

# The Treasury

## Budget 2023 Information Release

July 2023

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# Hon Grant Robertson

MP for Wellington Central  
Deputy Prime Minister  
Minister of Finance  
Minister for Infrastructure  
Minister for Sport and Recreation



6 September 2022

Hon Meka Whaitiri  
Minister for Food Safety  
Parliament Buildings

Dear Meka

On Monday 5 September 2022, Cabinet agreed to the strategy and design of Budget 2023. A copy of the minute recording Cabinet's decisions is attached to this letter for your information.

## *Context*

Due to a combination of the Government's responsible investment, the success of New Zealand's COVID-19 health response, and the hard work of New Zealanders during the pandemic, our economy is larger than its pre-COVID-19 level. This strong position is providing New Zealanders with greater security from increasing global volatility as the economic implications of ongoing COVID-19 responses around the world and the war in Ukraine contribute to heightened uncertainty.

This, coupled with our responsible fiscal management, has also allowed us to continue making good progress on the priorities set out in the 2020 Speech from the Throne, including manifesto commitments and emerging priorities, as well as on delivering our economic strategy.

However, we are all conscious of the current challenges that New Zealanders are facing due to increased global volatility and high global inflation, particularly the impact on the cost of living. With demand continuing to outstrip supply and further monetary tightening and weaker economic growth expected in the medium-term, we need to maintain our strong fiscal discipline to ensure we continue to deliver on our priorities without exacerbating expenditure pressures and to remain on track to achieve our surplus target for 2024/25.

Our objective with Budget 2023 is to strike a balance with our fiscal strategy that puts downward pressure on inflation, while continuing to support and take pressure off New Zealand families by investing in critical services, supporting Kiwis into jobs, and lifting wages and living standards. Under our economic strategy we will look to do this in a way that contributes to a more secure economy in the future which is low-emissions and provides high-wage jobs.

In this context, I intend to maintain the operating, capital and Climate Emergency Response Fund (CERF) allowances set at Budget 2022, pending further Treasury advice ahead of the Budget Policy Statement in December. Moreover, Budget 2023 will be a strictly top-down invitation process limited to critical cost pressures and new spending focused on outstanding manifesto commitments as determined by Budget Ministers (the Prime Minister, Associate Minister of Finance Hon Dr Megan Woods, and myself).

## Overview of Budget 2023

Budget 2023 will be a relatively straightforward process compared to the complexity of Budget 2022, which involved several multi-year funding processes and multiple funding sources. It will have the following tracks, which include new features for managing cost pressures and significant capital investments:

- New spending priorities track (focused on outstanding manifesto commitments);
- Cost pressures track;
- Reprioritisation and savings track;
- Significant capital investments track; and
- CERF track.

Guidance for Budget 2023, which will be issued in early October, will explain each of the above tracks in greater detail, but further information for each track is outlined below.

Two areas out of scope from the original cluster envelope will be addressed in Budget 2023 as follows:

- **Capital priorities for the Clusters** will be considered as part of the above process. I am aware that several significant capital investments within the Clusters have been identified. These will be captured in the significant capital investments track explained below.
- **Crown Entities and initiatives related to the Joint Venture for the Elimination of Family Violence and Sexual Violence** will be factored into Budget Ministers' determination of the list of new spending priorities – however, given significant funding received to date, there will be a high bar set for additional investment. Background information on any cost pressures relating to these entities *can* be submitted by the monitoring agency as part of the information collection process in late September.

At a time where there are economic and fiscal challenges, this approach will enable us to continue making progress on our economic plan to build a high-wage, low-emissions economy that provides economic security in good times and bad, and on our Government's priorities for this term, which are:

- 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.

Budget 2023 will be our fifth Wellbeing Budget. As in past Wellbeing Budgets, we expect Budget 2023 initiatives to demonstrate how they will help achieve our wellbeing objectives (pending any possible changes in light of the recently published wellbeing research and analysis informing the Treasury's first Wellbeing Report). We also expect initiatives to demonstrate they represent the best value for money, and can be delivered efficiently and effectively.

Budget Ministers will remain the key decision-makers throughout the development of Budget 2023 and will be responsible for recommending a final Budget 2023 package to Cabinet. We will work with the Minister of Climate Change on the development of the CERF.

### *New spending priorities track*

For new spending, Budget Ministers will determine a list of new spending priorities (focused on outstanding manifesto commitments) to deliver before the end of this term. This list will be provided to relevant Ministers in October so they can develop initiatives for final submission in December. These priorities will include significant capital investments invited into the Investment Panel (Panel) process as well as any high-priority, but low-cost or risk capital investments not included in the significant capital investments track.

I will report to Ministers on the outstanding manifesto commitments in advance of consideration by Budget Ministers to seek their feedback on these in the context of new priorities.

### *Cost pressures track (for Clusters)*

Significant steps have already been taken to support Cluster agencies to manage their cost pressures:

- Funding certainty for the next three Budgets and relative proportion of the Budget operating allowance, specifically \$2.730 billion operating funding for the Justice Cluster, and \$1.040 billion operating funding for the Natural Resources Cluster;
- The Clusters' existing ability to seek additional funding over the next three Budgets for the exceptions I agreed to in November 2021 and for areas that were outside the scope of the Cluster envelopes (e.g. capital and associated operating funding). I am also seeking Cabinet approval so that I can grant further exceptions to three-year funding on a case-by-case basis where a high bar is met;
- Additional flexibility for Clusters that is being proposed to Cabinet to assist managing pressures over the next three years, including additional retention of underspends and tagged contingencies, and enhanced ability to reprioritise; and
- The Cluster packages' inclusion of some provision for inflation over the three-year period.

Nonetheless, I gave assurances that Cluster agencies would not be disadvantaged relative to non-cluster agencies in relation to inflation. Cluster agencies will have the option of providing background information on their inflation-related cost pressures by 27 September, alongside other agencies. The process we have already established for Clusters means consideration of inflation cost pressures will occur as part of their December report-back on reprioritisation options.

In line with our approach for non-Cluster agencies, Cluster agencies might not be ultimately invited to submit for new cost pressure funding. This would mean cost pressures would need to be met through existing cost pressure provisions in the Cluster packages, as well as reprioritisation and savings initiatives.

Separate to this, Cluster agencies will be able to submit information on cost pressures in September for specific exceptions to their three-year funding package, or where additional funding was outside the scope of the Cluster envelopes.

The timeframes for this process is:

- **By 27 September:** your agency has the opportunity to provide the Treasury with background information not already captured by existing financial returns on funding pressures relating to specific exceptions to the cluster process. Cluster agencies also have the option of providing background information on their inflation-related cost pressures.
- *For cost pressures relating to specific exemptions to the cluster envelopes:*
  - **In early October:** The Treasury will assess this information alongside existing information it holds, and provide a recommendation to Budget Ministers on indicative funding envelopes.

- **By end of October:** Budget Ministers will provide specific portfolio Ministers with upper-limit envelopes relating to specific exemptions, within which a package of initiatives will be developed for submission in mid-December. These packages should reflect the Government's Budget 2023 priorities as well as those of Ministers and agencies, and also identify opportunities for reprioritisation of existing resources.
- *For inflation-related cost pressures within the cluster envelope:*
  - **December:** Clusters report back on options for managing within their baselines. Consideration of inflation-related cost pressures.

I also emphasise that any indicative cost pressure envelopes will not necessarily represent the amount of funding through the Budget, rather they represent an upper limit of potential funding Ministers may receive for cost pressures.

#### *Reprioritisation and savings track*

From October to December, the Treasury will lead a process to identify projects and programmes that could be significantly scaled down, re-phased, or stopped to create further room for new spending priorities.

However, Clusters are already scheduled to report back in December with information that we expect will show how the agencies are managing within their funding, including details on how cost drivers are shifting over time, and options for managing any pressures. Therefore, the Clusters will not participate in the Budget 2023 reprioritisation process, except for specific COVID-19 Response and Recovery Fund initiatives.

#### *Significant capital investments track*

Based on my review of investment proposals, your agency will not be required to submit any investment proposals for the significant capital investments track.

#### *Climate Emergency Response Fund (CERF) track*

Given the current economic environment, there will be a renewed focus on high value climate-related initiatives in this Budget. An initiative will be eligible to seek funding from the CERF if it meets the criteria outlined in the attached Cabinet minute.

#### *Out-of-cycle funding requests*

Given our stricter Budget process this year, there will be a high bar for any out-of-cycle funding requests between now and Budget 2023. Any proposal that asks for out-of-cycle funding will require my approval to proceed to Cabinet and will need to strongly demonstrate why funding is urgently required, what high

risks or trade-offs would eventuate if not funded early, and what steps have been taken to meet these costs within existing baselines.

This includes any exceptions to three-year funding; the default should be that this funding is sought through the Budget 2023 process. It does, however, exclude the capital cost escalation process I have already agreed to.

If you consider that you have urgent or high priority initiatives ahead of the Budget 2023 process, please notify my office as soon as possible.

I remain appreciative of the efforts of Cluster Ministers and agencies to support our longer-term aims of modernising the public finance system to improve New Zealanders' wellbeing, and I look forward to your help in delivering a successful Budget 2023.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Grant Robertson', written in a cursive style.

Hon Grant Robertson  
**Minister of Finance**

Cc: Ray Smith, Ministry for Primary Industries

## Budget 2023 Key Timeframes

| Date                 | Key milestone                                                                                                                                                        |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5 September          | <ul style="list-style-type: none"> <li>Budget 2023 Strategy and Design paper considered by Cabinet</li> </ul>                                                        |
| 6-7 September        | <ul style="list-style-type: none"> <li>Budget strategy letters (including invitation for Investment Panel) sent to portfolio Ministers</li> </ul>                    |
| 27 September         | <ul style="list-style-type: none"> <li>Background information for cost pressures due from agencies</li> </ul>                                                        |
| Early October        | <ul style="list-style-type: none"> <li>Budget 2023 guidance for agencies issued early October</li> </ul>                                                             |
| Late October         | <ul style="list-style-type: none"> <li>Invitation letters informing cost pressure envelopes and new spending priorities sent to portfolio Ministers</li> </ul>       |
| 31 October           | <ul style="list-style-type: none"> <li>Investment Panel templates due from agencies</li> </ul>                                                                       |
| October to December  | <ul style="list-style-type: none"> <li>Treasury-led reprioritisation and savings exercise</li> </ul>                                                                 |
| Mid-November         | <ul style="list-style-type: none"> <li>Budget Ministers 1: Fiscal strategy</li> <li>Investment Panel meetings</li> </ul>                                             |
| Late November        | <ul style="list-style-type: none"> <li>Report on Investment Panel advice</li> <li>Cabinet decision on cost escalation process</li> </ul>                             |
| Mid-December         | <ul style="list-style-type: none"> <li>Investment Panel report finalised</li> <li>All Budget initiatives and cost pressure packages submitted by agencies</li> </ul> |
| December to February | <ul style="list-style-type: none"> <li>Treasury assessment of initiatives and cost pressure packages; potential bilateral meetings</li> </ul>                        |
| Early April          | <ul style="list-style-type: none"> <li>Budget 2023 package paper expected to be considered by Cabinet</li> </ul>                                                     |

## Outline of Clusters' eligibility for Budget 2023 tracks

|                                                                               |                                                                                                                                                                                                                                                                                                                                                                                            |
|-------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Cost pressures</b>                                                         | <p>Clusters are not invited to submit background information or initiatives into the Budget 2023 cost pressure track, other than:</p> <ul style="list-style-type: none"> <li>where I have granted a specific exception to three-year funding,</li> <li>where funding was outside the scope of the Cluster envelopes, and</li> <li>information on specific inflationary demands.</li> </ul> |
| <b>New spending priorities (focused on outstanding manifesto commitments)</b> | As determined by Budget Ministers, outside the scope of the Cluster envelopes.                                                                                                                                                                                                                                                                                                             |
| <b>Reprioritisation and savings</b>                                           | Not required.                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Significant capital investments</b>                                        | Where invited.                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Climate Emergency Response Fund (CERF)</b>                                 | Where invited.                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Capital Cost Escalation process (ahead of Budget)</b>                      | Where invited.                                                                                                                                                                                                                                                                                                                                                                             |