

The Treasury

Budget 2022 Information Release

August 2022

This document has been proactively released and is available on:

- the **Budget website** from August 2022 to May 2023 only at: <https://budget.govt.nz/information-release/2022>, and on
- the **Treasury website** from later in 2022 at: <https://treasury.govt.nz/publications/information-release/budget-2022-information-release>.

Cabinet Document Details

Title: **Cabinet Minute: CAB-21-MIN-0349: Wellbeing Budget 2022: Strategy and Design**
Date: **31 August 2021**
Creator: Cabinet Office

Information Withheld

No information has been withheld.

Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Wellbeing Budget 2022: Strategy and Design

Portfolio **Finance**

On 30 August 2021, Cabinet:

- 1 **noted** that the New Zealand economy has made a stronger recovery than previously expected, with real GDP 0.8% above pre-COVID levels and unemployment rate below pre-COVID levels;
- 2 **noted** that the economic outlook remains highly uncertain, with significant risks, including continued momentum in demand, worsening supply constraints, and COVID-19 uncertainty as evidenced by the recent outbreak;
- 3 **noted** that the government's fiscal outlook will also likely improve relative to Budget 2021 forecasts, with a clearer picture available at the Half-Year Economic and Fiscal Update;
- 4 **noted** that the Minister of Finance intends to revisit the government's fiscal strategy, including operating and capital allowances, ahead of the Budget Policy Statement 2022;

Building on past Budgets

- 5 **noted** that Ministers and agencies need to maintain a strong focus on delivering the significant investments that the government has already committed to over the past four Budgets;
- 6 **noted** that new spending is not the only lever available to achieve the government's goals, and Ministers and agencies should also be considering the effective use of regulation and reprioritising existing expenditure;

Wellbeing objectives

- 7 **noted** that the Public Finance Act 1989 requires the government to set wellbeing objectives in the Budget Policy Statement and to explain in the Fiscal Strategy Report how wellbeing objectives have guided the government's Budget decisions;
- 8 **noted** that the Minister of Finance considers that the existing wellbeing objectives are largely fit for purpose, but require minor updates to reflect housing affordability issues more directly and New Zealand's ongoing recovery from the impacts of COVID-19;

- 9 **agreed**, subject to the consultation referred to in paragraph 10, that the revised wellbeing objectives for Budget 2022 be:
- 9.1 Just Transition – Supporting the transition to a climate-resilient, sustainable and low-emissions economy;
 - 9.2 Future of Work – Enabling all New Zealanders and New Zealand businesses to benefit from new technologies and lift productivity and wages through innovation;
 - 9.3 Physical and Mental Wellbeing – Supporting improved health outcomes for all New Zealanders, including from COVID-19;
 - 9.4 Māori and Pacific – Lifting Māori and Pacific incomes, skills and opportunities, including through access to affordable, safe, and stable housing;
 - 9.5 Child Wellbeing – Reducing child poverty and improving child wellbeing, including through access to affordable, safe and stable housing;
- 10 **noted** that the Minister of Finance has asked the Treasury to consult the government’s Chief Science Advisors and sector experts on the proposed changes to the government’s wellbeing objectives;

Focus of Budget 2022

- 11 **agreed** that Budget 2022 will continue to make progress against the government’s overarching goals for this term of:
- 11.1 Continuing to keep New Zealand safe from COVID-19;
 - 11.2 Accelerating the recovery and rebuild from the impacts of COVID-19; and
 - 11.3 Laying the foundations for the future, including addressing key issues such as our climate change response, housing affordability, and child poverty;
- 12 **agreed** that key areas of focus for Budget 2022 include addressing climate change and embedding health reforms;

Overview of Budget 2022 process

- 13 **agreed** that the Budget 2022 process be divided into the following three streams:
- 13.1 core Budget process: manifesto commitments and critical cost pressures;
 - 13.2 addressing long-term challenges through multi-year funding: Climate Response Fund and health reforms;
 - 13.3 Public Finance System modernisation: Natural Resources and Justice clusters;
- 14 **agreed** that Budget 2022 will be invitation only, meaning that (with the exception of the clusters in paragraph 13.3 above) Ministers will be able to submit initiatives only following an invitation from the Minister of Finance;
- 15 **agreed** that Budget Ministers (the Prime Minister, the Minister of Finance, and the Associate Minister of Finance (Hon Dr Megan Woods)) remain the key decision-making body responsible for recommending to Cabinet a final Budget 2022 package covering all three streams;

Core Budget 2022 process

- 16 **noted** that the government has made a number of policy commitments through its manifesto documents that will contribute to improved wellbeing outcomes for New Zealanders;
- 17 **noted** that while the government has made significant progress in addressing cost pressures in core public services over the past four Budgets, pressures across the system are still significant and growing;
- 18 **agreed** that the core Budget 2022 process will focus on continuing to meet the government's manifesto commitments and critical cost pressures across core public services;
- 19 **agreed** that manifesto initiatives will be limited to those commitments that are specifically identified in key government documents, particularly the Labour Party Manifesto 2020 and the Speech from the Throne 2020;
- 20 **agreed** that for critical cost pressure initiatives each portfolio Minister and their agencies will be expected to demonstrate:
- 20.1 a clear understanding of the most significant cost drivers across their portfolio that are creating these pressures;
 - 20.2 that a high level of risk is attached to not funding these pressures, such as service failure, significant disruption to services, or not meeting legislative requirements;
 - 20.3 where funding has already been provided in past funding rounds to manage these pressures, how this has been used and why further funding is required; and
 - 20.4 what efforts have been made, or are being made, to manage these pressures within baselines, including reprioritising lower-value funding and/or reviewing current policy settings;

Addressing long-term challenges through multi-year funding

- 21 **noted** that climate change is one of the most pressing long-term challenges facing New Zealand, and the government's response will need to involve making investments over long time horizons and stretching across multiple Budgets;
- 22 **agreed** to establish a Climate Emergency Response Fund as part of Budget 2022;
- 23 **agreed** that the focus of the Climate Emergency Response Fund in Budget 2022 will be emissions reduction, with the following criteria for eligibility:
- 23.1 the initiative is included in the Emissions Reduction Plan;
 - 23.2 the initiative will directly reduce emissions;
 - 23.3 the initiative's primary objective is to support, remove barriers to, or accelerate emissions reductions;
 - 23.4 the initiative will support an ao Māori approach to climate response;
 - 23.5 the initiative will facilitate the development of such proposals in the future (such as feasibility studies or business cases for such initiatives; or
 - 23.6 the initiative addresses the distributional impacts of emissions reduction policy;

- 24 **noted** that the Minister of Finance and Minister of Climate Change will report back to Cabinet before 31 October 2021 on the broader climate funding and financing work programme;
- 25 **noted** that the government has committed to a set of transformative health reforms which will require significant investment through Budget 2022 in order to establish the new entities on a financially sustainable footing and ensure the success of the new system operating model;
- 26 **noted** that government also needs to rethink how the health system is funded in order to incentivise better planning and set harder budget constraints;
- 27 **agreed-in-principle**, subject to the report back in paragraph 29 below to take a transitional approach for Budget 2022 by developing a two-year funding package to provide health sector agencies with funding certainty across the transition period 2022/23 and 2023/24;
- 28 **noted** that the Minister of Finance and Minister of Health are proposing to introduce a new approach to fiscal management and funding for the health sector from Budget 2024 onwards;
- 29 **noted** that the Minister of Finance and Minister of Health will report to Cabinet in September 2021 seeking agreement to the detail of the proposals referred to in paragraphs 27 and 28 above;

Public Finance System modernisation – Natural Resources and Justice clusters

- 30 **noted** that the Minister of Finance has developed a number of longer-term policy proposals to modernise the Public Finance System, including:
- 30.1 organising agencies into clusters to enhance collaboration and enable Ministers to collectively direct spending and make trade-offs across related areas of spending;
 - 30.2 developing cluster priorities, which draw from our all-of-government priorities and focus on better wellbeing outcomes for New Zealanders, to inform investment decisions;
 - 30.3 undertaking reviews to assess the efficiency and effectiveness of existing spending and determine future funding requirements;
 - 30.4 adopting a multi-year cycle by moving clusters onto a three-year funding path;
- 31 **agreed** to pilot the changes referred to in paragraph 30 by establishing two clusters (Natural Resources and Justice) on a non-statutory basis which will develop multi-year funding proposals for cost pressures and new spending to cover Budgets 2022-2024;
- 32 **noted** that the Minister of Finance is currently working with relevant Ministers to develop cluster level priorities to inform investment decisions for Budget 2022;
- 33 **authorised** Budget Ministers to approve the cluster priorities referred to in paragraph 32;

Expectations and requirements for initiatives

- 34 **noted** that Budget 2022 will continue to have a strong focus on ensuring that potential investments represent best value for money;

- 35 **noted** that the approach to value for money in Budget 2022 will be about understanding and achieving value from a uniquely Aotearoa New Zealand perspective and has three components:
- 35.1 Value - wellbeing results, incorporating wellbeing understood from a te ao Māori perspective through the He Ara Waiora framework;
 - 35.2 Alignment - with the government’s wellbeing objectives and whole-of-government and sectoral strategies; and
 - 35.3 Delivery - assurance of effective and efficient delivery of the outputs we are purchasing;
- 36 **noted** that the Minister of Finance also expects capital initiatives to demonstrate sufficient planning, prioritisation, and implementation-readiness in order to receive funding;

Timeframes

- 37 **noted** that the Minister of Finance will shortly send letters to Ministers summarising the Budget 2022 process and asking them to write back on potential initiatives for Budget 2022;
- 38 **noted** that the Minister of Finance will take decisions on which initiatives to invite into the Budget 2022 process in October 2021, and initiatives will need to be submitted to the Treasury by 10 December 2021;
- 39 **noted** that more detailed timeframes for the Budget 2022 process will be made available through the guidance to agencies that the Treasury will release in late September 2021;

Future of the COVID-19 Response and Recovery Fund (CRRF)

- 40 **noted** that the Minister of Finance has requested further advice from the Treasury on whether the CRRF should be replenished;
- 41 **noted** that the Minister of Finance considers that the government should significantly tighten the focus of the CRRF towards meeting the needs of the direct response to COVID-19;
- 42 **agreed** that the revised purpose of the CRRF be “meeting the costs of the direct response to the COVID-19 pandemic over the next year”;
- 43 **agreed** to refine the criteria for accessing the CRRF so it is limited to the following areas only:
- 43.1 core economic response measures to deal with a resurgence, including the Wage Subsidy Scheme, Resurgence Support Payment, Short-term Absence Payment, and Leave Support Scheme;
 - 43.2 targeted policy responses to the immediate impacts of resurgence-related restrictions on particular demographic groups;
 - 43.3 urgent cost pressures that government agencies are facing as part of responding to a COVID-19 resurgence (with a focus on key response agencies); and
 - 43.4 essential public health measures which reduce the risk of resurgences;

- 44 **agreed** that new CRRF funding should be provided on a strictly time-limited basis, agencies should have to demonstrate that costs cannot be met through reprioritisation of existing baseline funding, and there should be reporting mechanisms in place;
- 45 **noted** that, in the context of the current resurgence, the Minister of Finance will consider proposals for funding from the CRRF on a case by case basis, and that Cabinet approval will be sought for these proposals, outside of any existing delegations.

Michael Webster
Secretary of the Cabinet