

# The Treasury

## Budget 2022 Information Release

August 2022

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- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
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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
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# Further options for Budget 2022 package

The table below provides an overview of the options outlined in this material.

| Option                                               | Impact on operating allowance            | Impact on capital allowance | Comment                                                                                                                                                                                                                        |
|------------------------------------------------------|------------------------------------------|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Further scaling/deferral opportunities               | Up to \$12.0 million operating per annum | N/A                         | This total includes possible savings across 7 initiatives in the general cost pressure and manifesto sub-packages. There are also larger trade-offs in the Health, Education and Welfare sub-packages, outlined in slides 6-7. |
| Reprioritising tagged contingencies                  | [33]                                     |                             | This is a maximum figure including the full amount for contingencies that may only be able to be partly reprioritised.                                                                                                         |
| Moving initiatives to other funding sources          | Up to \$22.1 million operating per annum | Up to \$2.8 million total   | This total reflects three initiatives being funded from the Climate Emergency Response Fund (CERF) and one initiative being funded from the Emerging Priorities Contingency Fund (EPC).                                        |
| COVID-19 Response and Recovery Fund reprioritisation | \$500 million per annum                  | N/A                         | Indicatively, if the CRRF was closed and \$3 billion remained, \$1 billion could be transferred to a new contingency while \$2 billion could be used to manage higher Budget 2022 spending (\$500 million p.a.)                |

# Scaling and deferral options for specific initiatives

I have sought further information on scaling and deferral options for smaller initiatives, outlined in the tables below.

| Initiative                                                                                                                                                                  | BM5 package funding (total \$m) | Possible scaled option (total \$m) | Comment                                                                                                                                                                                                                                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Manatū Taonga Cost Pressures – Arts, Culture and Heritage (Cost pressure)                                                                                                   | 19.800 opex                     | 16.500 opex                        | [33]<br><br>Funding is primarily sought to offer a competitive salary package to attract and retain staff, rather than expanding staff numbers. The figures assume some lag in filling vacancies. Further scaling could risk Manatū Taonga's ability to deliver its outputs.                                                            |
| Unit Titles Amendment and Education – Building and construction (Cost pressure)                                                                                             | [33]                            | 2.524 opex                         | [33]<br><br>The scaling option would provide funding for the lowering of application fees for adjudication and mediation services only.                                                                                                                                                                                                 |
| Managing the Regional Strategic Partnership Fund and Kanoa – Regional Economic Development & Investment Unit investments – Business, Science and innovation (Cost pressure) | 38.000 opex over two years      | 22.500 opex over two years         | [33]<br><br>The current scaled option takes into account reprioritisation of existing funds held by Kanoa and does not include any ongoing funding, which is expected to be considered at a later date. Further scaling could create risks for the delivery of Kanoa's outputs.<br><br>An indicative scaling option of 50% is provided. |

# Scaling and deferral options for specific initiatives

| Initiative                                                                                                                 | BM5 package funding (total \$m) | Possible scaled option (total \$m) | Comment                                                                                                                                                                                                                                                                                                                                               |
|----------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Addressing Tobacco Smuggling – Customs (Cost pressure)                                                                     | 10.398 opex<br>0.674 capex      | 9.358 opex                         | <p>The BM5 package includes the minimum viable option provided by Customs, which has been further scaled by the Treasury. Further scaling could prevent the work programme from fulfilling its basic outputs.</p> <p>An indicative scaling option of 10% is provided. The initiative could also be deferred as an alternative to further scaling.</p> |
| Maintaining Treasury Capability and Supporting Government Delivery – Finance (Cost pressure)                               | [33]                            | 62.595 opex                        | <p>The current scaled initiative reflects the minimum amount necessary to maintain current capability levels. Any further scaling would necessitate the Treasury reducing staff numbers, and by implication impact the organisation's ability to deliver Ministers' desired outputs.</p> <p>An indicative scaling option of 10% is provided.</p>      |
| Implementation of a Chemical Map information database enabling improved environmental management – Environment (Manifesto) | 2.516 opex                      | N/A                                | Options have been explored for funding this initiative through baselines. [33]                                                                                                                                                                                                                                                                        |
| Whakapapa 3 Waters Infrastructure – Compliance and Asset Management – Conservation (Cost pressure)                         | 4.147 opex<br>11.385 capex      | N/A                                | DOC currently cost recover around \$600,000 per annum in the region, which is insufficient for the project. They are reviewing their cost recovery processes for new opportunities.                                                                                                                                                                   |

# Scaling and deferral options for specific initiatives

| Initiative                                                                                                                                         | BM5 package funding (total \$m) | Possible scaled option (total \$m) | Comment                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Passenger Vehicle Electrification Project – Conservation (Cost pressure)                                                                           | 4.978 opex<br>5.127 capex       | N/A                                | If this initiative is funded through DOC's baselines, there will not be sufficient depreciation funding required to replace the vehicles at the end of their useful life. This may emerge as a pressure at future Budgets or they may have to use accumulated depreciation, thereby limiting the department's ability to replace other visitor assets later. |
| Department of Internal Affairs policy capability (Cost pressure)                                                                                   | 1.000 opex                      | N/A                                | The baseline funding for DIA's policy function drops by \$2 million per annum in 2022/23, and \$3 million per annum ongoing funding was sought by DIA. Treasury's recommendation of providing a one-off \$1 million should allow for ongoing work to continue while tapering off future activity in line with the lower baseline.                            |
| Delivering effective transport system responses and advice (policy, investment, and strategy) on the COVID-19 pandemic – Transport (Cost pressure) | 2.478 opex                      | 2.000 opex                         | Funding for the COVID-19 advice function will run out at the end of 2021/22. Advice continues to be delivered on transport areas facing ongoing impacts from COVID-19 including public transport, border agencies, and international and domestic connectivity.<br><br>The scaling option provided would retain fewer FTE for these functions.               |

# Scaling and deferral options for specific initiatives

| Initiative (broken down by component)                                                 | BM5 package funding (total \$m) | Comment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------------------------------------------|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b><i>Sustainable Cultural Sector</i></b>                                             | [33]                            | <p>The New Zealand Symphony Orchestra – programme delivery component could be scaled back to \$2.500 million p.a. Further funding would be required in future with NZSO returning to a negative equity position by the end of 2025/26.</p> <p>The Nga Taonga Sound and Vision – increase headcount component could be further scaled (e.g. by 50%). This would result in some service delivery failure with the entity not being able to match increasing demand for its services.</p> <p>If these options were taken, this would lead to a scaled total of <b>\$33.915 million</b>.</p> |
| Te Papa – workforce cost pressures                                                    |                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Heritage NZ Pouhere Taonga – workforce cost pressures                                 |                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Nga Taonga Sound and Vision – workforce cost pressures                                |                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Nga Taonga Sound and Vision – increase headcount                                      |                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| New Zealand Symphony Orchestra – programme delivery (as noted by Cabinet in Dec 2021) |                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| RNZ Ballet – programme delivery and St James                                          |                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

# Health package options

| Initiative                                                                                                                                                                                                                                                                                                                                                         | Description                                                                                                                                                                                                                                                                                                                             | Dept sought (opex \$m) | Dept sought (capex \$m) | BM5 (opex \$m) | BM5 (capex \$m) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------------------|----------------|-----------------|
| Two initiatives are included in the package providing funding for data and digital capability in different parts of the system.                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                         |                        |                         |                |                 |
| Critical Data and Digital Foundations                                                                                                                                                                                                                                                                                                                              | This initiative would provide funding in a contingency for the data and digital needs of healthcare providers and entities, covering both:<br>(a) foundational data and digital investment (e.g. networks and IT infrastructure and capability) and<br>(b) prototyping of digital models of care to improve equity and health outcomes. | 92                     | [33]                    | 220            | 100             |
| Establishment of Population Health & Disease Management Digital Capability                                                                                                                                                                                                                                                                                         | This initiative provides funding for COVID-19 technological capability [33], [38]                                                                                                                                                                                                                                                       | 125.3                  | 0                       | 125.3          | 0               |
| The package includes three initiatives to support the establishment of the new public health service model. The first two initiatives cover the operational and policy arms of the model, and funding will be provided in a combined contingency until the operating model is finalised. The third initiative covers the data and digital needs of the new system. |                                                                                                                                                                                                                                                                                                                                         |                        |                         |                |                 |
| Establishing the National Public Health Service                                                                                                                                                                                                                                                                                                                    | This initiative funds the bringing together of Public Health Units into a National Public Health Service (i.e. public health operations).                                                                                                                                                                                               | [33]                   | 0                       | [33]           | 0               |
| Establishing new Public Health Agency                                                                                                                                                                                                                                                                                                                              | This initiative funds the establishment of a new public health agency within the Ministry of Health (i.e. public health policy & strategy, regulation, intelligence, monitoring).                                                                                                                                                       |                        | 0                       |                | 0               |
| Establishing the National Public Health Service – digital and data infrastructure                                                                                                                                                                                                                                                                                  | Recommended for funding in a separate contingency than the one for the initiatives above.                                                                                                                                                                                                                                               | 10.8                   | 0                       | 10.8           | 0               |

# Education and Welfare options

| Initiative                                             | Description                                                                                                                                                                                                  | Dept sought (opex \$m) | Dept sought (capex \$m) | BM5 (opex \$m) | BM5 (capex \$m) |
|--------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------------------|----------------|-----------------|
| Expanding pay parity in early learning                 | This initiative will increase wages for many early learning teachers to be closer to their kindergarten counterparts, with further funding required at Budget 2023 to achieve parity.<br><br>[38]            | [38]                   | 5.4                     | [38]           | 5.4             |
| Continuing the reform of the Tomorrow's Schools system | The scaled amount includes a \$40m 'Discretionary Fund' for the Ministry of Education to provide ad hoc support to schools, and \$22m for Leadership Advisors to give development support to school leaders. | [33]                   | 1.2                     | 62.3           | 0               |
| Māori Medium Property                                  | Funding to redevelop existing classrooms and build new classrooms and kura. This is critical to growing Māori-medium schooling.                                                                              | [33]                   |                         |                |                 |

| Initiative                                                           | Description                                                                                                                                                                                                                                                                                                                                                                         | Dept sought (opex \$m) | Dept sought (capex \$m) | BM5 (opex \$m) | BM5 (capex \$m) |
|----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------------------|----------------|-----------------|
| Improving support for dental treatment for low-income New Zealanders | This initiative seeks funding to increase the amount of non-recoverable support available to beneficiaries and low-income families for dental treatment. It can be implemented by December 2022.<br><br>The initiative was supported in the initial draft package and was included in the revised sub-package provided to me by the Minister for Social Development and Employment. | 125.8                  | 0                       | 125.8          | 0               |

# Funding in tagged contingencies

I have explored opportunities to reprioritise funding currently held in tagged contingency to help fund Budget 2022 initiatives. Some initiatives may be able to be reprioritised in full, while others can be partly reprioritised.

I am considering reprioritising the following contingencies in full.

| Vote                                                | Contingency                                                                                      | Operating total (\$m) | Capital total (\$m) |
|-----------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------|---------------------|
| Agriculture, Biosecurity, Fisheries and Food Safety | Contingency for Replacing Lost Frontline Biosecurity Operations Revenue                          | -                     | 20.000              |
| Education                                           | Contingency: Emergency Support for Casual Workers in State and State-integrated Schools and Kura | 0.829                 | -                   |
| Education                                           | WAI 2336 Te Kohanga Reo Claim                                                                    | 3.152                 | -                   |
| Labour Market                                       | Implementing Fair Pay Agreements and Screen Industry Bargaining Systems                          | -                     | 0.5                 |
| Labour Market                                       | Improving the System for Refugee Family Reunification                                            | 8.710                 | -                   |
| Tertiary Education                                  | NZ institute of skills and technology                                                            | -                     | 25.000              |
| <b>Total</b>                                        |                                                                                                  | <b>12.691</b>         | <b>45.5</b>         |

# Funding in tagged contingencies

I am considering whether the following contingencies can be reprioritised in part or in full.

| Vote                                                | Contingency (confirmed in BM5 package)                                                     | Operating total (\$m) | Capital total (\$m) |
|-----------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------|---------------------|
| Agriculture, Biosecurity, Fisheries and Food Safety | [33]                                                                                       | -                     | [33]                |
| Business, Science and Innovation                    | COVID-19: Infrastructure Cost Overruns and Reprioritisation – Tagged Operating Contingency | [33]                  | -                   |
| Business, Science and Innovation                    | [33]                                                                                       |                       |                     |
| Business, Science and Innovation                    | Wellington Accommodation Project – Tranche 2                                               | 12.638                | -                   |
| Corrections                                         | [38]                                                                                       |                       |                     |
| Customs                                             | [33]                                                                                       |                       |                     |
| Education                                           |                                                                                            |                       |                     |
| Health                                              | Assisted Dying Services / End of Life Choice Act 2019 Implementation                       | [33]                  | -                   |
| Justice                                             | [33]                                                                                       |                       |                     |
| Social Development                                  |                                                                                            |                       |                     |
| Finance                                             | [33], [38]                                                                                 |                       |                     |
| Finance                                             |                                                                                            |                       |                     |
| <b>Total</b>                                        |                                                                                            | <b>415.565</b>        | <b>197.437</b>      |

# Moving initiatives to other funding sources

The following initiatives are being considered for funding from sources aside from the main Budget 2022 allowances. Some of these options include risks which should be considered before they are funded from a different source of funding.

| Initiative                                                                                                                                            | BM5 package funding (total \$m) | Possible other funding source          | Comment                                                                                                                                                                                                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Supporting He Pou a Rangi Climate Change Commission to advise on a thriving, low emissions and climate resilient future – Environment (cost pressure) | 12.460 opex<br>2.760 capex      | Climate Emergency Response Fund (CERF) | Depending on outstanding decisions on how to manage outyear costs given the existing revenue source is time-limited, the CERF could be considered oversubscribed. This initiative also does not fit within the current CERF criteria, and so funding from the CERF could create a precedent risk. |
| Crown Support for Reduced Public Transport Revenue due to COVID-19 – Transport (Cost pressure)                                                        | 34.000 opex                     | CERF                                   | As above.                                                                                                                                                                                                                                                                                         |
| Climate change funding to deliver adaptation and New Zealand's low-carbon future – Environment (Natural resources - cluster)                          | 36.700 opex                     | CERF                                   | As above. In addition, this is an initiative is currently included in the Natural Resources Cluster package. Removing this initiative from the cluster process could open up the near-final package to further movement.                                                                          |
| COVID-19 Service Recognition – Prime Minister and Cabinet (Manifesto)                                                                                 | 5.076 opex                      | Emerging Priorities Contingency        | No risks associated with funding from this source. Treasury recommends funding this initiative through the EPC rather than the main Budget 2022 allowances.                                                                                                                                       |