

The Treasury

Budget 2022 Information Release

August 2022

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- [36] 9(2)(h) - to maintain legal professional privilege
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Budget Ministers 3

Emerging Budget 2022 Package

25 February 2022

Purpose

The key objectives for this meeting are to:

1. Discuss the broad shape of the **draft Budget 2022 package** developed by the Treasury.
2. Discuss key choices to manage spending **within allowances** indicated in the Budget Policy Statement.

*Following this meeting and several bilateral meetings I am having with key Ministers, I will amend the draft packages. I intend to discuss the fiscal strategy and the draft Budget package at a more detailed initiative level in the **Budget Ministers 4 meeting on Wednesday 9 March**.*

Priorities and constraints

- Budget 2022 will continue to make progress on our Government's goals to address key issues affecting New Zealanders' wellbeing, including our climate change response, housing affordability, and child poverty.
- Over the past four years, we have made **significant investments** to improve wellbeing outcomes for New Zealand and overcome various deficits. We need to maintain focus on delivering these.
- We are facing the Omicron variant in a **strong economic and fiscal position**, but **inflationary pressures** and **domestic constraints** are present, particularly in the **workforce** space. **Deliverability** of initiatives will be a critical consideration to ensuring we achieve the outcomes we seek in Budget 2022.
- Our key priorities for Budget 2022 are investing in **meeting our climate change goals** and **transforming our health system**.

Key points for discussion

- **Allowances:** In my view it will be important in Budget 2022 to remain within the allowances indicated in the Budget Policy Statement.
- To manage within allowances, our key strategic choices are:
 - The level of investment to progress in Budget 2022 in the **transformation of our health system**
 - The level of investment in the **Justice** and **Natural Resources Clusters**, and
 - **Further scaling and deferral** of initiatives in the cost pressure, manifesto, and capital sub-packages.
- **Climate Emergency Response Fund:** The multi-year **CERF** draft package is currently front-loaded – are there initiatives we would consider phasing over future years?
- **Flagship initiatives:** What are the key initiatives that will deliver on Budget 2022's priorities?

Economic and Fiscal Outlook

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Economic outlook

- New Zealand's economic position is strong going into 2022. However, Omicron's short and sharp impact is expected to disrupt activity early on in 2022, although there is heightened uncertainty in how it will evolve and impact the economy.
- Inflationary pressures will remain elevated over 2022 with the tight labour market, resilience in demand, and ongoing supply chain disruptions.
- The Reserve Bank is expected to increase interest rates in line with forecasts at the Half-Year Economic and Fiscal Update (HYEFU), which is expected to dampen house prices, consumption and investment.
- Real activity over the remainder of the forecast period will remain slightly below HYEFU levels. Despite weaker real activity, higher inflation lifts nominal GDP slightly higher over the forecast period.

Figure 1 - Real GDP

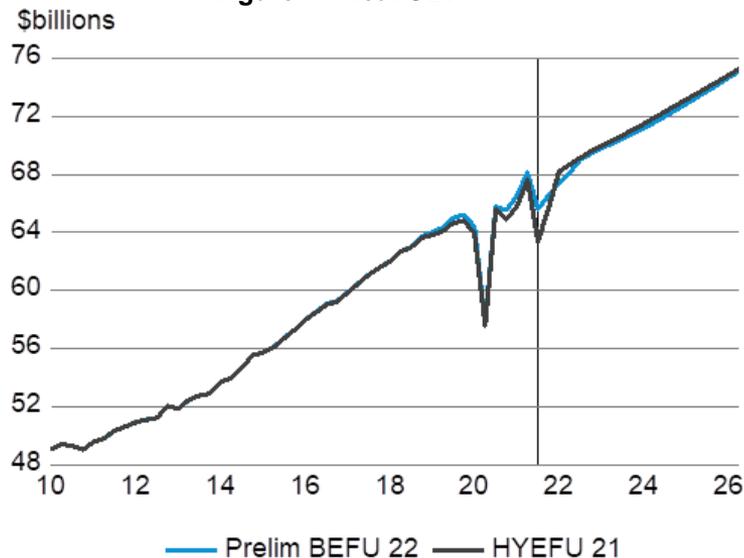
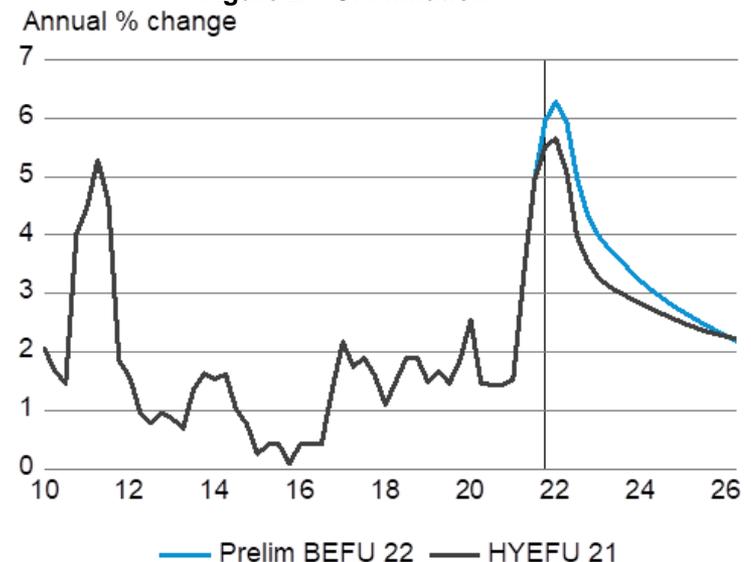


Figure 2 - CPI Inflation



Tax and Fiscal Outlook

- The Treasury is still in the early stages of updating their fiscal outlook of the Government's books and a more comprehensive picture will be known by mid-March.
- With a stronger labour market, higher interest rates, and higher nominal GDP, core Crown tax revenue is expected to be \$5.0 billion above 2021 HYEUFU forecasts over the five years to June 2026.
- However, these economic conditions are also expected to result in an increase in core Crown expenses. Early indications are that benefit expenses will be around \$2.0 billion higher over the forecast period compared to the 2021 HYEUFU, while higher inflation and interest rates are likely to increase finance costs compared to the 2021 HYEUFU.
- In addition, the recent decision to increase the COVID-19 Response and Recovery Fund (CRRF) by a further \$5.0 billion will lift the near-term track of core Crown expenses.
- Based on information to date, the Treasury expects that the outlook for OBEGAL is likely to be weaker in the near-term, but slightly stronger over the medium-term when compared to the 2021 HYEUFU. Similarly, net core Crown debt is expected to be weaker in the near-term, but by the end of the forecast period it should be at a reasonably similar level to what was forecast at the 2021 HYEUFU.

Draft Budget 2022 Package

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Overview of Budget package - operating

To support our decision-making on Budget 2022, the Treasury have prepared a draft package which I intend to iterate over the coming weeks. On the operating side, the package is currently **oversubscribed** by [33]

As part of getting better longer-term planning for investments, Budget 2022 introduces multi-year funding which means some parts of the package will be charged against future operating allowances.

A significant number of additional FTE and contractors are sought across the package, placing pressure on the public sector workforce.

Budget 2022 package						
	Sought by Ministers for Budget 2022 (\$b p.a.)	Budget 2022 draft allowance (\$b p.a.)	Level of scaling in Budget 22 draft package	Percentage of Budget 2022 allowance	Budget 2023 allowance (\$b p.a.)	Budget 2024 allowance (\$b p.a.)
Operating allowances	6.0	6.0	-	100%	4.0	3.0
Pre-commitments	0.8	[33]	[33]	13%	-	-
Health reform	[33]	1.8		30%	1.3	-
Health new spending		[33]		8%	-	-
Education	[38]				-	-
Clusters (medium envelopes)	0.8	0.4	50%	7%	0.4	0.4
Cost pressures	1.6	[33]	38%	17%	-	-
Manifesto commitments	3.7		76%	15%	-	-
Total	[33]				1.7	0.4
FTE and contractors (Budget 2022 package and CERF)	7,706	3,615	53%	-	-	-

Overview of Budget package – CERF and capital

The draft package proposes significant investment in capital, as well as an ambitious package of initiatives to meet our emissions reduction goals through the CERF.

	Sought by Ministers for Budget 2022 (\$b total forecast period)	Budget 2022 draft package (\$b total forecast period)	Level of scaling in Budget 22 draft package
Multi-year capital allowance	9.8		-
Pre-commitments	0.6	[33]	-
Health reform	[33]		-
Health new spending	0.4	0.3	25%
Education	1.2	[33]	58%
Cost pressures	1.5		33%
Manifesto commitments	0.9		67%
Total capital initiatives	[33]		30%
CERF allowance	4.5	4.5 (3.7 after pre-commitments)	-
CERF initiatives	10.2	3.5	66%

The multi-year capital allowance and the CERF are designed to cover multiple years. A key consideration for us is how much we should invest **now versus phasing** over future years.

Priority area – Health

- Embedding health reforms is a key priority for Budget 2022. We need to invest to set Health New Zealand (HNZ) and the Māori Health Authority (MHA) up for success to deliver a system that meets our ambitions for supporting the health of all New Zealanders.
- **Rebase and cost pressures:** we have committed to establishing HNZ with funding sufficient to avoid deficits, and provide two years of funding certainty so HNZ can meet expected costs. This means there is limited discretion for scaling without risking deficits. More information will be available in mid-late March following the preparation of the initial HNZ and MHA internal budgets.
- **New initiatives:** I have indicated my comfort with total investment of \$1.9 billion over the forecast period in new initiatives, and the Minister of Health is exploring options to fit several additional priorities within this envelope, including an increase in funding for PHARMAC ^[33]

The draft Treasury package currently has a strong emphasis on entity establishment and primary and community care in line with the reforms.

	Budget 2022 (\$m p.a.)	Budget 2023 precommitment (\$m p.a.)
Rebase	[33]	-
Cost Pressures	1,007 - 1,269	1,056 - 1,348
New Initiatives	490	-
Health Capital Envelope	[33]	-

Key question: Do we have initial views on the right level of investment that helps to embed health reforms while keeping within allowances?

Health – Key initiatives

VfM Key: ■ =excellent ■ ■ ■ ■ =poor

Primary and community – approx. \$200m opex per annum

There is strong value and alignment with government goals in the Primary and Community care initiatives in the context of Health reforms, but some delivery concerns about primary care teams and ^[33] WCTO have resulted in a lower delivery rating for these initiatives.

Key initiative	Value	Alignment	Delivery
Health workforce development	5	5	4
Hauora Maori commissioning	4	5	4
Primary care teams	4	5	3
Maori provider development	4	5	4
Pacific provider development	4	5	4
Funding to stabilise [33] Well Child Tamariki Ora	4	5	2

Data and Digital – approx. \$113m opex per annum

Further investment is needed to improve health system functioning and prototype innovative models of care. A tagged contingency is recommended (as at Budget 21) so that investment priorities can be further developed in line with the system operating model. Value and delivery would be assessed as proposals were developed.

Key initiative	Value	Alignment	Delivery
Establishment of population health and disease management digital capability	4	5	4
Critical data and digital foundations	3	5	3

Health – Key initiatives

VfM Key: ■ =excellent ■ ■ ■ ■ =poor

Entity Establishment – approx. \$27m opex per annum

New entities are required for the reformed health system, but the Treasury has some concerns about their deliverability.

Key initiative	Value	Alignment	Delivery
Establishing the new Public Health Agency	5	5	2
Iwi-Māori Partnership Boards	4	5	3
Establishing the National Public Health service	3	5	2

Provider sustainability – \$64m opex per annum

Treasury supports the need for funding cost pressures on current ambulance services ^[33]

Key initiative	Value	Alignment	Delivery
Emergency Road Ambulance – Cost Pressures	3	3	2
Emergency Air Ambulance – Cost Pressures	3	3	2

Mental Health – \$33m opex per annum

Treasury has assessed Continuing Piki as one of the stronger value for money initiatives in the health space, and Mana Ake aligns with the government’s mental health goals, but child mental health workforce constraints could impact the initiative’s delivery (somewhat addressed by the recommended scaled option).

Key initiative	Value	Alignment	Delivery
Continuing Piki	5	5	5
Continuing and expanding mental wellbeing support for primary and intermediate children (Mana Ake)	5	5	2

Health – Key initiatives

VfM Key: ■ =excellent ■ ■ ■ ■ =poor

Other – approx. \$51m opex per annum

[33]

Allowing payment to family members for support services addresses exposure to legal risk for the government.

Key initiative	Value	Alignment	Delivery
Bowel screening for Māori and Pacific people aged 50-59	5	5	4
[33]			
Allowing payment to family members for support services	4	4	4

Initiatives for further exploration

The following initiatives are not currently in Treasury's draft package but might be included in the Minister of Health's revised submission.

Key initiative	Value	Alignment	Delivery
Equity adjustments to capitation	2	2	5
Transforming the reach of specialist mental health and addiction services	3	4	2
Neonatal Retinopathy Screening	2	3	3
[33]			

Priority area – Climate Emergency Response Fund (CERF)

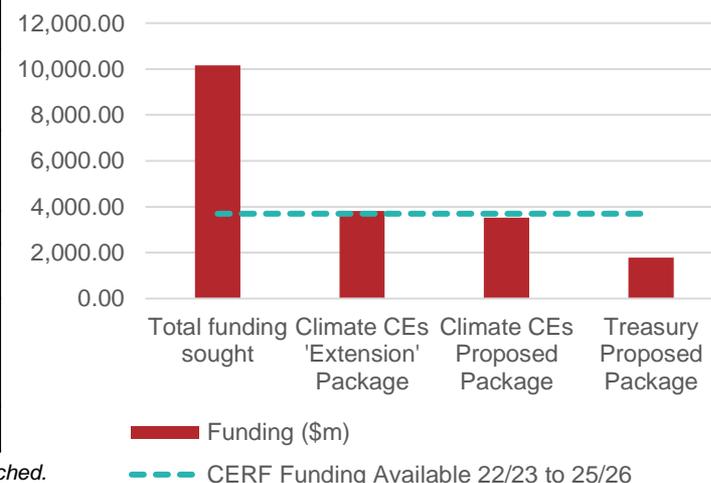
- Budget 2022 is the first year for the CERF. As part of the advice process, both the Treasury and the Climate Change Chief Executives Board have provided me with advice on CERF initiatives. I propose that we **use the proposed Climate CEs package as a starting point**, and discuss where to incorporate the Treasury's advice on delivery and implementation concerns.
- The **proposed Climate CEs package** places a greater emphasis on using **government investment as a lever to achieving the emissions budgets**, while the **Treasury's proposed package** assumes a **greater role for other levers in meeting emissions budgets**, and involves greater scaling factoring in **delivery risk** and **implementation readiness**.
- [33]
- There is currently \$3.7 billion available in the CERF for the period from 2022/23 to 2025/26, after the pre-commitment for International Climate Finance we made ahead of COP26. In their advice, the Climate Change CEs board provided options for an **'expansion' package** which would take the total CERF package to **\$3.81 billion**, if the size of the CERF increased. I propose that we discuss whether there are any initiatives in this 'expansion' package that should be added to the CERF package, if further funding was added to it.
- There are also expected to be **updated forecasts of ETS revenue** in the near future which will be used as part of decision-making.

Comparison of Treasury and Climate CE CERF packages

Key Initiatives	Treasury Proposed Package	Climate CEs Proposed Package
Agriculture emissions reduction – Accelerating development of greenhouse gas mitigations	\$338.75 million	\$338.75 million
Funding further decarbonisation of industry and heat and implementing supporting policies (GID)	\$269.80 million	\$678.60 million
Reducing emissions from waste	\$104.50 million	[33]
Delivering mode-shift and reducing VKT in New Zealand's main urban areas	\$374.55 million	
[33]		N/A
Total CERF package	[33]	

Note: A full list of initiatives with comparisons between the proposed Climate CEs and Treasury packages is attached.

CERF Funding



Key questions: How much of the CERF do we invest through Budget 2022? Are there initiatives we want to consider phasing over future Budgets?

CERF – Key initiatives

■ =excellent
 ■
 ■
 ■
 ■ =poor

Key Initiatives	Workforce sought	Total sought (\$m)	Total recommended by Climate CEs (\$m)	Value	Alignment	Delivery	Delivery Risk Comment
Agriculture emissions reduction – Accelerating development of greenhouse gas mitigations	19 FTE	\$339 - opex	\$339	3	5	2	The ultimate outputs are not guaranteed given the uncertainty of research technical expertise required.
Funding further decarbonisation of industry and heat and implementing supporting policies (GIDI)	28 FTE	\$678 – opex \$0.6 - capex	\$679	4	5	4	The GIDI is an existing fund, and Treasury does not see significant delivery risk associated with extending it. Treasury note that EECA has managed several similar funds to the energy efficient equipment scheme.
Reducing emissions from waste	[33]			3	4	3	The initiative seeks a large number of fund managers, which Treasury has recommended scaling.
Delivering mode-shift and reducing VKT in New Zealand’s main urban areas	25 FTE	[33]		3	4	2	There is some existing capability and capacity to deliver the initiative, some experience successfully delivering similar initiatives, and costs are acceptable with assumptions clearly stated. However, there are delivery risks resulting from the uncertain pipeline of mode shift projects.

[33]

Justice Cluster Package

- The Justice Cluster is focused on reforming the criminal justice system. It includes the Ministry of Justice, Department of Corrections, the New Zealand Police, Crown Law and the Serious Fraud Office.

Breakdown of envelopes vs. submitted packages

The Justice Cluster was provided with low, medium and high operating envelopes to develop Budget packages. The packages the Cluster submitted either match or are lower than the total envelope amounts.



Note: \$69m capital funding has also been sought, which relates to a small number of bids submitted within the packages.

Funding sought outside the cluster process

In addition to the envelopes, the Cluster has sought funding through the main Budget process.

\$ m	Operating		Capital	
	Sought	Treasury Rec	Sought	Treasury Rec
In-year funding prior to B22	[38]	-	-	-
Crown Entities	233	153	-	-
Joint Venture	[38]	124	-	-
Capital	[33], [38]			

* In-year funding prior to Budget mostly relates to B22 pre-commitments for [33], [38]

** The Joint Venture row includes funding for cluster and non-cluster agencies.

Overview of packages

- The low package** is dominated by largely non-discretionary cost pressures, which would impact the Cluster's ability to achieve meaningful transformation or deliver on Government priorities.
- The medium package** presents a fair balance of cost pressures and new priority initiatives, and will put the Cluster on a more sustainable funding path.
- The high package** provides the best balance of investment across Cluster priorities, however, there is a reasonable number of discretionary initiatives.

Recommendation

- I am seeking decisions on which envelope to provide the Justice Cluster to develop a final package.
- The Treasury considers that a package based on the medium envelope offers the best balance of cost pressures, new initiatives and overall fiscal impact.
- Police wage bargaining is [38] higher than anticipated. There are 3 options for managing these costs:
 - Require the Cluster to prioritise the [38] within the medium envelope
 - Increase the medium envelope by [38]
 - Partially increase the medium envelope by [38]
- The Treasury recommend option 3, as they think it is feasible for the Cluster to prioritise some (but not all) funding within the medium envelope through phasing and scaling.
- I recommend providing the Cluster with the revised funding profile below.

\$ m	2022/23	2023/24	2024/25	2025/26	Total
Original Med Envelope	[38]				
Revised Med + Envelope					

Key questions:

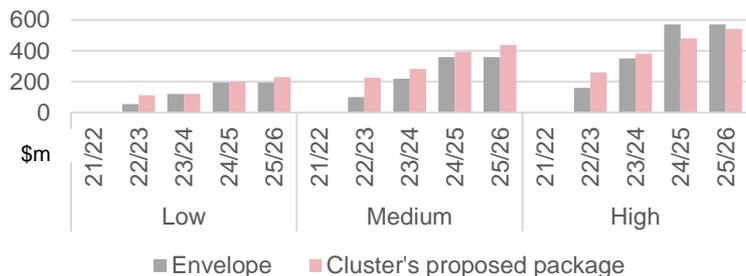
- Do we support providing the Justice Cluster with a medium envelope (based on the revised funding profile above) to develop a final package?
- Do we support increasing the medium envelope by \$70 million to partially cover increased costs for Police wage bargaining?

Natural Resources Cluster Package

- The Natural Resources Cluster covers the natural environment, the planning system, the land and marine sectors, and other regulatory functions. It includes the Ministry for the Environment, the Ministry for Primary Industries and the Department for Conservation.

Breakdown of envelopes vs. submitted packages

The Natural Resources Cluster was provided with low, medium and high operating envelopes to develop Budget packages. All of the packages the Cluster submitted are higher than the total envelope amounts.



Note: \$31m capital funding has also been sought, which relates to a small number of bids submitted within the packages.

Funding sought outside the cluster process

In addition to the envelopes, the Cluster has sought funding through the main Budget process.

\$ m	Operating		Capital	
	Sought	Treasury Rec	Sought	Treasury Rec
Non-CERF	145	38	40	36
CERF	1,125	718	262	148
M.Bovis*	[33]	68	-	-

* The M.Bovis number has been revised down to better reflect updated anticipated costs.

Overview of packages

- The low package** is focused mostly on cost pressures and critical system risks. It presents generally good value for money, but provides limited delivery against Ministerial priorities.
- The medium package** comprises well-prioritised initiatives with good alignment and broad-based coverage of the Cluster priorities. Delivery is currently a concern, however, could be improved if some initiatives are scaled or rephased.
- The high package** is largely made up of scaled-up initiatives within the medium package. The Treasury does not consider it feasible for the Cluster to deliver outputs at the level implied by this package.

Recommendation

- The Treasury considers that a package based on the medium envelope offers the best balance of cost pressures, new initiatives and overall fiscal impact, however, some phasing and scaling will be required.
- M.Bovis is a significant cost relative to the envelopes provided for 2022/23. It was submitted separately so that Budget Ministers can make a choice on how to manage it. Treasury recommends funding it on top of the medium envelope.
- I recommend providing the Natural Resources Cluster with the revised funding profile below.

\$ m	2022/23	2023/24	2024/25	2025/26	Total
Original Med Envelope	100	220	360	360	1,040
Revised Med Envelope	130	240	330	340	1,040

Key questions:

- Do we support providing the Natural Resources Cluster with the medium envelope (based on the revised funding profile above plus 2022/23 funding for M.Bovis) to develop a final package?

Education

The ^[38] total operating investment proposed in Education is not manageable within current allowances and given other Budget priorities. **I have directed Minister Hipkins to develop a further package worth \$2 billion** in total (\$0.5 billion per annum) ^[38]

Initiative(s)	Operating sought (per annum)	Operating sought (total)	Capital
Critical cost pressures	[33]		
2% funding cost adjustments*			
Manifesto: ECE Pay Parity			
Manifesto: Equity Index			
Manifesto: Tomorrow's Schools			
Learning Support			
Māori Education			
Curriculum			
Digital			
Property			
Other			
Total for initiatives			
[38]			
Grand total			

[33]

\$2 billion operating envelope
(figures over the forecast period)

* Given inflation, these cost adjustments may increase to around 3%

Education – Key initiatives

Key Initiative(s)	Workforce Sought	Funding Sought (\$m)	Value	Alignment	Delivery	Comment
Manifesto: ECE Pay Parity	3	[38] opex p/a \$5 - capex	3	3	5	The initiative will raise salaries for many ECE teachers, improving teacher quality and retention, however given the size of the investment it is considered to have lower value compared to other education initiatives.
Manifesto: Equity Index	4	\$77 - opex p/a	5	5	5	-
Manifesto: Tomorrow's Schools	81	\$31 million opex p/a \$1 million - capex	4	4	4	-
Devices for ākonga to support equitable digital access	4	\$37 million opex p/a	4	4	3	An initial business case has allayed some deliverability concerns but risks remain, e.g., ability to procure enough devices given chip shortage, reliance on 3 rd party NGOs to administer programme, and unclear technical specifications.
Growing Māori medium and Māori language provision across the education system	55	\$55 – opex p/a	4	5	3	Robust policy work on how to best grow Māori-medium provision is yet to be done. Components are funding-rate increases that could be scaled or discretionary funds that do not seem implementation ready.

VfM Key: ■ =excellent ■ ■ ■ ■ =poor

Manifesto and Cost Pressure initiatives

The Treasury has developed draft packages of manifesto and cost pressure initiatives. I intend to discuss the mix of initiatives in the draft packages with Ministers and **iterate** these packages over the coming weeks, and present an **updated draft package** at Budget Ministers 4.

Treasury's draft package provides approximately:

- For **new spending manifesto commitments: \$1 billion** in operating funding per annum (scaled from \$4.2 billion opex per annum, including scaling out a \$1.5 billion depreciation initiative) and **\$339 million** total capital funding (scaled from \$1.2 billion capex)
- For **cost pressures: \$1 billion** in operating funding per annum (scaled from \$1.6 billion opex per annum) and **\$1 billion** total capital funding (scaled from \$1.5 billion capex)

Some of the key initiatives included in the manifesto and cost pressure draft Treasury sub-packages are:

- Progressing the next phase of Auckland Light Rail ^{[37], [38]} opex p.a.)
- Establishing a social unemployment insurance scheme ^[33] opex p.a.)
- Establishing a new public media entity (\$92m opex p.a.)
- Public and Transitional Housing ^[33] opex p.a.)
- Disability support services ^[33] opex p.a.)

A draft Cabinet paper is also being developed which proposes to pre-commit \$83 million opex p.a. for child support pass-on.

Budget 2023 provides a further opportunity to fund initiatives which are deferred in 2022. We should also consider whether some proposals are no longer consistent with our priorities, and should not be funded this term.

Key capital investments

\$4.3 billion is provided for capital expenditure in the draft package developed by the Treasury. This has been scaled from \$6.3 billion submitted by Ministers.

Key capital initiatives currently in the draft Budget 2022 package include:

Initiative title	Capex in package (\$m)	Value	Alignment	Delivery	Comment
Health-Capital for sector infrastructure	[33]	3	4	3	
[37], [38]					
Transport-Future of Rail: Rolling Stock	349.2	3	4	4	[33]
[37]					
Education-Maori medium property	191.33	4	5	3	Agency to provide Cabinet report back on how Maori medium property fits within broader property strategy.

In my view, the health system will struggle to deliver the level of capital investment Treasury has proposed in the draft package, and I will consider further scaling the initiative “Capital for sector infrastructure”.

[33]

Key questions: Are these initiatives most aligned to our priorities, given deliverability challenges? Can they be sequenced to mitigate market capacity concerns?

Māori and Pacific initiatives across draft package

Across the draft package, including the CERF and cluster envelopes, there is approximately **\$980 million** of operating funding and **\$192 million** of capital funding provided for initiatives focused on Māori and Pacific peoples. This total includes specific components of initiatives where funding has been ringfenced for Māori and Pacific peoples.

Note: The draft package contains a number of other initiatives that target a wider population, but still have a significant impact on Māori and Pacific peoples. Analysis of these wider distributional impacts can be found in the Wellbeing Analysis slide pack.

Approximately **\$836 million** operating funding total and **\$192 million** capital funding is provided for initiatives focused on Māori across the draft package. Key initiatives include:

Initiative	Opex (\$m total)	Capex (\$m)
Hauora Māori Commissioning (<i>Health</i>)	[33]	-
Continuing to support Māori entities delivering employment training through the Māori Trades and Training Fund (<i>Social Development</i>)	54.867	-
Funding for property to deliver Māori Medium Education (<i>Education</i>)	34.804	191.330
Progressive Procurement – increasing public sector supplier diversity and improving economic outcomes for Maori (<i>Māori Development</i>)	26.000	-

Approximately **\$144 million** operating funding is provided for initiatives focused on Pacific peoples across the draft package. Key initiatives include:

Initiative	Opex (\$m total)	Capex (\$m)
Pacific provider development (<i>Health</i>)	[33]	-
Addressing the burden of diabetes for Pacific communities (<i>Health</i>)	38.000	-
Building Pacific STEAM futures through Toloa (<i>Pacific Peoples</i>)	18.726	-
Delivering bespoke employment and training services through Tupu Aotearoa (<i>Pacific Peoples</i>)	8.000	-

Potential savings and reprioritisation

One option we have to help manage within allowances is **reviewing existing tagged contingencies**.

A significant amount of funding is held in **39** tagged contingencies established through Budgets 2020 and 2021 (and pre-committed against Budget 2022). In addition, significant funding is held in **56** other tagged contingencies, for example through the CRRF.

Funding held in tagged contingency at HYEPU 2021 (\$b)

Operating					
2021/22	2022/23	2023/24	2024/25	2025/26	Total
[33]					
Capital					
2021/22	2022/23	2023/24	2024/25	2025/26	Total
[33]					

Many of the **largest tagged contingencies** relate to costs where reprioritisation is **not feasible** ^[38]

However, there are a number of **smaller contingencies** where we have **greater discretion** to reprioritise funding.

Treasury is providing me with further advice and I will bring options on reprioritisation to Budget Ministers 4.

Sector considerations



Workforce analysis

Across the draft package you are **currently funding 3,423 FTEs and contractors** (this is approximately 40% of what Ministers sought). This scaled amount could result in Public Service workforce growth of approximately 6% (compared to a pattern of public sector growth around 4% per annum).

The challenge for Budget 2022 is the tight labour market in which these will have to be delivered. Both in terms of competition amongst agencies, and with other sectors, for FTE in already constrained occupations and specialties. This competition is likely to contribute to wage inflationary pressures.

Funding all workforce initiatives will negatively affect the deliverability of them; prioritisation is recommended. In prioritising initiatives, the workforce implications should be considered for both delivery of new and existing initiatives.

The largest workforce initiatives sought in the package are:

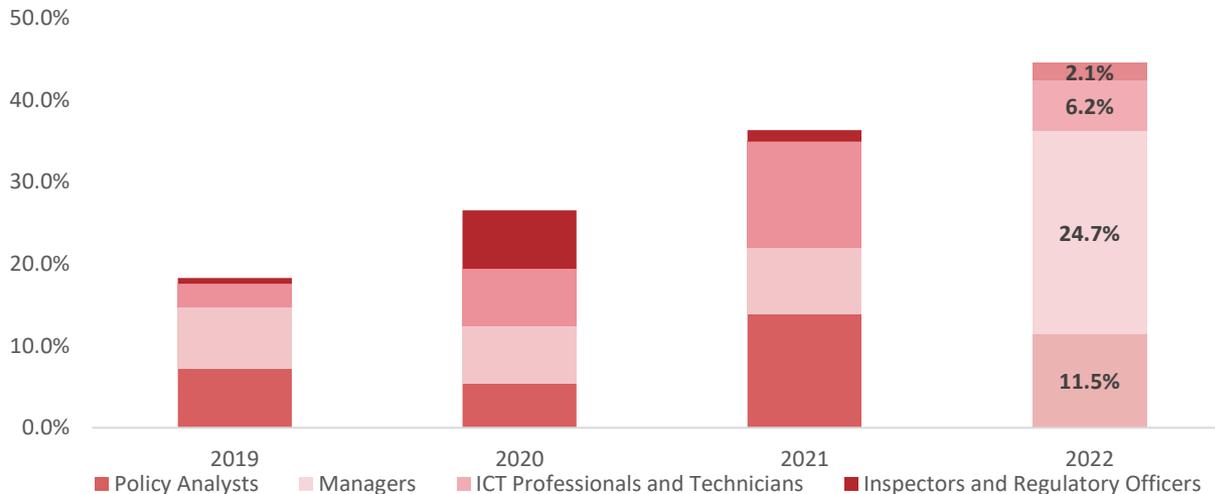
- [33]
- Sustainable data (117 FTE - Statistics), and
- Family Violence and Sexual Violence (91 FTE - across three agencies).

Note: This is the first year Treasury has asked for this information. The figures provided are representative rather than specific, and there may be issues with data quality in some places. For example, the actual public sector workforce growth rate is likely to be larger as the workforce information doesn't include Health FTEs.

Workforce analysis - In-demand occupations

Agencies will be **competing in a limited pool for workforce skills, particularly in the policy, ICT, and regulatory and inspector space**. This leads to deliverability risks on broader policy and ICT programmes, increase in consultancy costs, and potential increases in pay.

Figure 1: Growth in key skill areas for the draft package as a % of available workforce



Please note the manager skill areas includes policy and ICT skills, which we cannot disaggregate.

Note: This is the first year Treasury has asked for this information. The figures provided are representative rather than specific, and there may be issues with data quality in some places. For example, the actual public sector workforce growth rate is likely to be larger as the workforce information doesn't include 27 Health FTEs.

Workforce analysis - In-demand Occupations

The breakdown of key skills sought at the agency level are detailed below.

Policy: 618 FTE sought

Total Numbers	% increase to baseline policy FTE
Treasury (45)	15%
[33]	17%
Justice (45)	33%

ICT: 279 FTE sought

Total Numbers	% increase to baseline ICT FTE
[33]	30.7%
Internal Affairs (30)	14.2%
Environment (15.75)	131.3%

Inspector and Regulatory Officers: 459 FTE sought

Total Numbers	% increase baseline inspector and regulatory officers FTE
MBIE (97)	6.4%
[33]	No baseline available
Customs (17)	1.6%

Managers (includes policy and ICT skills)

Total Numbers	% increase to baseline Manager FTE
MBIE (167)	29.5%
[33]	4.5%
	7.8%

Note: This is the first year Treasury has asked for this information. The figures provided are representative rather than specific, and there may be issues with data quality in some places. For example, the actual public sector workforce growth rate is likely to be larger as the workforce information doesn't include 28 Health FTEs.

Workforce analysis - key trade-offs

Skill set	FTE sought	FTE funded	Key initiatives seeking FTE	Commentary on labour market for this skill set
Policy	618	380	<p>79 FTE: Functional, effective, and resilient Policy Group (Vote Justice)</p> <p>78 FTE for key Vote Environment initiatives (Resource Management Reform Implementation-[33], Emissions Reduction Plan Performance Monitoring-approx. [33] Climate Change Commission-[33])</p> <p>45 FTE: Maintaining Treasury Capability (Vote Finance)</p>	<ul style="list-style-type: none"> • Likely to come from the public sector, including local government; graduate programmes and roles will seek recent university graduates. Some may come from overseas as the borders open. • A key mitigation option in the policy space is reviewing current resource and work programme reprioritisation. • There is particular demand for climate policy and Māori policy FTE.
ICT	279	116	<p>[33] Modernising and enabling digital identity services for people in New Zealand (Vote Internal Affairs)</p> <p>23 FTE Future of Certification – Electronic Certification (E-cert) Systems Replacement (Vote Agriculture, Biosecurity, Fisheries and Food Safety)</p> <p>[33]</p>	<ul style="list-style-type: none"> • Personnel are likely to come from both the public and private sector. • The public sector is competing with itself to deliver existing ICT roles. • Some initiatives are exploring options for off-shore ICT resource. The border opening up may create some market capacity, though senior ICT skills are in-demand globally.
Inspector and Regulatory Officers	459	189	<p>[33]</p> <p>[33] Funding WorkSafe's role under the COVID-19 Public Health Response Act 2021 (Vote Labour Market)</p> <p>[33] Additional functions - Fair Pay Agreements (Vote Labour Market)</p>	<ul style="list-style-type: none"> • Personnel likely to come from both the public and private sector. • Some roles are quite specialised. Though a key mitigation option is rescoping regulatory functions and work priorities, it would be difficult to quickly re-hire in future.

Note: This is the first year Treasury has asked for this information. The figures provided are representative rather than specific, and there may be issues with data quality in some places. For example, the actual public sector workforce growth rate is likely to be larger as the workforce information doesn't include 29 Health FTEs.

Investment Panel

The **Investment Panel** evaluated 44 initiatives totalling \$11.2 billion based on attractiveness (including alignment to Government priorities) and achievability (including capability, capacity and deliverability).

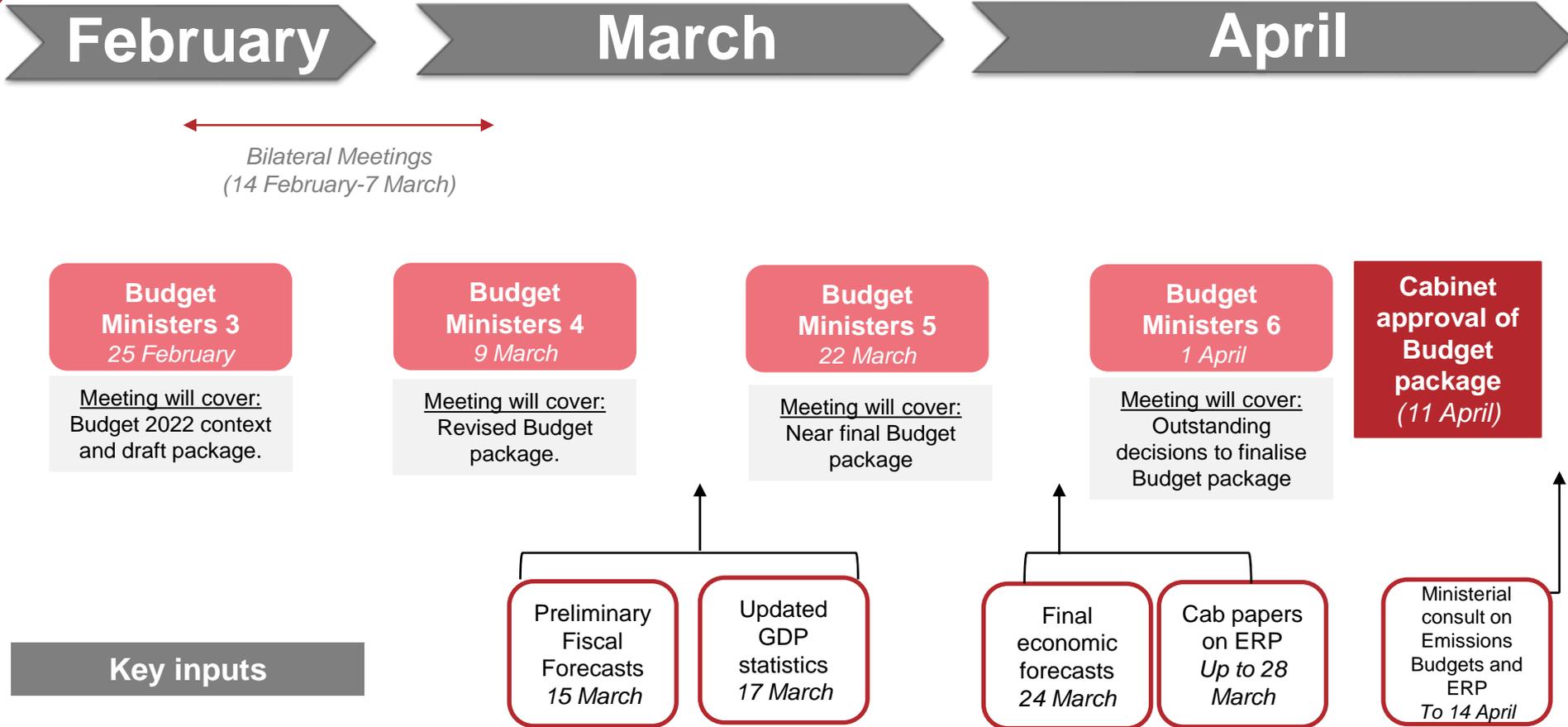
The Panel identified three main themes that provide context to the deliverability challenges in the current market:

- **Agency and market capacity and capability constraints:** the Panel identified the availability of labour and supply chain issues as the most acute issues constraining delivery.
- **A lack of sufficient planning:** Good planning is important to identify options for delivery and strategies for managing risk.
- **The risk of cost escalations is high but can be mitigated through prioritising and sequencing well-planned investments:** The Panel considered that the risk of cost escalations across the government's portfolio of current and near-term investments is high. The Panel is concerned that the cost contingencies proposed for each initiative may not be sufficient to cover risks around cost inflation and scope changes as design proceeds.

As a result of these challenges, **funding needs to be focused on those investments which are most attractive** (those which most align to Government priorities) and the **investments that are funded need to be well sequenced** – with projects moving through to delivery when there is agency and market capacity and capability. Treasury will provide advice in April to enable Ministers to make sequencing and prioritisation decisions.

The findings of the Investment Panel provide additional context to the investment initiatives included in the draft package, which was informed by Vote Analysts' assessments of each initiatives' VfM.

Timeline



Following this meeting (and following further bilateral meetings with some of our colleagues), I propose to revise this Budget package and present you with an updated version at our **next meeting on Wednesday 9 March.**