

The Treasury

GOV-22-SUB-0033 - Budget 2022 Pilot: Clusters Multi-Year Funding and Performance Reporting Proposal

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Cabinet Document Details

Title: **Cabinet Minute: GOV-22-MIN-0033: Budget 2022 Pilot: Clusters Multi-Year Funding and Performance Reporting Proposal**

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Cabinet Government Administration and Expenditure Review Committee

Minute of Decision

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Budget 2022 Pilot: Clusters Multi-Year Funding and Performance Reporting Proposal

Portfolio **Finance**

On 29 September 2022, the Cabinet Government Administration and Expenditure Review Committee:

Background

- 1 **noted** that in August 2021, Cabinet agreed to pilot two multi-agency Clusters (the Natural Resources Cluster and the Justice Cluster), which have been established on a non-statutory basis [CAB-21-MIN-0349];
- 2 **noted** that in Budget 2022 the Natural Resources Cluster and Justice Cluster received operating funding for the next three Budgets [CAB-22-MIN-0129];
- 3 **noted** that the Natural Resources Cluster and Justice Cluster may seek additional funding in Budgets 2023 and 2024, or from the between-budget contingency, only for specified exceptions agreed by Cabinet [CAB-22-MIN-0129];

Proposals

- 4 **noted** that the Justice Cluster and Natural Resources Cluster have developed differently over the establishment stages of the pilot;
- 5 **agreed** to a different approach to multi-year budgeting and reporting for each of the two Clusters, reflecting Cluster feedback and progress to date:
 - 5.1 a more collaborative approach for the Justice Cluster with the Cluster agencies working together on planning, reporting, and multi-year funding;
 - 5.2 for the Natural Resources Cluster, an approach mainly focusing on progressing multi-year funding and improved performance reporting, with a limited focus on collaboration;
- 6 **authorised** the Minister of Finance to make technical changes as required to support the application of the proposals in paragraphs 7 to 37 below subject to the changes not involving “significant policy issues” criterion outlined in paragraph 9.1 of Section A of CO (18) 2;

Multi-year funding

Rules that apply to both Clusters

- 7 **agreed** that, beyond paragraphs 8 to 24 below, existing decision-making authority and procedural requirements set out in Cabinet Office Circulars (CO (18) 2 and CO (19) 6) continue to apply to the Clusters;
- 8 **agreed** that the financial decisions to be made by Clusters Ministers (all Cluster Ministers for the Justice cluster; but just portfolio Ministers responsible for appropriations for each agency for the Natural Resources cluster):
 - 8.1 must either be consistent with Cluster/Cluster agency priorities agreed by Budget Ministers (including giving effect to the all-of-Government priorities that are relevant to the Cluster), or address cost pressures;
 - 8.2 must not create an implicit or explicit precommitment for net additional expenditure (within or after the three-year Cluster pilot period), except with the approval of Cabinet;
 - 8.3 are subject to the “significant policy issues” criterion outlined in paragraph 9.1 of Section A of CO (18) 2;
 - 8.4 must occur within the appropriations framework of the Public Finance Act 1989;
 - 8.5 must occur within CO (19) 6 investment management expectations, including on financial management and investment planning and reporting;
 - 8.6 are subject to approval from the Minister of Finance under paragraph 9 below;
 - 8.7 must be recorded and documented as appropriate to ensure transparency, including a written submission to the Minister of Finance;
- 9 **agreed** that the Minister of Finance will confirm that decisions are within the delegations agreed by Cabinet in paragraphs 8 to 28, and that the Minister of Finance and the appropriation Minister(s) will approve any changes to appropriations as a result of these decisions;
- 10 **authorised** Cluster Ministers to retain actual/audited departmental operating underspends from 2022/23 and 2023/24 subject to the conditions set out in paragraphs 22 and 24 below;
- 11 **agreed** to establish the “Justice Cluster Tagged Operating Contingency” to facilitate the use of retained underspends, and fiscally-neutral reprioritisation decisions for the Justice Cluster as set out in paragraphs 21 and 22 below;
- 12 **agreed** to establish the “Ministry for Primary Industries (Natural Resources Cluster) Tagged Operating Contingency” to facilitate the use of retained underspends, and fiscally-neutral reprioritisation decisions for the Ministry for Primary Industries as set out in paragraphs 23 and 24 below;
- 13 **agreed** to establish the “Department of Conservation (Natural Resources Cluster) Tagged Operating Contingency” to facilitate the use of retained underspends, and fiscally-neutral reprioritisation decisions for the Department of Conservation as set out in paragraphs 23 and 24 below;

- 14 **agreed** to establish the “Ministry for the Environment (Natural Resources Cluster) Tagged Operating Contingency” to facilitate the use of retained underspends, and fiscally neutral reprioritisation decisions for the Ministry for the Environment as set out in paragraphs 23 and 24 below;
- 15 **agreed** that the tagged contingencies in paragraphs 11-14 above will have an expiry date of 30 June 2025, and that use of these funds after 30 June 2025, along with the future of the Clusters, will be considered by Cabinet towards the end of the pilot period;
- 16 **authorised** Cluster Ministers jointly (all Cluster Ministers for the Justice cluster; portfolio Ministers responsible for appropriations for each agency for the Natural Resources cluster) to add funds to, and draw down from, the tagged contingencies in paragraphs 11-14 above;
- 17 **authorised** Cluster Ministers jointly (all Cluster Ministers for the Justice cluster; portfolio Ministers responsible for appropriations for each agency for the Natural Resources cluster) to shift the timing of the use of operating baseline or tagged contingency (paragraphs 11-14) funding within the forecast period (i.e. the relevant forecast period at the time the funding decision is made), so long as any such decision does not involve funding being brought forward to an earlier year and does not result in an increase in out-year funding beyond the forecast period (i.e., does not increase net ongoing expenditure);
- 18 **noted** that financial decisions made under the Cluster pilot will mainly be implemented through baseline updates (October Baseline Updates, March Baseline Updates and Budget Economic and Fiscal Updates);
- 19 **agreed** that Climate Emergency Response Funding is excluded from the scope of the delegations authorised in paragraphs 8 to 33;
- 20 **noted** that the delegations authorised in paragraphs 8 to 24 do not override any existing agreements (such as with other government agencies) that may restrict Cluster agencies’ ability to reprioritise, retain underspends or shift the timing of funds;

Rules that apply to Justice Cluster

- 21 **authorised** Justice Cluster Ministers to jointly make fiscally-neutral reprioritisation decisions where the funding source is departmental operating funding;
- 22 **agreed** that for the Justice Cluster, the total value of additional departmental operating underspends that can be retained and used is capped at \$130 million over the three-year period (2022/23 to 2024/25);

Rules that apply to Natural Resources Cluster

- 23 **authorised** all Natural Resources Cluster portfolio Ministers responsible for appropriations administered by each agency, jointly, to make fiscally-neutral reprioritisation decisions, where the funding source is departmental operating funding;
- 24 **agreed** that for the Natural Resources Cluster, conditions on the retention of additional departmental operating underspends will apply as follows:
- 24.1 the total value that can be retained and used is capped at \$52 million over the three-year period (2022/23 to 2024/25);

- 24.2 each agency is able to receive a one-third share of the \$52 million cap (\$17.33 million), which is broadly aligned with the split of the total Cluster operating funding package at Budget 2022;
- 24.3 each agency would manage its share of the underspend cap independently of one another;

Managing initiative specific tagged contingencies

- 25 **noted** that agencies in the Justice and Natural Resources Clusters have a number of tagged contingencies that were established either as part of, or outside, the Cluster envelopes;
- 26 **agreed** that where funding is not drawn down for tagged contingencies, it is either returned to the Centre or retained by the Clusters as set out in the categories below:
- 26.1 *Funding in contingencies from outside the Cluster envelope:* Any funding not drawn down from these contingencies is returned to the Centre since the initiatives were not within the scope of the Cluster funding packages;
- 26.2 *Funding in contingencies within the Cluster envelope:* Any funding not drawn down from these contingencies is retained by the Clusters, enabling them to fund other cost pressures or new policy initiatives over the next three years;
- 26.3 [38] Any funding not drawn down from this contingency up to the amount that the original envelope was increased by is returned to the Centre, and any funding that is not drawn down in excess of the amount that the original envelope was increased by can be retained by the Cluster;
- 26.4 *Implementation of the Arms Legislation Act (Police):* Any funding not drawn down from this contingency in excess of the amount provided through the Cluster envelope is returned to the Centre, and any funding that is not drawn down below the amount provided through the Cluster envelope can be retained by the Cluster;
- 27 **noted** that the Minister of Finance will confirm in writing to the Cluster Ministers the specific tagged contingencies in each of the categories outlined in paragraph 26 above;
- 28 **agreed** that if the funding is retained by Cluster or Cluster agencies the following rules apply:
- 28.1 any retained funding from the specific initiative tagged contingencies would be added to the agency-level or Cluster-level tagged contingencies established in paragraphs 11 to 14 above;
- 28.2 any retained funding from the specific initiative tagged contingencies would be subject to the rules stated in paragraphs 7 to 20 above;
- 28.3 in line with the different approaches being taken to the two Cluster pilots, for the Justice Cluster this funding would be available for the whole Cluster and for the Natural Resources Cluster it would be managed by the individual agency that the original tagged contingency was allocated to;

Exceptions to three-year funding

- 29 **noted** that in April 2022, Cabinet agreed that the Cluster agencies could only seek additional funding over the next three years where the Minister of Finance had agreed to an exception in November 2021 or where funding was out of the scope of the Cluster envelopes [CAB-22-MIN-0129];
- 30 **agreed** that in addition to the exceptions agreed by Cabinet under CAB-22-MIN-0129, where there are fiscal risks related to unforeseeable and high-cost events which cannot be reasonably transferred to the Cluster agencies to manage (e.g., natural disasters), the Clusters can seek additional funding across the three-year period if and when the risk eventuates;
- 31 **authorised** the Minister of Finance to grant any further exceptions to three-year funding for the Clusters;
- 32 **noted** that if the Minister of Finance supports an exception, the relevant Minister or joint Ministers can seek additional funding through the normal annual Budget process (as the default), or within the year via Cabinet submission if the CO (18) 2 requirements for doing so are met;
- 33 **agreed** that a high bar is applied to any further exceptions, including that:
- 33.1 all the criteria set out in paragraph 40 of the paper under GOV-22-SUB-0033 must be met for the Minister of Finance to grant an exception;
- 33.2 Clusters are expected to reprioritise existing funding (including funding approved at Budget 2022) and/or utilise retained underspends as the first call for any funding pressures before further exceptions are sought;

Planning and Reporting

- 34 **noted** that Cabinet invited Justice Cluster Ministers to report back to Cabinet and Natural Resources Cluster Ministers to report back to the Minister of Finance by December 2022 on spending to date and progress against the specific Cluster priorities [CAB-22-MIN-0129];
- 35 **noted** that the Justice Cluster and Natural Resources Cluster Ministers will provide further report-backs to the Minister of Finance in December 2023 and 2024 on financial and non-financial performance, analysis of agencies' financial position in the context of the three-year funding period, progress on priorities, management of cost pressures, reprioritisation, and use of underspends;
- 36 **noted** that in addition to the monitoring and reporting outlined above, Justice Cluster and Natural Recourses Cluster agencies will report back to Joint Ministers as per recommendations agreed as part of spending review;
- 37 **noted** that Annex 2 to the paper under GOV-22-SUB-0033 outlines the wider set of planning and reporting expectations for the Justice and Natural Resources Clusters.

Vivien Meek
Committee Secretary

Attendance (see over)

Present:

Hon Grant Robertson (Chair)
Hon David Parker
Hon Peeni Henare
Hon Michael Wood
Hon Dr David Clark

Officials present from:

Office of the Prime Minister
Officials Committee for GOV