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Office of the Minister of Finance

Chair, Cabinet

Fiscal Management: Mini Budget, Budget 2024 and the Fiscal Sustainability Programme

Proposal

1 This paper seeks approval of the Mini Budget package. It also seeks approval of the strategy and design of Budget 2024, and agreement to initiate a multi-year fiscal sustainability programme.

Executive Summary

2 On 20 December 2023, Treasury will publish its Half-Year Economic and Fiscal Update (HYEFU). That update will show a material deterioration in the fiscal position relative to the Pre-election Economic and Fiscal Update (PREFU).

3 We have committed to a programme of fiscal responsibility to restore stability and order to the public finance system by returning to surplus through a steadily improving Operating Balance Before Gains and Losses (OBEGAL) trajectory. Delivering on this commitment in the current fiscal environment, while ensuring we have sufficient headroom to deliver on our Government policy commitments, will prove challenging and will require us to live within highly constrained Budget allowances.

4 As a first step for this programme, I intend to release a Mini Budget at the same time as HYEFU; communicating the scale of the fiscal challenge we have inherited, initiating urgent savings decisions and demonstrating how we will deliver tax relief, and setting out actions to deliver a new culture of fiscal discipline (including our approach to Budget 2024).

5 I propose Budget 2024 includes an Initial Baseline Exercise to identify at least $1.5 billion of annual operating savings from 2024/25 onwards distributed across all agencies, with indicative savings for each agency available in Annex 2. Agencies will be required to examine current expenditure and work with Ministers to identify savings opportunities. This exercise will ensure that agencies are both managing costs effectively and directing spending to the highest value activities, which are well aligned with Government priorities.

6 As part of the exercise, the Treasury will also conduct a review of the capital investment pipeline, which is currently oversubscribed, to identify capital savings which could, if agreed, be progressed through Budget 2024.

7 Although the Initial Baseline Exercise focusses on identifying savings, there will be limited opportunity for new spending in Budget 2024. This will be focused on time-critical Government policy commitments (including our tax commitments) and a limited set of urgent cost pressures. New expenditure will be a strictly invitation-only process.

8 Delivering on our Government policy commitments while achieving our fiscal strategy cannot be achieved solely through the Mini Budget and Budget 2024 Initial Baseline Exercise. It will require a multi-year, structured programme of work that emphasises fiscal discipline and a commitment to continuously improving value for money. I propose we implement a fiscal sustainability programme in several phases across the term to embed this culture shift across the public sector.

9 This programme will be led by a newly established Cabinet Committee, to ensure collective ownership and accountability. The Committee will own and oversee our fiscal strategy and its implementation.

Fiscal Context and Strategy

10 Treasury's forecasts indicate that the fiscal outlook has further deteriorated since the PREFU, with a smaller OBEGAL surplus expected in 2026/27 and net debt just under $5 billion higher compared to PREFU.

11 There is also a significant quantum of time-limited funding set to expire during the forecast period. Some of these time-limited funding pressures will need to be alleviated in Budget 2024 (e.g., Pharmac). Difficult choices will be required to avoid putting further pressure on our fiscal position and Budget allowances, which are already significantly constrained in coming years (see Table 1 below).

12 Treasury's advice on both the number and size of initiatives with time-limited funding continues to evolve, but the most recent advice I have received suggests the cost of fully funding all fiscal cliffs over the forecast period would be approximately $7.2 billion. I expect this figure to grow through the Budget 2024 process, as agencies report instances of time-limited funding below Treasury's existing reporting thresholds. Fully funding these pressures alone would vastly exceed the fiscal headroom available in Budget 2024.

13 Our fiscal strategy will need to align with the principles of responsible fiscal management as set out in the Public Finance Act 1989, including maintaining prudent levels of debt, to support medium-term fiscal sustainability and macro-economic stability. Our strategy should aim to secure the return to surplus via a steadily improving OBEGAL trajectory (underpinned by a fiscally neutral package of decisions across the Mini Budget). Delivering on these commitments will be challenging in the current fiscal environment and will require strict fiscal discipline [CAB-23-MIN-0474 refers]. Our full fiscal strategy, including our short-term intentions and long-term objectives for fiscal policy, will be set out in the Budget Policy Statement in the first quarter of 2024.

14 Setting strict Budget allowances and adhering to them will be key to ensuring spending restraint and consolidating our fiscal position. The table below outlines the current operating allowances and multi-year capital allowance (MYCA) for Budgets 2024-2027, and remaining balances after pre-commitments.

15 **Table 1: Overview of operating and multi-year capital allowances**

Operating allowance ($m)	Budget 24	Budget 25	Budget 26	Budget 27
PREFU allowances	3,500	3,250	3,000	3,000
Pre-committed at PREFU (incl. health cost pressure track)	(2,223)	(1,370)	(1,370)	-
Education forecast change	(147)	-	-	-
Remaining unallocated allowances	**1,130**	**1,880**	**1,630**	**3,000**
Multi-year capital allowance ($m)	**Budgets 2024-2027**			
PREFU allowances	2,935			
Pre-commitments following PREFU	763			
Remaining unallocated allowances	2,172			

16 I propose we keep our operating allowances for Budgets 2024-2027 as set out above, and revisit them through either the Budget Policy Statement or Budget 2024. This reduces the risk of needing to make further changes, and allows decisions on allowances to be informed by the level of savings and new spending that we want to progress at Budget 2024.

17 The MYCA is a rolling four-year funding envelope for capital expenditure which gets reviewed at each Economic and Fiscal Update and currently has $2.172 billion remaining for allocation over the next four Budgets, following precommitments made at PREFU. These pre-commitments cover $750 million for an in-principle agreement by the previous Government for Crown support for Kiwi Rail's Inter-island Resilient Connection (iReX) project, and $13 million for strengthening and fitout works for Bowen House. We are considering a separate Cabinet paper *[Crown support for KiwiRail's Project iReX]* on 11 December on the next steps for iReX, as such, the above number is likely to change.

18 I propose we do not make any changes to the MYCA ahead of HYEFU, but revisit the allowance through the Budget Policy Statement or Budget 2024, with the intention of topping it up. Making this decision at a later date is for a number of reasons:

18.1 there are market capacity constraints for the current pipeline and additional investment will create further pressure;
18.2 the Government's priority of fiscal discipline;
18.3 the potentially significant operating funding implications associated with capital investments, particularly when operating allowances are already constrained for Budget 2024; and
18.4 I am proposing a review of the capital investment pipeline, which may free up some existing funding (this review is discussed further at paragraph 50).

19 I plan to report back to Cabinet in the New Year on short-term intentions and long-term objectives for fiscal policy (e.g. any fiscal rules we want to set), which we are required to publish in the Budget Policy Statement under the Public Finance Act 1989.

Mini Budget

20 I propose that the Government releases a Mini Budget document on 20 December 2023, accompanying the Treasury's HYEFU. The HYEFU will reflect decisions taken by the previous Government, while the Mini Budget will set out our Government's early response to those updated economic and fiscal conditions.

21 I recommend that our Mini Budget has three elements:

21.1 outlining the challenging economic and fiscal challenges inherited from the previous Government, including – where possible – the quantifiable impact of fiscal risks and time-limited funding,

21.2 announcing a combination of:

21.3 a small number of final decisions, largely reflecting the savings accruing from decisions that we have already taken as part of our 100-day plan as well as a small number of other fiscal decisions ('Mini Budget package'), and

21.4 indicative costings provided by Treasury and other agencies for other savings and new revenue in our Coalition agreement (see Annex 1B) to demonstrate that these are sufficient to offset the indicative costs of the tax relief commitments in our Coalition agreements that the Treasury and other agencies have provided, and

21.5 announcing other changes that the Government is taking to ensure long-term fiscal sustainability, including (following discussion with the Prime Minister) the establishment of a Cabinet Committee to lead this work and other decisions relating to time-limited funding.

22 To support this, I propose that Cabinet agree the Mini Budget package, comprising a small number of final decisions. These proposed decisions are set out in Annex 1A.

23 Alongside these final decisions, I propose that the Mini Budget announcement on 20 December also includes indicative costings provided by Treasury and agencies for:

23.1 the tax initiatives in our Coalition agreements, and

23.2 additional savings and new revenue (i.e., beyond those already included in the Mini Budget package) from our Coalition agreements to offset the indicative fiscal impact of these tax initiatives.

24 The full list of initiatives I propose Cabinet agree to, alongside the Mini Budget package, include in the 20 December announcement is set out in Annex 1B. Ministers will report back to Cabinet seeking final decisions on these initiatives as part of the Budget 2024 process.

25 I also intend for the 20 December announcement to include the Government's intention to make investments in Inland Revenue's compliance activities, with additional funding requirements and projected revenue generation finalised through Budget 2024.

Government Priorities for Budget 2024

26 The annual Budget process is one lever that we can use to further our fiscal objectives. Budget 2024 is a critical opportunity for us to set expectations of strong fiscal discipline and sustainable, well-planned spending across the public sector.

27 Setting our Budget strategy and priorities now will enable us to quickly communicate these expectations to Ministers and their agencies, so that they can start preparing to deliver on them.

28 I propose the following priorities for Budget 2024:

28.1 *Addressing the rising cost of living*: deliver meaningful tax relief to working New Zealanders through changes to the tax system and cancellations of existing and planned taxes.

28.2 *Delivering effective and fiscally sustainable public services*: introduce measures to improve value for money by focussing on results (in particular, in the areas of health, education, and law and order), and responsibly manage public finances.

28.3 *Building for growth and enabling private enterprise:* deliver more housing, infrastructure and renewable energy through carefully prioritised investment, regulatory change that creates the conditions for investment, and developing a long-term pipeline of investments. Also improve regulatory settings to encourage skills growth, innovation, and competition, and to attract investment and boost exports.

29 Generally, the Budget process is steered by a group of Budget Ministers who recommend a final Budget package to take to Cabinet. I propose that Budget Ministers continue to be used as the main decision-making body throughout the Budget 2024 process and to recommend a final package to Cabinet. I recommend this group be made up of the following Ministers:

29.1 The Prime Minister;

29.2 The Minister of Finance; and

29.3 Associate Ministers of Finance.

Budget 2024 Design and Process

30 Budget 2024 will be progressed through an 'Initial Baseline Exercise'. This Exercise will be targeted and directive, and will focus on ensuring Government spending represents value for money. As part of the Exercise, agencies will be required to review their baseline expenditure to identify where savings can be made, and only a select number of new spending and cost pressure initiatives will be invited for submission, with the majority expected to be funded through reprioritisation.

31 I am seeking Cabinet's agreement to the proposed design and process for the Initial Baseline Exercise, as set out below, so that guidance can be communicated to Departments by the end of the year.

32 The Initial Baseline Exercise will seek information from agencies on a range of issues to be considered in understanding agency baselines, identifying savings and setting future expenditure plans – including historic expenditure, cost trends, risks and information on performance.

Approach to Baseline Operating Savings

33 In the current constrained fiscal environment, we need to create headroom to fund the Government's policy commitments (including tax commitments) and critical cost pressures. This means that savings and reprioritisation opportunities will need to be progressed, further to the savings reflected at the Mini Budget.

34 The focus of the Initial Baseline Exercise will be identifying savings. As part of this savings exercise, all agencies (with the exception of the Offices of Parliament) will be given a baseline reduction target. These savings will be used to fund our tax plan and the baseline savings exercise agreed by the previous Government.

35 The baseline reduction targets will achieve at least $1.5 billion of savings, from 2024/25 onwards. Agencies will be allocated targets of either 6.5% or 7.5% of their eligible baselines to meet this amount. Agencies with higher targets will be those that have had growth in their Full Time Equivalent (FTE) of greater than 50% since 2017 (or establishment).

36 I propose that the baseline reduction is applied to a broad scope across the public sector. I have accepted further advice on this scope, which means that this proposal is different to the base of spending initially identified in the National Policy Programme. This broadening of the base helps us achieve more savings. It gives Ministers flexibility to determine the most effective source of savings, allows us to protect core services, and incorporates the previous Government's broader scope of baseline exercise.

37 While the scope of this exercise is broad, it is critical that we deliver efficiencies and savings from Government expenditure and from contractor and consultant expenditure. Departmental operating expenditure on contractors and consultants has grown by 55% since 2017.[1] I am confident that expenditure on contractors and consultants will reduce through the initial baseline exercise. I also propose to write to portfolio Ministers setting out these expectations, alongside Budget 2024 guidance that sets out how agencies should implement them.

38 I propose that the following design principles are used to calculate each agency target.

38.1 **Type of spend in scope**: All departmental and non-departmental operating spend will be included in scope (including funding made through departments to Crown entities, the Public Finance Act 1989 Schedule 4A companies, and state-owned enterprises).

[1] Departmental expenditure consists of public service departments and departmental agencies.

38.2 **Agencies in scope**: All agencies are in scope, with the exception of the Offices of Parliament. Non-departmental health, disability and education spend are in scope of the exercise but subject to reprioritisation targets not savings.

38.3 **Specific exclusions:** Specific non-discretionary or unsuitable spend areas will be excluded from the exercise.

38.4 **Percentage target**: Agencies will be given a target of either 6.5% or 7.5%, depending on their level of FTE growth in agencies since 2017.

38.5 **Base year for calculations**: Savings targets will be based on the average baseline spend from implementation to the end of the forecast period (2024/25 to 2027/28).

39 Annex 2 contains a further breakdown of the assumptions underpinning the design, and an indicative breakdown of agency savings targets.

40 The overall savings target includes around $500 million of baseline savings booked at PREFU 2023. Agencies have been preparing proposals to meet these requirements but no decisions have been made and further work is required.

41 After the Mini Budget package proposed today is confirmed, I will finalise the final allocation of agency targets before sending these to portfolio Ministers and agencies.

Implementing baseline reductions

42 Savings can be found from across the Vote, including areas excluded from the calculation of the eligible base for the baseline reduction and from non-departmental funding provided to Crown entities. Savings options should be focused on low value programmes, programmes that do not align with Government priorities, and reducing non-essential back-office functions (including contractor and consultant spending) informed by the increase in public sector head count since 2017.

43 In establishing the savings targets, I have built in some flexibility to ensure that the exercise will achieve savings of at least $1.5 billion from 2024/25. The final savings allocation for each agency will be confirmed through the decision-making phase of the Budget 2024 process. Savings which are not needed will be available for agencies to reprioritise internally towards higher priority and higher value activities, including cost pressures for frontline services.

44 The savings target relates only to operating expenditure. However, the Initial Baseline Exercise will also include a review of the capital and associated operating expenditure of medium and high-risk investments captured in the capital investment pipeline. This is described below at paragraph 50.

45 Non-departmental health, education, and disability spending has not been included in the calculation of the eligible base. This includes frontline services e.g. Health New Zealand and school operating grants. However, I consider that this spending should still be subject to the Initial Baseline Exercise, but I propose that identified savings would be reprioritised to fund cost pressures or new spending initiatives in those areas.

46 There will be an assurance process for savings as agencies and portfolio Ministers develop their proposals. This will involve 'deep dives' into a small selection of agency plans to ensure that savings are targeted to lower value areas of spend and proposals align to Government priorities.

Targeted policy savings and revenue options

47 To complement the baseline reductions and to create fiscal headroom, I propose that we invite specific Ministers to submit significant targeted policy savings and/or revenue raising options as part of the Initial Baseline Exercise. We should expect that we will receive savings or revenue options, of at least $100 million for each option, over the forecast period. Where I can, I plan to identify specific policy proposals to invite for this purpose. I will consult with Budget Ministers as needed on this.

48 As with the baseline reduction, I propose that invited Ministers and their agencies have flexibility to identify targeted policy savings and/or revenue raising options from across the relevant Vote, including savings from departmental and non-departmental spending. Agencies identified will be those who have large baselines, significant FTE growth, and whom I consider offer the greatest potential for further savings.

49 I will consider the interaction between the baseline reduction savings and the targeted policy options, and the potential to introduce an incentive for putting up targeted policy options (e.g. that this could help offset the agency's final baseline reduction target).

Approach to Review of Capital Investment Pipeline

50 Significant levels of capital funding have been allocated in recent years. This has led to an investment pipeline larger than agencies and the market can deliver, leading to cost increases and delivery delays. A more structured long-term pipeline of investments and capital programmes that we have approved and sequenced will support the market to invest in capability and increase capacity, as well as improve deliverability and avoid future pressures.

51 As part of the Budget 2024 Initial Baseline Exercise, I propose that we undertake a review of the capital investment pipeline to build a more stable pipeline that is better aligned with the Government's priorities and has a strong focus on value for money.

52 I propose to include all medium and high-risk investments in planning and delivery within the capital pipeline review except for the following as these will be difficult, or undesirable, to stop or delay:

52.1 Investment proposals included within the Government's coalition agreements;

52.2 Investments that have entered into main contracts; and

52.3 Investments with an approved Implementation Business Case (i.e., ready to commence delivery) that relate to maintaining existing levels of service.

53 I also propose to exclude:

53.1 Kāinga Ora's investment programme, given it will be subject to a separate review; and

53.2 The National Land Transport Programme funded through the National Land Transport Fund, as this will be reviewed as part of the revised Government Policy Statement for land transport.

54 I propose that the following areas are priority areas of investment for the capital pipeline review:

54.1 Investments that make better use of existing assets, including capital maintenance, and investment to maintain ongoing levels of service;

54.2 Investments that improve the resilience of assets to meet required levels of service; and

54.3 Investments that will support growing industry and market capacity.

55 For **specific capital intensives agencies** (Te Whatu Ora Health New Zealand, Ministry of Education, KiwiRail, New Zealand Defence Force, Department of Corrections) and **specific programmes** (New Zealand Upgrade Programme), I propose that agencies are asked to provide a revised investment programme (based on those investments listed in Annex 3) that demonstrates that existing funding has been prioritised towards progressing priority investments on feasible timelines, including addressing any necessary cost escalations. This would be based on the priorities set out in paragraph 54 above. As part of this process, agencies will be asked to identify investments that are not focused on the above criteria, or aligned with our priorities, to enable funding to be reprioritised or returned. Agencies should also identify where a decision to defer, stop or rescope an investment would compromise future service delivery.

55.1 For **all other agencies,** I propose to request individual submissions for the investments that the Treasury has identified as in scope, as listed in Annex 3. Agencies can identify additional investments not focused on the above criteria or aligned with our priorities to fund cost escalations and should set out the risks, including to future service delivery, of any proposed changes.

56 Since Budget 2020, the Treasury has convened a panel of senior representatives from system and functional leaders to evaluate specific investments invited to Budget and provide system-wide insights to support Cabinet decision-making (the "Investment Panel").

57 For Budget 2024, the Investment Panel will provide Budget Ministers with advice on options for reprioritisation and sequencing investments within the capital investment pipeline, to ensure agencies are focused on investments with the highest value for money (with a particular focus on deliverability).

Approach to the Remainder of Budget 2024

58 The pressure on Budget 2024 allowances means agencies will be expected to manage the majority of their cost pressures and new spending priorities through baselines. As part of the Initial Baseline Exercise, agencies will be expected to set out how they plan to manage within a reduced baseline, including reprioritising to meet unfunded cost pressures beyond Budget 2024. This will ensure that agencies are considering either managing pressures or taking active choices to stop or scale programmes, and will highlight any critical service delivery risks and significant trade-offs.

59 Although Budget 2024 will focus on interrogating baselines and identifying savings, there will be some opportunity to progress time critical Government commitments contained in our coalition agreements. This will include our tax commitments, investments that deliver on our 100-day plan, and extensions of time-limited funding for critical programmes. Remaining Government policy commitments will be phased over Budgets 2025 and 2026.

60 I propose we invite the operating initiatives listed in Annex 4 into Budget 2024. This covers time limited funding that is coming to an end. In some cases, I am also proposing to attach certain conditions to these invitations, such as requesting that Ministers propose sequencing commitments over multiple Budgets.

61 In all cases, I expect Ministers who are invited to present new operating initiatives to explore options to scale, phase, or fund them from existing resources and/or new funding arrangements. An invitation to submit an initiative is not a guarantee of funding.

62 Cost pressures cover existing services and outputs which are facing wage, price, or volume pressures and where an agency cannot continue to deliver the same level or quality of service within existing baselines without achieving efficiencies.

63 In October, the Treasury collected information on the cost pressures facing agencies, some of which do not appear pressing or significant. Agencies received significant funding at Budget 2022 and 2023 for cost pressures, and inflationary pressures are gradually reducing. The fiscal context and constrained allowances mean there is very limited funding available for cost pressures.

64 In Budget 2024, cost pressure initiatives will be invited 'by exception' only for consideration. Only specific Ministers will be invited to submit cost pressures in particular areas (e.g. wage, price, and volume), where there is genuinely urgent need for funding and agencies have demonstrated that costs cannot be absorbed within baselines without significant trade-offs across critical services.

65 I propose we invite Ministers to submit the initiatives for cost pressures in Budget 2024, as outlined in Annex 5. As with new operating initiatives, I am expecting Ministers to explore options to scale the funding required and/or explore options for funding them from existing resources. As above, an invitation to submit a cost pressure initiative is not a guarantee of funding.

Out of cycle requests

66 The pressure on allowances means that managing out of cycle spending (including pre-commitments) will be vital to successful delivery of our priorities. This includes pre-commitments relating to our 100 day plan. I therefore propose that Cabinet agrees that:

66.1 Portfolio Ministers should seek my prior approval before lodging Cabinet papers that have out-of-cycle fiscal implications, and

66.2 Agencies are required to consult on all financial recommendations with the Treasury before papers are lodged.

67 We may choose to adjust this to reflect our new governance arrangements, including the establishment of a Cabinet Committee discussed below.

Value for Money Approach

68 Value for money is about delivering the best results from limited spending. I propose we assess value for money according to the following criteria: **alignment** with government goals; the weighing of **benefits** and **costs**; **deliverability**; and the **distribution** of these impacts. Judgement and transparent assumptions are required to assess each of these components individually and collectively. Treasury's frameworks will be used to ensure robust and rigorous analysis. I will work with the Treasury to determine the specific information requirements for invited initiatives.

Discrete Funds and Multi-Year Funding

69 The previous Government established several discrete funds that operate outside the core of Budget allowances, and approved multi-year funding for several sectors (allocating several Budgets-worth of funding at one time, with the expectation that further funding will not be sought for the duration of the agreement). In light of the challenging cost pressure environment, this prior approach to multi-year funding creates difficult trade-offs for our Government given tight budget allowances.

Health Multi-Year Funding

70 As part of health sector reforms, Te Whatu Ora – Health New Zealand and Te Aka Whai Ora – the Māori Health Authority received a two-year funding package at Budget 2022. The Treasury and the Ministry of Health will provide the Minister of Health and me with advice shortly on whether to continue multi-year funding for Vote Health in Budget 2024.

Treatment of Clusters in Budget 2024

71 In 2021, the previous Government agreed to a three-year pilot of two multi-agency budgeting "clusters": a Justice Cluster and a Natural Resources Cluster (NRC).

72 In Budget 2022, these clusters received a total of $3.8 billion additional upfront funding for Budgets 2022-2024. With further increases in funding locked into future Budgets, cluster agencies were expected not to pursue additional funding requests in Budgets 2023 and 2024 – except where an agreed exception had been granted. It was also agreed that for the baseline savings booked at PREFU 2023, cluster agencies would not need to find savings until 2025/26 (as opposed to 2024/25 for other agencies).

73 [33]

However, in the short term we need to decide how to treat the clusters in the Budget 2024 process, including savings. I propose that cluster agencies are required to identify savings through the Initial Baseline Exercise from 2024/25 so that the Government has greater choices on where to find savings. There is flexibility at the decision-making phase for Budget Ministers about how much of these savings are returned to the centre, as opposed to reprioritised within agencies.

74 Given the requirement that cluster agencies identify savings options in Budget 2024, I also propose that cluster agencies are treated the same as non-cluster agencies for the purposes of invitation into the Budget process. I have thus included some new spending and cost pressures for cluster agencies in Annex 4 and 5.

Fiscal Sustainability Programme

75 Although the Mini Budget and Budget 2024 Initial Baseline Exercise will begin embedding a culture of fiscal discipline across the public sector and identify significant savings, sustained work will be needed across the term to constrain expenditure growth (both operating and capital) and ensure our limited funds are being directed towards the highest value investments.

76 This includes phasing Government policy commitments across the term, focusing on reprioritisation within baselines, and limiting out of cycle spending [CAB-23-MIN-0474 refers].

77 To prioritise fiscal discipline and continuously improve value for money, I propose we establish a fiscal sustainability programme which will:

77.1 generate reprioritisation, savings, and revenue measures to fund our priorities and repair the overall fiscal position;

77.2 strengthen the public finance system to tighten fiscal discipline and embed a culture of delivering value for money;

77.3 support collective ownership and accountability for the Government's fiscal position; and

77.4 consider amendments that may be needed to the Public Finance Act to further embed principles of fiscal sustainability in Government decision-making and information sharing.

Programme Governance

78 Following discussion with the Prime Minister, I propose we establish a Cabinet Committee to lead, and ensure collective ministerial ownership of, this fiscal sustainability programme. This will be critical to implement our commitment to ensure the Coalition Government's decisions are fiscally responsible, and in line with the decision-making principles laid out in our Coalition Agreements.

79 The Committee will:

79.1 own and oversee our fiscal sustainability programme and its implementation (including where and how savings are made);

79.2 scrutinise spending to ensure value-for-money and consistency with our fiscal strategy;

79.3 require improved quality of fiscal information in spending proposals; and

79.4 periodically review system settings that support fiscal management.

80 The Committee will be a concrete expression to the public sector of our commitment to fiscal discipline and ensuring value for money. The Treasury is working with the Department of Prime Minister and Cabinet on the design of this Committee, including its Terms of Reference and work programme.

Programme Phases

81 The fiscal sustainability programme will need to balance taking decisive action early with the importance of sequencing change across the term. I propose we do so by progressing it in several phases.

82 **Phase One (From now to Budget 2024):** freeing up headroom to fund our 100-day priorities, deliver tax reduction, and support the return to surplus through a Mini Budget and Budget 2024; sending a strong public signal that the fiscal sustainability programme is a priority for us; and establishing the right governance arrangements to ensure the decisions we take flow through to implementation and agencies remain focussed on results.

82.1 This will be supported by the Budget 2024 **Initial Baseline Exercise** described above, which aims to identify misalignment and poor performing spending areas, to realise immediate savings, and to identify opportunities for better spending in the future.

83 **Phase Two (Following Budget 2024):** enacting the medium-to-longer-term elements of the multi-year programme, specifically a set of savings and performance tools that ensure that at the aggregate level, public spending is well aligned to our Government's priorities and provides value for money.

84 **Phase Three**: embedding a lasting and enduring culture of fiscal discipline in the public service so that the public finance system continues to drive value for money and ensure longer-term fiscal headroom to respond to challenges.

85 I have directed the Treasury to continue assessing options to strengthen the focus on delivery of public sector effectiveness to deliver better public services. I will return to Cabinet in the New Year with further detail on these proposals.

Phase Two

86 Following our immediate action to find savings in the short-term, we will need to shift into a multi-year approach to fiscal sustainability. To manage this shift, I propose that in phase two each Minister would agree a savings and performance plan with their respective Chief Executive, [33]

87 These plans will provide a medium-term perspective of how each agency has prioritised effort to progress our Government's priorities, how public resources have been allocated to enable that effort, and to report on the delivery of activities and impacts (following decisions in Budget 2024).

88 I intend to signal this to Departments through the Budget 2024 guidance, which will be issued by the end of the year. This will ensure that agencies are undertaking the Initial Baseline Exercise with a view to future requirements. Therefore, I am seeking Cabinet's in-principle agreement to savings and performance plans now. I intend to return to Cabinet in the New Year with further details on phase two of the programme.

Timeline and Next Steps

89 Table 2 outlines indicative dates for the Budget 2024 Initial Baseline Exercise. Detailed timeframes will be made available to agencies through the guidance which the Treasury will release in December 2023.

90 **Table 2: Indicative Budget 2024 timeframes**

Date	Key Milestone
Early December	Budget 2024 Strategy and Design paper considered by Cabinet (this paper)
Mid-December	Budget 2024 guidance and templates for agencies issued / Invitation letters sent to portfolio Ministers
Early February	Initial Baseline Exercise submitted by agencies
Mid-February	Treasury assessment of initiatives
March- Early April	Budget Ministers' decision-making and potential bilaterals
Mid-April	Budget 2024 package expected to be considered by Cabinet

91 The Public Finance Act 1989 requires the Government to produce a Budget Policy Statement that sets out three sets of priorities: its priorities for the coming Budget (set out for agreement above at paragraph 28); the overarching policy goals that will guide its decision-making; and the longer-term wellbeing objectives the Government wishes to make progress against.

92 I propose to release the Budget Policy Statement in March 2024. I will report back to Cabinet in early 2024 to seek agreement to these latter two sets of priorities – the enduring wellbeing objectives and our overarching policy goals, as well as any changes to the Budget 2024 priorities outlined in this paper.

Financial Implications

93 The net fiscal impact of the Mini Budget package totals $7.481 billion total operating and $0.455 billion total capital in savings over the forecast period. I propose that this is managed against the Budget 2024 operating allowance and the MYCA, and be used to fund other Government priorities, including our tax commitments.

Legislative Implications

94 The Appropriation (2023/24 Supplementary Estimates) Bill, the Imprest Supply (Second for 2023/24) Bill, the Appropriation (2024/25 Estimates) Bill, the Imprest Supply (First for 2024/25) Bill and the Taxation (Annual Rates for 2023–24, Multinational Tax, and Remedial Matters) Bill will give legislative effect to the Mini Budget package.

Impact Analysis

Regulatory Impact Statement

95 The Mini Budget package is largely comprised of initiatives that Cabinet has already agreed in separate papers, with this paper seeking Cabinet agreement to the fiscal treatment and appropriation changes for these decisions. For these initiatives, the Regulatory Impact Analysis implications are set out in the separate papers.

96 [40]

97

98 For those initiatives that I am only seeking Cabinet agreement to announce, with indicative costings, on 20 December 2023, RISs have not been provided. The Regulatory Impact Analysis team at the Treasury understands that, where required, impact analysis will be provided to Cabinet when further policy decisions are sought.

Climate Implications of Policy Assessment

99 The Clean Car Discount and Government Investment in Decarbonising Industry Fund (GIDI) are two actions in the first Emissions Reduction Plan (ERP1) that are estimated to contribute to meeting New Zealand's emissions budgets under the Climate Change Response Act 2002 (CCRA). Decisions were taken on the Clean Car Discount (CAB-23-MIN-0471 refers), but I have replicated the emissions impacts here as this paper includes financial recommendations to confirm the fiscal treatment of those decisions.

100 Under the CCRA, the Minister of Climate Change (on behalf of the Executive) has a legal duty to ensure that emissions budgets are met. The time periods and total net emissions permitted for the first (EB1), the second (EB2) and third (EB3) emissions budgets are described in Table 1 below.

101 **Table 3: Summary of total net emissions permitted for each emissions budget**

Budget period	EB1: 2022–25	EB2: 2026–30	EB3: 2031–35
Net emissions	290 Mt CO_2e	305 Mt CO_2e	240 Mt CO_2e

102 A Climate Implications of Policy Assessment (CIPA) for the proposals in this Cabinet paper with quantifiable emissions impacts has been completed and is attached. Due to the sensitive nature of this paper, the Ministry for the Environment's CIPA team has not been consulted on the results.

Implications for meeting emissions budgets

103 The Climate Change Interdepartmental Executive Board (CCIEB) Secretariat maintains analysis on New Zealand's progress towards achieving ERP1 and our emissions budgets. Based on recent projections, returning funding from the GIDI and Clean Car Discount is not likely to pose a significant risk to achieving EB1. This is because the effects of these policies are largely already 'locked in' over that period.

104 The impacts could be more significant for EB2 and EB3, where the initiatives formed a substantial proportion of the modelled emissions reductions from the transport and industry sectors, and margins for achieving these emissions budgets are expected to be tight.

105 However, the emissions impact of ceasing this funding is uncertain because the abatement expected from GIDI or Clean Car Discount may ultimately have occurred anyway, including through the Emissions Trading Scheme (ETS). GIDI was also intended to bring abatement actions forward in time, so the funding may have driven more abatement than the ETS alone in the short term. To the extent that emissions were higher, achieving less domestically implies greater use of international purchasing in order to meet New Zealand's Nationally Determined Contribution under the Paris Agreement.

106 [36]

107 I do not consider changes are required to ERP1 due to ending these polices, because the policies have been in effect over some of EB1, removal of these actions is not expected to materially affect the achievement of EB1, and the development of ERP2 is the opportunity for Ministers to make decisions on the cross-sector policy mix to achieve EB2 and EB3.

Population Implications

108 Successful execution of our Budget 2024 strategy and implementation of the Fiscal Sustainability Programme will support the living standards of all population groups, by promoting long term resilience of our economy and public services, and reprioritising spending to high value for money programmes. The Treasury will work with agencies to analyse the impacts of specific savings and other initiatives for Budget 2024 through the Initial Baseline Exercise.

Human Rights

109 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

110 This paper was prepared by the Treasury on behalf of the Minister of Finance. The Department of the Prime Minister and Cabinet was informed.

Communications

111 The Office of the Minister of Finance will coordinate all communications relating to the Mini Budget.

112 Following Cabinet's approval of the Budget 2024 strategy, I will send letters to Ministerial colleagues summarising the process and setting out the parameters of the Initial Baseline Exercise (including the savings target each agency must meet, and any new spending and cost pressure initiatives invited for submission). A draft of this letter is attached in Annex 6 for your information.

113 Guidance and templates for agencies on the Budget 2024 process will be issued by the Treasury in December 2023.

Proactive Release

114 I propose delaying the release of this paper beyond the standard 30 business days as it will be released separately as part of the Budget 2024 proactive release.

Recommendations

The Minister of Finance recommends that Cabinet:

Fiscal Context and Strategy

1. note that the Treasury's forecasts indicate that the fiscal outlook has further deteriorated since the Pre-Election Economic and Fiscal Update (PREFU);

2. note that there is a significant quantum of time-limited funding set to expire across the forecast period;

3. note that delivering on the Government's policy commitments in the current fiscal environment will be challenging, and will require a strong focus on fiscal discipline given the economic and fiscal context and limited allowances;

4. agree that our fiscal strategy will focus on returning to surplus via a steadily improving Operating Balance Before Gains and Losses (OBEGAL) trajectory;

Mini Budget Package

5. agree to release a Mini Budget on 20 December 2023, alongside the Treasury's Half-Year Economic and Fiscal Update;

6. agree to the Mini Budget package, set out at the initiative level in Annex 1A;

7. note the financial decisions as part of the Mini Budget and changes to appropriations and related recommendations to give effect to each of the initiatives in Annex 1A are set out in recommendations 51-92 below;

8. agree to announce, with indicative costings, the initiatives in Annex 1B on 20 December 2023;

9. agree to invite the relevant portfolio Ministers to report back to Cabinet seeking final decisions on the initiatives in Annex 1B through the Budget 2024 process;

Government Priorities for Budget 2024

10. agree the following priorities for Budget 2024;

    10.1. *Addressing the rising cost of living:* deliver meaningful tax relief to working New Zealanders through changes to the tax system and cancellations of existing and planned taxes;

    10.2. *Delivering effective and fiscally sustainable public services*: introduce measures to improve value for money by focussing on results (in particular, in the areas of health, education, and law and order), and responsibly manage public finances; and

    10.3. *Building for growth and enabling private enterprise*: deliver more housing, infrastructure and renewable energy through carefully prioritised investment, regulatory change that creates the conditions for investment, and developing a long-term pipeline of investments. Also improve regulatory settings to encourage skills growth, innovation, and competition, and to attract investment and boost exports.

11. agree that Budget Ministers (the Prime Minister, the Minister of Finance and Associate Ministers of Finance) are the primary decision-making body throughout the Budget process, and are responsible for recommending to Cabinet a final Budget 2024 package;

Budget 2024 Design and Process

12. agree that given the economic and fiscal challenges and constraints on existing allowances, Budget 2024 will be a strictly top-down invitation process progressed through an 'Initial Baseline Exercise';

13. agree that the Initial Baseline Exercise in Budget 2024 will focus on identifying savings, with limited opportunity for new spending;

14. agree that agencies (except the Offices of Parliament) will be given a baseline reduction target (for operating savings);

15. agree that agencies will be allocated targets of either 6.5% or 7.5% of their eligible baselines to achieve at least $1.5 billion of savings per annum, from 2024/25 onwards (per Annex 2);

16. note agencies with higher targets, as outlined in recommendation 15, will be those who have had growth in their Full Time Equivalent of greater than 50% since 2017 (or establishment if after 2017);

17. note that non-departmental health, education, and disability spending has not been included in the calculation of the eligible base for the baseline reduction target, but agencies are still able to identify savings in these areas to reprioritise towards cost pressures or new spending initiatives;

18. authorise Budget Ministers to confirm the final baseline reduction targets, if there are substantive changes to the proposals as agreed by Cabinet, with any minor or technical changes decided by the Minister of Finance;

19. agree that savings can come from both departmental and non-departmental funding, including funding made through departments to Crown entities, the Public Finance Act 1989 Schedule 4A companies, and state-owned enterprises;

20. invite specific agencies and portfolio Ministers, as identified in Annex 2, to put forward significant targeted policy savings and/or revenue options, of at least $100 million for each option, over the forecast period;

21. authorise the Minister of Finance to identify and invite specific proposals for Ministers to explore for targeted savings and revenue raising (as set out in recommendation 20), consulting with Budget Ministers as needed;

22. note that any savings which are not needed to achieve the Government's fiscal strategy and offset Budget 2024 funding will be available for agencies to reprioritise internally towards higher priority and higher value activities;

23. agree to conduct a review of the capital investment pipeline to ensure alignment with the Government's priorities and a strong focus on continued service delivery and value for money;

24. agree to exclude the investments specified in paragraphs 52 and 53 from this investment pipeline review;

25. agree that specific capital intensive agencies (Te Whatu Ora Health New Zealand, Ministry of Education, KiwiRail, New Zealand Defence Force, Department of Corrections) and specific programmes (New Zealand Upgrade Programme) are required to provide a revised investment programme, based on the investments listed in Annex 3;

26. agree that all other agencies are required to provide individual submissions for the investments listed in Annex 3;

27. agree that a panel of senior representatives from system and functional leaders (the 'Investment Panel') will review and provide advice on reprioritisation and sequencing of the capital investment pipeline in Budget 2024;

Approach to the Remainder of Budget 2024

28. note that new spending in Budget 2024 will be focused on time-critical Government policy commitments (including tax commitments), and the Government's remaining policy commitments will be phased over the term;

29. agree to invite the Government policy commitments and time limited funding initiatives listed in Annex 4 into Budget 2024;

30. agree that only agencies and portfolio Ministers outlined in Annex 5 be invited to submit certain types of cost pressures at Budget 2024;

31. agree that Ministers are expected to explore options to provide scaling, phasing and alternative funding sources (including reprioritisation) for invited initiatives, and that an invitation to submit an initiative is not a guarantee of funding;

32. agree that portfolio Ministers and agencies are expected to set out how they plan to manage within a reduced baseline, including reprioritising to meet unfunded cost pressures beyond Budget 2024;

33. agree that Ministers should seek the Minister of Finance's prior approval before lodging Cabinet papers that have out-of-cycle fiscal implications;

34. note that we may make adjustments to the settings described in recommendations 30 to 33 once the new Cabinet Committee to oversee the fiscal sustainability programme is established;

35. agree to use the Treasury's value for money framework to systematically assess the quality of initiatives submitted at Budget 2024;

Discrete Funds and Multi Year Funding

36. note that the discrete funds and multi-year funding approaches established by the previous Government constrain the ability to reallocate resources (which is necessary in a tight fiscal climate);

37. note that Te Whatu Ora – Health New Zealand and Te Aka Whai Ora – the Māori Health Authority received a two-year funding package at Budget 2022;

38. note that the Treasury and the Ministry of Health will provide the Minister of Health and the Minister of Finance with separate advice on multi-year funding in the health sector;

39. note that the Clusters (Justice and Natural Resources), which were established by the previous Government, were not required to find savings until 2025/26 for the baseline savings at PREFU;

40. agree to include the Justice and Natural Resources Clusters in the Initial Baseline Exercise from 2024/25 to provide the Government with greater savings options;

Fiscal Sustainability Programme

41. agree to establish a fiscal sustainability programme focused on:

    41.1. generating sufficient reprioritisation, savings, and revenue raising measures to fund the Government's priorities and deliver enduring improvements in the OBEGAL position ;

    41.2. strengthening the public finance system to tighten fiscal discipline and embed a culture of continuously improving value for money; and

    41.3. ensuring collective ownership and accountability for the fiscal position and value for money at all levels of government.

42. agree to establish a Cabinet Committee to lead, and ensure collective Ministerial ownership of, this fiscal sustainability programme;

43. note that the Treasury will work with the Department of the Prime Minister and Cabinet on the design of this Cabinet Committee, including a proposed terms of reference and draft work programme;

44. agree that Phase One of this programme will involve an Initial Baseline Exercise which will form the basis of Budget 2024;

45. note that the information produced for the Initial Baseline Exercise can be used to inform medium-term savings and performance plans [33] , outlining agency strategy, prioritisation, allocation, and delivery;

46. agree to include savings and performance plans in Phase Two of the programme, to enable early signalling of the requirement to develop and maintain a plan to agencies;

47. invite the Minister of Finance (including in her role as the Minister for the Public Service) to return to Cabinet in the New Year with further detail on Phase Two and Three of the programme;

Next Steps

48. note that the Public Finance Act 1989 requires the Government to produce a Budget Policy Statement that sets out: its priorities for the coming Budget; the overarching policy goals that will guide its decision-making; and the longer-term wellbeing objectives the Government wishes to make progress against;

49. agree to release the Budget Policy Statement in March 2024;

50. invite the Minister of Finance to report back to Cabinet in the New Year:

    50.1. on the operating allowances for Budgets 2024-2027 and the Multi-Year Capital Allowance (MYCA) ahead of the Budget Policy Statement;

    50.2. on the Government's short-term intentions and long-term objectives for fiscal policy (e.g. any fiscal rules to set), which are required to be published in the Budget Policy Statement;

50.3. on the set of wellbeing objectives and overarching policy goals to be published in the Budget Policy Statement;

Financial recommendations

51. agree the following 2023 Mini Budget package with the following initiatives, as listed in the summary below, and the following impacts on the operating balance and net debt:

	$m – Operating balance impacts increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Revenue					
Commercial Buildings Depreciation	-	(57.000)	(1,120.000)	(567.000)	(567.000)
Brightline Test Adjustment	-	45.000	45.000	45.000	45.000
Savings (Operating)					
Return Funding - Government Investment in Decarbonising Industry Fund	-	(101.775)	(214.172)	(191.053)	(139.700)*
Return Funding – National Land Transport Fund	-	(166.666)	(166.667)	(166.667)	-
Return Funding – Climate Emergency Response Fund (Operating)	-	(300.000)	(300.000)	(300.000)	-
Exiting the Crown's Contribution to Let's Get Wellington Moving	-	(130.000)	(165.000)	(230.000)	-
Ending Free Public Transport for 5-12 Year Olds, and Half-Price Public Transport for 13-24 Year Olds	-	(65.303)	(65.303)	(67.303)	(67.303)
Stop Work on Lake Onslow	(63.650)	-	-	-	-
Stop Establishment of New Zealand Income Insurance Scheme	-	(2.047)	(2.047)	(2.047)	(2.047)
Primary Sector Industry Transformation Plans	(4.620)	(13.700)	(11.000)	-	-
Business, Science and Innovation Industry Transformation Plans	(38.493)	(39.473)	(20.507)	(18.985)	(20.529)*
Resource Management Reforms	-	(61.107)	(78.027)	(80.156)	(82.306)**
Repeal Fair Pay Agreements Regime	(1.575)	(15.772)	(15.807)	(15.807)	(15.807)
Stopping the Clean Car Discount	(50.000)	-	-	-	-
Unwinding of Budget 2023 Early Childhood Education Extension to Two-year-olds	(83.747)	(271.599)	(272.325)	(274.961)	(278.505)

Main Benefit Indexation to CPI Rather than Wages from 1 April 2024	14.342	22.007	(119.385)	(246.209)	(347.182)
Savings (Capital)					
Exiting the Crown's Contribution to Let's Get Wellington Moving	-	(86.000)	(102.000)	(167.000)	-
Return Funding – Climate Emergency Fund (Capital)	-	(33.333)	(33.333)	(33.334)	-
Total Operating (operating balance)	**(227.743)**	**(1,157.435)**	**(2,505.240)**	**(2,115.188)**	**(1,475.379)**
Total Capital (net debt)	**-**	**(119.333)**	**(135.333)**	**(200.334)**	**-**

* Figure includes changes for 2027/28 only with no outyears implications

** refer to recommendation 69 on irregular outyears

52. note the 2023 Mini Budget package above includes Revenue changes, Appropriation changes, Tagged Contingency reductions, and reversing agreed in-principle funding decisions;

Commercial Buildings Depreciation

53. agree to deny depreciation deductions for commercial and industrial buildings, by changing the depreciation rate to 0%, with application from 1 April 2024;

Bright-line Test Adjustment

54. agree to change the bright-line test to 2 years from 1 July 2024;

55. note this means properties acquired before 1 July 2022 will not be subject to the bright-line test at sale;

56. authorise the Minister of Revenue, after consultation with the Minister of Finance and the Leader of the House, to release an Amendment Paper to the Taxation (Annual Rates for 2023-24, Multinational Tax, and Remedial Matters) Bill that includes the measures in the recommendations 53 and 54 above;

Climate Emergency Response Fund (CERF)

57. agree that, given the Government's commitments relating to issuing a revised draft Government Policy Statement on Land Transport 2024-27 (GPS24), the $500 million operating grant agreed in CAB-23-MIN-0352 can be returned and managed against the Budget 2024 operating allowance;

58. note that no changes to appropriations are required as the operating grant was agreed in-principle only;

59. note that the remaining value of the Climate Emergency Response Fund (CERF) is $1.0 billion, which is forecast with a 90:10 operating to capital split;

60. agree to allocate the available funding of $1.0 billion in the CERF against the Budget 2024 operating allowance and multi-year capital allowances as shown in recommendation 51;

61. agree that the CERF is now closed;

Exiting the Crown's contribution to Let's Get Wellington Moving

62. note that on 7 August 2023, Cabinet agreed in-principle to fund a $2.385 billion Strategic Investment Programme (SIP) as part of decisions on the draft Government Policy Statement on Land Transport 2024-27 (GPS24), which included $525 million operating funding and $355 million capital funding intended for Let's Get Wellington Moving (LGWM);

63. note that because the SIP was only agreed to in-principle, with no funding yet appropriated, no changes to appropriations are required in order to withdraw the SIP funding intended for LGWM;

64. note that returning the funding described above does not, in and of itself, constitute withdrawal from LGWM, and there will be further policy matters for the Minister of Transport to work through with NZTA, Wellington City Council and Greater Wellington Regional Council;

65. note that although this component of the previous draft GPS24 funding package is being returned now, there will likely be additional funding required, as part of upcoming decisions on a new draft of GPS24, to fund signalled land transport priorities;

Resource Management Reforms

66. direct the Ministry for the Environment to report back to the Treasury by the end of January on the funding required in 2023/24 to implement the repeal of the existing legislation and wind down the associated programme, and to carry out work on fast track consenting and other responsibilities under the 100 day plan;

67. note that decisions on the use of unspent funding for the resource management system for 2023/24 will be made through Budget 2024;

68. note that this savings initiative has irregular outyears outside the forecast period;

69. agree that the savings for *Regional Planning Implementation – Delivery Partners in First Tranche Regions MYA* is $10.705 million and *Regional Planning Implementation – Regional Readiness MYA* is $14.757 million in 2028/29 and into outyears;

70. note that Ministry for the Environment is currently part of the Natural Resources Cluster established in the lead up to Budget 2022;

71. note that if further funding is required prior to Budget 2025, a Cluster exception could be sought from the Minister of Finance;

Stop establishment of New Zealand Income Insurance Scheme

72. note that $1.400 million funding associated with the New Zealand Income Insurance Scheme was appropriated to Accident Compensation Corporation (ACC) for 2023/24 and remains unspent;

73. direct officials from the Ministry of Business, Innovation and Employment to work with ACC to return all unspent funding associated with the New Zealand Income Insurance Scheme to the centre;

Main Benefit Indexation to CPI Rather than Wages from 1 April 2024

74. agree that, from 1 April 2024, the rates of main benefits (defined as those currently listed in section 452A of the Social Security Act 2018) be adjusted by inflation based on the annual percentage movement upwards in the Consumer Price Index (CPI) between:

    74.1. the CPI for the quarter ended with 31 December, one year before the immediately preceding 31 December; and

    74.2. the CPI for the quarter ended with the immediately preceding 31 December;

75. agree that, for the purpose of the decision taken in recommendation 74, CPI is defined as the Consumers Price Index (all groups) published by Statistics New Zealand or, if that index ceases to be published, any measure certified by the Government Statistician as being equivalent to that index;

76. agree that if CPI is negative, the rates of main benefits will not reduce;

77. note that changes to the indexation of main benefit rates will have flow-on implications for the Minimum Family Tax Credit threshold;

78. note that the current approach to calculating the Minimum Family Tax Credit ensures sole parents are better off working and receiving the Minimum Family Tax Credit than they would be receiving an abated benefit on an annual basis [CAB-21-MIN-0116.33 refers];

79. agree that the annual amount of the Minimum Family Tax Credit increase from $34,216 to $35,360 (after tax) for the tax year beginning 1 April 2024;

80. agree to amend section ME 1(3) of the Income Tax Act 2007 to reflect decisions taken in recommendation 79;

81. invite the Minister for Social Development and Employment and the Minister of Revenue to issue drafting instructions to the Parliamentary Counsel Office to draft amendments to give effect to the policy decisions in recommendations 74 and 79;

82. authorise the Minister for Social Development and Employment, in consultation with other Ministers as appropriate, to make minor and/or technical policy and administrative changes, including consequential changes, to finalise draft legislation in line with the policy objectives of recommendation 74 and 79;

83. note the fiscal implications of changing Main Benefit Indexation to CPI rather than Wages from 1 April 2024 will have the following fiscal implications, which differs to total appropriation changes in recommendation 86 below:

	$m – increase/(decrease)				
	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears
Operating Balance and Net Debt Impact	14.342	22.007	(119.385)	(246.209)	(347.182)
Net Debt Impact Only	-	-	-	-	-
No Impact	3.227	5.580	(25.165)	(53.218)	(75.017)
Total	**17.569**	**27.587**	**(144.550)**	**(299.427)**	**(422.199)**

Appropriation Changes

84. note the following changes as a result of revenue decisions in recommendations 53 and 54 above with a corresponding impact on the operating balance and net debt;

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Tax Revenue	-	(12.000)	(1,075.000)	(522.000)	(522.000)
Total Operating	**-**	**(12.000)**	**(1,075.000)**	**(522.000)**	**(522.000)**

85. note the appropriation changes for the following Mini Budget initiatives have already been or will be agreed by Cabinet:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Stopping the Clean Car Discount [refer CAB-23-MIN-0471]	(50.000)	-	-	-	-
Unwinding of Budget 2023 Early Childhood Education Extension to Two-year-olds	(83.747)	(271.599)	(272.325)	(274.961)	(278.505)
Total Operating	**(133.747)**	**(271.599)**	**(272.325)**	**(274.961)**	**(278.505)**

86. approve the following changes to appropriations and department capital injections to give effect to the 2023 Mini Budget package in recommendation 51 with a corresponding impact on the operating balance and net debt:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Return Funding – Government Investment in Decarbonising Industry Fund **Vote Business, Science and Innovation** **Minister for Energy** Non-departmental Other Expense Energy and Resources: Accelerating Energy Efficiency and Fuel	-	(101.775)	(214.172)	(191.053)	-

Switching in Industry 2022 - 2027 Energy and Resources: Accelerating Energy Efficiency and Fuel Switching in Industry 2026 – 2030	-	-	-	-	(139.700)*
Ending Free Public Transport for 5-12 Year Olds, and Half-Price Public Transport for 13-24 Year Olds **Vote Transport** **Minister for Transport** Multi-Category Expenses and Capital Expenditure: Community Connect Programme MCA Non-departmental Other Expenses: Community Connect Programme – Public Transport Concessions	-	(65.303)	(65.303)	(67.303)	(67.303)
Stop Work on Lake Onslow **Vote Business, Science and Innovation** **Minister for Energy** Non-departmental Output Expense Energy and Resources: Advice on Viable Energy Storage Projects MYA	(63.650)	-	-	-	-
Stop Establishment of New Zealand Income Insurance Scheme **Vote Labour Market** **Minister for Workplace Relations and Safety** Multi-Category Expenses and Capital Expenditure: Policy Advice and Related Services to Ministers MCA Departmental Output Expenses Policy Advice and Related Services to Ministers – Income Insurance (funded by revenue Crown)	-	(2.047)	(2.047)	(2.047)	(2.047)
Primary Sector Industry Transformation Plans **Vote Agriculture, Biosecurity, Fisheries and Food Safety** **Minister for Oceans and Fisheries** Multi-Category Expenses and Capital Expenditure: Fisheries: Managing the Resource Sustainably MCA Departmental Output Expenses: Fisheries Management (funded by revenue Crown)	(0.550)	(0.580)	(0.630)	-	-

Non-Departmental Output Expenses Fisheries: Grants to Manage Sustainable Use of Fisheries Resources	(0.120)	(1.420)	(1.370)	-	-
Vote Forestry					
Minister for Forestry					
Multi-Category Expenses and Capital Expenditure: Growth and Development of the Forestry Sector MCA					
Departmental Output Expenses: Forestry Policy Advice and Ministerial Servicing (funded by revenue Crown)	-	(1.200)	(1.400)	-	-
Non-Departmental Output Expenses: Forestry: Grants and Partnership Programmes	(1.950)	(8.500)	(6.600)	-	-
Business, Science and Innovation Industry Transformation Plans					
Vote Business, Science and Innovation					
Minister for Economic Development					
Multi-Category Expenses and Capital Expenditure: Economic Development: Industry Transformation Programme MCA					
Department Output Expenses: Development, Delivery, and Management of Industry Transformation Plans (funded by revenue Crown)	(3.391)	(1.500)	(0.100)	(0.100)	(0.779)*
Economic Development: Agritech ITP – Management of the Horticulture Catalyst (funded by revenue Crown)	(1.139)	(2.231)	(2.215)	(2.225)	(2.225)
Non-Departmental Output Expenses: Development, Delivery, and Management of Industry Transformation Plans by Partners	(23.227)	(17.854)	(5.843)	(1.343)	(1.343)*
Economic Development: Agritech ITP – Horticulture Technology Catalyst	(1.161)	(5.614)	(5.785)	(5.923)	(5.923)
Non-Departmental Other Expenses: Delivery of Industry Transformation Actions with Partners	(1.150)	-	-	-	-
Non-Departmental Output Expenses: Economic Development: Industry Transformation Plans	-	-	-	(5.500)	(5.500)*
Minister of Science, Innovation and Technology					

Multi-Category Expenses and Capital Expenditure: Digital Economy & Communications: Digital Technologies Industry Transformation Plan MCA					
Departmental Output Expenses:					
Delivery and Management of Digital Technologies Industry Transformation Plan (funded by revenue Crown)	-	(0.569)	(0.474)	(0.544)	(1.409)
Non-Departmental Other Expenses:					
Delivery and Management of Digital Technologies Industry Transformation Plan by Partners	(8.425)	(9.455)	(3.840)	(1.100)	(1.100)
Centre of Digital Excellence (CODE) Regional Hubs	-	(2.250)	(2.250)	(2.250)	(2.250)
Resource Management Reforms** **Vote Environment** **Minister for the Environment**					
Departmental Output Expense:					
Improving New Zealand's Environment (funded by revenue Crown)	-	(36.202)	(30.417)	(26.674)	(26.674)
Spatial Planning Board (funded by revenue Crown)	-	(12.650)	(18.380)	(18.380)	(18.380)
Non-Departmental Output Expenses:					
Regional Planning Implementation – Delivery Partners in First Tranche Regions MYA	-	(2.845)	(5.211)	(9.975)	(11.480)
Regional Planning Implementation – Non-Government Organisations MYA	-	(0.400)	(0.400)	(1.104)	(1.104)
Regional Planning Implementation - Regional Readiness MYA	-	(3.810)	(14.800)	(14.244)	(14.889)
National Māori Entity	-	(5.200)	(5.150)	(4.738)	(4.738)
Repeal Fair Pay Agreements Regime **Vote Labour Market** **Minister for Workplace Relations Services**					
Departmental Output Expense					
Employment Relations Services (funded by revenue Crown)	(0.655)	(13.211)	(13.246)	(13.246)	(13.246)
Non-departmental Output Expenses:					
Support for Fair Pay Agreements and Screen Industry Bargaining	(0.381)	(0.750)	(0.750)	(0.750)	(0.750)
Employment Relations Authority Members' Salaries and Allowances PLA	(0.539)	(1.811)	(1.811)	(1.811)	(1.811)

Main Benefit Indexation to CPI Rather than Wages from 1 April 2024					
Vote Social Development					
Minister for Social Development and Employment					
Benefits or Related Expenses					
Childcare Assistance	-	-	0.001	-	-
Disability Assistance	-	-	-	(0.003)	0.001
Hardship Assistance	(0.106)	(0.203)	0.574	0.008	(1.717)
Jobseeker Support and Emergency Benefit	8.707	15.382	(68.624)	(143.935)	(201.500)
Sole Parent Support	4.622	7.911	(35.639)	(75.446)	(106.325)
Supported Living Payment	5.232	8.790	(40.171)	(85.714)	(121.920)
Winter Energy Payment	-	(0.008)	(0.041)	(0.086)	(0.118)
Youth Payment and Young Parent Payment	0.142	0.260	(1.162)	(2.558)	(3.716)
Minister of Housing					
Benefits or Related Expenses					
Accommodation Assistance	(1.010)	(3.213)	0.886	4.846	6.010
Vote Housing and Urban development					
Minister of Housing					
Multi-Category Expenses and Capital Expenditure:					
Public Housing MCA					
Non-Departmental Output Expense:					
Purchase of Public Housing Provision	(0.018)	(1.632)	0.926	6.161	10.286
Vote Revenue					
Minister of Revenue					
Benefits or Related Expenses					
Minimum Family Tax Credit PLA	-	0.300	(1.300)	(2.700)	(3.200)
Total Operating	**(88.769)**	**(269.590)**	**(546.746)**	**(669.737)**	**(744.850)**

* Changes for 2027/28 only – no outyears impact

** refer to recommendation 69 on irregular outyears

87. agree that the proposed changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and in the interim the increase be met from Imprest Supply;

88. agree that any underspends remaining in the 2023/24 financial year for initiatives agreed as savings will be returned to the centre after the confirmation of the final 2023/24 audited results;

89. agree to savings from the operating contingencies detailed below to give effect to savings initiatives included in the 2023 Mini Budget package in recommendation 51;

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Primary Sector Industry Transformation Plans Food and Beverage Industry Transformation Plan Tagged Operating Contingency	(2.000)	(2.000)	(1.000)	-	-
Resource Management Reforms Resource Management Reform Implementation Tagged Operating Contingency	-	-	(3.669)	(5.041)	(5.041)
Total Operating	**(2.000)**	**(2.000)**	**(4.669)**	**(5.041)**	**(5.041)**

90. note that, following the adjustment(s) detailed in recommendation 89 above, the tagged contingencies above are now exhausted and therefore closed.

91. authorise Joint Ministers (relevant appropriation Minister and the Minister of Finance) to approve jointly any technical adjustments to baselines necessary to remove any errors or inconsistencies identified while finalising the 2023/24 Supplementary Estimates, the 2024/25 Estimates and the fiscal forecasts; and

Fiscal Management

92. agree that the net fiscal impact of the Mini Budget package described in recommendation 51 be managed against the Budget 2024 operating allowance and the multi-year capital allowance.

Hon Nicola Willis

Minister of Finance