The Treasury

Budget 2024 Information Release

September 2024

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[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[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

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

[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] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

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Future Budget operating allowance decisions

24 April 2024

Purpose of this meeting

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At this meeting we need to make decisions on **operating allowances for future Budgets,** our plan for **delivering savings and revenue to manage within reduced allowances,** and our intended timeframe for **returning to surplus**. The size of the operating allowances affects the forecasts for government spending, the operating balance and debt.

Next steps

Following this meeting, I will work with the Treasury to update the paper seeking Cabinet's agreement to the final Budget 2024 package and future operating allowances on Monday 29 April.

Indicative fiscal forecasts

Overall, the fiscal outlook is now expected to be weaker compared to the Treasury's preliminary fiscal forecasts.

- The Treasury has provided an update on the indicative fiscal outlook based on updated information received sone completing their preliminary fiscal forecasts.
- Overall, the indicative fiscal outlook is expected to be **weaker**, largely a result of the updated outlook for the economy. OBEGAL deficits in the near-term are considerably weaker, while the net core Crown debt track is 2% higher as a share of GDP than previously expected.
- The indicative fiscal outlook show **OBEGAL deficits across all forecast years** and **net core Crown debt stays relatively stable** at around 44.0% of GDP for most years but starts to slightly decline in the 2027/28 year.
- The Treasury are due to complete the final fiscal forecasts on Thursday 9 May. These forecasts will reflect our final Budget decisions, including decisions around setting future Budget operating allowances.

			Forecast		
Year ended 30 June	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
OBEGAL - *$billion*					
BEFU 24 indicative update	(11.4)	(14.5)	(9.4)	(4.2)	(1.2)
BEFU24 preliminary fiscal forecasts	(7.9)	(8.9)	(6.6)	(3.7)	(0.7)
Total change	**(3.5)**	**(5.7)**	**(2.8)**	**(0.5)**	**(0.5)**
Net core Crown debt - *% of GDP*					
BEFU 24 indicative update	43.2	43.9	43.7	44.2	43.4
BEFU24 preliminary fiscal forecasts	42.9	42.5	41.8	42.4	41.4
Percentage point change	**0.3**	**1.4**	**1.9**	**1.8**	**2.0**

Final Budget 2024 package

- At BM5 on Wednesday 10 April we agreed the final Budget 2024 package subject to a small number of outstanding decisions. The final package is **$3.2 billion operating per annum**. This reflects decisions to provide $1.2b for the Regional Infrastructure Fund (with a $300m total operating and $900m total capital split), GPS on land transport, and Rail Network Investment Programme.
- It includes a tagged contingency of funding which could be used to support future policy decisions to change the excise duties on tobacco. While final policy decisions have not been made, this contingency will ensure policy discussions are not constrained by funding availability.
- There has also been an update to the Personal Income Tax threshold numbers to reflect the final Budget Economic and Fiscal Update forecasts.

Fiscal strategy

- As discussed at BM5, we need to make decisions on **future operating allowances** and a **surplus target** to propose for Cabinet's agreement as part of the final Budget 2024 package on Monday 29 April 2024. A key tool in controlling expenditure growth and supporting an improving fiscal position is setting tight but realistic operating allowances for future Budgets.
- The previous Government set operating allowances for Budgets 2024, 2025, and 2026 at $3.5 billion, $3.25 billion, and $3 billion respectively.
- The final Budget 2024 operating package, including $2.7 billion of savings, reprioritisation and revenue decisions, is $3.2 billion per annum - $300 million lower than the Budget 2024 allowance set by the previous Government.
- We could choose to set future operating allowances lower than the previous Government to help deliver on our commitments to put net core Crown debt as a percentage of GDP on a downward trajectory, return to surplus and reduce core Crown expenditure. Tightening fiscal policy through lower allowances is consistent with fiscal policy supporting monetary policy to bring down inflation.
- Managing within the lower allowances will require ongoing savings, reprioritisation or revenue to manage cost and volume pressures and fund new initiatives.

Operating allowance options

The table below sets out scenarios for operating allowances and the impact on key fiscal indicators, based on indicative updated forecasts.

$billion per annum	Operating allowances			
	Budget 2024	**Budget 2025**	**Budget 2026**	**Budget 2027**
Included in BEFU 24 indicative update	3.2	3.25	3.0	3.0
Scenario A	3.2	2.8	2.8	2.8
Scenario B	3.2	2.5	2.5	2.5
Scenario C	3.2	2.4	2.4	2.4

	2023/24	2024/25	2025/26	2026/27	2027/28
OBEGAL - *$billions*					
BEFU 24 indicative update	**(11.4)**	**(14.5)**	**(9.4)**	**(4.2)**	**(1.2)**
Scenario A	(11.4)	(14.5)	(9.0)	(3.6)	(0.3)
Scenario B	(11.4)	(14.5)	(8.6)	(2.9)	0.7
Scenario C	(11.4)	(14.5)	(8.5)	(2.7)	1.0
Net core Crown debt - *% of GDP*					
BEFU 24 indicative update	**43.2**	**43.9**	**43.7**	**44.2**	**43.4**
Scenario A	43.2	43.9	43.6	44.0	43.0
Scenario B	43.2	43.9	43.5	43.8	42.6
Scenario C	43.2	43.9	43.5	43.7	42.5
Core Crown expense - *% of GDP*					
BEFU 24 indicative update	**33.5**	**33.7**	**32.7**	**31.9**	**31.8**
Scenario A	33.5	33.7	32.6	31.8	31.6
Scenario B	33.5	33.7	32.5	31.6	31.4
Scenario C	33.5	33.7	32.5	31.6	31.4

Setting the surplus target and operating allowances

Proposed operating allowances

I propose we seek Cabinet's agreement to **lower allowances per scenario C**.

- To manage spending within these lower allowances, we need to find further savings and revenue options, and reprioritisation of existing funding, including making decisions on Phase 2 of the Fiscal Sustainability Programme (FSP).
- Top-down modelling suggests at least $2.5 billion average per annum in cost pressures at Budgets 2025, 2026 and 2027, but this does not account for volume-driven pressures not already funded (e.g. demographic change), new initiatives or any specific fiscal risks that could materialise. Further cost pressure analysis is included as an annex.

Proposed surplus target

I propose we seek Cabinet's agreement to **target a return on surplus in 2027/28** as our short-term intention for the operating balance in the Fiscal Strategy Report (even if the lower allowances prove insufficient to show a surplus in 2027/28 in the final fiscal forecasts).

Our communications at Budget 2024 will need to provide assurances about the achievability of the fiscal strategy, such as indicating we will continue to identify savings and consider "banking" future upside revenue surprises.

Operating within reduced allowances 1

Fiscal management

- Budget 2024 has involved difficult trade-offs between our fiscal objectives and our policy objectives. This has included scaling and deferring priorities, scaling and reprioritising cost pressures, and generating savings to offset existing allowances.
- To work within reduced operating allowances in future Budgets, this **disciplined approach to fiscal management** will need to continue.
- This includes carefully **targeting new initiatives** to our key priorities; **minimising pre-commitments** against allowances to ensure we can create a Budget package that best reflects our priorities; **reprioritising existing funding** both to enable new initiatives and manage cost pressures; and progressing **further savings and revenue** raising measures to take pressure off allowances.

Savings and revenue for Budget 2025

- To support operating within lower allowances I propose two activities to generate savings and revenue options ahead of Budget 2025:
  - commission agencies to progress **targeted savings or revenue initiatives** deferred from Budget 2024 [33]
  - commission the Treasury to undertake **deep dives**, [33]

- In addition, we have several **policy reviews** underway across Government (e.g. Kāinga Ora and School Property) and planned (e.g. disability services and [33] We must leverage these effectively to ensure they 'flatten the curve' and include savings and reprioritisation options.

Operating within reduced allowances 2

- These activities are part of the next phase of our **Fiscal Sustainability Programme**.
- To continue operating within lower allowances after Budget 2025, ongoing constraint and new savings or revenue will be required to manage within future operating allowances.
- The **performance plans** we agreed in December 2023 (CAB-23-MIN-0490) will focus Ministers and agencies on operating within baselines, highlighting choices to manage cost pressures through reprioritisation and mitigating fiscal risks.
- I propose we begin the following activities now, so they can support our decisions later this term:
    - **better planning of spending over the medium-term**, requiring agencies to prepare performance plans as above and Treasury to develop expenditure and balance sheet strategies;
    - **change policy settings to secure savings and improve performance**, initially by progressing the savings and revenue for Budget 2025 proposed on slide 8, but with an increasing focus on driving performance as work to improve value for money information progresses; and
    - **system reform to increase fiscal discipline**, including by amending the Public Finance Act.
- Further **targeted policy initiatives** will be commissioned for Budgets 2026 and 2027. This includes those that do not deliver savings in time for Budget 2025, as well as others identified through the proposed expenditure strategy, SPPs, or during the Budget 2025 process.

Annex: Cost pressures

The Treasury has undertaken analysis of anticipated funding required on average per annum for cost pressures across Budgets 2025 – 2027, from both a top-down and bottom-up perspective.

- The bottom-up number is highly indicative and represents a point in time. It is based on invited cost pressures into the Budget 2024 process and uninvited pressures that agencies indicated they would need to manage within baselines.
- Top-down modelling by Treasury uses current baseline expenditure as a base (using the preliminary BEFU forecasts). It applies includes assumptions about CPI inflation and labour costs, but not about volume or demand cost pressures from demographic or population change, which are a common cause for cost pressures.

The Treasury is required to use its best professional judgment in preparing economic and fiscal updates. One of these judgments is whether the future Budget operating allowances will be sufficient to cover future increases in expenditure. The Treasury's current view is that operating allowances of $2.4 billion at Budgets 2025-2027 is the lowest allowance setting the Treasury could reasonably reflect in the BEFU forecasts without further support than what is outlined to the Fiscal Sustainability Programme (FSP) as set out in T2024/1102.

	($ billions)*		
	2025/26	2026/27	2027/28
Bottom-up	3.6	3.8	4.2
Top-down modelling	2.5	2.5	2.4

*Note: for comparability purposes, the bottom-up number only includes invited cost pressure health funding for Budget 2024, not funding pre-committed against Budgets 2025 or 2026.