

The Treasury

Budget 2024 Information Release

September 2024

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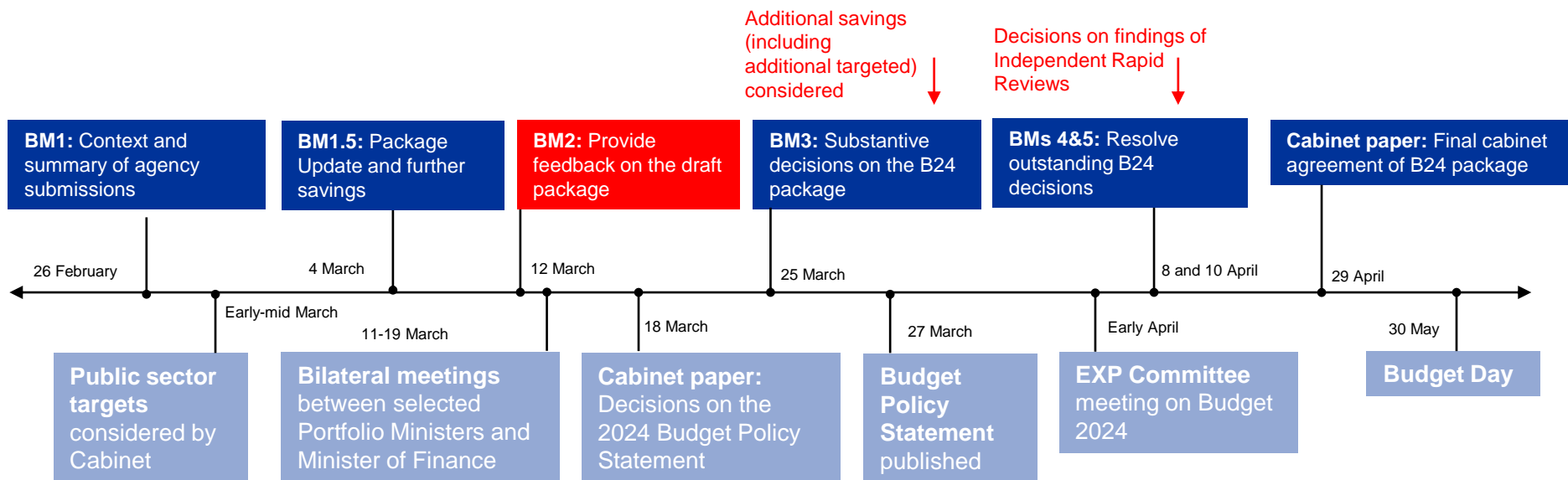
Budget Ministers 2

Emerging Budget 2024 Package

Purpose of this Meeting

The key objectives for this meeting are to:

1. Provide **feedback and direction** on the **draft Budget package**, including our priority Government policy commitments at Budget 2024 (slide 11), and
2. Make the key decisions necessary to **publish our Budget Policy Statement on 27 March**, including agreeing to the Budget 2024 operating allowance and Multi-Year Capital Allowance (slide 6).



Key Messages

Budget 2024 is occurring **in a deteriorating fiscal and economic outlook**, relative to December 2023. Preliminary Treasury forecasts are for core Crown tax revenue (excluding policy changes) to be \$12.0 billion lower over the forecast period compared to the HYEPU, which could lead to possible downward revisions to OBEGAL (beyond the current year) of around \$2-\$4 billion per year. **This risks the 2026/27 surplus being pushed out by a couple of years.**

The draft Budget package is \$640 million per annum **over the Budget 2024 operating allowance**. We have several levers available to achieve a package within allowances, including further scaling or deferral of our commitments and/or taking decisions on the savings we discussed at BM1.5.

There are several strategic questions for us to consider in light of our Budget priorities (**addressing the rising cost of living, delivering effective public services, and building for growth**):

1. Which of our commitments do we want to **prioritise through Budget 2024**, and which do we want to phase across the term?
2. Are we comfortable with the size and composition of the **cost pressure package** and the associated level of risk?
3. Do we support the approach to **capital investment** for Budget 2024?
4. How do we want to approach **package refinement for Budget 2024**? Do we want to fund a larger number of commitments via scaled options, or decide a small number of “flagships” to fund in full?

Preparing to publish the Budget Policy
Statement on 27 March

Updates to the Fiscal Outlook

- Since BM1, I have received an indicative update from Treasury regarding the fiscal outlook. A clearer picture of the outlook will be presented at BM3.
- Overall, a weaker fiscal outlook is now expected, largely reflecting the deterioration in the economic outlook reducing tax revenue forecasts. Based on what is already known, **it is possible the downward revisions to OBEGAL** beyond the current year **could be in the order of around \$2 to \$4 billion per year.**
- As a result, the return to OBEGAL surplus which was previously expected in 2026/27 could be pushed out by a couple of years, even if we keep our spending within tight operating allowances.
- The downward revision in OBEGAL will also lead to a higher net debt track compared to HYEPU, by potentially \$15 billion (or 3.0% of GDP) by the end of the forecast period.

Fiscal Strategy

When we publish our Budget Policy Statement (BPS) on 27 March, we are required to set our fiscal strategy. This will need to respond to the updated economic and fiscal situation on the previous slide. I recommend that we:

- **Set a target date for return to surplus by 2027/28**, but emphasise the uncertainty created by outside factors.
- **Change the net debt measure back to the 2009 definition** of net core Crown debt (excluding the New Zealand Superannuation Fund) – this means net debt is currently around 44% of GDP.
- **Set an intention to put net debt on a downward trajectory** and, once below 40% of GDP, an objective of maintaining it in a range of 20-40% of GDP.
- Set a **Budget 2024 operating allowance of up to \$3.5 billion** and not set operating allowances for Budgets 2025-27 until the Fiscal Strategy Report in May 2024.
- Agree to **top-up the Multi-Year Capital Allowance by up to \$7 billion**.

I will seek formal Cabinet approval of the fiscal strategy, and the full set of short-term intentions and long-term objectives required by the Public Finance Act (set out in the Annex), on Monday 18 March.

Overarching Goals for Budget 2024

Legislation also requires us to articulate – in the Budget Policy Statement – the Government’s ‘overarching policy goals’ and ‘wellbeing objectives’ that will inform Budget decisions.

I am seeking your agreement to the following proposed overarching goals:

- **Building a stronger economy** that lifts incomes and increases opportunities for New Zealanders.
- **Delivering more efficient, effective and responsive public services** to all who need and use them – in particular, to restore law and order, improve health outcomes, and lift educational achievement.
- **Getting the government’s books back in order** and restore discipline to public spending.

I anticipate that these goals will endure over several Budgets as meeting them will require sustained focus and effort over multiple years. I propose that these goals also be our statutorily-required “wellbeing objectives”, as meeting them will make a significant contribution to improving the long-term wellbeing of New Zealanders.

Overview of Initial Budget 2024 Package

Draft Budget 2024 Package summary – as at 8 March

Budget 2024 - Budget Package	Department Submitted			Draft Budget Package - as at 8 March							
	Operating Allowance		MYCA	Operating Allowances					MYCA		
\$millions Savings / (Spending)	Total Operating	Average Per Annum	Total Capital	2023/24	2024/25	2025/26	2026/27	2027/28 and Outyears	Total Operating	Average Per Annum	Total Capital
Budget 2024 Allowances	14,000	3,500	2,900	-	3,500	3,500	3,500	3,500	14,000	3,500	2,900
Precommittments agreed by Cabinet	(9,768)	(2,442)	120	(121)	(871)	(923)	(1,077)	(740)	(3,733)	(933)	120
Mini Budget decisions	7,470	1,867	455	228	1,153	2,501	2,112	1,475	7,470	1,867	455
Expected Pre-committments	(1,782)	(445)	-	-	(345)	(72)	11	11	(395)	(99)	-
Return of National Resilience Plan*	-	-	-	-	352	352	352	352	1,406	352	1,700
Multi-Year Capital Allowance Top up	-	-	-	-	-	-	-	-	-	-	7,000
Between Budget Contingency	-	-	-	-	(40)	(40)	(40)	(40)	(160)	(40)	-
Remaining Unallocated Allowances	9,921	2,480	3,475	107	3,749	5,317	4,858	4,558	18,588	4,647	12,175
Spending, Revenue and Savings against allowances											
Savings and Revenue	9,113	2,279	1,396	599	1,300	1,343	1,451	1,492	6,184	1,538	1,264
Baseline savings	5,747	1,437	647	145	888	920	949	986	3,889	972	526
Additional Savings from Kāinga Ora savings	-	-	-	14	28	35	41	41	160	32	-
Targeted Policy savings and revenue	3,479	870	10	257	362	361	432	437	1,849	462	8
Capital Pipeline Review	(113)	(28)	738	182	22	27	28	28	286	71	730
New Spending	(25,615)	(6,404)	(23,672)	(88)	(3,369)	(4,511)	(4,039)	(4,146)	(16,153)	(4,038)	(3,273)
Government Policy Commitment	(6,692)	(1,673)	(17,316)	(81)	(727)	(807)	(401)	(536)	(2,553)	(638)	(2,880)
Tax Package	(16,613)	(4,153)	(13)	(7)	(2,628)	(3,674)	(3,598)	(3,562)	(13,469)	(3,367)	-
Capital Investment	(2,310)	(577)	(6,342)	(0)	(14)	(30)	(40)	(49)	(132)	(33)	(393)
Cost Pressures and Capital Cost Escalations	(8,996)	(2,249)	(1,791)	(51)	(2,753)	(2,864)	(2,760)	(2,716)	(11,145)	(2,786)	(714)
Cost Pressures	(8,007)	(2,002)	(706)	(49)	(2,490)	(2,705)	(2,698)	(2,679)	(10,621)	(2,655)	(137)
Capital - Cost Escalations	(990)	(247)	(1,085)	(2)	(264)	(159)	(62)	(37)	(523)	(131)	(577)
Total Budget Submissions	(25,498)	(6,374)	(24,067)	460	(4,823)	(6,032)	(5,349)	(5,371)	(21,114)	(5,287)	(2,723)
Remaining within / (Over) Budget Allowances	(15,578)	(3,894)	(20,592)	566	(1,074)	(715)	(491)	(813)	(2,525)	(640)	9,452

Note that:

There may be further saving opportunities from Kāinga Ora, however the Treasury is currently working through the fiscal treatment of the additional savings.

The Treasury is undertaking a review of existing tagged contingencies, and will present further savings opportunities that may arise from items raised through the March Baseline Update (MBU) process.

The remaining operating funding in the National Resilience Plan is \$1.4 billion and has been averaged across the four years. This funding is not ongoing beyond the forecast period.

The Treasury has included a 20% reduction assumption on baseline savings and targeted policy savings/revenue.

The additional targeted savings discussed at BM1.5 are not reflected in the above table, except for the Fees free and Pay equity.

The pre-committments line above does not include any Cabinet or Cabinet committee decisions taken the week starting 4 March 2024. Funding for Interest Deductibility is included in the tax package line and funding for the GPS on land transport is included in the Government policy commitment line.

The Education cost pressure figure assumes the Ministry of Education funds 25% of their cost pressures through reprioritisation. Note the Treasury is working through the impact of a 25% reduction on individual cost pressure initiatives.

Budget 2024 package

The BM2 package is **\$640 million per annum over the operating allowance**. We have several levers to bring it back into allowances, including:

- Further scaling of the **new spending** in the package (e.g., by further scaling the Government commitments we fund through Budget 2024). See slide 11.
- Pushing further on **baseline reduction options**, via the Independent Rapid Reviews (for 5 agencies) and Treasury follow-ups on all other agencies (with a particular focus on those with highest growth). See slide 14.
- Pushing harder on the **original targeted savings** that we invited in December that are already in the process (e.g., the international visitors levy), and the **additional targeted savings** that we agreed to explore further at BM1.5 (and that we will consider formally at BM3).* See slides 15 and 16.

* Additional targeted savings are not currently reflected in the current package – they can be from BM3 onwards.

New Spend: Government Commitments

The draft package includes **\$638 million operating per annum** and **\$2.9 billion total capital** for key coalition Government priorities we invited into the Budget process, including significant time-limited funding. This is based on Treasury's draft package, as well as select commitments I consider critical investments at Budget 2024. The status of each is set out below.

Education	Health	Law and Order	Tax	Infrastructure	Other
<ul style="list-style-type: none"> <i>Ka Ora, Ka Ako Healthy School Lunches Programme</i> [33] Te Pūkenga Disestablishment and Transition [33] NZQA HR System [33] Internet in Schools, Equipment Replacement and Cyber Security [38] Continued Teacher Supply Supports [33] Partnership Schools [33] Structured Approaches to Literacy - Further Teacher Professional Learning and Development (PLD) [33] NZQA IT System [33] <i>Apprenticeship Boost Scheme Continuation</i> [33] 	<ul style="list-style-type: none"> Timely access to COVID-19 vaccine and therapeutics and ongoing cost-effective management of COVID-19 \$232m operating Gumboot Friday \$20m operating Increasing access to medicines including cancer treatments [33] Breast screening extension of eligibility to include 70–74-year-olds \$23m operating, \$7m capital [33] Emergency department security - service expansion [33] Waikato Medical School Business Case Training 50 more doctors [33] Mental Health and Addiction Community Sector Innovation Fund 	<ul style="list-style-type: none"> Taking a tougher approach to sentencing [33], \$1m capital Responding to gang harm \$9m operating, \$0.2m capital Fast Track Youth Offending Programme \$31m operating Investing in Core Policing [33] Corrections Rehabilitation Programmes - Extending to Remand Prisoners \$48 operating, \$30m capital Addressing Serious Youth Offending \$35m operating, \$2m capital 	<ul style="list-style-type: none"> Family Boost \$723m operating Personal Income Tax \$10b operating Working for Families changes (rate increases) \$620m operating Interest Deductibility \$2.9b operating Online casino gambling [33] Increased investment in tax compliance activities (\$566m operating) 	<ul style="list-style-type: none"> Government Policy Statement on Land Transport 2024 (\$716m operating, \$2.0b capital) North Island Weather Events Road Response, Recovery and Rebuild \$330m operating, \$609m capital Continued Recovery from the North Island Weather Events \$53m operating Regional Infrastructure Fund Establishment [33] <i>Kānoa – time limited funding</i> [33] Resource Management Reforms – Replacement \$92m operating Implementing Local Water Done Well \$34m operating <i>Civil Aviation Authority Liquidity Funding</i> [33] National Infrastructure Agency Establishment \$5m operating 	<ul style="list-style-type: none"> <i>New Zealand Screen Production Rebate – International</i> \$114m operating <i>GeoNet and the National Seismic Hazard Model</i> \$68m operating <i>Kāinga Ora Crown-Funded Programmes and Statutory Obligations</i> [33] Independent inquiry into how the COVID-19 pandemic was handled in New Zealand \$14m operating Ministry for Regulation – Establishment and ongoing funding [33] \$2m capital <i>Historic Claims of Abuse in Care</i> \$82m operating [33] DPMC - establishment of Delivery Unit function Welfare that Works – Youth focused Employment Support
<p>Notes: \$ figures are Treasury recommended total funding over the forecast period. Initiatives in italics relate to the extension of time-limited funding. Figures in (brackets) are savings.</p>		<ul style="list-style-type: none"> Support ■ Support Scaled ■ Support (funded via reprioritisation) ■ Defer/Do not support ■ 			

A full line-by-line of Treasury's advice on each initiative is annexed to this pack.

New Spend: Government Commitments

The following initiatives have been included in the draft package at my request, **as I believe they are critical for Budget 2024**. It will be vital that:

- We consider which of these can be **met via reprioritisation** instead of new funding – I have set out initial suggestions below.
- **Which we can scale further** – most of the initiatives I have added back into the package are scaled options.
- The interaction between our new health commitments and the health cost pressure pre-commitment we included in the National Fiscal Plan (see slide 13).

* Indicative quantum only – subject to further agency engagement.

Option	\$ submitted (total)	\$ in BM2 (total)	Status and next steps
Extend Ka Ora, Ka Ako Healthy School Lunches	\$341m operating \$1m capital	\$828m operating \$3m capital	1 year of time limited funding was sought for this initiatives. I have included the Treasury-recommended quantum (which spans the whole forecast period), but Minister Seymour is separately considering scaling options for this programme.
Apprenticeship Boost	\$207m operating	\$73m operating	Scaled option included in package with reduction in funding levels and targeting by sector
Increasing access to medicines including cancer treatments	[33]	\$116m operating	I propose we utilise the revenue from reversing free prescriptions (except for over 65-year-olds and CSC holders) to fund these medicines, although this will not be sufficient to offset the full cost of this policy.
Breast Screening Extension of Eligibility	\$28m operating \$7m capital	\$23m operating \$7m capital	Indicative scaled option* included in package for one-year age cohort only (e.g., 70-year-olds), with further cohorts considered at future Budgets.
[33]			
Emergency Department Security Service Expansion	[33]	\$31m operating	[33]
Addressing Serious Youth Offending		\$35m operating \$2m capital	Scaled option included in package for Young Serious Offender (YSO) legislative category in the Oranga Tamariki Act, and one piloted Military Academy [33]
Investing in Core Policing		\$248m operating \$18m capital	Scaled option included in package that includes core personnel only.
Corrections Rehabilitation Programmes – Extending to Remand Prisoners		\$48m operating \$30m capital	[33]
National Infrastructure Agency establishment		\$5m operating -	Scaled option included in package, that funds upfront establishment costs only.
Regional Infrastructure Fund	\$1.2b capital \$24m operating	\$200m capital \$4m operating	Scaled option included in package with remainder considered in future Budgets.
DPMC - Establishment of a Delivery Unit	[33]	-	I propose that we continue with this commitment, but it is met through reprioritisation for 2024/25 with ongoing funding considered in future Budgets.
Waikato Medical School Business Case		-	[33]

New Spend: Cost Pressures and Capital cost escalations

Only critical frontline services were invited to seek cost pressure funding. Most agencies were required to meet pressures from within baselines. Agencies were asked to explain how they would do this in their Budget submissions. Most did not provide sufficiently detailed plans. We will need to push hard for more detail as part of Phase 2 of the Fiscal Sustainability Programme.

The draft package includes \$2.8 billion average operating per annum and \$714 million total capital for critical cost pressures and capital cost escalations. This has been scaled significantly from funding sought by agencies. In most cases, it includes pressures unable to be deferred until Budget 2025 or met via reprioritisation – in other words, the **minimum viable additional funding necessary to maintain the delivery of core public services**.

The draft package includes a health cost pressures pre-commitment figure identical to that in the **National Fiscal Plan**. Treasury's advice was that we *could* scale this by another ~\$100 million per annum and use this money to fund other coalition commitments in health instead.

Vote	Sought (operating per annum \$m)	Draft package (operating per annum \$m)	% scaled
Health cost pressures *	[33]	1,430	[33]
Education (including Tertiary Education) cost pressures **	[33] and [38]		
Whaikaha cost pressures			
Oranga Tamariki cost pressures	[33]	35	[33]
Justice cluster (Justice, Corrections, Police) cost pressures and capital cost escalations	[33]		
Defence Force*** cost pressures and capital cost escalations	[33]	30	[33]
Other cost pressures and capital cost escalations	283	171	40%

*This figure may appear to be higher than the department sought figures included in the BM1 slides. This is because it includes the total health cost pressure amount submitted of \$1.9 billion per annum. \$1.4 billion per annum was treated as a pre-commitment due to being reflected in the HYEPU fiscal forecasts, with only the net difference of \$432 million per annum being counted towards the cost pressure package.

** This figure assumes the Ministry of Education has funded 25% of their cost pressures through reprioritisation.

*** If further savings from other agencies (e.g., MFAT) are submitted, there may be the opportunity to include more funding in the draft package for NZDF cost pressures.

Savings overview (1 of 4)

- To supplement our Budget 2024 package, there are a number of savings workstreams. These include:

In the package now	To be considered at BM3 – not in current package	To take decisions on at BM4 – not in current package
<ul style="list-style-type: none"> Initial baseline reduction exercise savings. The Treasury has included \$1.0 billion average operating per annum of baseline savings proposals in the draft package. Original targeted savings that we invited for submission in December 2023 and that Treasury recommends are included in the package. See slide 15. 	<ul style="list-style-type: none"> Additional targeted savings, as agreed by us at BM1.5. See slide 16. Additional savings opportunities that we have asked Treasury to identify. A review of uncommitted Climate Emergency Response Fund (CERF) funding not already returned to the centre (e.g., via the Mini Budget). A review of existing tagged contingencies. 	<ul style="list-style-type: none"> Additional savings identified through Independent Rapid Reviews, as commissioned by us at BM1.5.

- The draft savings package (including both baseline and targeted) was formed by a:
 - Bottom-up exercise:** The Treasury has assessed each individual savings initiative. Those which are infeasible or pose significant risks to frontline services are not included in the package.
 - Top-down discount:** The Treasury then applied a 20% discount rate to all savings, to account for system-level risks to realising the savings package that are not yet quantifiable. The risks they identified – and which they are doing further work to understand/quantify the impact of – include:

- Numerous savings initiatives rely on a **reduction in FTE positions** through holding vacancies or attrition, which may not eventuate by 2024/25.
- Some agencies have submitted '**efficiency**' **type dividends** with limited detail on how they will achieve these, presenting realisation risks.
- Some agencies have **apportioned savings evenly across the business**, which means that smaller Crown entities facing significant cost pressures may be unable to maintain these savings in the medium-to-long term.
- Several submitted savings **do not meet the definition of a sustainable baseline reduction**. The Treasury is working through these technical elements and I will receive further advice ahead of BM3.

Savings (2 of 4): Original targeted savings

In December, Cabinet agreed to invite several targeted savings options into the Budget process. \$462 million average operating per annum and \$8 million total capital savings from these options are included in the draft package, including a 20% discount for system-wide realisation risks (see slide 14). A summary of the status of **the most significant existing targeted savings** is set out below.

Option	In current package?	\$ operating (total)	Treasury advice	Next Step
Adjustments to the Fees Free settings	Yes	\$770 million	The Treasury has assessed that there is little evidence of the scheme's value and recommended its closure. This is included in the draft package. There are options to scale the programme instead. For example, providing the final year of study fees free would return \$399 million total operating. Further targeting options are also feasible.	Officials are preparing further advice. We will consider this at BM3.
Shifting immigration system to user pays	Yes	\$567 million	Treasury supports this proposal – the Crown subsidy is no longer required as visa volumes have recovered post COVID.	Paper due to be considered by Cabinet shortly.
[33]				
Workforce Development Councils disestablishment	Yes	\$228 million	Treasury supports this proposal.	
Prescription fee co-payments for all except 65+ year-olds and CSC holders	Yes	\$116 million	Treasury supports this proposal but recommends co-payments also restored for 65+ year old.	I do not propose to restore-prescription co-payments for 65+ year olds. I propose that this \$116 million saving is used to partially offset the cost of our cancer medicines commitment.
Waste Disposal Levy	No	Submitted: \$102 million	The Treasury considers savings could be found by altering hypothecation settings but doesn't support widening the scope of the WDL.	Officials are preparing further advice on alternative options. We will consider this at BM3.

[33]

Savings (3 of 4): Additional targeted savings

At BM1.5, we confirmed a range of **additional targeted savings** that we wanted progressed further for Budget 2024. **Majority of these are not in the current package.** We will consider these options at BM3, to decide whether to formally add them into the package. A **status update on each option** is set out below:

* Subject to change depending on further policy work and Ministerial design decisions.

Option	Indicative potential saving * – total over forecast (\$m)	Consider for Budget 2024?	Next steps
[33]			
Warmer Kiwi Homes	[33]	Yes	[33]
First Home Grants	280	Yes	Treasury is preparing an initiative to wind-down the first home grants programme. Early signalling to Kāinga Ora is recommended, as it can approve loans up to six months in advance.
Student loan repayment settings	TBC	TBC	[33]
[33]	TBC	Yes	Treasury is working with the Ministry of Health to develop options and costings.
[33]			
Adjustments to the Fees Free settings	770 (already in the package)	Yes	Further advice is being provided to support a cross Ministerial meeting on 20 March 2024. The cancellation of the fees free programme (\$770m operating over forecast) is in the draft package, as it was recommended by Treasury. There are options for further targeting this programme rather than closing it altogether.
Potential additional savings over forecast	[33]		[33] and [34]

Savings (4 of 4): Next steps

- I will be having **bilateral meetings with Ministers** this week and next, which will provide an opportunity to interrogate savings options (and scaling for new spending) further.
- Following decisions today on new spend and Government priorities, and the bilateral meetings, we will be in a better position to understand how hard we need to push for additional savings for Budget 2024
- **For BM3 on 25 March**, we will receive:
 - **Fulsome advice from the Treasury on all savings options and streams.** This will provide us with more detailed costings and options for all targeted savings, as well as options to push further on baseline savings. The Treasury will be providing potential savings options for all agencies, **with a particular focus on those with the highest growth.**
 - A number of savings options identified will have **longer-lead times for realisation.** To fund our priorities, front line services, address emerging cost pressures and responded to crises, **savings identification will not be a one-year programme.** Additional savings options with longer lead times require our prioritisation also, and I will outline some of these options at BM3.
- **At BM4 on 8 April**, we will decide which additional savings identified by the Independent Rapid Reviews we want to include in our Budget 2024 package.

Capital Investment

Treasury's draft package includes \$3.3 billion total capital for new spending investment.

The draft package balances the need for investment in priority areas, fiscal constraints (particularly related to operating expenditure), the high level of existing investment already underway, and our macroeconomic and fiscal policy objectives, particularly reducing inflation.

Budget 2024 is an opportunity to:

- start to build a more **credible investment pipeline**, with a core focus on ongoing asset maintenance and renewals,
- **reset expectations with agencies** on the need to develop asset management plans and timely, high quality business cases to support our decision-making, and
- **send clear market signals** of our investment intentions and a focus on sound investment and asset management planning to support our funding decisions.

Next Steps

Budget Ministers 3

The next Budget Ministers meeting is on 25 March. **The key objective of this meeting will be for Budget Ministers to make as many substantive decisions on the draft package as possible.**

The material for this meeting will include:

- An **updated package** to reflect the direction we provide at BM2.
- **Further distributional analysis** on the initiatives in the draft package, including detail on their emissions impacts.
- Further information on key initiatives based on my **bilateral meetings** with Ministers this week and next.
- Advice from the Treasury on **further savings options** that could be realised in Budget 2024 and beyond. This will include information on the targeted savings and revenue options we invited at BM 1.5.
- A detailed breakdown of the **FTE impacts of spending and saving initiatives** by role-type.

Annex: Priority Areas for Budget 2024

Priority Area - Health

Alignment, Value, Delivery Key:

Excellent (4) ■ ■ ■ ■ Poor (1)

Budget Track	Total Funding recommended Operating (\$m)	Total Funding recommended Capital (\$m)
Cost pressures and cost escalations	5,720	[33]
New spending	[33]	
Savings	(202)	
Net total	[33]	

- The Minister of Health and I have agreed to a multi-year approach to funding Te Whatu Ora's cost pressures at Budget 2024. Funding decisions will cover the next 3 years, and the Ministry of Health will not be invited to seek additional cost pressure funding until Budget 2027.
- The majority of the Health package is for Te Whatu Ora's cost pressures (\$1.4 billion operating per annum). This is consistent with the commitment in the National Fiscal Plan.
- We have choices about how we spread funding for health across cost pressures and our policy commitments (as discussed on slide 13). We may wish to scale cost pressure funding further given the significant number of commitments we have made in the health sector.

[34]

Key Govt Policy Commitments in draft package:	A	V	D
▪ Timely access to COVID-19 vaccine and therapeutics (\$232 million total operating)	3	3	3
▪ Medicines: Increasing access to cancer treatments (\$116 million total operating)	3	3	2
▪ [33]	3	1	3
▪ Breast screening extension of eligibility (\$23m total operating, \$7m total capital)	4	2	1
Key Govt Policy Commitments to be progressed at Budget 2024, but proposed to be met via reprioritisation	A	V	D
▪ Waikato Medical School	3	3	2
Key Govt Policy Commitments not in draft package (Department sought):	A	V	D
▪ [33]	2	2	3
▪ Mental Health and Addition Community Sector Innovation Fund (\$21 million total operating over forecast period)	2	3	2
▪ Training 50 More Doctors (\$20 million total operating over forecast period)	2	3	3

Priority Area - Education

Alignment, Value, Delivery Key:

Excellent (4) ■ ■ ■ ■ Poor (1)

Key Govt Policy Commitments in draft package:

	A	V	D
Continuing Ka Ora Ka Ako- Healthy School Lunches (\$828 million total operating over forecast period, \$3 million total capital over forecast period)	3	3	3
Te Pūkenga Disestablishment and Transition ^[33] (million total operating over forecast period)	4	2	2
Partnership Schools (\$137 million total operating over forecast period)	4	2	2
Apprenticeship Boost Scheme (\$73 million total operating over forecast period)	4	2	4
Structured Approaches to Literacy (\$52 million total operating over forecast period)	3	4	3

Budget Track	Total Funding recommended Operating (\$m)	Total Funding recommended Capital (\$m)
Cost pressures and cost escalations	[33] and [38]	544
New spending		107
Savings	(1,341)	(341)
Net total	[33] and [38]	309

- Most of this funding is non-discretionary and necessary to maintain frontline services. These pressures include **cost adjustments for education provide** (the package includes an uplift of funding for **school operational grants** (\$179m total operating), **the Early Childhood Education (ECE) sector** (\$150m total operating) and **the tertiary sector** (\$266m total operating), as well as **depreciation costs associated with their property portfolio**.
- There are also significant cost escalations on the capital side, namely **School Property Portfolio Growth cost pressures** (\$400 million total capital) and funding to complete the **Christchurch School's Rebuild** programme (\$144 million total capital). These costs are offset by the return of funding from capital projects not aligned with our priorities, such as **Te Pūkenga** (\$220 million total capital).
- The package currently includes:
 - \$828 million total operating **funding to extend Ka Ora, Ka Ako Healthy School Lunches**. Minister Seymour is considering scaling options for this programme.
 - Scaled funding to continue the **Apprenticeship Boost Scheme**.

Priority Area - Law and Order

Value, Alignment, Delivery Key:



- Budget decisions for agencies in the justice sector should be considered together given the **interconnected nature of the justice pipeline**.
- The net impact of proposed savings and spending is an increase to operating baselines for Police and Corrections and a decrease for Justice/Courts. The focus of investment on the ends of the pipeline (while reducing capacity) in the middle may create further pressures across the justice system. I plan to discuss ways to mitigate these pressures at the justice sector bilateral meeting.

Key Govt Policy Commitments in draft package:	A	V	D
▪ Fast Track Youth Offending Programme (\$31 million total operating)	4	3	4
▪ Responding to Gang Harm (\$9 million total operating)	4	4	4
▪ Investing in Core Policing (\$248 million total operating, \$18m total capital)	4	2	3
▪ Corrections Rehabilitation Programmes (\$48 million total operating, \$30m total capital)	4	3	1
▪ Addressing Serious Youth Offending (\$35m Total operating, \$2 total capital)	3	2	2

- The Corrections cost pressure package includes ^[37] total operating and ^[37] total capital for forecast growth in prisoner numbers. This is due to population growth and the coalition Government’s law and order policies. ^[33]

The capital component is for an 810-bed expansion to Waikeria Prison, which Treasury recommends funding now due to the lag time for prison construction.

- **Further scaling of justice cost pressure funding would pose several risks**, including reduced court capacity, reduced physical prison capacity, and reductions to frontline Corrections staffing levels.
- The package also includes scaled funding for **Corrections Rehabilitation Programmes** and **Investing in Core Policing**.

Priority Area – Tax Package

The draft tax package is \$3.4 billion average operating per annum. It includes:

Policy	Comment on costing	\$m operating (total)
Personal income tax	Based on National tax package, with implementation from 1 July 2024.	10,141
Interest deductibility	Reflects decisions agreed by Cabinet on 4 March.	2,920
Online Casino gambling tax	As proposed in 6 March ECO paper, going to Cabinet on 11 March	(190)
Compliance funding	Investment in Inland Revenue compliance activity to deliver a positive return from 1 July 2024	(566)
Family Boost	Associated with refund-style payment modelled on the donations tax credit, to support families with early childhood education open from 1 July 2024 with payments to families from 1 October 2024.	723
Working for Families	In-Work Tax Credit rate increase cost based on a rate increase by \$25 per week from 1 July 2024.	620
	[33]	

The tax package currently makes up a significant portion of the Government policy commitments included in the draft Treasury package. Any steps we take to **scale the tax package** will free up additional headroom for other Budget 2024 priorities.

Annex: Short-term Intentions and Long-term Objectives

Fiscal strategy intentions and objectives

The following are my proposals for the short-term intentions and long-term objectives in the 2024 Budget Policy Statement on 27 March that will guide our Government's fiscal policy decisions:

	Short term Intentions		Long Term Objectives	
	Proposed revision	Previous	Proposed revision	Previous
Debt	Put net debt on a downward trajectory.	Maintain total debt at prudent levels. Maintain net debt at below 30 percent of GDP based on the new net debt measure including the NZSF, subject to significant shocks.	Once net debt is below 40 per cent of GDP, maintain it within a range of 20 per cent to 40 per cent of GDP, subject to significant economic shocks.	Maintain total debt at prudent levels. Maintain net debt at below 30 percent of GDP based on the new net debt measure including the NZSF, subject to significant shocks.
Operating balance	Return to surplus no later than 2027/28 via a steadily improving operating balance (before gains and losses).	Return to an operating surplus (before gains and losses) by 2025/26, subject to economic and fiscal conditions.	Return to an operating surplus sufficient to ensure consistency with the debt objective. This will ensure that, on average, over a reasonable period of time, operating expenses are funded from operating revenues and not from debt.	Once the operating balance (before gains and losses) has returned to a surplus, maintain an average surplus in the range of 0 percent to 2 percent of GDP, subject to economic and fiscal conditions.
Expenses	Reduce core Crown expenses as a proportion of GDP.	Ensure expenses are consistent with the operating balance objective.	Control growth in government spending so that, over time, core Crown expenses reduce towards 30 per cent of GDP.	Ensure operating expenses support a responsible and proportionate role for the Government in maintaining a productive, sustainable and inclusive economy, consistent with the debt and operating balance objectives.
Revenue	Ensure revenue is consistent with the operating balance intention.	Ensure revenue is consistent with the operating balance objective.	Ensure the level of operating revenues is consistent with the operating balance objective and supports long-term productive economic growth.	Ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy, consistent with the debt and operating balance objectives.
Net worth	Maintain net worth at around 40 per cent of GDP.	Maintain net worth consistent with the operating balance objective.	Ensure net worth remains at a level sufficient to act as a buffer to economic shocks.	Use the Crown's net worth to maintain a productive, sustainable and inclusive economy, consistent with the debt and operating balance objectives.