

The Treasury

Budget 2022 Information Release

August 2022

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- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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Treasury Report: Draft Budget Ministers 5 Material

Date:	16 March 2022	Report No:	T2022/601
		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 the Finance Priorities Meeting on 17 March.	17 March 2022

Contact for Telephone Discussion (if required)

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

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 5 Material

Executive Summary

You are meeting with Budget Ministers at 11:30am on 22 March 2022 to discuss the revised Budget 2022 package (BM5). This report provides you with draft Budget Ministers 5 material for your feedback at the Finance Priorities Meeting on 17 March. In particular, we seek your feedback on the key strategic choices outlined in this report and how you want to present these to Budget Ministers.

The near-final package presented in the BM5 slides amounts to [38] compared to the \$6.0 billion per annum Budget 2022 operating allowance. In addition, the capital package totals \$4.22 billion while the CERF package is \$2.38 billion.

In preparing the BM5 material, we have aimed to provide a representation of what the final Budget 2022 package will look like. To this end, the slides focus on the main areas of investment and flagship initiatives in each sub-package, rather than detailed changes since previous iterations of the package or specific outstanding choices.

In particular, the slides seek a final decision on the following sub-packages, subject to changes from Ministerial discussions ahead of BM5:

- Cost pressure and manifesto commitment sub-packages
- Justice and Natural Resource Cluster packages, and
- Climate Emergency Response Fund (CERF) package.

However, the BM5 package still exceeds the Budget 2022 operating allowance by [38]. In order to finalise a Budget 2022 package that fits within the agreed allowances, you have two key sets of options:

- Consider possible reductions to the Health, Education and Welfare sub-packages, and
- Agree additional fiscal management options to reduce the impact on the operating allowance.

We wish to discuss with you how you are thinking about these key choices and how you would like to present them to Budget Ministers.

We also seek your direction on an additional fiscal management issue regarding the fiscal impact of the multi-year health new spending.

Recommended Action

We recommend that you:

Draft Budget Ministers 5 material

- a **confirm** which decisions you want to seek at Budget Ministers 5, including key strategic choices to manage within allowances
- b **discuss** your feedback on the draft Budget Ministers 5 material with officials at the Finance Priorities Meeting on Thursday 17 March

Fiscal treatment of health new spending

- c **agree** to continue with the current approach to managing the health new spending sub-package with an impact of \$0.25 billion per annum against the Budget 2022 operating allowance and \$0.25 billion per annum against the Budget 2023 operating allowance, and with a corresponding impact on OBEGAL and net core Crown debt,

OR

Agree/disagree.

- d **agree** to fully manage the fiscal impacts of the health new spending sub-package using the one-off uplift approach (option 1), with an impact of \$0.25 billion per annum against the Budget 2022 operating allowance and \$0.34 billion per annum against the Budget 2023 operating allowance,

OR

Agree/disagree

- e **agree** to fully manage the fiscal impacts of the health new spending sub-package using the smooth averaging approach (option 2), with an impact of \$0.29 billion per annum against the Budget 2022 operating allowance and \$0.29 billion per annum against the Budget 2023 operating allowance.

Agree/disagree.

Gerald Lee
Acting Team Leader, Budget

Hon Grant Robertson
Minister of Finance

Treasury Report: Draft Budget Ministers 5 Material

Purpose

1. You are meeting with Budget Ministers at 11:30am on 22 March 2022 to discuss the revised Budget 2022 package (Budget Ministers 5).
2. This report provides you with draft Budget Ministers 5 (BM5) material for your feedback at the Finance Priorities Meeting on 17 March. In particular, we seek your feedback on the key strategic choices outlined in this report and how you would like to present these to Budget Ministers.

Near-Final Budget 2022 Package

3. Compared to your Budget 2022 operating allowance of \$6.0 billion per annum, the near-final package presented at Budget Ministers 5 (BM5) amounts to ^[38]
In addition, the near-final capital package totals \$4.22 billion and the near-final Climate Emergency Response Fund (CERF) package totals \$2.38 billion.

[38]

4. In preparing the BM5 material, we have aimed to provide a representation of what the final Budget 2022 package will look like. To this end, the slides focus on the main areas of investment and flagship initiatives in each sub-package, rather than detailed changes since previous iterations of the package or specific outstanding choices.
5. In particular, the slides seek a final decision on several components of the package, with a view to reducing the number of outstanding decisions for Budget Ministers 6 (BM6). While we are aware of ongoing Ministerial discussions which could lead to changes to these sub-packages, we have provided options for how a significant part of each sub-package could still be agreed at BM5.
 - **Cost pressure and manifesto commitment sub-packages.** Following the exercise to identify a minimum viable package, we consider that there is limited scope to reduce these sub-packages further and recommend they be finalised at BM5. We understand that there are ongoing discussions with the Minister for the Prevention of Family and Sexual Violence which could affect these sub-packages, but we do not expect this to have a significant impact.

Justice and Natural Resource Cluster Packages

- **Justice Cluster** – the BM5 material reflects the final package submitted by Cluster Ministers on 10 March. We understand that Minister Faafoi intends to write to you by 18 March with further options for funding three initiatives not currently included in the Justice Cluster package. We will provide you with advice on 21 March regarding these changes. If these details can be confirmed before BM5, you could provide an oral update at the meeting and seek agreement to the package with amendments.
- **Natural Resources Cluster** – the BM5 material seeks agreement to a final package that fits within the envelope agreed at BM3. This differs from the package submitted by Cluster Ministers on 10 March, which exceeds the agreed envelope by \$22 million. If this revised package is not submitted before BM5, you can seek agreement to the package subject to final details being confirmed at BM6.
- **Climate Emergency Response Fund (CERF) package.** The slides provide an overview of the current CERF package and three specific initiative-level decisions required to finalise the package. We understand that you will be having further discussions with the Prime Minister, Minister Shaw and Minister Wood around potential adjustments to Transport spending within the package. If this issue can be resolved ahead of BM5, you could provide an oral update at the meeting and seek final agreement to the CERF package as presented in the slides, with amendments.

Remaining Choices for Budget Ministers 5

6. The BM5 package still exceeds the Budget 2022 operating allowance by [38]
In order to finalise a Budget 2022 package that fits within the agreed allowances, you have two key sets of options:
 - Consider possible reductions to the Health, Education and Welfare sub-packages, and
 - Agree additional fiscal management options to reduce the impact on the operating allowance.
7. Alongside any general feedback on the material, we wish to discuss with you at the Finance Priorities Meeting how you are thinking about these key choices and how you would like to present them to Budget Ministers.

Possible Reductions to Significant Sub-Packages

Health Sub-Package

8. The current Budget 2022 package includes \$1.8 billion per annum for the health system cost pressures and rebase, as well as an additional \$1.3 billion to be pre-committed against the Budget 2023 operating allowance. In addition, the package provides \$0.5 billion average per annum for new initiatives to be spread across the Budget 2022 and 2023 operating allowances.
9. Following the advice we provided to support your bilateral discussions with the Minister of Health:
 - Treasury's preliminary economic forecasts predict higher inflation compared to the *Half Year Update*. [33]

- [38]

10. [33]

11.

12.

13.

14.

¹ Over 2021/22 plan
T2022/601 Draft Budget Ministers 5 material

[33]

15.

Education sub-package

16. There have been multiple iterations of the Education sub-package within the \$2 billion envelope you signalled in your bilateral discussion with the Minister of Education on Wednesday 16 February. We understand that the Minister has prepared a further revision of this sub-package, which will be provided to you tonight.
17. Further reductions to the Education sub-package could involve deferring some priority manifesto commitments and reform programmes, or a possible risk to the delivery of education services in the face of rising costs. Scaling or deferring key initiatives could also increase the level of funding that will be sought for Education in Budget 2023.
18. Some areas where you could consider further scaling or deferral of funding are outlined below.
 - [38]
 - Reduce cost adjustments for ECE, school and tertiary funding. The BM5 package currently provides for adjustments [33] but these could theoretically be scaled to any level. For example, providing a 1.3% adjustment would reduce the package by \$100 million per annum.
 - Scale or defer smaller, more discretionary initiatives. The Education sub-package includes initiatives with varying levels of criticality or alignment to manifesto commitments. Our rough estimate is that there could be savings of up to [33] per annum across areas such as curriculum, NCEA change, school property, Māori, Pacific and wellbeing initiatives.

Welfare Sub-Package

19. [33]

- Adding Dental Special Needs Grants into the package (+\$126 million).
- Decreasing the Enabling Good Lives [33], the new Ministry for Disabled People [33] and the Social Sector/Communities package [33]

20. Further reductions to the Welfare sub-package could involve deferring some of the larger investments in the sub-package. Opportunities for deferral include:
- Child Support Pass-On (\$354 million total)
 - Whilst this may be a Ministerial priority, we remain concerned that the project is not well-scoped for delivery with ambitious timeframes, which may result in more funding and resourcing required to meet the timeframes outlined. Further, this targeted initiative supports approximately 40% of sole parent families currently receiving a benefit as opposed to the broader based income support initiatives in the package. We note that a pre-commitment is being sought for this initiative at CBC on Monday 21 March.
 - National implementation of Enabling Good Lives approach (\$100 million total)
 - This initiative could be a good candidate for deferral based on its delivery risk. However, there is strong support from the disabled community for this initiative, and this will further decrease your overall 'disabilities' package.
 - Improving support for dental treatment for low-income New Zealanders (\$126 million total)
 - This initiative could be deferred to Budget 2023 as there is no time commitment to implement this initiative. However, we understand it is a priority for the Prime Minister.
 - Equitable access to driver licences (\$86 million total)
 - Could be deferred as we understand this is the employment initiative with the least Ministerial support. It is the highest value of the employment initiatives but is not featured in Labour's Manifesto so could be considered at a future Budget.
 - Continuing Mana in Mahi expansion (\$11 million total)
 - This initiative could be deferred as a temporary increase in places can continue to be funded by using anticipated flexi-wage underspends. There are likely to be significant flexi-wage underspends in both the 2021/22 and 2022/23 years.

Fiscal Management Options

21. You have already taken decisions on a range of fiscal management options to reduce the impact of the Budget 2022 package on operating allowances, including funding the New Zealand Defence Force depreciation shortfall from outside allowances and rephasing the allowance impact of the Justice and Natural Resources clusters. These choices have reduced the package by \$473 million per annum since BM4.
22. There are several more options that you could consider to further reduce the package:
- **Reprioritisation of tagged contingency funding [T2022/314 refers].** At BM4, funding held in tagged contingencies still being considered for reprioritisation totalled [33] operating per annum and [33] capital. Of this funding, \$0.13 billion operating per annum \$0.07 billion total capital has since been returned from MIQ contingencies to the CRRF [SWC-22-MIN-0032 refers]. We understand you will be communicating decisions on the tagged contingencies still under consideration via your Office this week. Following this we will work with

agencies to include savings initiatives in the Budget 2022 package for contingencies that are to be reprioritised.

- **Savings from Vote Education forecast changes.** In the 2021 calendar year there was a reduction in Vote Education appropriations from forecast changes which could potentially be reprioritised towards allowances. There has been a historic practice of counting upward revisions in Education forecasts against allowances, but we have previously advised you against taking this approach to downward revisions [T2020/3363 refers]. These revisions could add a total of \$88 million operating per annum to allowances, but would result in a corresponding decrease to OBEGAL.

Additional Fiscal Management Issue – Health Funding

23. We also seek decisions on an additional fiscal management issue, as the current approach to phasing the multi-year health new spending over two Budgets in the near-final package does not fully manage the fiscal impact of the spending and will therefore have a negative OBEGAL impact. We recommend fully managing the fiscal impacts of this funding, with options provided for managing the allowance impacts across the Budget 2022 and Budget 2023 operating allowances.
24. Multi-year funding processes are a new innovation for Budget 2022, with the potential for corresponding new approaches to be explored with regard to the fiscal management treatment of allowance impacts versus fiscal impacts of Budget 2022 initiatives. In the near-final package, the \$2.0 billion total operating health new spending is split evenly across Budgets 2022 and 2023, averaging \$0.25 billion average per annum. While this approach is straightforward, it does not manage the entire allowance impact of the spending, and as a result there would be a corresponding impact on OBEGAL and net core Crown debt.
25. If you want to manage the full fiscal impact of health new spending against allowances, you have choices as outline below. To ensure the total cost is managed against allowances, your options are to either:
 - **Option 1:** Consistent with the approach taken to one-off pre-commitments or uplifts managed against the next Budget's operating allowance, keep the Budget 2022 allowance impact at \$0.25 billion per annum with an increase in the Budget 2023 allowance impact to \$0.34 billion per annum, or
 - **Option 2:** Consistent with the approach taken to managing the allowance impacts of cluster multi-year funding, evenly average the allowance impact across Budgets 2022 and 2023 with an increase from \$0.25b to \$0.29b per annum against both Budget allowances.

Next Steps

26. We are meeting with you on Thursday 17 March at the Finance Priorities Meeting to discuss your feedback on the draft Budget Ministers 5 material. Following this we will incorporate your amendments and provide finalised material on Friday 18 March, ahead of Budget Ministers 5 on Tuesday 22 March.