

The Treasury

Budget 2024 Information Release

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Office of the Minister of Finance

Chair, Cabinet Expenditure and Regulatory Review Committee

Budget 2024 Update

Proposal

1. This paper provides the Cabinet Expenditure and Regulatory Review Committee with an update on Budget 2024, ahead of Budget Ministers meeting to make final decisions on the Budget 2024 package on 10 April, for recommendation to Cabinet for approval on 29 April.

Executive Summary

2. The Budget 2024 package that is being prepared by Budget Ministers will deliver on our high priority commitments (including tax), fund crucial capital investments, and deliver enduring savings. Forming a Budget 2024 package has required trade-offs and we must consider that this is the first of our three Budgets through which we will deliver on our coalition Government commitments.
3. The draft Budget 2024 package includes funding for our high-priority Government policy commitments, as well as urgent cost pressures that cannot be funded through reprioritisation. The most substantial new spending area is our tax package, which will deliver meaningful tax reductions to relieve cost of living pressures. Critical frontline services including Health, Education, Corrections, Police, Disability Services and Oranga Tamariki will also see increases in funding. Capital investments focus on key priority areas, critical cost escalations, and asset maintenance, renewals, and upgrades.
4. Our commitment to find enduring savings across Government departments and agencies will be met, improving public services by shifting spending to higher-value areas and focusing on results.
5. Budget Ministers will meet to make final outstanding decisions on the Budget package on 10 April, to recommend to Cabinet for their approval on 29 April. Portfolio Ministers will be informed of decisions on relevant initiatives through letters from the Minister of Finance shortly.

Fiscal Context for Budget 2024

6. I have received Treasury's preliminary fiscal forecasts, which indicate that, as expected, the economic and fiscal outlook has deteriorated since the Half Year Economic and Fiscal Update (Half Year Update) in December 2023. While inflation is easing quicker than expected, it remains above the Reserve Bank's target band. High inflation and higher interest rates are slowing growth, leading to a weaker economic outlook.

7. According to current forecasts, which do not yet factor in individual policy decisions we will take at Budget 2024, deficits reduce across the forecast period, narrowing to \$0.7 billion by 2027/28. At the end of the forecast period, net core Crown debt is expected to be just over 41% of GDP, compared to a forecast 43% of GDP in 2023/24.
8. These forecasts are preliminary, and there are a number of risks, including economic, that could have a further negative impact. Final Treasury Budget forecasts (that will be released on Budget Day on 30 May) will be influenced by our Budget 2024 decisions, including the operating allowances we set for Budgets 2025-2027.
9. The 2024 Budget Policy Statement announced the decision to change the headline net debt indicator back to the 2009 definition of net core Crown debt. We have also communicated our intention to put net core Crown debt on a downward trajectory towards 40%, and then to maintain this level within a range of 20% – 40%.
10. We must remember that this is the first of our three Budgets through which to deliver on our Coalition Government commitments. Our focus for Budget 2024 must be on restoring fiscal discipline, which through reduced spending will ease inflation and support our objective to address the rising cost of living.

Budget 2024 Package

New Spending

11. The draft Budget 2024 package delivers on our priorities for Budget 2024, including providing further funding for frontline services including Health, Education, and law and order. Savings have been identified to allow space in allowances to fund new commitments, some at a scaled level to allow work to begin. Others require further policy work and will be considered for funding in our next two Budgets.
12. The most significant Government Policy Commitments in the Budget 2024 package are those relating to tax. The current package is broadly consistent with that set out in the National Tax plan, with personal income tax changes included. Family Boost and interest deductibility are also included with minor revisions. Consistent with the National/NZ First coalition agreement, the Budget 2024 package includes funding for Inland Revenue's compliance and audit function so it can intensify its efforts to ensure individuals are paying the correct amount of tax.
13. The Budget 2024 package also delivers on our commitment to increase Health funding, with cost pressures provided at an amount in line with National's fiscal plan. We have also met our commitment to address the time-limited funding for Pharmac, providing \$1.774b across the forecast period to continue access to currently funded medicines (CAB-24-MIN-0064 refers). This represents a greater uplift than the \$724m outlined in National and Labour's pre-election fiscal plans for Pharmac cost pressures.
14. Law and order is an investment priority at Budget 2024, with a net increase to funding for Corrections, funding for the Government's stronger sentencing commitments and capital investment for an 810 bed expansion to Waikeria Prison. Police will also see an increase in funding and we will deliver on our commitment to increase the number

of frontline Police staff. The New Zealand Defence Force will see a net increase in funding also, including to address key cost pressures.

15. Education will also see significant investment and a net increase in funding, supporting our new initiatives to meet our Government policy commitments, and providing vital cost pressure support. We have provided funding uplifts for operating grants for schools, the Early Childhood Education sector, and Tertiary Education.
16. Through a pre-commitment against the Budget 2024 package, extra funding has been provided to Whaikaha to ensure they do not go unappropriated in the current year, and significant cost pressure funding will be included in the Budget 2024 package. There are ongoing challenges with demand growth exceeding funding in this area, which will require future consideration by Cabinet.
17. At the Budget Policy Statement I announced an increase to the Multi-Year Capital Allowance of up to \$7 billion, on top of the current \$3.45 billion balance. As this is a multi-year allowance, not all will be allocated at Budget 2024. The capital package focuses on funding key Government priority areas and critical asset maintenance, renewals and upgrades.

Cost Pressures

18. All agencies invited to submit cost pressures at Budget 2024 will receive funding, albeit scaled in most instances. For capital investments, the Budget 2024 package includes funding or partial funding for initiatives that are facing significant cost pressures and will either be delayed or risk asset failure if not funded.

Savings

19. The draft Budget 2024 package includes enduring savings across Government departments and agencies, improving public services by shifting spending to higher-value areas and focusing on results. Part of the Budget 2024 process has been considering the comparative merits and risks of savings, and making judgements on policy changes to realign spending with the Government's priorities. This means that the level of savings varies between agencies.
20. Savings include those from baselines, targeted savings invited from agencies, further savings identified during the Budget 2024 process, savings from the closure of tagged contingencies, and reprioritisation of capital investments. These savings have allowed more Government policy commitments to be included in the Budget 2024 package, whilst remaining within allowances. Initial Rapid Reviews have also been conducted for five agencies to provide extra assurance on baseline savings and identify any further savings opportunities. In addition, Minister Seymour and I have worked with the Treasury to review a further nine agencies for additional savings opportunities.
21. The savings in the Budget 2024 package indicate a reduction in spending on consultants and contractors, and reduced staff in agencies in 2024/25. However, this is offset by increases in frontline staff, particularly in Health, Corrections and Police, in line with our commitments.

22. This reflects the first stage of the Fiscal Sustainability Programme, and Ministers will need to continue to develop savings opportunities within their portfolios beyond Budget 2024.
23. I have considered the risks highlighted by agencies on savings initiatives, but the information available to me has been partial. All portfolio Ministers will need to consider carefully how agreed savings are implemented. I also expect Ministers to be working with their agencies to prepare plans to manage and engage with their stakeholders to support Budget Day announcements.

Process for Developing the Budget 2024 Package

24. On 11 December 2023 (CAB-23-MIN-0490 refers) Cabinet agreed the strategy for Budget 2024. This included agreeing to a top-down invitation-only process for urgent and non-discretionary cost pressures for core public services and time critical Government policy commitments; with the remainder sequenced over this term.
25. Cabinet directed all agencies (except the Offices of Parliament) to provide proposals for baseline savings of either 6.5% or 7.5% and for a number of specific agencies to put forward further significant targeted policy savings and/or revenue options. It was agreed by Cabinet that non-departmental spending on education, health and disabilities was not in scope for baseline reduction targets and agencies may use identified savings from relevant areas for reprioritisation. Cabinet also agreed to conduct a review of the capital investment pipeline.
26. Budget Ministers (the Prime Minister, Minister of Finance, and Associate Ministers of Finance Hon David Seymour, Hon Shane Jones and Hon Chris Bishop) have received advice from the Treasury on the initiatives submitted and I have met with a number of portfolio Ministers to discuss their proposed initiatives, priority Government policy commitments and savings options. Not all savings proposals will be progressed.
27. Budget Ministers have met five times to discuss which initiatives to include in the Budget 2024 package. Budget Ministers met yesterday (8 April) and will meet tomorrow (10 April) to make final decisions on the Budget package to recommend for Cabinet's approval on 29 April.

Next Steps

28. Budget Ministers will meet to make final decisions on the Budget 2024 package on 10 April. Portfolio Ministers will receive a letter from the Minister of Finance confirming the decisions related to their portfolio. This is for the portfolio Ministers benefit, and decisions should not be shared further.
29. Cabinet on 29 April will formally agree the Budget 2024 package. Portfolio Ministers are responsible for any related Cabinet papers supporting Budget 2024 decisions. After this, the Budget Moratorium is in effect, and no decisions with fiscal implications can be taken until after Budget Day on 30 May.

Legislative Implications

30. Budget Ministers will meet to make final decisions on the Budget 2024 package on 10 April, allowing agencies to finalise their Estimates, key documents setting out the

proposed Budget 2024 spending. In turn, that allows the Treasury to finalise and provide them to the Parliamentary Counsel Office so that the Budget legislation can be prepared (which must reference the Estimates).

31. The Budget 2024 package will be brought to Cabinet on 29 April for agreement, and will set out any additional legislative implications, and set out associated Budget night legislation.

Regulatory Impact Statement

32. The Budget 2024 package will be brought to Cabinet on 29 April for agreement, and the Cabinet paper will set out relevant implications.

Climate Implications of Policy Assessment

33. The Budget 2024 package will be brought to Cabinet on 29 April for agreement, and the Cabinet paper will set out relevant climate implications, including emissions data.

Population Implications

34. The Budget 2024 package will be brought to Cabinet on 29 April for agreement, and the Cabinet paper will set out relevant implications.

Human Rights

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

Consultation

36. 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

37. The Office of the Minister of Finance will lead coordination of all public communications relating to the Budget. No public communications should be made in regard to Budget 2024 initiatives (which remain Budget Sensitive) nor any announcements with fiscal implications, without consulting with the Office of the Minister of Finance.

Proactive Release

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

Recommendations

The Minister of Finance recommends that the Cabinet Expenditure and Regulatory Review Committee;

1. **note** that the fiscal outlook has deteriorated since the Half Year Update in December 2023, and OBEGAL is no longer expected to return to a surplus in the forecast period to 2027/28, based on the preliminary fiscal forecasts.
2. **note** that the draft Budget 2024 package delivers on key Government policy commitments, including on tax, and includes funding for a number of urgent cost pressures and priority capital investments.
3. **note** that savings have been included in the Budget 2024 package from baselines savings, targeted savings as identified by Cabinet on 11 December 2023, the closure of tagged contingencies, and further savings identified subsequently.
4. **note** that Portfolio Ministers will be informed of Budget Ministers' decisions on the Budget 2024 package by a letter from the Minister of Finance.
5. **note** that the Office of the Minister of Finance will lead the coordination of all public communications relating to the Budget, and no announcements should be made without consulting the Office of the Minister of Finance.

Hon Nicola Willis

Minister of Finance