

The Treasury

Budget 2021 Information Release

August 2021

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- [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
- [40] Not in scope
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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Treasury Report: Draft package advice for Budget 2021

| | | | |
|--------------|--------------|---------------------|--------------|
| Date: | 5 March 2021 | Report No: | T2021/359 |
| | | File Number: | BM-2-14-2021 |

Action sought

| | Action sought | Deadline |
|---|---|----------------------|
| Hon Grant Robertson Minister of Finance | <p>Discuss this report with officials at Budget Matters on 9 March 2021.</p> <p>Provide feedback on the attached draft slidepacks for Budget Ministers 2.</p> | Tuesday 9 March 2021 |

Contact for telephone discussion (if required)

| Name | Position | Telephone | 1st Contact |
|---------------|--------------------------------|-----------|-------------|
| Sarah Bradley | Analyst, Budget Management | [39] | N/A (mob) ✓ |
| Simon Duncan | Team Leader, Budget Management | [35] | |

Minister'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 package advice for Budget 2021

Executive Summary

Allowances for Budget 2021 are significantly over-subscribed and trade-offs will have to be made in finalising a package. Both the invitation process and Vote team assessments have helped to narrow down the number of initiatives by excluding those with low alignment to Budget priorities, low value-for-money, and those that are not ready for implementation. However, significant pressure on the allowances remain.

This report provides you with advice on a draft package for Budget 2021 and attaches draft slidepacks for you to present to your colleagues at the second Budget Ministers meeting (Budget Ministers 2) on Tuesday 16 March at 3:15pm.

In developing the draft package we have prioritised critical cost pressures; high and low options for the Government's priority areas of child wellbeing, housing and climate; and any other manifesto commitments that we consider cannot be deferred. We recommend that you focus your engagement with Budget Ministers on the key strategic choices around investment in the Government's priority areas and options to manage pressures, as opposed to the marginal decisions on the individual initiatives in Budget 2021 or the level of cost pressure funding.

As demonstrated in Table 1 below, any combination of the high and low options developed still exceed the operating allowance, and would heavily constrain future spending in the multi-year capital allowance (which is intended to cover four Budgets).

Table 1: Overview of high and low packages

| | Opex (\$m p.a.) | Capital (\$m 10-year total) |
|--------------------|-----------------|-----------------------------|
| Allowances | 2,625 | 7,800 (for B21-B24) |
| Draft low package | 3,753 | 5,026 |
| Draft high package | 4,500 | 6,284 |

Note: the low package figure assumes that the low option is funded across all three sub-packages, and the inverse for the high package. However there are further choices available within and between these sub-package options.

You have indicated interest in a moderate increase of the operating allowance, from \$2.625 billion to around \$3 billion per annum. As outlined in our advice on the fiscal strategy for Budget 2021 and beyond, we consider that such an increase, or a further increase to \$3.3 billion per annum, would be consistent with fiscal sustainability. Of these options, the recommended increase is to \$3 billion per annum [T2021/316 refers].

However, even with this increase, trade-offs will need to be made to fit within allowances. The draft package includes funding for cost pressures, particularly in Health and Education, amounting to \$2.2 billion operating per annum and \$1.8 billion total capital funding, on top of \$0.2 billion per annum for existing pre-commitments. We do not consider that this figure can be further scaled without creating an unacceptable level of risk.

Your key choice for Budget 2021 is how to balance investment in your manifesto priorities and fiscal sustainability. Given the scale and ambition of the initiatives in the priority areas, it is not possible to fully fund even the low package options across all three priorities.

A possible approach to managing these trade-offs in light of Ministerial priorities is to:

- fully fund the cost pressure package

- fund one flagship priority initiative, such as the \$25 per week increase to main benefits, and
- divide the remainder of the operating allowance among non-deferrable manifesto commitments and non-avoidable cost pressures associated with the priority packages.

As summarised in Table 2 below, this approach would leave limited funding for other priorities even if the operating allowance is increased. If there is no increase in the allowance, you would not be able to fund the \$25 per week benefit increase. You will need to be selective about which other manifesto commitments and priority initiatives to include in the package if you want to manage within allowances.

Table 2: Possible approaches to Budget package

| | Current operating allowance (\$m p.a.) | Possible increase (\$m p.a.) | Further possible increase (\$m p.a.) | Capital allowance (\$m total) |
|---|---|-------------------------------------|---|--------------------------------------|
| Allowances | 2,625 | 3,000 | 3,300 | 7,800 (B21-B24) |
| Pre-commitments | 203 | 203 | 203 | 11 |
| Between-Budget contingency | 40 | 40 | 40 | - |
| Cost pressures | 2,156 | 2,156 | 2,156 | 1,802 |
| Main benefit increase (\$25 pw) | 0 | 541 | 541 | - |
| Allowance remaining for other priorities | 176 | 10 | 310 | 5,998 |

Note: even if the priority area sub-packages are not funded in full from the remaining allowance, the child wellbeing and climate sub-packages contain cost pressure elements that will need to be funded.

The other fiscal management options available to manage pressure on the allowances are to consider funding initiatives from the COVID-19 Response and Recovery Fund (CRRF) where the spending is temporary, targeted, and aligned with the response and recovery from COVID-19; or to reprioritise existing CRRF spending.

We are meeting with you on 9 March 2021 at 4.00pm to discuss the fiscal strategy for Budget 2021, the draft Budget 2021 package, Budget Ministers 2 material, and any queries you have on the other Budget-related advice you have received. Some key questions you may wish to discuss include:

- Given the level of critical cost pressures requiring funding, where do you want to focus your manifesto priority investment for Budget 2021 and how do you want to sequence manifesto priorities across Budgets 2021 to 2023? Which “high” or “low” options do you want to progress across the priority packages for Budget 2021?
- Are you prepared to spend more than the current operating allowance to fund your priority manifesto commitments, noting the corresponding impact on the fiscal position?
- Are you comfortable funding some time-limited COVID-19 related Budget 2021 initiatives through the CRRF (instead of the allowances)? Do you want to consider other reprioritisation and savings options to help manage pressure on the allowances, for example CRRF reprioritisation?

Recommended Action

We recommend that you:

- a **discuss** this package with officials at Budget Matters on Tuesday 9 March, and
- b **provide** feedback on the draft Budget Ministers 2 slidepack.

Simon Duncan
Team Leader, Budget Management

Hon Grant Robertson
Minister of Finance

Treasury Report: Draft package advice for Budget 2021

Purpose of Report

1. This report provides you with an overview of the Treasury's draft package for Budget 2021 and attaches draft slidepacks for you to present to your colleagues at the second Budget Ministers meeting (Budget Ministers 2) on Tuesday 16 March at 3:15pm.
2. The report and attached draft slidepacks highlight the key features of the package under discussion, and surfaces the choices required to finalise the Budget 2021 package.
3. Annexed to this report is further detail to inform decision-making across the various elements of the package. This includes
 - Annex 1 contains information on data, digital and ICT initiatives.
 - Annex 2 contains information on wage and workforce constraints.
 - Annex 3 contains information on child poverty implications.
 - Annex 4 provides an overview of the late initiatives submitted in response to the Royal Commission of Inquiry into the Christchurch terror attacks.
 - Annex 5 contains a spreadsheet listing the initiatives submitted by Ministers, outlining the level of funding sought, the Vote team recommendation, and the level of funding included in the draft package. We have also included annexes containing information on the following areas.
4. We will seek your feedback on the draft package and Budget Ministers slides at the Budget Matters meeting on Tuesday 9 March at 4pm. We will provide you with final Budget Ministers 2 material on Wednesday 10 March ahead of your meeting with Budget Ministers.
5. In addition to this report, you have received a number of other reports covering issues relevant to your decision-making on Budget 2021. A list of this advice is included at the back of this report under 'Next Steps'.

Background

6. Allowances for Budget 2021 are significantly over-subscribed and trade-offs will have to be made in finalising a package. Both the invitation process and Vote team assessments have helped to narrow down the initiatives by excluding those with low alignment to Budget priorities, low value-for-money, and those that are not ready for implementation. However, significant pressures on the allowances remain.
7. We recommend that you focus your engagement with Budget Ministers on the strategic choices around investment in the Government's priority areas and the available options to manage pressures, instead of marginal decisions on the individual initiatives in Budget 2021 or the level of cost pressure funding.

Overview of the Budget 2021 package

8. As previously discussed with you, we have taken the following approach to developing the draft Budget 2021 package [T2021/305 refers]:
 - a minimum viable sub-package of cost pressures which is primarily focussed on Health and Education
 - ‘high’ and ‘low’ sub-package options for the three priority manifesto areas of child wellbeing, climate change, and housing, and
 - a sub-package of the most time-sensitive manifesto commitments in other portfolios.
9. The draft package (as detailed in Annex 5) was developed in line with this approach. As demonstrated in Table 3 below, the range of options that we have developed all exceed the operating allowance, and heavily constrain future spending in the multi-year capital allowance which is intended to cover four Budgets.
10. In light of this pressure, you will need to make choices about which elements of the package to prioritise and what level of allowances is acceptable.

Table 3: Overview of high and low packages

| | Opex (\$m p.a. across four years) | Capital (\$m 10-year total) |
|--------------------|-----------------------------------|-----------------------------|
| Allowances | 2,625 | 7,800 (for B21 – B24) |
| Draft low package | 3,753 | 5,026 |
| Draft high package | 4,500 | 6,284 |

Note: the low package figure assumes that the low option is funded across all three sub-packages, and the inverse for the high package. However there are further choices available within and between these sub-package options.

11. You have indicated interest in a moderate increase of the operating allowance, from \$2.625 billion to around \$3 billion per annum. As outlined in separate advice on the fiscal strategy [T2021/316 refers], we consider that such an increase, or a further increase to \$3.3 billion per annum, would be consistent with fiscal sustainability. However, even with this increase, trade-offs would still need to be made to fit within these allowance levels.
12. A key consideration in developing the package was the time sensitivity of initiatives, and the level of risk attached to deferring funding to a future Budget. As a result, critical and non-deferrable **cost pressures** comprise the majority of our draft package. This cost pressure sub-package carries some risk, and we would not recommend reducing the level of funding further.
13. You have signalled three **priority manifesto areas** for delivering on manifesto commitments in Budget 2021 – child wellbeing, housing and climate. Given the scale and ambition of the initiatives in these areas, current allowances are insufficient to fully fund these priority areas and also accommodate non-deferrable manifesto commitments that fall outside these three areas.
14. A possible approach for constructing a Budget package that fits within the operating allowance options outlined above is to fund the full cost pressure sub-package and one flagship initiative, such as a \$25 per week increase to main benefits, with the remainder of the allowance divided among other manifesto commitments and cost pressures aligned to the priority areas.

Table 4: Possible approaches to Budget package

| | Current operating allowance (\$m p.a.) | Possible increase (\$m p.a.) | Further possible increase (\$m p.a.) | Capital allowance (\$m total) |
|---|--|------------------------------|--------------------------------------|-------------------------------|
| Allowances | 2,625 | 3,000 | 3,300 | 7,800 (B21-B24) |
| Pre-commitments | 203 | 203 | 203 | 11 |
| Between-Budget contingency | 40 | 40 | 40 | - |
| Cost pressures | 2,156 | 2,156 | 2,156 | 1,802 |
| Main benefit increase (\$25 pw) | 0 | 541 | 541 | - |
| Allowance remaining for other priorities | 176 | 10 | 310 | 5,998 |

Note: even if the priority area sub-packages are not funded in full from the remaining allowance, the child wellbeing and climate sub-packages contain cost pressure elements that will need to be funded.

15. As illustrated in Table 4, this approach leaves only limited funding for other priorities if the operating allowance is increased, and no funding within the current allowance. Therefore, Ministers will need to be extremely selective about which other manifesto commitments and priority initiatives to include in the final package.
16. This report contains information to help inform this selection, including high and low options for the priority areas (as illustrated in Table 5 below).

Table 5: Choices across priority and other manifesto packages

| Priority areas | Opex (\$m average p.a.) | | Capex (\$m 10 year total) | |
|--|-------------------------|------------|---------------------------|------------|
| | Low | High | Low | High |
| Child wellbeing (excl. main benefits) | 45 | 213 | 0 | 1 |
| Cost pressures | 27 | 30 | 0 | 0 |
| Manifesto commitments | 18 | 184 | 0 | 0 |
| Housing | [38] | [33] | [38] | [33] |
| Cost pressures | 0 | 0 | 0 | 0 |
| Manifesto commitments | 271 | 294 | 1,863 | 3,000 |
| Climate | 47 | 93 | 216 | 336 |
| Cost pressures | 4 | 20 | 200 | 320 |
| Manifesto commitments | 44 | 73 | 16 | 16 |
| Other Manifesto Commitments | 450 | | 1,134 | |

17. Outside of reprioritisation, there are some further fiscal management options that you could use to reduce pressure on allowances. This includes exploring whether time-limited manifesto initiatives could be suitable for funding through the COVID-19 Response and Recovery Fund (CRRF) if they meet the criteria for CRRF expenditure. Further information on these options is outlined at the back of this report.

Cost pressures

18. Cost pressure funding represents the majority of the draft Budget 2021 package, with \$2.2 billion average operating per annum and \$1.9 billion total capital. This closely aligns with the amount of cost pressure funding in recent Budgets, such as the \$1.9 billion average operating funding per annum provided through Budget 2019.
19. Pressures in the Health sector are particularly acute, with recommended funding in the draft package of \$1.1 billion average operating per annum and \$1 billion total capital. Over half of the operating funding is to support District Health Boards' (DHBs') cost pressures and limit deficit growth. Scaling is possible, but would require costs to be met through future Budgets or cash injections.
20. Other large pressures relate to parts of the core Health system such as primary care and planned care, as well as the rollout of key programmes and systems. There is limited discretion over these cost pressures short of significant policy decisions to withdraw or scale key services. Providing adequate cost pressure funding is also critical to enabling upcoming Health system reforms that will address existing governance and accountability issues and reduce long-term fiscal costs.
21. Outside of Health, Education is also a significant source of cost pressure funding with \$330 million average operating per annum and \$435 million total capital in the draft package. While a growing population and rising costs are putting a burden on the system, there is more discretion over many of these pressures compared with Health. Accordingly, we have scaled or deferred funding for a number of initiatives that do not relate to critical services or where there is not clear alignment to the strict criteria you set for cost pressures in Budget 2021.
22. Across the rest of the cost pressure sub-package, key drivers include the impact of forthcoming legislative changes as well as collective bargaining. In some cases, time-limited funding provided through recent Budgets has also created 'funding cliffs' that need to be addressed in Budget 2021. For example, funding is being sought in the Justice sector to ensure that the legal aid and preventing family and sexual violence programmes can continue after receiving time-limited funding in Budget 2019.

Table 6: Largest cost pressure initiatives

| Largest operating cost pressure initiatives | | | |
|---|--|-----------------|----------------|
| Portfolio | Title | Opex \$m p.a. | Opex total \$m |
| Health | Supporting District Health Boards | [33] | |
| Health | Disability Support Services Cost Pressure | 84 | 338 |
| [37,38] | | | |
| Education | Ensuring the viability of vocational education and training | 70 | 280 |
| Education | Holiday's Act Remediation for School and Ministry Payroll | 68 | 270 |
| Largest capital cost pressure initiatives | | | |
| Portfolio | Title | Capex total \$m | |
| Health | District Health Boards' Capital Investment | [33] | |
| Education | Meeting Cost Increases in Legacy Redevelopment Projects | 150 | |
| Transport | Capital to fund Cabinet-agreed investment in Aviation Security Infrastructure and Regulatory Systems | 113 | |
| Health | Hira programme (previously referred to as the national Health Information Platform) | [33] | |
| Education | Purchasing Land for New Schools | [33] | |

23. After scrutinising these cost pressure initiatives through the assessment and package development processes, we consider that further scaling is not possible without creating critical risk to services, or pushing costs out to future years where allowances may also be constrained.

Overview of priority areas

- 24. We have prepared high and low package options for each of the priority areas. However, after accounting for cost pressures and one flagship initiative, it would not be possible to provide funding for all three priorities, even at a significantly scaled level, within the current operating allowance.
- 25. Each of these sub-packages includes cost pressure elements that we have separated out from the general cost pressures in recognition of the strong alignment with the manifesto commitments in these areas. Therefore, it will be necessary to provide some funding in each area even if the overall sub-package is not included.
- 26. The information below is intended to demonstrate further choices available within and between these sub-packages.

Child Wellbeing

- 27. You have indicated that addressing child poverty is a priority area for Budget 2021. Under the Child Poverty Reduction Act 2018, the Government is required to set the next round of interim Child Poverty targets by June 2021. In order to have a full impact on these targets, any policy changes would need to be implemented in full by July 2022.
- 28. Our suggested child wellbeing sub-package includes manifesto commitment and cost pressure initiatives that we consider to be most relevant to child wellbeing. A range of other initiatives across the package are also likely to have an impact on children in poverty.
- 29. Annex 3 is an updated version of an A3 provided to the Child and Youth Wellbeing Strategy Ministerial Group which reflects the initiatives supported in the draft package. This annex provides an early indication of possible content for the Child Poverty Report.

Main benefit increase

- 30. The largest initiative in this priority area is the increase to main benefits, with the option to increase by \$25 per week from July 2021 reflected in the low package, and the \$50 per week option in the high package. This initiative is expected to have the largest direct impact on child poverty of the initiatives in the package.
- 31. We have suggested this initiative as a possible flagship initiative for Budget 2021.

Table 7: Options for main benefit increase

| <u>Low package - \$25 pw increase</u> | <u>High package - \$50 pw increase</u> |
|---|---|
| <ul style="list-style-type: none"> • \$541 million p.a. • \$2,164 billion total forecast period | <ul style="list-style-type: none"> • \$1,050 million p.a. • \$4,202 million total forecast period |

32. The Treasury recommends progressing at most a \$25 per week increase in Budget 2021. You have received separate advice on this issue [T2021/371 refers].

33. If you do opt for an increase of \$50 per week, this could be implemented through a one-off increase, or a two-stage implementation across July 2021 and April 2022. If the two-stage increase option is chosen, the full fiscal impact could be managed against Budget 2021 allowances or phased across Budget 2021 and Budget 2022. The former approach is more consistent with the fiscal management approach and so would be the Treasury's preferred option.

Other child wellbeing initiatives

34. Table 8 below provides an overview of the low and high child wellbeing sub-package options, excluding the increase to main benefits.

Table 8: Child wellbeing sub-package options

| <u>Low package</u> | <u>High package</u> |
|--|--|
| <ul style="list-style-type: none"> • \$45 million opex average p.a. • Key initiatives: <ul style="list-style-type: none"> ○ Justice: Initiatives aimed at preventing family violence and sexual violence [33] ○ Justice: Measures to improve child wellbeing in the family justice system (\$3m p.a.) ○ Social Development: Continued funding for KickStart breakfasts (\$1m p.a.) | <ul style="list-style-type: none"> • \$213 million opex average p.a. • All initiatives in low package, some with scaled up funding • Additional initiatives: <ul style="list-style-type: none"> ○ Social Development: Improving childcare assistance for low and middle-income families [33] ○ Social Development: [33] ○ Māori Development: [33] |
| <p><u>Notable initiatives not included in package:</u></p> <ul style="list-style-type: none"> • Oranga Tamariki: Improving the Maori-Crown relationship to enhance the wellbeing of tamariki and whanau in greatest need [33] | |

35. An increase to main benefits would provide a substantial contribution to child wellbeing, so consideration should be given to how much further investment is required in Budget 2021. At a minimum, funding could just be provided for the cost pressure initiatives associated with this priority area, totalling \$30 million operating funding per annum, to ensure continuity of services such as family violence safety responses and the SmartStart programme.

Housing

36. You have indicated that housing is a key priority area for Budget 2021. Housing represents a challenge for New Zealand, and investment alone will be insufficient to improve housing affordability at scale. To achieve this, spending will need to be paired with short and long-term regulatory levers and reforms, such as the Resource Management Act reform.
37. A Cabinet paper titled *Increasing Housing Supply and Improving Affordability for First Home Buyers and Renters*, due to be confirmed at Cabinet on 8 March 2021, seeks to delegate decision-making on a Budget 2021 housing package of up to \$1.105 billion operating funding (\$276 million per annum) and \$3 billion capital funding to Budget Ministers. We understand that Ministerial discussions on this paper are ongoing.

38. The high package reflects upper estimates for the costs of these initiatives, with the low package reflecting scaling options that the Treasury considers feasible. The remaining components of the Cabinet paper have been included in the high and low packages as a placeholder until further direction is provided.
39. The Treasury can provide further advice on the Cabinet paper and achieving housing affordability if requested.

Table 9: Housing sub-package options

| <u>Low package</u> | <u>High package</u> |
|---|--|
| <ul style="list-style-type: none"> • [38] • Key initiatives include: <ul style="list-style-type: none"> ○ Housing and Urban Development: Package to increase housing supply and improve affordability [38] ○ Housing and Urban Development: Māori Housing Solutions (\$56m opex p.a.) ○ Building and Construction: Ensuring compliance with the Healthy Homes Standards (\$2m opex p.a.) | <ul style="list-style-type: none"> • [33] • All initiatives in the low package, but with additional funding for some initiatives |
| <p><u>Notable initiatives not included in package:</u></p> <ul style="list-style-type: none"> • [33] • Māori Development: Increasing supply of new whanau homes on papakainga (initiative sought \$42m opex p.a.) | |

40. The low package focusses on initiatives where there is limited discretion around funding decisions, [38]

Where funding
is time-limited, it could be possible to fund some initiatives from the CRRF.

Climate

41. The Government has signalled its commitment to protecting the environment and addressing climate change. However, the Climate Change Commission’s (CCC) draft report, released in February, confirmed that New Zealand is not on track to meet the Government’s emissions reductions targets.
42. Budget 2021 provides an opportunity to start progressing toward these targets, however, this alone will not be sufficient, and sustained investment in future Budgets will be required. Upcoming changes to the Emissions Trading Scheme will also be important in reducing emissions.
43. The Treasury has drafted high and low sub-package options. Both options are significantly smaller than the package of initiatives submitted by Ministers and are unlikely to have a significant impact on the Government’s targets. This is due to concerns that many of the initiatives are not implementation ready or require further policy development before funding is committed.

Table 10: Climate package options

| <u>Low package</u> | <u>High package</u> |
|---|---|
| <ul style="list-style-type: none"> • \$47m opex per annum, \$216m capex • Key initiatives: <ul style="list-style-type: none"> ○ Business, Science and Innovation: Extending the Warmer Kiwi Homes programme (\$25m opex p.a.) ○ Transport: Transport Climate Package (\$10m opex p.a., \$16m capex) ○ Agriculture, Biosecurity, Fisheries and Food Safety: Accelerating the delivery of a national integrated farm planning system (\$5m opex p.a.) | <ul style="list-style-type: none"> • \$93m opex per annum, \$336m capex • All initiatives in low package, some with scaled up funding • Additional initiatives: <ul style="list-style-type: none"> ○ Business, Science and Innovation: Funding for low emission transport technologies and fuels (\$10m opex p.a.); Expanding Just Transition support (\$3m opex p.a.) ○ Agriculture, Biosecurity, Fisheries and Food Safety: Agricultural climate change research and on-farm emissions mitigation (\$6m opex p.a.) |
| <p><u>Notable initiatives not included in package:</u></p> <ul style="list-style-type: none"> • Business, Science and Innovation: [33] • Environment: [33] | |

44. You will be receiving a report from the Ministry for the Environment (MfE) ahead of your meeting with Climate Ministers on 17 March. This advice is likely to recommend progressing all initiatives submitted as part of the Budget 2021, noting that this will still be insufficient for meeting the CCC's recommendations. The Treasury does not support the package proposed by MfE.
45. You are also meeting with the Minister for Climate Change on Wednesday 10 March to discuss a strategic approach to Financing the Climate Transition, looking ahead to fiscal management tools that could be put in place by Budget 2022 as part of the Public Finance Act Modernisation process. You are receiving separate advice ahead of that meeting [T2021/362 refers].
46. [34]

At a minimum, full or scaled funding could be provided for the cost pressures associated with the priority area, amounting to \$20 million operating per annum, and \$320 million total capital.

Other manifesto commitments

47. In line with the approach outlined in T2021/305, we have been very selective in which other manifesto commitments we have included in the draft package, prioritising only initiatives which cannot reasonably be deferred without creating risk or compromising existing Government policy directions.
48. You may wish to further scale or defer these initiatives in order to fund higher-priority initiatives. The table below highlights some key initiatives currently included in the draft package, and the consequences of declining or deferring them.

Table 11: Options for other manifesto commitments

| Initiative | Consequences of not funding |
|--|--|
| Transport: Rail Network Investment Programme (\$112m opex p.a.) | In order to achieve the level of network investment the Government agreed to through the Future of Rail, there is limited discretion to scale or defer funding for the Rail Network Investment Programme initiative. |
| Environment: Delivering reform of the Resource Management System (\$33m opex p.a.) | Any delay would risk not being able to pass and begin implementing RM reform legislation with the current government term. |
| Internal Affairs: Funding the Royal Commission of Inquiry into Historical Abuse in State Care and in the Care of faith-based Institutions (\$25m opex p.a.) | In the absence of funding the Royal Commission will cease to operate after 30 June 2021. You are receiving further advice on options for funding this initiative [T2021/474 refers]. |
| Health: Health and Disability System Review – Locality Health and Wellbeing Networks and Hauora Māori (\$12m opex p.a.) | If reform is delayed, the financial position of the health sector will continue to decline (making reform more expensive) and progress will not be made on addressing variation and inequities in the system. |

Wellbeing impacts

49. We have previously advised you of our approach to assessing value-for-money, including consideration of wellbeing impacts for Budget 2021 [T2021/271 refers].
50. The draft Budget Ministers 2 slides include wellbeing analysis derived from Treasury Vote team assessments. This material includes:
 - impact analysis charts for each sub-package, demonstrating the contribution to Budget priorities, value-for-money, and implementation readiness of initiatives across this area
 - distributional analysis which indicatively illustrates the proportion of package spend that is either targeted to, or impacts on, particular population groups (this is based on a qualitative judgement by Treasury), and
 - a breakdown of the high and low sub-packages drawing out the Living Standards Framework wellbeing domains and the Wellbeing Objectives set out in the Budget Policy Statement 2021 (which is similar to material produced for Budget 2019).
51. Due to time constraints, the information we have been able to collect from agencies to inform the analysis is limited. As a result, the analysis is qualitative in nature and reliant on Vote team assessments.
52. We are also developing He Ara Waiora analysis on the overall Budget package and this will be provided as part of the material for the Budget Ministers 3 meeting on 29 March 2021.

Māori package

53. As part of the December 2020 initiative invitation process, you invited Māori Ministers to submit a package of initiatives for Budget 2021 specifically targeting Māori. These span across the various sub-packages presented in this report.

Table 12: Māori Ministers initiatives in draft package

| Included in draft package | Deferred or not supported |
|--|---|
| Statistics: Iwi-led data collection for 2023 Census (\$4m opex p.a.) | [33] |
| Prime Minister and Cabinet: Funding for National Emergency Management Agency (\$11m opex p.a.) | [33] |
| Health: Health and Disability System Review – Locality Health and Wellbeing Networks and Hauora Maori (\$12m opex p.a.) | Justice (Māori Crown Relations portfolio): Recognising Māori Crown events through statues [33] |
| Housing and Urban Development: Accelerating immediate Māori housing solutions (\$74m opex p.a.) | Māori Development: Building a sustainable Māori Media Sector - Programme Content (\$11m opex p.a.) |
| Corrections: Māori Pathways – Kaupapa Maori services for wahine (\$2m opex p.a. – <i>high package only</i>) | Business, Science and Innovation: Support for Māori Tourism businesses and future of industry (\$4m opex p.a.) |
| Police: Te Pae Oranga iwi community panels: tikanga Māori and Whānau Ora-based alternative to court for low-level offending (\$18m opex p.a.) | Māori Development: [33] |
| Māori Development: [33] | |

54. [33]

You may wish to take these risks into account when making decisions on the draft package.

55. In subsequent meetings you have expressed an interest in compiling a Māori package including initiatives across the package, beyond just those submitted in the package above. While it is straightforward to identify the initiatives in the package that specifically target Māori, for example in the health and housing sectors, we are undertaking further distributional analysis in order to identify other initiatives with direct implications for Māori.
56. Based on the analysis we have been able to undertake for Budget 2021, we do not have sufficient information to use He Ara Waiora as a tool for prioritising initiatives. However, we can draw out instances where initiatives have been developed consistently with the te ao Māori concepts in the framework, and initiatives where there are further opportunities for engagement with Māori.

58. If you wish to receive this analysis we can provide it to you as part of the material for the third Budget Ministers meeting on Monday 29 March, or as part of a briefing ahead of a further Māori Ministers multilateral meeting.

Fiscal management options

59. In addition to considering increases to allowances, you could consider other fiscal management options available in order to ease pressure on the allowances.
60. We have identified a number of initiatives submitted through the Budget process that are possible candidates for being funded from the CRRF, and have indicated this in the list of initiatives in Annex 5. These initiatives have been excluded from the draft package aggregates, and amount to \$71 million operating funding per annum and \$273 million capital funding.
61. You may wish to consider funding these other initiatives in the package from the CRRF, where funding is temporary, targeted, and the initiative is aligned with response and recovery from COVID-19. The current unallocated balance of the CRRF is \$9.8 billion, with a further \$800 million expected to be requested in current weeks. While this provides ample room for funding Budget initiatives, sufficient room should be left for any future outbreaks.
62. We have also identified potential opportunities for reprioritisation of existing CRRF spending amounting to \$1 billion. You have received separate advice on the options for using this funding, including returning it to the CRRF (Treasury's preferred option), returning it to the centre, or use them to manage Budget 2021 pressures [T2021/200 refers].

Overview of information in annexes

63. We have compiled additional information on the following cross-sector issues:
- data, digital and ICT (Annex 1)
 - wage and workforce constraints (Annex 2), and
 - child poverty implications (Annex 3).
64. These annexes provide you with system-level and thematic analysis of the draft Budget 2021 package. While this analysis does not include recommendations on which initiatives to fund in Budget 2021, it can inform how to adjust system settings to ensure Budget 2021 investments achieve their intended outcomes.
65. We have also provided an overview of the late initiatives submitted in response to the Royal Commission of Inquiry into the Christchurch terror attacks, and the Vote team assessments for each initiative (Annex 4). These initiatives are also included in Annex 5, and the funding supported as part of the draft package is included in the aggregate figures in this report.
66. Annex 5 provides the full spreadsheet list of the submitted initiatives, including all initiatives that are not included in the draft package.

Next steps

67. We are meeting with you on 9 March 2021 at 4:00pm to discuss the fiscal strategy for Budget 2021, the draft Budget 2021 package, Budget Ministers 2 material, and any queries you have on the other Budget-related advice you have received.
68. Following your feedback, we will refine the draft package and provide your office with the final Budget Ministers 2 material on 10 March 2021.
69. In addition to this report, you have received a number of other reports covering issues relevant to your decision-making on Budget 2021:
 - Options for reprioritising funding from the COVID-19 Response and Recovery Fund [T2021/200 refers].
 - Fiscal Strategy advice for Budget 2021 [T2021/316 refers].
 - Draft revenue strategy and high-level tax policy work programme progress update [T2021/314 refers].
 - Advice on potential income support package – joint advice [T2021/492 refers] and a separate Treasury report [T2021/371 refers].
 - Capital Panel Advice [T2021/465 refers].
 - Joint report to Minister of Finance and Minister for Climate Change on funding and financing the transition [T2021/362 refers].
 - Advice on cross-sectoral alignment of the approach to funding NGOs through Budget 2021 [T2021/182 refers].
 - Funding the Royal Commission of Inquiry into Historical Abuse in State Care and in the Care of faith-based Institutions [T2021/474 refers].
 - Transforming three waters service delivery for New Zealanders – to be provided in the week of 8 March 2021 [T2021/426 refers].

Annex 1: Data, digital and ICT

1. In 2018, the Government Chief Digital Officer (GCDO) and the Government Chief Data Steward (GCDS) were asked by the Minister of Finance to contribute advice to the Budget process. This was to ensure an all-of-government (system) view of digital, data and ICT spending was being taken and that investment was targeted, efficient and supported digital outcomes. Cabinet further endorsed the digital, data and ICT Investment Principles which are to be used to assess budget initiatives, and identify risks and opportunities across agencies.

GCDO advice

2. Budget 2021 is the third year that GCDO has provided their assessment into the Budget process and given it was 'by invitation' there were considerably fewer initiatives overall. A collaborative approach was also taken with the GCDS who separately assessed a small number of data related initiatives.
3. Overall insights from this year's initiatives included:
 - There was limited alignment with the Strategy for a Digital Public Service or the wider goals of a unified public service. Agencies are still taking an agency centric approach to digital investment.
 - Agencies frequently focus on the (specific) digital solution and not the overall outcome sought, which can result in a technology-centric solution that is not as fit for purpose as first imagined.
 - There needs to be greater transparency from agencies around current and planned digital investment to enable GCDO to undertake its system role. The GCDO was only aware of half the bids that surfaced in Budget 2021.
 - In some cases there appeared to be a disconnect within agencies around digital projects (i.e. insufficient joining up within agencies).
 - There are many assumptions being made around the available capacity/capability of the digital workforce and market to support these initiatives.
4. GCDO remain committed to supporting agencies following the budget process and where conditions were attached to initiatives. There is also ongoing work to strengthen the overall approach to digital investment so it is more strategic and coordinated.

GCDS advice

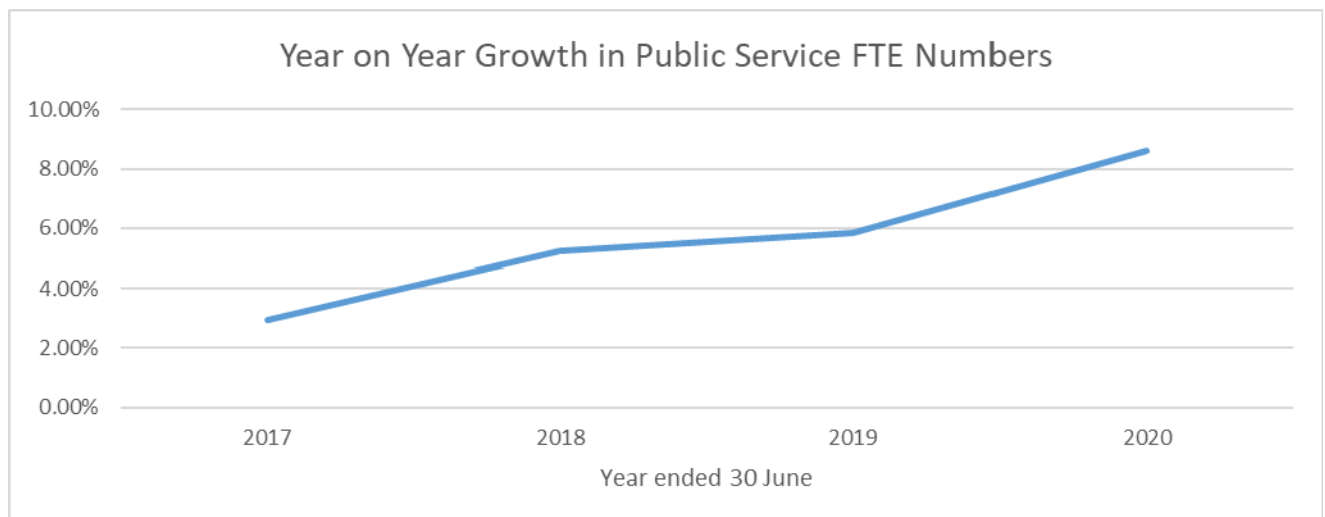
5. Due to the invitation process, a high threshold was already obtained and the vast majority of initiatives that had a significant data component were endorsed by the Government Chief Data Steward (GCDS), based on the value they provide to the system.
6. Having said that, the data system still has a long way to go. The Data Strategy and Roadmap is currently being refreshed to set new focus areas and corral effort. The GCDS also continues to work alongside other system stakeholders to develop a Data Investment Plan ahead of Budget 2022. This work sets out a 10-year plan for investment in data – setting out a long-term view of what is needed, when it is needed, and an indication of what it might cost. This programme is key to embedding a 'system-win' culture where data is designed with all-of-government and all-of-New Zealand needs in mind.

7. In future years, it will be important for the GCDS to instigate innovative new thinking and encourage agencies to develop proposals for new and emerging technologies that benefit New Zealanders. This includes the data science capability, system culture readiness, trust frameworks and risk management approach to ensure opportunities and innovation thrives. Part of this shift will be the expectation for more multi-agency budget initiatives and fewer single agency initiatives. There should also be a focus on the development of system tools: common capabilities, data standards, and tools to support transparency and ethical practice, to name a few.

Annex 2: Wage and workforce constraints

Public sector FTE

1. This year officials have again taken a system-level view of additional demands for public service workforce capability coming through Budget 2021. Where information allows, officials have also included capability demands from Crown Entities seeking similar skillsets to the Public Service.
2. During the 2020 calendar year, a significant amount of additional funding was provided to agencies and many of the initiatives funded through Budget 2020 and the COVID-19 Response and Recovery Fund are still in the process of being implemented
3. In addition, a number of agencies are still in the process of implementing significant initiatives funded in earlier Budgets.
4. The graph below shows the significant growth in public service FTE numbers that occurred during 2020.



Source: Public Service Commission Workforce Data

5. Treasury's analysis of Budget 2021 initiatives shows that:
 - Demand for Senior Policy capability remains high.
 - Demand for Te Ao Māori capability is increasing and widespread throughout submitted initiatives. This demand for capability is spread over various other capability categories including Senior Policy, Māori-Crown relationship specialists and in some cases knowledge of specific policy areas (such as climate change) is also required. For many initiatives this capability appears critical to successful implementation and delivery.
 - Agencies are showing a greater awareness of the workforce capability shortages. Some initiatives mention using lessons learnt about remote working to allow them to recruit outside of Wellington and others mention the need to invest in training in-house to develop specific skills that the labour market cannot provide (for example emergency management personnel and pay equity claim analysts). Agencies are also showing greater flexibility and openness to the type of capability they are looking for.
 - Ongoing reviews and inquires and the response to completed reviews and inquiries also continue to drive demand for workforce capability.

6. We recommend that Ministers consider:
 - Existing agency/system priorities and work programmes when considering funding additional functions or work streams. Where agencies are already facing pressure to deliver, additional requests may further compromise the ability of the agency to progress existing commitments.
 - Careful prioritisation of Te Ao Māori capability.
 - Continuing to encourage agencies and functional leads to develop workforce strategies and plans.
 - Re-iterating the importance of having good implementation plans in place for significant work programmes and that these should clearly set out how resources will be sourced. Delivery timeframes should be realistic in light of the availability of resources.

Wages

7. We have scanned wage-related initiatives for system-level impacts, particularly in relation to precedent-setting in wage bargaining and sequencing of manifesto commitments.
8. We are unable to comprehensively identify or influence all wage pressures across the Public Sector. This is because some wage pressures are partly or fully baseline-funded, and some initiatives (including bulk or contributory funding to Crown Entities and NGOs) may enable lower-level agents to adjust wage rates without presenting as wage initiatives.
9. Ministers have most discretion through the Budget package to influence wage costs relating to outstanding policy decisions on manifesto commitments, and least discretion to influence the costs of near-final collective bargaining settlements. We recommend you consider the following fiscal and implementation risks as part of Budget decisions, upcoming Cabinet policy decisions on manifesto commitments (discussed below), and in relation to other proposed changes to public sector employment relations approaches (ie, the proposed Government Workforce Policy Statement [38])
10. The Budget package makes progress toward a number of wage-related manifesto commitments.
 - **Living wage for government-contracted workforces:** The draft package includes funding for MSD to continue paying a living wage to contracted security guards, [33] The package also includes a number of initiatives with indirect and minor precedent-setting risks to the sequencing of the living wage roll-out, including initiatives relating to pay for [33] royal ballet dancers. [34]

Cabinet is expected to consider advice in March on delivery of the Government's commitment to paying security, catering and cleaning workers a living wage where they are contracted by departments and agencies. We recommend Cabinet reviews funding requirements following these decisions.

[34]

- **Pay parity:** The draft package defers pay parity initiatives for [33] early childhood education teachers primarily due to not being time-critical. Further work is needed ahead of future budgets to determine what pay settings would constitute 'pay parity' (ie, 1:1 versus principled differentiation on certain agreed job characteristics). Should these bids progress, we recommend any communications about these initiatives are clear that this year's Budget represents a first step rather than an end state. There are also implementation challenges to resolve in terms of ensuring additional funding in contracted sectors results in employers paying higher wages as intended. The Treasury will work with Te Kawa Mataaho and the Ministries of Health and Education to progress this work.
- **Fair Pay Agreements:** Cabinet will consider the policy features of Fair Pay Agreements (FPA) in mid-April. We support establishing a tagged contingency through Budget 2021 to be drawn down following the Budget moratorium once design details are finalised. The Budget package provides scaled funding sufficient for four agreements to progress per year, compared to the full option of approximately eight per year. Note that if Ministers agree to an open-access FPA system in April rather than a targeted-access system, the proposed level of funding would need to be increased to avoid delivery risks.

11. [39]

12. Funding was not supported for MPI's collective bargaining due to sufficiency of baselines, [33]

13. You will have further engagement on collective bargaining at the next meeting of the Ministerial Oversight Group for State Sector Employment Relations (MOGSSER) on 14 April.

Annex 3: Initiatives in draft package that are likely to have an impact for children in poverty mapped to the Child and Youth Wellbeing Strategy

As part of the Budget 2021 process, agencies were asked to indicate if initiatives had child poverty implications. As part of the assessment process, Treasury analysts were asked to identify initiatives that may have either direct or indirect impacts on child poverty.

The following list provides an initial overview of some of the key initiatives in the draft package that may have an impact for children in poverty. *Note: ★ indicates initiatives included in the draft high package only.*

Changes to incomes support settings that directly increase incomes

- Main Benefit Rate Increase and Complementary Changes
- Improving Childcare Assistance for low and middle-income families★
- [33]

Changes to directly support children and their families

- Continued Funding for KickStart Breakfasts for [33] School Children in High Deprivation Areas
- Working in partnership with KidsCan to support families in need by providing raincoats to children in need

Changes to support people to remain safe and well in their homes

[33]

- Extension of Short-term housing and associated programmes - For Sustaining Tenancies, households most likely to engage the service include single parents, and large families. Helping families retain tenancies reduces the likelihood of them becoming homeless, living in overcrowded housing, or being accommodated in motels.
- Ensuring compliance with the Healthy Homes Standards - 120,000 children under five and 7 out of 10 children living in hardship live in rental accommodation. Additional proactive compliance work will help to raise the quality of rental housing stock and improve behaviour, enabling improved health, education and employment outcomes.
- Extending the Warmer Kiwi Homes programme - 28,000 children are hospitalised each year for avoidable hospitalisations linked to cold, damp and mouldy houses. Children that live in houses that are insulated and have effective and efficient heating benefit from reduced incidences of illness from cold and damp housing, and fewer days off school.
- [33]

Changes in the health sector to enable greater access to services

- Continuing Section 88 primary maternity funding to enable ongoing access to free maternity services for NZ women - A healthy pregnancy and the quality of attachment between a baby and their carer is critical to optimal wellbeing. This initiative supports reducing barriers to receiving free or low cost, quality, maternity care, potentially reducing the impact of poverty on wellbeing outcomes in later life.
- Well Child Tamariki Ora price and volume pressures - By improving the access of pepi, tamariki and whanau living in deprived areas to an essential child health service and taking a whanau centred approach to care, WCTO pressures funding will help address factors that contribute to and result from child poverty.

The current draft package has limited impact in this wellbeing outcome.

Changes to support children in state care

- Increased Costs of Meeting Children's Assessed Needs – Tamariki and rangatahi that are at risk now or in the future are provided with the right services and opportunities to meet their needs. This is done by providing the right type of home to meet needs, or by helping keep children from needing to come into care.
- Financial assistance for caregivers: Removing disparities between payments for children inside and outside state care★

Changes to address harm caused by family and sexual violence

- Preventing family violence and sexual violence: Sustaining and developing existing safety responses with communities – This initiative has shown it provides a relative reduction in children witnessing or being exposed to family violence.

Changes to support whānau through the justice system

- Te Pae Oranga iwi community panels: tikanga Māori and Whānau Ora-based alternative to court for low-level offending - Te Pae Oranga enables the identification of child poverty and facilitates access to service providers who can assist with solutions. Service providers can advocate with MSD, access food banks or other assistance, and / or support access to training, education, and employment opportunities.
- Safeguarding child wellbeing and building a strong foundation for change in the family justice system - Many whānau who engage with family justice services experience poverty, which exacerbates the emotional and financial burden caused by the delays and lack of resolution between parents and whanau. Speedier and more accessible services will mitigate these pressures.

Changes in the education sector to ensure equity, affordability and availability

- Implementing the equity index in schools and kura - Additional equity resourcing will support better outcomes for learners across New Zealand, including improved educational attainment, academic achievement, later-life earnings and learner wellbeing.
- Annual Cost Adjustment for maintaining quality in early learning services - Affordable ECE contributes to a reduction in child poverty by supporting labour market participation and reducing pressure on household budgets.
- Working in partnership with the Out of School Care and Recreation Service (OSCAR) providers to low-income families

Changes to support children and their families to make healthy choices

- Achieving Smokefree 2025
- Improving equitable access to sexual and reproductive health services through Family Planning New Zealand



CHILDREN and YOUNG PEOPLE have WHAT they NEED



CHILDREN and YOUNG PEOPLE are LOVED, SAFE and NURTURED



CHILDREN and YOUNG PEOPLE are LEARNING and DEVELOPING



CHILDREN and YOUNG PEOPLE are INVOLVED and EMPOWERED



CHILDREN and YOUNG PEOPLE are ACCEPTED, RESPECTED and CONNECTED

Annex 4: Late initiatives related to Royal Commission of Inquiry into the Christchurch Terror Attacks

| CFISNet ID | Initiative | Description | Requested | | Recommended | | Vote Team comment |
|------------|--|--|-------------------|-------------|-------------------|-------------|----------------------|
| | | | 4-year opex (\$m) | Capex (\$m) | 4-year opex (\$m) | Capex (\$m) | |
| 13381 | Building Community Trust and Confidence in Response to the RCOI into March 2019 Terrorist Attack | This initiative will respond to recommendation 44 to establish and operate an Implementation Oversight Advisory Group [33] | [33] | 0.135 | [33] | 0.135 | Support scaled. [33] |
| 13382 | NZIC Initiative #4 - Classification System Review | National Security Classification System review business case development – this would align with the recommendation to change the New Zealand Government Classification System. [33] | [33] | - | - | - | [33] |
| [33] | | | | | | | |

| CFISNet ID | Initiative | Description | Requested | | Recommended | | Vote Team comment |
|------------|---|---|-------------------|-------------|-------------------|-------------|--|
| | | | 4-year opex (\$m) | Capex (\$m) | 4-year opex (\$m) | Capex (\$m) | |
| [33] | | | | | | | |
| 13386 | Periodic Review of the Intelligence and Security Act 2017 | A periodic review of the Intelligence and Security Act is required in 2022 (section 235 of the ISA). The RCOI recommended that the Government review all legislation related to the counter-terrorism effort, including the ISA to ensure it is current and enables Public sector agencies to operate effectively. The review will also cover the Royal Commission's recommendations. | 1.106 | - | - | - | Do not support. The review of the Act by 2022 is a statutory requirement and therefore scheduled to take place within baselines, alongside the security agencies. This was not previously identified as a cost pressure in Budget 2021 and no significant risks have been provided, so we consider that priority should be given to initiatives that meet Budget criteria. The initiative states that this funding would be used to increase community engagement. However, we consider there are other avenues the Ministry could use to engage these communities, including those which are seeking funding through this package. |
| | | [33] | | | | | |