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Budget 2023 Information Release

July 2023

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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

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[36] 9(2)(h) - to maintain legal professional privilege

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Natural Resources Cluster: Advice on December Report-Back (Wage and Inflationary Pressures)

Date:	8 December	**Report No:**	T2022/2634
		File Number:	AC-5-4-21

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Note** the contents of this report. **Agree** to the treatment of Natural Resources Cluster agencies for wage and inflationary pressures. **Refer** this report to Budget Ministers.	12 December 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Tim Stevenson	Senior Analyst, Natural Resources	[39]	[35]	✓
James Haughton	Manager, Natural Resources			

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer this report to the agreed Ministers.

Note any feedback on the quality of the report	Exceptional report - well articulated, consise and clear.

Enclosure: No

Treasury Report: Natural Resources Cluster: Advice on December Report-Back (Wage and Inflationary Pressures)

Executive Summary

NRC agencies have identified [33] ***wage and inflationary pressures***

On 1 December 2022, the Natural Resources Cluster (**NRC**) agencies individually submitted the first of three annual report backs on the implementation of the Budget 2022 three-year funding package. In addition to reporting against financial and non-financial performance, the reports were intended to outline any wage and inflationary pressures and provide reprioritisation options for Ministers to consider, informing your decision on whether to consider new funding for these pressures at Budget 2023.

NRC agencies have identified an additional [33] of wage and inflationary pressures over five years, in addition to a number of other new policy or cost pressures. This is driven by agencies updating assumptions for wage growth and inflation compared to those used at Budget 2022 (from 2% – 3% to 5% – 6%). Agencies have not identified specific reprioritisation options that could offset the pressures identified, despite your request for this information.

Determining whether NRC agencies are relatively disadvantaged is challenging…

You gave assurances to NRC agencies that they would not be disadvantaged relative to non-Cluster agencies in relation to inflation. It is difficult to make a direct comparison between the Cluster and non-Cluster agencies given the changes in circumstances between Budget 2022 and Budget 2023. Looking narrowly at funding for wages and inflation, the assumptions used by the Cluster agencies at Budget 2022 are lower than what has generally been assumed through setting the Budget 2023 envelopes. However, there are several factors to consider when judging whether there is parity in treatment between Cluster and non-Cluster agencies:

- The envelopes for non-Cluster agencies you invited for Budget 2023 equal 38% of the cost pressures and emerging policy priorities identified by agencies in September 2022, implying a degree of reprioritisation will be required by agencies to manage other pressures not invited
- Further, the envelopes are set at an upper limit and additional scaling may be required during budget package development to manage within allowances
- Cluster agencies have funding certainty for three years, including $115 million per annum for the NRC pre-committed against each of Budget 2023 and Budget 2024, and have additional flexibility to retain underspends up to $17.3 million per agency over the three-year period which can be reprioritised, and
- As part of this multi-year funding package, Cluster agencies were able to fund a broader range of cost pressures and new policy initiatives, totalling almost $1.9 billion in new operating funding over four years and $245 million in capital funding (including the CERF), providing additional room to reprioritise.

Across the NRC we observe there have been high rates of underspends and expense transfers in recent years. The intent of the NRC pilot was to provide greater funding certainty coupled with additional flexibility to manage pressures and material exceptions as they arise. However, we have observed a lack of tangible reprioritisation options being surfaced by agencies to date. We see benefit in retaining the core incentives of the Cluster pilot for agencies to surface trade-offs and manage within baselines, particularly in light of the current fiscal context and pressures on allowances.

… but on balance we think these pressures could be met through baselines, although trade-offs will be needed

We recommend that agencies manage the additional wage and inflationary pressures within baselines, including through rebalancing the Budget 2022 NRC package by re-phasing or scaling the new policy initiatives. This is consistent with your expectation that there is a high bar for Cluster agencies being considered for cost pressure funding, and for Cluster agencies to focus on reprioritisation as the primary tool for managing cost pressures. As each agencies' context is different, we have provided further analysis at an agency-level around their ability to manage additional pressures.

If you want to continue to include Cluster agencies wage and inflationary pressures in the Budget 2023 process, then we recommend limiting consideration to the incremental impact of the Public Sector Pay Adjustment. This is estimated to be in the order of [33] across all NRC agencies over five years, depending on the specific agreements that are reached.

Agencies have made a good start on monitoring and reporting …

NRC agencies have made reasonable progress developing their report backs in constrained timeframes. There are some gaps in information and opportunities to improve reporting on outcome measures. Agencies broadly consider Budget 2022 initiatives to be on track, although there are some early indicators for delivery headwinds due to market constraints.

… though there are opportunities for improved collaboration

While there are fewer requirements than initially anticipated for the NRC to collaborate around planning, reporting, and funding decisions, there are opportunities to improve how the Cluster shares information, particularly with regard to implementing the cross-agency spending review recommendations. We also highlight the importance for NRC agencies to continue collaborating on shared priority areas, such as climate change and resource management reform.

Recommended Action

We recommend that you:

a **note** that NRC agencies have identified an additional [33] of wage and inflationary pressures over the five year period to what was agreed at Budget 2022

b **note** that there is a high bar for Cluster agencies being considered for new cost pressure funding in Budget 2023, and that reprioritisation should be the primary tool used by Cluster agencies to manage cost pressures

c **note** that NRC agencies have not provided specific reprioritisation options that could offset the pressures identified, despite your request for this information

d **note** that the Treasury considers it is appropriate for NRC agencies to manage additional wage and inflationary pressures within baselines, including by rebalancing the Budget 2022 three-year funding package by re-phasing or scaling new initiatives e **agree** to <u>one</u> of the following options for each agency:

	Department of Conservation	Ministry for Primary Industries	Ministry for the Environment
Either –			
<u>Do not include</u> in Budget 2023 for consideration for wage and inflation pressures (**<u>Treasury Recommended</u>**)	*Agree*	*Agree*	*Agree*
Or –			
<u>Include</u> in Budget 2023 for consideration for the incremental impact of the Public Sector Pay Adjustment [33] over five years, across all NRC agencies)	*Agree*	*Agree*	*Agree*

f **note** that NRC agencies have reported against the first quarter of 2022/23, and we will provide you with more substantive advice on this material ahead of your anticipated meeting with NRC Ministers in early 2023, and

g **refer** this report to Budget Ministers.

Agree/disagree

James Haughton
Manager, Natural Resources

Grant Robertson
Minister of Finance

Treasury Report: Natural Resources Cluster: Advice on December Report-Back (Wage and Inflationary Pressures)

Purpose of this report

1. You have received the Natural Resource Cluster (**NRC**) agencies[1] December report backs and are now due to take decisions on whether to continue to include these agencies in Budget 2023 for consideration of wage and inflationary pressures.

2. This report is split into **two sections** and provides:

   a Our advice on whether to continue to include NRC agencies in the Budget 2023 process for their signalled wage and inflationary pressures, and

   b Our preliminary views of the quality of monitoring and reporting information and progress to date as outlined in the December report backs.

Background

3. In August 2021, Cabinet agreed to pilot two multi-agency Clusters (the NRC and the Justice Cluster). These were established on a non-statutory basis [CAB-21-MIN-0349 refers]. The Clusters developed shared priorities and underwent spending reviews to assess the efficiency and effectiveness of existing baseline spending, prior to developing multi-year funding proposals for Budget 2022.

4. In April 2022, Cabinet agreed to provide $1.040 billion over four years (operating) and $12.233 million (capital) to NRC agencies through the NRC envelope for the three-year budget cycle. The impact on operating allowances was distributed evenly across the three-year period, resulting in pre-commitments of $115 million per annum against both the Budget 2023 and Budget 2024 operating allowances.

5. Cabinet also confirmed that NRC agencies could only seek additional funding over the three-years for capital initiatives, Climate Emergency Response Fund (**CERF**), initiatives for Crown entities monitored by NRC agencies, and specific exemptions [CAB-22-MIN-0129].

6. The total funding received by the NRC agencies at Budget 2022, including CERF, cost pressures, and manifesto commitments is outlined in **Table 1**.

[1] NRC agencies are the Department of Conservation, Ministry for the Environment, and Ministry for Primary Industries.

Table 1: Total new funding for the NRC agreed at Budget 2022

$ millions	Operating (2022/23 to 2025/26)	Capital (2022/23 to 2030/31)	Total
NRC Envelope	1,039.6	12.2	**1,051.9**
CERF	698.8	191.6	**890.4**
Cost pressures	99.6	27.8	**127.3**
Manifesto	41.8	13.6	**55.4**
Total	**1,879.8**	**245.2**	**2,125.1**

7. As the Budget 2022 package was being finalised, you gave assurances that Cluster agencies would not be disadvantaged relative to non-Cluster agencies in relation to inflationary pressures, in recognition of the changing economic and fiscal environment [T2022/407 refers].

8. You subsequently wrote to NRC Ministers on 4 November, noting that there is a high bar for Cluster agencies being considered for new cost pressure funding in Budget 23, and that the December report backs should provide clear options for covering these costs within existing funding, including reprioritising any new spending initiatives included in the original Cluster envelopes.

9. Cabinet invited NRC Ministers to report back to you by 31 December 2022 on spending to-date and progress against the specific Cluster priorities [CAB-22-MIN-0129]. This is the first of three annual December report backs. The purpose of the report backs is to:

   a monitor progress in delivery and understand the impact/outcomes of the cluster's funding package, and

   b understand how agencies are managing within the three-year funding envelope.

10. For this first report back, the intent was to have a particular focus on understanding how inflationary and wage pressures could be met through reprioritisation, to inform your decision on whether to include these pressures for consideration in Budget 2023 [refer to your letters to NRC Ministers on 4 November 2022].

Section 1: Wage and inflationary pressures and reprioritisation options

Overall recommendation

NRC agencies have signalled significant cost pressures over five years…

11. The financial analysis sections of the December reports serve two purposes:

    a To identify the emerging policy and cost pressures, and outline how agencies will manage these within the three-year envelope, and

    b Within that, to outline any wage and inflationary pressures compared to the Budget 2022 assumptions and provide reprioritisation options for Ministers to consider, informing your decision on whether to consider new funding at Budget 2023.

12. While this report includes summaries of the emerging policy and cost pressures identified by agencies, the focus of this advice is on wage and inflationary pressures and the reprioritisation options available.

13. NRC agencies are signalling total cost pressures of [33] over five years[2]. These:

   a are partially driven by higher inflation and wage growth rates than what was assumed at Budget 2022 [33]

   b relate to other policy or volume pressures that are out of scope for Budget 2023 or where we consider the agencies have a greater degree of control, and

   c include new policy initiatives that were deferred or deprioritized by Cluster Ministers as part of finalising the Budget 2022 package.

… but have not identified specific reprioritisation options to address them

14. In general, NRC agencies have not identified specific reprioritisation options that could offset the pressures identified, despite your request for this information. Tangible reprioritization options were also not well surfaced throughout the Budget 2022 cluster process. However, the quality of the information that is provided does vary between the three agencies. Of the three reports, we consider that the Department of Conservation (**DOC**) has provided the most credible picture of how their pressures could either be avoided or managed within baselines.

It is difficult to make a direct comparison between Cluster and non-Cluster agencies

15. Looking specifically at funding for wages and inflation, the assumptions used by Cluster agencies at Budget 2022 (of around 2% – 3%) are lower than what has generally been assumed in setting the Budget 2023 envelopes (5.5% for wage growth and 5.3% for inflation).

16. However, there are several factors to consider when judging whether there is parity in treatment between Cluster and non-Cluster agencies:

   a The envelopes for non-Cluster agencies you invited for Budget 2023 equal 38% of the cost pressures and emerging policy priorities identified by agencies in September 2022, implying a degree of reprioritisation required by agencies to manage other pressures not invited,

   b Further, the envelopes are an upper limit and additional scaling will be required to manage within allowances,

   c Cluster agencies have funding certainty for three years, including $115 million per annum for the NRC pre-committed against each of Budget 2023 and Budget 2024, and have additional flexibility to retain underspends up to $17.3 million over the three-year period and take reprioritisation decisions, and

   d As part of this multi-year funding package, Cluster agencies were able to fund a broader range of cost pressures and new policy initiatives, totalling almost $1.9 billion in new operating funding over four years and $245 million in capital funding (including the CERF), providing additional room to reprioritise.

17. In addition, we note that:

   a The macroeconomic environment has changed considerably since Budget 2022, and therefore there is a greater urgency to ensure that existing funding is prioritised towards its highest use

[2] The current year, 2022/23, through to 2026/27; some pressures relating to contingent events have not been costed.

b There have been high rates of underspends and expense transfers across the NRC in recent years (and more generally across government departments), and there are emerging signs that implementation of the Budget 2022 funding (including CERF) is being impacted by market capacity constraints

c NRC agencies did not undertake any reprioritisation from baselines as part of forming the Budget 2022 NRC package and are not subject to the savings and reprioritisation track for Budget 2023 (outside of CERF and capital initiatives)

d The Budget 2022 NRC package did not include provision for a general contingency as was recommended by the Treasury, which would have helped to offset some of the new policy or cost pressures that were likely to emerge throughout the three-year funding period. Instead, Minister Parker (on behalf of the NRC Ministers) noted that they recommended not holding a contingency in the final package, and that they consider Cluster Chief Executives' ongoing role is to track the progress of initiatives, including underspends, and

e New funding for NRC agencies wage and inflationary pressures are not factored into the cost pressure envelopes you provided to NRC agencies, and so would need to be met by trade-offs elsewhere or through savings.

18. The intent of the NRC pilot was to provide greater funding certainty coupled with additional flexibility to manage pressures and material exceptions as they arise. However, we have observed a lack of tangible reprioritisation options being surfaced by agencies to date. We see benefit in retaining the core incentives of the Cluster pilot for agencies to surface trade-offs and manage within baselines, particularly in light of the current fiscal context and current pressures on allowances. In the absence of top-down pressure, we do not anticipate material reprioritisation will occur.

We recommend NRC agencies manage inflationary pressures within baselines

19. Taking the above considerations into account, <u>we recommend that agencies manage any additional inflationary pressures within baselines and not be considered for new funding through Budget 2023</u>.

20. This is consistent with your expectation that there is a high bar for Cluster agencies being considered for cost pressure funding, and for Cluster agencies to focus on reprioritisation as the primary tool for managing cost pressures. This may require rebalancing the Budget 2022 NRC package by re-phasing or scaling new policy initiatives.

21. If you wish to continue considering new funding for NRC agencies wage and inflationary pressures through the Budget process, then we recommend limiting consideration to the potential incremental impact of the Public Sector Pay Adjustment (**PSPA**). These costs would have a more certain impact on agencies' baselines compared to the amounts specified in their December report-backs. Based on indicative costings, this would reduce the signalled cost pressures to around [33] over five years, depending on the final outcome of negotiated agreements.

22. Neither approach precludes you from reviewing inflationary and wage pressures at future budgets, should this be required, and allowing NRC agencies to continue in the Budget 2023 process is not a definitive commitment of funding.

23. The following sections provide a more detailed summary of each agencies' respective pressures and reprioritisation options. In these summaries, we refer to three different sets of estimates for wage pressures which are outlined in **Table 2** below. These are:

a The Budget 2022 funding provided for wage growth, based on assumptions of between **2.7% and 3.3%** increases each year for **three years** b The estimated wage costs outlined in the December Reports, based on a higher assumption of between **6% and 6.1%** in **2023/24**[3]**,** and

c The Treasury's preliminary estimates of the latest PSPA offer, based on increases each year for **two years.**

24. The key thing to note is that the Budget 2022 funding is costed on the basis of increases each year for three years, whereas the PSPA is assumed to cover two years. This means that the estimated costs of PSPA understates the likely cost to agencies over the total three-year Cluster period. [33]

Table 2: Comparison of wage pressure costs under different scenarios

$ million wage pressures	Budget 22		December Report		PSPA	
	Total over 5 years	2023/24 increment	Total over 5 years	2023/24 increment	Total over 5 years	2023/24 increment
DOC	[33]					
MPI						
MfE						
Period of settlement	*3 years*		*3 years*		*2 years*	

Department of Conservation (DOC)

DOC received significant new funding at Budget 2022, but is signalling higher wage and inflation pressures

[38]

25. Through Budget 2022, DOC received an additional $372.9 million in new operating funding over four years and $26.8 million in new capital funding. Referring to **Figure 1** above, this included new funding for wage growth and inflation, assuming increases of 3.3% and 2.9% per annum, respectively. In its report back, DOC has assumed a higher rate of wage growth (6%) and inflation (5.2%) in 2023/24. The financial impact in 2023/24 is an additional [33] of total departmental appropriations, which would extend to [33] over the forecast period.

26. Actual wage pressures will depend on the outcome of the PSPA negotiations. Referring to **Table 2**, preliminary estimates by the Treasury indicates the costs of the most recent offer

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3 MPI also costed a higher rate of wage growth every year of the forecast period, increasing the total cost compared to MfE and DOC by a greater amount

would be broadly similar in the 2023/24 year to DOC's 6% assumption, and an increase compared to the Budget 2022 funding.

In addition, DOC has identified large policy and cost pressures

27. Beyond the wage and inflationary pressures described above, DOC's report identifies [33] of new policy and cost pressures over four years. These include:

    a [33] for implementing the [33] and the Revitalising the Gulf strategy, both due to be considered by Cabinet in December 2022

    b [33] to increase DOC salary bands in line with the current market [33] and increase FTE by 115 [33] and

    c [33] for policy pressures that DOC has identified, including continuing the Wilding Pines programme [33] after jobs for nature funding concludes and contributing to the Resource Management reform [33]

28. None of these initiatives are eligible for new funding within the Cluster period, and DOC notes that they will not progress them unless a funding source is identified within baselines. This information provides an indication of the areas where DOC is facing pressure, such as in staff recruitment and retention driven in part by a relatively low pay structure comparative to other NRC agencies and tight labour market conditions.

29. We understand that the Minister for Conservation is actively considering reprioritisation options to fund the two Cabinet decisions relating to [33] and Revitalising the Gulf.

We think DOC can manage inflationary pressures within baselines, although trade-offs would be required

30. While DOC is facing higher than expected wage and inflation pressures, we recommend these be managed within baselines through reducing existing activity and reprioritising funding from Budget 2022.

31. DOC has provided a framework for how this could be achieved that, while not fully costed, provides a good sense of what trade-offs would be made. These include:

    a Continuing to hold vacancies in areas that are difficult to recruit for (in the context of a current vacancy rate of 14%)

    b Reducing some output delivery, including biodiversity science research and the frequency of pest control, and

    c Reprioritising funding from Budget 22, for example, from the predator control initiatives that received ~$110 million over four years. For context, [33] to meet the full increase in wage and inflation costs DOC identified over four years.

32. Considering these opportunities and the available evidence (see **Figure 2**, below), on balance, we think that DOC can meet its wage and inflationary pressures from within baselines at this time.

Figure 2: Summary of key metrics for DOC[4]

33. Specifically, we note:

   a That DOC has had a particularly high rate of expense transfers in recent years, averaging $109 million over the past five years. A significant portion of this has been driven by the Jobs for Nature programme, but nonetheless indicates market capacity constraints that may impact the delivery of Budget 2022 funding

   b There are opportunities to reprioritise funding from new initiatives that scale up significantly over the cluster period

   c Pressures are likely to be more acute in the short-term as revenue from third parties and concessions remains below pre-COVID levels, although this is expected to improve over the medium-term, and

   d There are also other opportunities to increase revenue that DOC is actively exploring following the Spending Review. However, there are also downside risks, for example, if Ruapehu Alpine Lifts is liquidated DOC would lose the associated concessions revenue [33] in addition to facing liabilities for infrastructure removal (estimated at $50 million to $80 million).

34. We understand that the new DOC Senior Leadership Team is also planning to more substantively review its activities and costs with a view to identifying further opportunities for prioritisation and increasing productivity and revenue. DOC intends to report back on its progress with this review in December 2023.

Ministry for Primary Industries

[38]

[4] Average underspend and average expense transfer cannot be added together, as the average underspend will include the portion of expense transfers that were initially agreed in-principle.

MPI has signalled both wage and supplier inflationary cost pressures

35. Through Budget 2022, the Ministry for Primary Industries (**MPI**) received an additional $971.8 million in new operating funding over four years and $212.9 million in new capital funding, of which $524.3 million operating and $191.6 million capital were funded through the CERF.

36. Budget 2022 included new funding for wage and inflation cost pressures totalling $75.3 million. Referring to **Figure 3** above, MPI assumed increased wage growth and inflation of 2.7% and 1.9% per annum, respectively. In its report back, MPI assumed a higher rate of wage growth (6.1%) and inflation (5.2%) in 2023/24. The financial impact in 2023/24 is an additional [33] or 3.1% of total departmental appropriations, which would extend to [33] over the forecast period.

37. Actual wage pressures will depend on the outcome of the PSPA negotiations. Referring to **Table 2**, Preliminary estimates by the Treasury indicates the costs of the most recent offer would be broadly similar in the [38] year to MPI 6.1% assumption, and an increase compared to the Budget 2022 funding.

38. MPI has also identified a [33] supplier-related inflationary pressure over the four-year period to 2026/27 [33] in 2023/24). MPI has assumed supplier inflation rates of 5.2% for 2023/24 and 3.6% for 2024/25.

MPI has also identified other cost pressures relating to volatility in cost recovered revenue, time-limited funding for key policies, and contingent risks

39. Beyond the wage and inflationary pressures described above, MPI's report identifies a number of cost pressures over four years. Many of these are unquantified due to the nature of these pressures being contingent risks. These pressures include:

    a *Fluctuations in third party revenue:* This risk is associated with fluctuations in the third-party external revenue, fees, levies and user charges, including revenue from changes in border volume and activity

    b *Cash flow volatility from investment and grant programmes:* The risk associated with the phasing and timing of investment and grant programmes and underlying contract/commitment pipeline

    c *Contingent events:* The risk associated with unplanned and unfunded costs arising from significant adverse weather, biosecurity, or food safety related responses. This pressure would also include the biosecurity response for Foot and Mouth Disease (**FMD**) outbreak (a financial risk) and increasing New Zealand's preparedness for FMD (a cost pressure), and

    d *Biosecurity response to Mycoplasma bovis (M. bovis programme):* The risk associated with additional unplanned expenditure associated with Government's Biosecurity response to the eradication of M. bovis.

40. MPI manages cash flow risks through business-as-usual financial operations and periodically reviews cost recovery and third-party revenue settings. New funding for contingent events can be considered if and when events occur as an agreed cluster exception. MPI has been invited to submit a budget bid as part of Budget 2023 for the M. bovis programme transition to a national pest management plan.

We think that MPI can manage wage and inflationary pressures within their baselines, although trade-offs would be required, particularly in the short-term

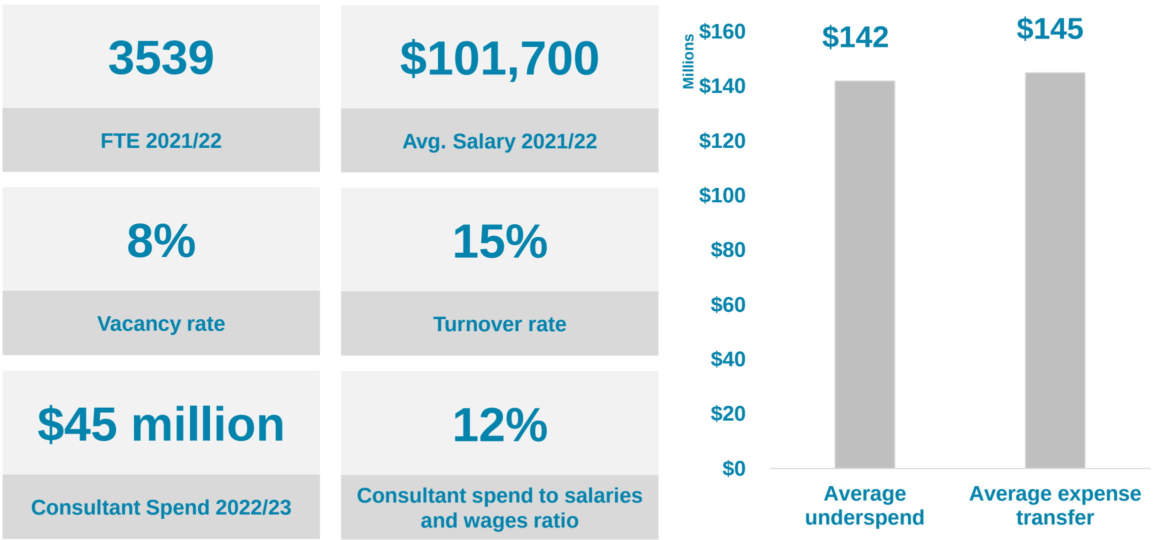
41. MPI has identified high-level reprioritisation opportunities that would help enable wage and supplier inflationary pressures to be met within baselines. However, these have not been formally costed or key trade-offs surfaced.

42. Short-term reprioritisation opportunities include rephasing or scaling investment, grant and policy programmes with relatively higher levels of discretionary spend and where funding has not yet been committed. Specific opportunities include such programmes as [33]

43. Over the medium-term, MPI has identified opportunities for enhanced cost recovery and third-party funding. Though this is not reprioritisation of expenditure and budget, MPI has indicated that its cost recovery framework means that options as to “who should pay” may alleviate some future cost pressures or financial risks in areas where these costs are recovered. The Treasury-led Spending Review of NRC agencies in 2021 highlighted enhanced cost recovery as an area of opportunity for MPI and Ministers.

44. Considering these opportunities and the available evidence (see **Figure 4**, below), on balance, we think that MPI can meet its wage and inflationary pressures from within baselines at this time.

Figure 4: Summary of key metrics for MPI



45. Specifically, we note:

a Cost recovery and third-party revenue streams are recovering post-COVID and so pressures are likely to be more acute in the short-term

b Supplier-related pressures represent a relatively small proportion of expected supplier spend in 2023/24 (2.7%), and we consider there are likely procurement/commercial levers available to MPI to help manage these costs

c There may be an opportunity to reprioritise discretionary consultant spend towards addressing critical staff wage pressures, noting that some of this funding may be associated with significant time-limited projects already underway

d Higher vacancy and turnover rates indicate there may be headroom within existing salary and wages funding, although we expect a portion of this to be offset by higher recruitment costs in a competitive and constrained labour market, and

e There is a history of underutilised funding within MPI’s baseline, with an average historical underspend of $142 million, anticipated departmental underspends of $60.6 million for 2022/23 (including M. bovis anticipated underspends of $54.3 million), and average historical ECTs of $145 million over the past five years.

Ministry for the Environment

[38]

The Ministry for the Environment received a significant amount of new funding in Budget 2022

46. As part of the Budget 2022 cluster package, the Ministry for the Environment (**MfE**) received an additional $312.64 million in new operating spending. [33] has been held in tagged contingency, primarily to implement resource management reform.[5] In addition, MfE received $103.1 million over four years through the CERF package to support reform of the waste system.

47. Referring to **Figure 5** above, the package included new funding for wage growth, assuming increases of 3% per annum, totalling [33] for 2023/24. MfE did not submit a general inflationary cost pressure at Budget 2022.

48. In the agency's report back, MfE has assumed a higher rate of wage growth (6%) that is commensurate with the rate signalled by both DOC and MPI. This would require an additional [33] of new funding in 2023/24, or [33] across the forecast period. The overall impact relative to departmental appropriations is 1.9% in 2023/24.

49. Actual wage pressures will depend on the outcome of the PSPA negotiations. Referring to **Table 2**, preliminary estimates by the Treasury indicates the costs of the most recent offer would be broadly similar in the [38] year to MfE's 6% assumption, and an increase compared to the Budget 2022 funding.

MfE has signalled several additional cost pressures, some of which constitute new policy decisions

50. Beyond the wage and inflationary pressures described above, MfE's report identifies [33] of new policy and cost pressures over four years. These include:

    a [33] for waste minimisation administration costs across from 2022/23 to 2024/25,

    b [33] in 'unfunded capability' to compensate for a reduction in the Ministry's overhead calculations from [33] during Budget 2022,

    c [33]

    d [33] for the Strategic Planning Reform Board (**SPR IEB**) [33]

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[5] We expect drawdown for this initiative to occur in mid-2023, which will result in an ongoing uplift of $81 million to MfE's baseline.

51. Cost pressures relating to the Environmental Protection Authority and Climate Change Commission are excluded from this analysis as both will proceed through the main Budget 2023 process as Crown entities.

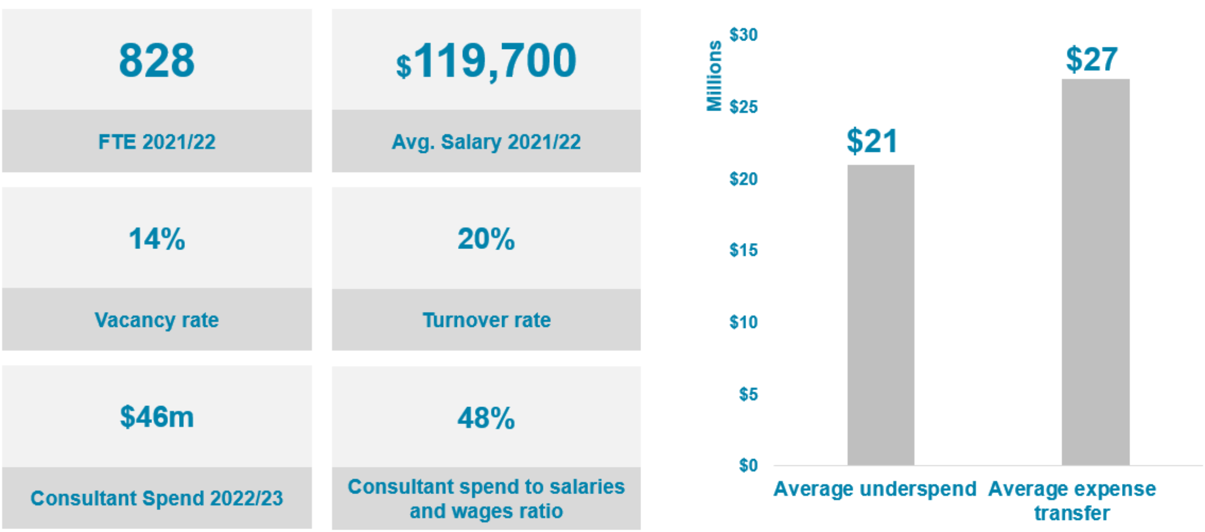
We think MfE can manage these pressures with reprioritisation, although trade-offs would be required

52. MfE has identified some opportunities for reprioritisation to absorb its cost pressures, however, as with other NRC agencies, these options lack robust costings and do not surface explicit trade-offs for Ministers to consider (e.g., the number of vacancies that would be needed to manage wage pressures or what impact a reduction in discretionary consultant spend may have on overall cost pressures).

53. Short-term reprioritisation opportunities identified include [33]

54. Considering these opportunities and the available evidence (see **Figure 6**), on balance, we think that MfE can manage these wage and inflationary pressures from within baselines at this time.

Figure 6: Summary of key metrics for MfE



55. Specifically, we note:

a A significant amount of personnel funding is allocated towards consultant and contractor spend, forecast at $46.4 million in 2022/23, or 48% when considered as a ratio against overall salaries and wages. This far exceeds the ratio of consultant spend to wages across both DOC (10%) and MPI (12%). While we acknowledge the need to use contractors to implement changes to the resource management system, MfE could manage its estimated wage cost pressure in 2023/24 by [33]

b MfE is carrying a 14% vacancy rate, indicating scope within baselines for reprioritising salary and wage pressures,

c Waste administration cost pressures are expected to be managed [33] Subsequent to MfE's report being submitted, you agreed to increase MfE's waste administration costs out to 2024/25 by $16.27 million, and d MfE have used an average cost method for calculating their overheads when seeking new funding, whereas we recommended a marginal cost approach, which significantly lowers their overhead calculation.

Section 2: Initial view of the NRC agencies' monitoring and reporting information

Agencies have made a good start and we expect the quality of performance information to improve over time

56. This section provides a preliminary summary of the monitoring and reporting information provided by agencies. We intend to provide you further advice ahead of an anticipated meeting with NRC Ministers in early 2023.

57. Overall, NRC agencies have made a good start at developing their report backs in constrained timeframes. They provide an initial view of how well-placed the agencies are to deliver on the Budget 2022 new spending initiatives, and a forward view of the milestones and outcomes that will be reported against in future reports.

58. There are some gaps in information, and the quality of the future reporting metrics could be improved, particularly around understanding what outcomes and impact specific programmes will have over time. We will provide more detailed feedback for you to consider in early 2023.

59. Agencies have reported against the first quarter of the first year of the cluster period, and so the milestones are largely framed around the establishment of the programmes. MPI and MfE have assessed all their initiatives as being "on track", although there are some emerging risks that have been identified, which will require close monitoring by agencies. DOC has assessed three of its initiatives as "on track" with the remaining two as "progressing".

60. Referring to **Table 3**, analysis of the expenditure to-date indicates that progress is marginally slower than planned, except for MfE who exceeded the September quarter forecast.

Table 3: Actual spend versus forecast analysis

	Spend for Q1 ($ million)	**% spend against Q1 forecast**	**% spend for Q1 against 2022/23 forecast**
DOC	0.71	N/A	3%
MPI	1.58	68%	7%
MfE	4.30	110%	18%

61. Notwithstanding these results, there are indications that agencies are facing delivery constraints – similar to other agencies across government. A number of tagged contingencies established at Budget 2022 have already been extended beyond their original expiry dates, turnover and vacancy rates are high, and agencies have signalled recruitment difficulties. Agencies have sought or are likely to seek to extend the drawdown expiry of tagged contingencies established at Budget 2022 [33]

Agencies are progressing spending review recommendations

62. Overall, agencies are making good progress implementing the agency-level recommendations agreed to as part of the spending review but lagging when it comes to implementing the cross-agency ones.

63. MPI are on track to deliver on cost recovery-related recommendations pending Cabinet agreement to these reviews, and DOC have a number of work programmes underway around improving asset management capability and increasing cost recovery.

64. Across all NRC agencies, we think further visibility is needed over the progression of the cross-agency spending review recommendations, with a more formalised joined-up work programme to support their delivery. These recommendations include providing a shared work-force strategy, and to better co-ordinate agencies' engagement with iwi and Māori.

Improvements could be made in how the NRC agencies work together more generally

65. On 29 September 2022, Cabinet agreed to a different approach to multi-year budgeting and reporting for each of the two Clusters, reflecting Cluster feedback and progress to date [GOV-22-MIN-0033 refers]. Specifically, Cabinet agreed to:

   a. a collaborative approach for the Justice Cluster, with these agencies working together on planning, reporting, and multi-year funding, and

   b. an approach for the Natural Resources Cluster focused on progressing multi-year funding and improved performance reporting, with a limited focus on collaboration.

66. As a result, the NRC does not have an ongoing secretariat function and there are no formal lead Ministerial responsibilities.

67. While there are fewer requirements for the NRC to collaborate around planning, reporting, and funding decisions, there are opportunities to improve how the Cluster operates, particularly when it comes to sharing information and progressing spending review recommendations. For example, while the agencies have worked together on a template for the December reports, we understand that the reports themselves were not shared between agencies, which we consider a missed opportunity to share learnings and approaches. Our expectation, which is outlined in guidance provided to agencies, is that the December 2023 and 2024 reports be compiled into a single report with an overarching summary.

68. It is also critical that the NRC agencies continue to collaborate in areas where there are shared priority areas, and in-particular climate change and resource management reform. We note that to some degree a tension in different agency drivers can have productive outcomes and improve the quality of policy development.