

The Treasury

Budget 2022 Information Release

August 2022

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
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- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [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
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Out of Scope
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Treasury Report: Draft Budget Ministers 3 Material

Date:	18 February 2022	Report No:	T2022/214
		File Number:	BM-2-14-2022

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>Discuss feedback on the draft slide pack with Treasury officials at the Weekly Agency Meeting on 21 February 2022.</p> <p>Agree to an option for managing Police wage bargaining costs within Cluster process.</p>	21 February 2022

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Gabrielle Barratt	Senior Analyst, Budget Management ^[39]	N/A (mob)	✓
Gerald Lee	Acting Team Leader, Budget Management	[35]	

Minister of Finance'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 Budget Ministers 3 Material

Purpose of Report

1. You are meeting with Budget Ministers at 12.30pm on 25 February 2022 to discuss the emerging Budget 2022 package (Budget Ministers 3).
2. This report provides you with draft Budget Ministers 3 material for your feedback. Attached to this report are two slide packs:
 - main Budget Ministers 3 slide pack (Annex 1)
 - wellbeing analysis slide pack (Annex 2)
3. Also attached to this report is some additional analysis on regulatory initiatives submitted for Budget 2022 (Annex 3).

Draft Budget Ministers 3 Slides

4. As we discussed with you at Budget Matters, the structure of the main Budget Ministers 3 slide pack mirrors the outline of our recent draft Budget 2022 package advice [T2022/6 refers] and focusses on the key strategic choices for Ministers. We have noted that the draft package you are presenting reflects initial Treasury recommendations, and that you intend to make changes following further discussions with other portfolio Ministers.
5. The wellbeing analysis slide pack supplements the main material by providing an overview of New Zealanders' current wellbeing; analysis of submitted Budget initiatives against the Wellbeing Objectives in Budget 2022, the Living Standards Framework and He Ara Waiora; and gender, child wellbeing, and further distributional impacts.
6. We welcome any feedback from you on this draft material. However, we are particularly interested in your views on the following two issues:
 - **Level of Detail:** In order to support a strategic rather than detailed discussion, the main slide pack focusses on the various sub-packages and the key initiatives within them. If you wish, we can also provide Budget Ministers with line-by-line annexes containing detailed information on all submitted initiatives in Budget 2022. However, you may want to defer detailed initiative-level discussion until Budget Ministers 4 in order for you to have an opportunity to make changes to the package first.
 - **Presentation of Value for Money (VfM):** In the current draft slide pack, the material on each sub-package is accompanied by VfM information for key initiatives in that sub-package. If you prefer, this VfM information could be presented as an annex at the end of the main slide pack or incorporated into the wellbeing analysis slide pack.

Justice Cluster Issue

7. Police are seeking an additional ^[38] operating funding to settle the collective agreements for constabulary and non-sworn staff. This is in addition to the existing funding provided below and is not included in the packages submitted by the Justice Cluster.

[38]

8. At your last meeting with Justice Cluster Ministers in November 2021, you set the expectation that the Cluster would seek any additional funding for the wage bargaining within the Cluster packages.
9. You have several options for how to manage these costs, which are outlined below.
 - **Option 1: Require the Cluster to fund all the additional costs.** When you provide the Cluster with a number to develop their final package, you could ask them to prioritise the [38] within that. [38]

However, this approach is in line with the expectations you set last year, managing the fiscal position, and it will provide an incentive for Police to consider the implications of settling its non-sworn wage settlement at the same level as the constabulary settlement.
 - **Option 2: Increase the medium envelope to fund the additional costs.** You could increase the medium envelope by the full [38]. This would allow Cluster priority initiatives to continue. However, it would not incentivise the Cluster to manage the costs, including the Police non-sworn settlement, and would mean not funding other Budget 2022 initiatives.
 - **Option 3: Partially increase the medium envelope.** You could ask the Cluster to scale and/or phase some initiatives within the medium envelope, which would create headroom to partially meet the additional Police wage settlement costs. You could then top up the medium envelope with a marginal increase in funding. This would achieve a balance between incentivising the Cluster to manage some of the costs and having a package that still delivers against the Cluster's priorities.
10. We recommend Option 3. We think some initiatives could be scaled and/or phased within the medium package the Cluster submitted (including the Police wage bargaining bid), without adversely impacting the objectives of the package. We suggest increasing the medium envelope [38] to fund the wage pressures. [38]

However, the two settlements could be delinked with a lower settlement sought for non-sworn staff, which would decrease the funding required.

Next Steps

11. We are meeting with you on 21 February 2022 as part of your Weekly Agency Meeting with the Treasury to discuss your feedback on the draft Budget Ministers 3 material. Following this, we will provide you with finalised material on 23 February 2022.

Recommended Action

We recommend that you:

- a **discuss** your feedback on the draft Budget Ministers 3 material with Treasury officials at the Weekly Agency Meeting on Monday 21 February;
- b **indicate** if you would like provide Budget Ministers with line-by-line annexes containing detailed information on all submitted initiatives in Budget 2022;

Yes/no.

- c **indicate** if you would like value for money information to be presented:
 - i. alongside the material for each sub-package in the main slide pack (current drafting)
Yes/no.
 - ii. as an annex to the main slide pack, or
Yes/no.
 - iii. as part of the wellbeing analysis slide pack.
Yes/no.

- d **agree** to one of the following options for managing Police wage bargaining costs:

- i. require the Cluster to fund all the additional costs within existing envelope
Agree/disagree.
- ii. increase the medium envelope to fully fund the additional costs, or
Agree/disagree.
- iii. partially increase the medium envelope to meet these costs.
Agree/disagree.

Gerald Lee
Acting Team Leader, Budget Management

Hon Grant Robertson
Minister of Finance

Annex 3: Regulatory Initiatives for Budget 2022

1. To further support the decisions and trade-offs you will make as part of Budget 2022, the Treasury has looked across regulatory-related initiatives (regulatory initiatives) for cross-cutting themes, which were then discussed by Regulatory Stewardship Chief Executives¹ (RegCEs). RegCEs aim to support the maintenance of New Zealand's regulatory systems to avoid regulatory failures and enhance regulatory contributions to growth and living standards (i.e. regulatory stewardship).²
2. Of the initiatives received for Budget 2022, 76 (20% by value) were 'regulatory-related'. The cross-cutting themes identified across these initiatives are outlined below. These insights are not intended to provide funding recommendations. Instead, they provide you an additional system-level lens to consider and have informed the Treasury's assessments of individual regulatory initiatives. This approach complements and supports your Ministerial responsibility for oversight of the government's regulatory management system.

Observation 1: Of the regulatory initiatives that would have been caught by the Regulatory Impact Analysis requirements, over half were not accompanied by a Regulatory Impact Statement (RIS).

3. For many of these initiatives, this can be explained by the mismatch between when funding must be sought (i.e. the timing of the Budget process) and the timing of Cabinet decisions on regulatory proposals (falling after Budget).
4. However, regardless of the reason, the absence of a RIS indicates that adequate analysis on the costs, benefits, risks, alternative options, and implementation challenges may not have been undertaken yet. This increases the chances of additional (non-considered) cost overruns in the future and/or that the policy fails to achieve its desired outcomes. This is important, in particular, for complex programmes and reforms, which make up a number of those initiatives lacking a RIS at the time of submission.
5. In general, the Treasury supports additional assurances being put in place for initiatives that are funded prior to adequate analysis being completed. This is embedded in assessments of individual initiatives where relevant. The Treasury intends to further look at whether the connection between RIA requirements and the Budget process is fit-for-purpose.

Observation 2: It is difficult to identify where system-level considerations have been incorporated in investment proposals or which initiatives are aimed at reducing the risk of regulatory failure.

¹ Currently, RegCEs is made up of leaders from the following agencies: the Treasury (Chair); Ministry of Business, Innovation and Employment; Department of Internal Affairs; Ministry of Justice; Parliamentary Council Office; Ministry for Primary Industries; Ministry of Transport; and the Civil Aviation Authority (as the G-REG representative).

² RegCEs support the Secretary of the Treasury's Regulatory System Stewardship and Assurance role which aims to provide confidence to the Government that the public service is actively delivering on its regulatory stewardship responsibilities.

6. We reviewed Budget initiatives for evidence of system-level considerations and information on regulatory vulnerabilities in order to inform the regulatory stewardship forward work programme.
7. We found that Budget initiatives provide little evidence of system-level considerations, i.e. considerations related to the individual regulatory-systems that initiatives belong to. This includes system-level problem definitions and governance arrangements.
8. There is also significant funding being sought to deal with the aftermath of regulatory system failure or chronic underperformance, rather than initiatives which forewarn of potential regulatory failures.
9. We assume that these findings partially reflect the varying degree of maturity in regulatory stewardship practice across the public sector, with many agencies still at the start of their regulatory stewardship journey. For example, some agencies may lack systems for monitoring the performance and risks of regulatory systems, to enable earlier action to take place. However, the design of the Budget process may also be limiting the transparency of regulatory vulnerabilities and may not provide an adequate avenue for visibility of these considerations.
10. The Treasury, with RegCEs, is focused on building regulatory stewardship capability across the public sector. This includes working with and supporting agencies outside and before the Budget process to identify and address risks early. We will engage with you further as the work progresses.