

The Treasury

Budget 2023 Information Release

July 2023

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- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [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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Reference: T2023/300

Date: 27 February 2023

To: Minister of Finance (Hon Grant Robertson)

Deadline: 28 February 2023

Aide Memoire: Budget 2023 funding for Cluster agencies

The Justice and Natural Resources Cluster agencies received a three-year package of funding in Budget 2022, on the basis that further funding would not be sought until Budget 2025, except for areas outside the scope of the Cluster envelopes (including capital and Crown Entities, as well as pre-agreed exceptions). However, in light of the economic context and obligations under the Public Sector Pay Adjustment (PSPA), you invited Cluster Ministers into the Budget 2023 process, subject to agencies providing clear options for covering these costs within existing funding.

Cluster agencies have a relative advantage in terms of the significant funding agreed at Budget 2022 coupled with the additional flexibility to manage pressures relative to non-Cluster agencies [GOV-22-MIN-0033 refers]. Consistent with your expectation that Cluster agencies focus on reprioritisation to manage cost pressures, we have applied a high-bar in considering additional funding for cost pressures for the Clusters through Budget 2023.

The Natural Resource Cluster (NRC)

The revised Budget 2023 package for Budget Ministers 3 (BM3) currently includes [38] for the Department of Conservation's (DoC) PSPA cost pressure, but does not include additional funding for the Ministry for the Environment (MfE) and the Ministry for Primary Industries (MPI), based on Treasury assessment of NRC submissions.

The Department of Conservation was the only Natural Resources Cluster agency to provide detailed and credible reprioritisation options

[33]

It outlined the associated risks and impact on outputs delivered for each option. Given the broader non-discretionary cost pressures DoC will need to manage over the forecast period, and the steps taken already to manage these pressures, we recommend providing additional funding to meet PSPA pressures to allow DoC to continue to deliver core services within a constrained fiscal environment.

MfE and MPI did not provide robust reprioritisation options. MfE proposed reprioritising tagged contingencies earmarked for specific workstreams [33]

with limited analysis on trade-offs or impacts on relevant programmes. We note that meeting the shortfall within baselines would likely require a reduction in FTE. However, based on the information provided it is not possible to assess what impact this would have on MfE's delivery, and we recommend no additional funding is provided for MfE through Budget 2023.

MPI's proposal was focused on the reprioritisation undertaken as a matter of normal operations, [33]

In the absence of credible, costed reprioritisation options, we were not able to evaluate the full service impacts or trade-offs. On balance, we recommend no additional funding is provided for MPI through Budget 2023 and that MPI meet the full PSPA cost pressure shortfall within existing baselines.

There are options to include additional funding for MfE and MPI

Should you wish to apply a consistent approach across the NRC, there are also options to provide additional funding for MPI and MfE for PSPA cost pressures. This would add:

[38]

As noted above, we do not recommend additional funding for MPI and MfE in the absence of credible and detailed reprioritisation options. Doing so would undermine the incentives for reprioritisation set in the Budget 2023 strategy (that agencies will make efforts to cover costs within existing baselines) and the broader Cluster pilot.

The Justice Cluster

The revised Budget 2023 package for BM3 includes \$106 million total for non-discretionary PSPA pressures across the Justice Cluster, based on Treasury assessment of the Cluster submission.

The Justice Cluster is facing \$1.3 billion of wage pressures over the forecast period, and will meet \$1.1 billion from reprioritisation

We understand the bulk of the wage pressures will be met from existing wage tagged contingencies [33], as well as other funding sources and internal reprioritisation [33]. The Justice Cluster was invited for wage pressures up to \$200 million and submitted a request for \$167 million of additional funding.

As an example of the Cluster's reprioritisation efforts, Cabinet recently agreed to fund remuneration pressures at the Ministry of Justice using existing tagged contingencies, including operating expenses for capital projects [SWC-23-MIN-0005 refers]. [38]

We note that in funding their wage pressures, the Ministry of Justice, Police, and Corrections are exhausting their existing remuneration tagged contingencies, which were expected to cover all collective bargaining for the Cluster pilot period through to Budget 2025. It is expected that collective bargaining between now and Budget 2025 will require additional funding or further reprioritisation.

The revised Budget 2023 package currently includes \$106 million for non-discretionary PSPA pressures across the Justice Cluster

The scale and nature of wage pressures are varied across the Justice Cluster [T2022/2637 refers]. The Justice Cluster sought \$167 million for a mixture of discretionary and non-discretionary wage pressures it considers could not be met from reprioritisation. We recommend additional funding only for non-discretionary PSPA pressures totalling \$106 million:

- [38] for Corrections to fund a portion of its PSPA costs and higher than expected overtime costs flowing from its staffing and rostering model (with the remaining pressures will be covered through reprioritisation and its wage tagged contingency). We note that Corrections' estimated PSPA costs are significantly higher than modelled by the Treasury, suggesting there may be options to scale these further.
- \$7.1 million to fund the marginal costs of PSPA for Crown Law (this does not include a proposed band realignment which we consider to be discretionary).
- [33]

At this stage, we do not recommend additional funding for the Ministry of Justice. Reprioritisation options for remuneration pressures at the Ministry of Justice were recently agreed by Cabinet. The settlement includes step increments beyond the forecast period, which may increase pressure on future Budgets (although the Ministry of Justice has committed to funding these costs from baselines).

We also do not recommend additional funding for the Serious Fraud Office, which is not subject to the PSPA. The Serious Fraud Office sought funding for general increases in staff remuneration, which we consider to be discretionary considering recent settlements that provided outcomes favourable to the PSPA terms and the relatively high average salary of Serious Fraud Office staff.

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