

# The Treasury

## Budget 2024 Information Release

### September 2024

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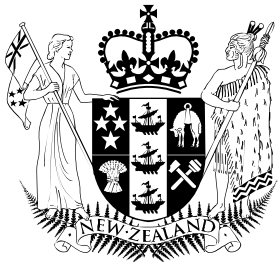
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# Budget Ministers 1.5

Interim meeting on Budget 2024 package, Independent Rapid Reviews, and additional targeted savings and revenue

# Purpose of this meeting

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The purpose of this meeting is to:

- provide an update on **Budget 2024 package development**, including Treasury's assessment,
- agree next steps to meet our \$1.5 billion baseline savings target, including which agencies should be subject to an **independent rapid review** to identify additional savings for Budget 2024, and
- agree which **additional targeted savings and revenue options** to invite into Budget 2024.

# Update on Budget 2024 Draft Package

- Agency submissions to Budget 2024 exceeded the remaining operating allowance by \$4.0 billion (average per annum).
- Heavily oversubscribed allowances are not unusual for this stage of Budget formation, but we need to consider which initiatives we are comfortable scaling or deferring.
- The Treasury developed an indicative package (on slide 4), prioritising initiatives based on its assessment of their relative value for money. This is except for Government policy commitments, that have been included in full.
- This indicative package would still exceed the remaining operating allowance by \$1.3 billion (average per annum).
- Any policy commitments which we can indicate to officials are lower priority will assist in developing a package for discussion at Budget Ministers 2.

## Changes since Budget Ministers 1

### Allowances

- Pre-commitments updated to reflect decisions Cabinet has taken or is highly likely to take (Pharmac, smokefree repeal,<sup>[37]</sup> , and Digital Services Tax).
- Excludes other items going to Cabinet in coming weeks

### Savings

- Discounted by 20% based on Treasury judgement that not all savings will prove feasible or be realisable.
- Additional Kainga Ora savings excluded.

### Spending

- Health cost pressures separated out from pre-commitments and increased based on submission.
- Cost pressure initiatives are based on Treasury assessments uninvited initiatives have been removed.

### Tax package

- Personal income tax cost based on National tax package, with implementation from 1 October 2024.
- Interest deductibility cost as proposed in 4 March Cabinet paper.
- Online gambling cost as proposed in 6 March ECO paper.
- Family Boost cost associated with refund-style payment modelled on the donations tax credit, to support families with early childhood education from 1 October 2024.
- In-Work Tax Credit cost based on a rate increase by \$25 per week from 1 July 2024.
- [33]
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# Indicative Draft Budget package

DRAFT BUDGET PACKAGE	Department Submissions		Draft - Treasury package as at 29 February							
	Budget Ministers 1 - Operating Allowance	Multi-Year Capital Allowance	Budget Ministers 1.5 - Operating Allowance							Multi-Year Capital Allowance
\$millions   Savings / (Spending)	Department Submission - Per Annum	Total Capital	Draft - Treasury package per annum	2023/24	2024/25	2025/26	2026/27	2027/28 and Outyears	Total Operating	Total Capital
Budget 2024 Allowances	3,500	2,900	3,500	-	3,500	3,500	3,500	3,500	14,000	2,900
Precommitments at HYEFU	(2,442)	120	(933)	(121)	(871)	(923)	(1,077)	(740)	(3,733)	120
Mini Budget decisions	1,867	455	1,867	228	1,153	2,501	2,112	1,475	7,470	455
Expected Smokefree Repeal [33] and [37]	-	-	375	-	100	400	500	500	1,500	-
Expected Pharmac precommitment	(445)	(1,764)	(441)	-	(420)	(442)	(455)	(445)	(1,764)	-
Remaining Unallocated Allowances	[33]									
<b>Spending, Revenue and Savings against allowances</b>										
Savings and Revenue	2,195	1,396	1,581	586	1,262	1,411	1,513	1,554	6,326	1,264
Baseline savings	1,370	647	944	147	859	891	920	956	3,774	526
Targeted Policy savings and revenue	853	10	567	257	382	493	564	570	2,266	8
Capital Pipeline Review	(28)	738	71	182	22	27	28	28	286	730
<b>New Spending</b>	<b>(6,394)</b>	<b>(23,754)</b>	<b>(4,962)</b>	<b>(119)</b>	<b>(3,980)</b>	<b>(5,445)</b>	<b>(5,228)</b>	<b>(5,076)</b>	<b>(19,848)</b>	<b>(17,975)</b>
Government Policy Commitment (Tax Package and Fully funded Government Policy Commitments)	(1,673)	(17,316)	(4,929)	(119)	(3,967)	(5,416)	(5,188)	(5,027)	(19,716)	(17,316)
Capital Investment	(584)	(6,425)	(33)	(0)	(14)	(30)	(40)	(49)	(132)	(659)
Cost Pressures and Capital Cost Escalations	(2,278)	(1,961)	(2,232)	(49)	(2,062)	(2,226)	(2,215)	(2,376)	(8,928)	(880)
<b>Total Budget Submissions</b>	<b>(6,477)</b>	<b>(24,320)</b>	<b>(5,613)</b>	<b>418</b>	<b>(4,781)</b>	<b>(6,260)</b>	<b>(5,930)</b>	<b>(5,899)</b>	<b>(22,451)</b>	<b>(17,591)</b>
Top up - Between Budget Contingency	[33]									
Under / (Over) Budget Allowances										

**Notes** All figures are subject to further quality assurance and represent the Treasury's best estimate as at 29 February 2024. The table above only reflect policy choices under consideration for Budget 2024. There are other factors that that may impact on the fiscal outlook (e.g. tax revenue forecast changes), which you may need to consider when finalising the Budget package.

# Baseline savings: Next steps

- Prior to Budget submissions, the Treasury undertook an ‘assurance process’ to monitor agencies’ preparation of sufficient and credible savings options.
- Many agencies have hit their targets. Others have not, some for more justified reasons than others.
- **For some agencies there is a need to push harder to reach the target, while for other agencies there is an opportunity to identify savings beyond the initial target.**
- **I recommend a triaged approach as per the table below**, with next steps based on:
  - whether the agency met its initial target and/or whether it can go further for Budget 2024, and
  - what intervention is likely to be most effective for the specific agency.
- There are significant opportunities for further savings from several agencies in category 2 and 4, but these are unlikely to be realised at Budget 2024.

	Description	Agencies	Next steps
1	Haven't met their target. Possible significant further savings for Budget 2024.	[37]	Depending on what is most appropriate for the agency: <ul style="list-style-type: none"> <li>• <b>Independent Rapid Reviews:</b> Independent reviewer considers existing submissions, identifies and/or challenges areas where agencies could explore further options.</li> <li>• <b>Minister-led ‘test and challenge’:</b> Agreed Minister considers opportunity for further savings from the agency.</li> </ul>
2	Haven't met their target. Limited opportunity for further savings for Budget 2024.		<b>Treasury engagement via Budget 2024:</b> Treasury provides advice to me on further options, I progress these bilaterally with the affected Minister and report back to Budget Ministers as required.
3	Have met their target. Possible significant further savings for Budget 2024.		Depending on what is most appropriate for the agency: <ul style="list-style-type: none"> <li>• <b>Independent Rapid Reviews:</b> Independent reviewer considers existing submissions, identifies and/or challenges areas where agencies could explore further options.</li> <li>• <b>Minister-led ‘test and challenge’:</b> Agreed Minister considers opportunity for further savings from the agency.</li> </ul>
4	Have met their target. Limited opportunity for further savings for Budget 2024.		<b>Treasury engagement via Budget 2024:</b> Treasury provides advice to me on further options, I progress these bilaterally with the affected Minister and report back to Budget Ministers as required.

[33]

\*\* Did provide further potential options in its covering letter supporting its submission.

# Independent Rapid Reviews

- I recommend that selected agencies are subject to **Independent Rapid Reviews**.
- The goal of the reviews is to **identify realisable savings at Budget 2024**. They can provide a foundation for further, medium-term work to ensure financial sustainability of Government departments.
- The reviews will involve external reviewers considering existing submissions, and identifying and/or challenging areas where agencies could explore further options.
- We will consider additional savings that the reviews identify at **Budget Ministers 4** on 8 April.
- We need to agree agencies and the terms of reference (annexed to this report) tonight.
- Treasury will then engage reviewers and get these underway **immediately**.
- We need confidence in the reviewers that Treasury will engage, and I will ensure this.

Agency	Comment	Budget Minister decision on Independent Rapid Reviews
Ministry of Social Development	[37]	Yes/No
Ministry for the Environment		Yes/No
Ministry of Business, Innovation and Employment		Yes/No
Ministry of Education		Yes/No
[37]		Yes/No
		Yes/No
		Yes/No



# Additional Targeted revenue and savings options

Treasury has provided initial advice on the below targeted savings options – set out in the accompanying report and summarised below. **We don't have to make final decisions now**, but we need to decide which to invite into the process so that agencies/Treasury can prepare further advice.

Option	Total over forecast period (\$m)	Deliverable for Budget 2024?	Other Comments	Invite into Budget process for further consideration
[33]				
Warmer Kiwi Homes*	24-103	Yes	[33]	Yes/No
First Home Grants	120-280	Yes	Options to wind down (\$280m) or scale eligibility (\$120m).	Yes/No
[33]	6.9	Yes	[33]	Yes/No
[33]				
[33]	TBC	Yes	A Cabinet paper is currently being drafted to make changes to the regulation of nicotine products.	Yes/No
[33]	200-400	Yes		Yes/No
[33]				
Adjustments to the Fees Free settings*	270-770	Yes	A range of options has been presented.	Yes/No
Welfare settings*	TBC	Yes	A range of initiatives submitted for B24 [33]	Yes/No
[33]				

Note costs are indicative and are subject to change. Some costs have adjusted from previous Treasury advice. Options marked with an \* have related initiatives already in the Budget 2024 process.

# Next steps

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The Independent Rapid Reviews will begin **immediately**.

Targeted saving and revenue options will be **invited immediately**, and prepared in time for me to discuss them at bilateral meetings with Ministers between 11 and 15 March and present to Budget Ministers at BM3 on 25 March.

At BM2 on 11 March, I will:

- Present the **full draft package**, and we can make some further decisions about what is in and out of the package.
- Seek agreement to the **early decisions on baseline savings** that Cabinet can take on 18 March to ensure they are realisable for the 2024/25 year.
- Seek Budget Ministers' agreement to the **fiscal strategy**, to be announced in the Budget Policy Statement on 27 March.