted data. More detailed quantitative analysis will likely not be possible with available data; we would recommend Ministers and agencies are commissioned directly for such advice.
15. Detailed quantitative information about the total additional FTE and contractors in the revised package is not captured in CFISnet, so to provide this approximate range, we have applied the same scaled percentage to the total additional FTE and contractor number as has been applied to the draft Budget package funding. This likely underestimates the actual total number of additional proposed workforce, as many initiatives that have been scaled still propose to add the same number of FTE or contractors as the submitted initiative, but with time limited funding. The same caveats about the limitations of the available data continue to apply (there are gaps and errors so the numbers should be used as an approximate estimate only, not an accurate count).
16. Qualitative information is also provided about the split between "back-office versus frontline" staff in the draft Welfare package, following a request for this in Budget Ministers 3. Quantitative information on the occupational breakdown of Vote Social Development initiatives is not available.

Next Steps

17. We are meeting with you on 7 March 2022 as part of Budget Matters to discuss your feedback on the draft Budget Ministers 4 material. Following this, we will provide you with finalised material on 8 March 2022.

Recommended Action

We recommend that you:

- a **discuss** your feedback on the draft Budget Ministers 4 slides at Budget Matters on 7 March 2022, including whether you would wish to include the option of using CRRF underspends to manage within allowances.

Gerald Lee
Acting Team Leader, Budget Management

Hon Grant Robertson
Minister of Finance