The Treasury

Budget 2024 Information Release

September 2024

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[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Delivering Headroom and Allocating Baseline Reductions

Date:	05/12/2023	**Report No:**	T2023/1996
		File Number:	BM-2-15-3-4-8

Action sought

	Action sought	Deadline
Minister of Finance (Hon Nicola Willis)	Provide feedback on the recommended approach to baseline reductions	06/12/2023

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Angus Gibson	Senior Analyst, Spending Review	[39]	N/A (mob)	
Awhi Fleming	Manager, Spending Review		N/A (mob)	✓

Minister's Office Actions

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: **Yes -** *Annex C: Composition of Government Spending*

Executive Summary

Significant savings must be found to achieve the Government's fiscal strategy and deliver its commitments, including the coalition agreements. In addition, with very tight new spending allowances across Budget 2024 to Budget 2026, savings will be required to help meet critical cost pressures and other demands that arise in future budgets.

We estimate that, depending on your choices on new spending (including cost pressures and time-limited funding), additional fiscal headroom of $3 – 4bn per year is required for Budget 2024.

Delivering this quantum of expenditure savings will require tough trade-offs and concerted effort from all ministers and all public sector agencies. We recommend you use all available tools to generate headroom, including constraining new spending and other pressures, raising revenue, and progressing expenditure savings options such as targeted changes to policy settings, stopping programmes and across-the-board reductions in baselines. You also have the option of phasing the Government's spending commitments across the parliamentary term to help support achieving the Government's fiscal strategy.

This report provides advice on the implementation of an across-the-board baseline reduction, including allocating savings targets across agencies.

Baseline reduction

Baseline reductions are effective at delivering significant savings when applied broadly across public spending. They are a blunt tool – targets are often set without visibility of how savings will be achieved and the trade-offs that are made. In general, because of the nature of public expenditure, agencies' business models and their funding, some areas will be more able to deliver efficiencies while others will need to progress changes to policy settings or reduce the quantity or quality of service. The impacts are therefore uneven. To help mitigate risks and provide transparency to decision-makers, the design of any baseline reduction process is critical, for example to ensuring visibility of savings plans and trade-offs before implementation.

Baseline reduction design

Based on discussions with you to date, the baseline reduction proposed combines the ~$500 million p.a. ongoing baseline reduction (already reflected in PREFU 2023), the $594 million p.a. ongoing efficiency dividend and the $400 million p.a. ongoing reduction to consultant and contractor spending and applies a single methodology to determine the allocation.

We have developed the following baseline reduction design for your consideration:

- **Type of spend in scope**: we recommend all operating spend is included in scope.
- **Agencies in scope:** we recommend all agencies are in scope, with exceptions for Offices of Parliament. Non-departmental health, disability and education spend are in scope of the exercise but subject to reprioritisation targets, not savings.
- **Specific exclusions**: we recommend excluding specific non-discretionary spend areas.
- **Percentage target**: we recommend giving agencies a consistent percentage savings target on their eligible base, with flexibility to adjust final allocations during the Budget decision making process.
- **Base year for calculations**: we recommend calculating savings targets on the average baseline spend across the forecast period.

The recommended design results in an indicative eligible spending base of 15.4% ($24.7bn) of average departmental and non-departmental operating spend between 24/25 and 27/28.

Setting the target

We recommend agencies are set savings *targets* upfront, but Budget Ministers retain the right to adjust final *allocations* later so that savings from agencies can go up or down. For this same reason, we recommend a buffer is built into the aggregate savings amount targeted.

To demonstrate the indicative savings allocations from agencies, we provide scenarios in this report of 5-16% applied to the eligible base. Our view is that savings are more deliverable at the lower ranges of scenarios. We do not recommend targeting a greater level of savings, given the challenges with delivering these in the time available. However, to meet the estimated $3-4bn per annum headroom, further savings/revenue options will need to be progressed.

We recommend setting the upfront savings target at 8.1% so that you realise a minimum of $1.5bn per annum (noting 8.1% will give you options of up to $2bn). Given a baseline reduction of this size will not deliver the fiscal headroom in full, we recommend that you also commission the ten largest agencies to submit further significant targeted policy savings and/or revenue options.

Delivering fiscal headroom of this magnitude will require ministerial and Cabinet commitment to make tough choices, including on public programmes and services. It will also take time for agencies to implement savings; for example, due to legislative or change management process.

Implementation and process

You and fellow Budget Ministers will make final decisions on savings that feed into Budget 2024. To support your choices on how savings from the baseline reduction will be delivered and make any required policy decisions, we propose:

- Setting clear expectations and targets early for Ministers, agency Chief Executives and Crown entities along with detailed rules, guidance and templates for implementing the baseline reduction.

- During the process, which we propose is part of the Budget 2024 initial baseline exercise, Treasury will support agencies to assist and assess implementation of the baseline reduction and can provide regular reporting to you on progress. Treasury can also provide support to portfolio Ministers to assist them in engaging with their agencies. We can also facilitate Challenge Panels, including potential external review, to provide deeper scrutiny of proposals from agencies, if you have concerns.

- Finally, we will scrutinise all submitted proposals and report to you. You and Budget Ministers can then make decisions on final allocations and implementation of savings plans, including making further changes to agency allocations and proposals. The PSC can also play a pivotal role, including monitoring the reduction in contractor and consultant spend.

Recommended Action

We recommend that you:

a **note** that government expenditure has increased significantly over recent years and efficiencies and realignment of expenditure can be found

b **note** additional fiscal headroom is needed to support your policy objectives and you have tools available to achieve this c **note** that we suggest using all available tools to achieve the estimated fiscal headroom of $3 – 4bn and we have provided separate advice on choices for constraining new spending, revenue raisers and targeted policy savings (T2023/1953)

d **note** that baseline reductions can be an effective but blunt means of decreasing expenditure, and care is needed in designing and delivery of baseline reductions to manage negative impacts on public services

e **agree** to set the indicative upfront target at 8.1% (giving you options up to $2bn) so that you realise a minimum of $1.5bn of savings through baseline reductions

Agree/Disagree

f **agree** to request that the ten largest spending agencies submit significant targeted policy savings and/or revenue raising options to help achieve the remainder of the fiscal headroom required at Budget 2024

Agree/Disagree

Design of the baseline reduction

g **note** our proposed principles for designing a baseline reduction are:

- keep the scope as broad as possible
- keep percentage savings targets low
- give maximum flexibility for Ministers and agencies to propose where savings are made, and flexibility for Budget Ministers to approve final proposals

h **agree,** subject to specific exclusions in recommendations i-k, all agencies are in scope of the baseline reduction

Agree/Disagree

i **agree** that the Offices of Parliament are excluded from scope given their separate budget process

Agree/Disagree

j **note** that we have provided separate advice (T2023/1953) on the inclusion of the Justice and Natural Resource clusters in the Budget 2024 process, which has implications for their baseline savings requirements

k **agree**, if you agree to include the Justice cluster in scope, to give Justice Cluster Ministers and agencies flexibility to meet a combined sector target, with the ability to vary their individual agency targets

Agree/Disagree

l **agree**, subject to the exclusions below in recommendations m-n, to apply the baseline reduction to departmental and non-departmental operating spending

Agree/Disagree

m **agree** to separate reprioritisation targets for non-departmental health, disability and education spending, with an assumption that savings are reprioritised to frontline services rather than returned to the centre

Agree/Disagree

n agree to exclude the following spend areas from scope of the eligible baseline reduction base:

Cross cutting:

- Benefits or Related Expenses
- Departmental 3rd party revenue
- Departmental revenue from other departments/State Owned Enterprises/Crown entities
- Finance costs
- Permanent Legislative Authorities
- Depreciation
- Capital charge

Agency specific:

- Issuing NZ units under the Emissions Trading Scheme
- Write-downs and impairment of Student Loans
- Historic Treaty settlement Multi Year Appropriation (MYA)
- Employer General Super fund tax contributions
- Income Related Rent Subsidy
- ACC non-earners account
- LINZ Proceeds from Sale of Waka Kotahi NZ Transport Agency Properties
- Bad debt costs over a materiality threshold
- PSC Chief Executive remuneration costs

Agree/Disagree

o **agree** that agencies can still propose savings from areas that were excluded from the calculation process

p **agree** that agencies are set a consistent percentage reduction target upfront, to be applied to their proposed eligible scope

Agree/Disagree

q **note** that, should you wish to vary the percentage target applied to agencies' eligible scope upfront, we recommend doing so on the basis of agency baseline size

r **agree** that calculations of eligible baselines are the average across the forecast period (2024/25 to 2027/28)

Agree/Disagree

s [1]

Agree/Disagree

t **agree** that agencies can include revenue raising options to meet their savings target subject to guidance to ensure that agencies offer genuinely achievable savings

Agree/Disagree

Application of savings to non-departmental organisations

u **note** the proposal to include in scope all departmental funding and funding made through departments to Crown entities, state-owned enterprises and other third parties (non-departmental spending) for operational activities

v **note** that it is for responsible ministers and agencies to propose how best to apply those savings across organisations

w **agree** to write to crown entities, Public Finance Act 1989 Schedule 4A companies and state-owned enterprises boards outlining at a high-level the fiscal strategy, fiscal discipline measures and Budget 2024 priorities

Agree/Disagree

x **agree** to share with portfolio Ministers a draft letter which they can tailor and send to their Crown entity, Public Finance Act 1989 Schedule 4A companies and state-owned enterprises boards, on the initial baseline exercise

Agree/Disagree

Assurance Process

y **provide feedback** on the proposed approach to the assurance process

Seeking Cabinet Approval

z **agree** to seek Cabinet approval on the baseline savings process and design principles, and defer authority to Budget Ministers to confirm final agency targets

Agree/Disagree

Awhi Fleming
Manager, Spending Reviews

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Purpose of report

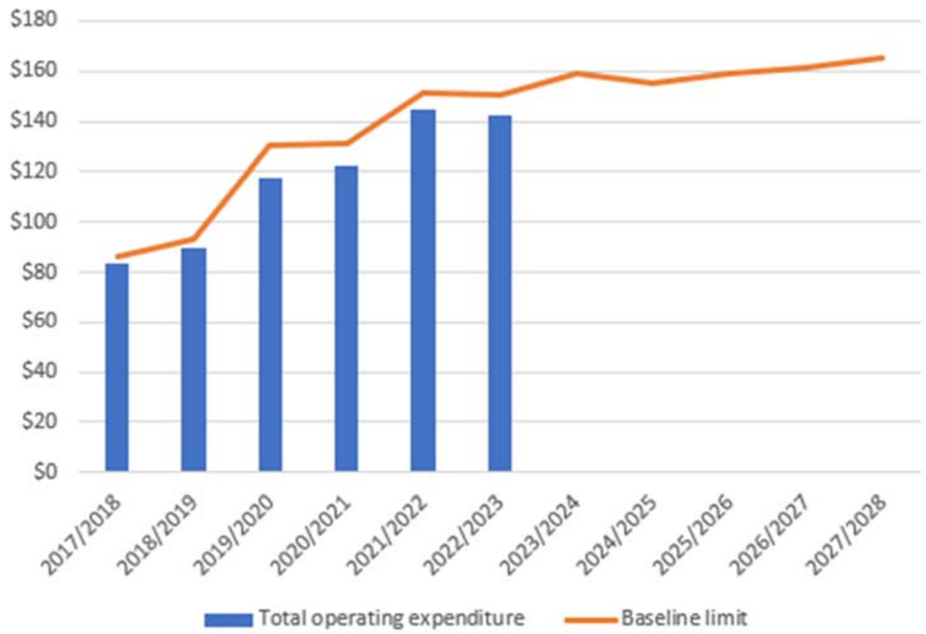
1. This report provides advice on the design of a baseline reduction, allocating savings across agencies and the associated assurance process delivered as part of the Budget 2024 initial baseline exercise. It is part of a suite of advice to support your decisions on the Government's 100-day plan and fiscal strategy, including the approach to Budget 2024.

Context - Government expenditure trends

2. Government operating expenditure has increased significantly over recent years. In the six years to the end of the 2022/23 financial year, across all operating expense types (departmental and non-departmental), expenditure grew at an average rate of around 12% per year.

3. The graph below shows total operating expenditure from 2017/18 to 2022/23 and operating baseline limit forecasts to 2027/28.

Total operating expenditure from 2017/18 to 2027/28, actuals and baseline limits



4. Operating expenditure over the period has grown for a number of reasons, including as a result of cost pressures, policy decisions by the previous Government, and economic and demographic factors such as growth in beneficiaries and finance costs. The top areas of increased spend over this time, as a percentage of GDP, were 'Social Security and Welfare' and Health spend. Lower allowances and the decline of time limited funding explains why baseline appropriation limits increase more slowly over the forecast period compared with the previous six years.

5. There is variation in growth across spend types and agencies. The majority of the growth in operating spend over the past six years is attributable to non-departmental operating spend, as seen in the graph below.

Total expenditure from 2017/18 to 2022/23 by expenditure type

6. As above, non-departmental spend, including capital, has grown by 103% since 2017/18. Non-departmental operating spend has grown by 87% in this time, while departmental operating has increased by 40% and Benefits or Related Expenses (BOREs) by 35%.

7. This historic expenditure growth implies capacity to reduce operating spend through tools such as baseline reductions. It also suggests scope for improvements to value for money, performance, and realignment of spend towards new government priorities.

8. We will provide further advice on growth spend, and its causes, at an agency level during the Budget process to support decision making on final savings allocations. For further information on the composition of Government spend see Annex C attached to this report.

Strategy for delivering headroom and feasibility of the baseline reduction

9. You have several tools available to generate the additional fiscal headroom needed, including constraining new spending; increasing revenue; and decreasing expenditure, through targeted policy savings and/or baseline reductions.

10. Which tools to deploy and when depend on:

- The quantum of fiscal headroom required - what is needed to achieve both your policy objectives and your fiscal strategy

- The time available to deliver - when decisions need to be taken and the timing for how decisions are executed.

11. Our Budget 2024 strategy report (T2023/1953) provides an indication of the quantum required and timing. This is summarised in the table below:

Type	Purpose	Quantum (per annum)	Timing of decision
1) PREFU baseline savings	To help achieve fiscal strategy	$500 million	Based on the number the previous Government booked at PREFU 2023
2) Baseline reduction	To help offset the cost of tax plans, achieve the fiscal strategy and supplement Budget allowances to fund the Government's policy commitments and critical cost pressures	$1 billion	Based on the "bureaucracy savings" and "contractor savings"[1] in National's Fiscal Plan
3) Headroom savings		$1 – 2 billion	Based on our current estimate of cost pressures, time-limited funding, and Government policy commitments needed for Budget 2024. Your decisions on scaling or phasing of these would change this number.
4) Savings buffer	To enable Ministers to impose higher or lower savings on different agencies so that there are greater choices on where to find savings	~$500 million	In the 2011 efficiency savings process, there was a buffer of approximately 20% ($50 million per annum). We suggest for Budget 2024 that the buffer is a lower proportion but still at a level that provides Ministers with options.
	TOTAL	$3 – 4 billion (*subject to change*)	

2. We note that the above quantum remains subject to change. The analysis in this report is based on an indicative range of possible savings scenarios, informed by the totals in the table above.

Feasibility of the baseline reduction

12. Based on the proposed eligible base, the required savings are:

- 5% to deliver **$1.2bn**
- 6.1% to deliver **$1.5bn**
- 8.1% to deliver **$2bn**
- 16.2% to deliver **$4bn.**

13. The percentages above relate to our proposed design of the eligible base, see the design section below for further detail. The higher the savings needed, the more difficult it will be to deliver with the trade-offs required. The timeframe has an impact too – a longer timeframe enables changes to more complex policy settings to deliver significant savings.

[1] Our approach to include "contractor savings" within a single baseline reduction target is consistent with the advice provided to you by the Public Service Commission for implementing contractor and consultant savings (PSC report 2023-0291 of 27 November 2023 refers).

14. Our advice therefore would be to make up the $3 – 4 billion per annum fiscal headroom needed through a combination of targeted policy savings, revenue raisers, scaling and phasing any new spending (including cost pressures) to live within tight allowances, and a baseline reduction.

15. Our recommendation on the baseline reduction would be to set the upfront allocations at an ambitious yet achievable rate, then make adjustments through the assurance process. Our judgement is that savings in the range of $1.5 – 2 billion (6.1 - 8.1%) across the eligible base could be requested upfront.

16. Setting the quantum for the baseline reduction is not an exact process – it is a judgment call. Our recommendation is informed by:

- The overall headroom needed, and alternative options (targeted policy savings, revenue raisers and adjustments to allowances)

- Total Government operating spend has increased at an average rate of 12% over six years, alongside a CPI increase rate of around 3.5%. Public service FTE has grown at an average rate of around 5.6% over this period

- We have looked at what is possible overseas and in the past. Canada, in their 2023 Budget, announced a baseline reduction of about 3%. In New Zealand, the previous 'efficiency dividend' exercise undertaken in 2011, identified $300m (3% to 6% of the identified eligible base). Following the Global Financial Crisis, an IMF review of Efficiency Dividends cited 3% as the most common target.[2]

17. These indicators are limited in determining the feasibility of baseline savings, but the process you run will flush out trade-offs between agencies. We know that baseline reductions will have an uneven impact across agencies. This may be due to absorbing existing cost pressures or new responsibilities, the presence of non-discretionary spend limiting options, or rules and guidance that also limit savings options. There are various indicators of whether certain agencies might find it difficult to find sufficient savings. These indicators include declining outyear baselines, agencies that have not had a significant uplift in recent years, or agencies with a history of low appropriation underspends.

Indicative target for agencies

18. We recommend setting the indicative upfront target at 8.1% so that you realise a minimum of $1.5 billion. Note, seeking 8.1% of savings will give you options that achieve up to $2 billion, which includes $500 million of buffer to provide you with flexibility to determine the final allocation of savings across agencies, with the intention that $1.5 billion of savings are taken forward. Given this, we recommend that you also commission:

    a. The ten largest spending agencies[3] to submit at least five significant (e.g. options above $200 million over the forecast period) targeted policy savings or revenue options. For example, this could include a commission to Ministry of Social Development (and Inland Revenue) on welfare transfers options. We have provided separate advice on targeted policy savings and revenue raising options, which could form the basis of more specific commissioning (for example, on the Waste Levy).

    b. Inland Revenue and Treasury to jointly advise you on revenue raising options as part of setting the Tax Policy Work Programme.

[2] https://blog-pfm.imf.org/en/pfmblog/2009/12/efficiency-dividends-what-is-the-magic-number
[3] Ministry of Social Development, Ministry of Health, Ministry of Education, Inland Revenue, The Treasury, Ministry of Business, Innovation and Employment, Ministry of Transport, New Zealand Defence Force, Ministry of Housing and Urban Development, Ministry for the Environment

19. Together, this across-the-board baseline reduction of 8.1%, targeted policy savings and revenue raisers, along with phasing of spending and changes to allowances, should provide sufficient flexibility for you to make trade-offs and reach the $3 – 4 billion p.a. of fiscal headroom required.

Recommended baseline reduction design

General approach to baseline reductions

20. Baseline reductions can be an effective means of decreasing expenditure, as they:

- enable all Ministers and their agencies to contribute to fiscal objectives
- send strong signals and help to embed fiscal discipline
- enable decisions while operating with information asymmetry – by setting a target and providing flexibility, Ministers and agencies can make decisions about where best to make savings. There are likely to be choices to attain both *technical efficiency* (the production of outputs) and *allocative efficiency* (the impact attained from outputs).

21. Baseline reductions are effective when applied broadly across public spending. However, the broad nature of their application can also be blunt, with limited ability to consider upfront how agencies will absorb reductions or mitigate broader impacts. As a tool, it relies on Ministers and departmental chief executives to make savings decisions that enables a shift to higher priority and higher value activities.

22. Delivering fiscal headroom of this magnitude will require ministerial and Cabinet commitment to make tough choices, including on public programmes and services. It will also take time for agencies to implement savings; for example, due to legislative or change management process.

23. To inform the design of the baseline reduction, we propose the following principles:

- keep the scope as broad as possible
- keep percentage savings targets low
- give maximum flexibility for Ministers and agencies to determine savings proposals.

24. The following section of this report focuses on designing and allocating these savings across agencies. The design is informed by your commitments in the National policy proposal and Coalition agreement.

Proposed design

25. As discussed with you in recent meetings, we have combined the different savings components into a single target and propose the following design be used to calculate agency targets (including recalculation of the PREFU targets), consistent with our design principles:

- **Type of spend in scope**: we recommend all departmental and non-departmental operating spend be included in scope, and capital is excluded from scope.
- **Agencies in scope**: we recommend all agencies are in scope, with exceptions for Offices of Parliament. Non-departmental health, disability and education spend are in scope of the exercise but subject to reprioritisation targets not savings.
- **Specific exclusions**: we recommend excluding specific non-discretionary or unsuitable spend areas.
- **Percentage target**: we recommend a single percentage savings target applied to agencies' eligible base.
- **Base year for calculations**: we recommend savings targets are based on the average baseline spend across the forecast period.

26. A full list of assumptions underpinning our recommended design is in **Annex A**. After removing proposed exclusions, the recommended design results in an eligible spending base of **15.4% ($24.7bn**) of average total departmental and non-departmental operating spend between 2024/25 and 2027/28 (see below table and chart). Based on the proposed eligible base, the required savings are as follows. These are broadly based on the quantum of savings identified in paragraph 11 and includes the existing 1-2% savings commitment.

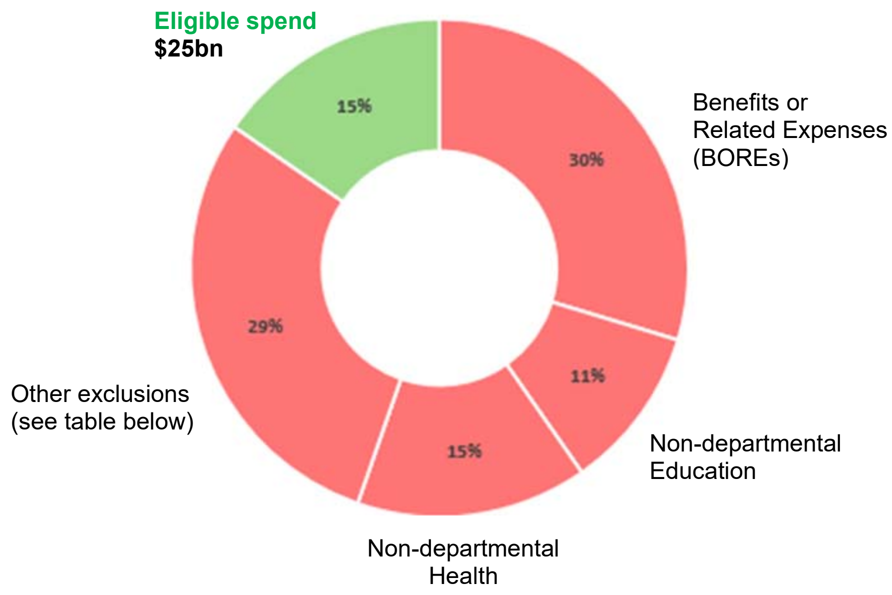
    - 5% to deliver **$1.2bn**
    - 6.1% to deliver **$1.5bn**
    - 8.1% to deliver **$2bn**
    - 16.2% to deliver **$4bn.**

27. If you decide further targeted policy savings from baselines as part of the Mini Budget, we can update the eligible base and corresponding quantum of savings required. This is the same approach applied to the 1 - 2% exercise, where the eligible base for respective agencies were adjusted to reflect rapid savings from their baselines.

28. We recommend that agencies can still find savings attributable to spend areas excluded from the calculation process, for example savings could come from Benefit or Related Expense savings.

29. For more detail on how savings are allocated across agencies using these design parameters, and the savings targets under an alternative design, see **Annex B**.

Average departmental and non-departmental operating spend across forecast period:



	$m	%
Average departmental and non-departmental operating spend across forecast period	**160,422**	**100.00%**
Benefits or Related Expenses	(47,589)	(29.7%)
Non-departmental Health	(24,094)	(15.0%)
Non-departmental Education	(17,081)	(10.6%)
Non-departmental disability	(2,214)	(1.4%)
Permanent Legislative Authority	(26,594)	(16.6%)
Other Specific Exclusions[4]	(12,143)	(6.2%)
Depreciation and Amortisation	(3,094)	(1.9%)
Capital Charge	(2,857)	(1.8%)
3rd Party Revenue Offset	(1,531)	(1.0%)
Dept Revenue Offset	(276)	(0.2%)
Finance Costs	(250)	(0.2%)
Employer Super tax	(88)	(0.06%)
Controller and Auditor-General	(66)	(0.04%)
Office of the Ombudsman	(45)	(0.03%)
Parliamentary Commissioner for the Environment	(4)	(0.002%)
Eligible spend	24,709	15.40%

Spending and agencies in scope

30. We understand that your intention is to target efficiencies while protecting service performance. We consider that this can best be achieved by seeking savings beyond departmental output expenses from the 24 agencies.

[4] Of which the ACC non-earners account accounts for the highest amount, $2.5bn. See Annex A for further information.

31. There are four principal reasons for including all departmental and non-departmental operating expenditure and a broader number of agencies:

- **Feasibility**: Delivering the required savings from departmental funding from 24 agencies only will place a significant burden on a smaller number of agencies.

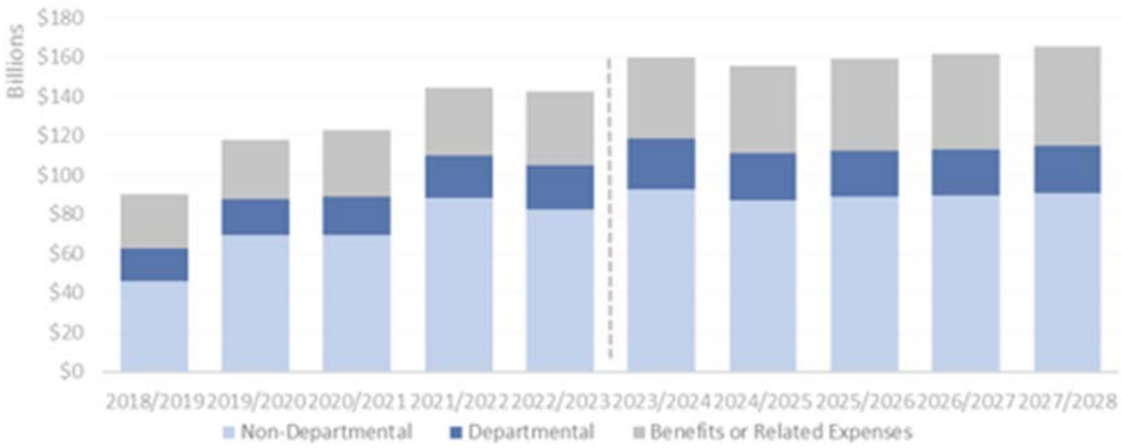
  Departmental expense appropriations account for only 15% of total forecast Government spending.[5] Over $8 billion of the $24.7 billion eligible spend would be removed if excluding the agencies identified in the National policy proposal (on top of other specific exclusions made). This represents a significant portion of potential savings.

- **Funding for 'back office'**: most agencies will have a mix of frontline and back-office spending, and this will be funded from both departmental and non-departmental appropriations. As such, it is consistent with your intent to protect frontline spend to include this broader scope.

- **Practicality**: Departmental and non-departmental spend are inherently linked. Adequate departmental funding is required to ensure the effectiveness of non-departmental spend. Savings from departmental spend only may yet compromise the delivery of frontline services.

- **Targeting areas of growth**. You have indicated a preference for savings to be targeted at areas with high growth in recent years. As set out in paragraph 5 and shown in the graph below, non-departmental operating spend has grown at a higher rate than departmental operating spend. Similarly, a number of agencies excluded in the National policy proposal have grown at an above average rate since 2017. We therefore consider that inclusion of these appropriations will align with your objectives.

Historical Operating Expenditure and Forecast Appropriation Limits



32. The main exception to this recommendation is non-departmental health, disability[6] and education spend.

3. We recommend departmental health, disability and education operating spend is in scope and that their savings target is calculated on that basis. We recommend non-departmental spend in these areas (such as hospital and school costs and doctors, nurses and teachers, and Disability Support Services) are in scope for the exercise, but subject to separate

[5] Total appropriations across forecast period. Includes all departmental expenses.

[6] This is limited to the non-departmental expenditure administered by the Whaikaha - Ministry of Disabled People which funds Disability Support Services for almost 50,000 disabled people aged under 65. This previously sat within Vote Health.

reprioritisation targets, rather than savings. We can provide further advice on this as required.

33. We recommend the Justice sector are given flexibility to return a single savings target for the whole sector, as this will enable collaboration across the Justice sector and ensure justice priorities are progressed efficiently. The full list of agency assumptions, including treatment of cluster agencies and the Offices of Parliament are set out in Annex A.

34. We recommend allocating savings to agencies (rather than by Vote or portfolio). Where there are multiple Portfolio Ministers for an agency, they would need to work collaboratively to agree the proposed savings.

35. By 'agency', we mean all Public Service departments,[7] and the non-Public Service departments which serve the executive (the Police and the New Zealand Defence Force) and the legislative (Parliamentary Service, Parliamentary Counsel Office and Office of the Clerk of the House of Representatives). This includes all funding made through those departments to Crown entities (and third parties) for operational activity. Ministers and agencies will have different levers available to them to identify and secure savings across this funding over time.

Specific exclusions

36. Despite the underlying principle of broad application, we consider that there are areas that could be legitimately excluded from scope. These are where spending is non-discretionary or not suitable for savings. Accounting for these does not reduce the quantum of savings but contributes towards a more equitable allocation across agencies, by creating a more consistent 'effective' saving percentage. The list of recommended exclusions is contained in the table above and Annex A.

37. We received feedback from agencies in response to the 1 - 2 % exercise that spending that they consider non-discretionary or unsuitable for savings remained in scope, and as such the 'effective' target was higher than represented. We have made adjustments to the proposed design to reflect significant concerns – for example, by excluding 'Benefit and Related Expense appropriations' rather than the 'Social Security and Welfare' classification and excluding depreciation, capital charge and inter-agency revenue.

38. Areas of spending remain in scope which agencies will consider non-discretionary or unsuitable – particularly areas which are reflective of the unique circumstances of the agency.[8] It is for this reason that we recommend including a buffer in the savings target and having an assurance process to provide flexibility to determine the final savings allocation, including in response to any agency appeals. The alternative would be to include a period of agency consultation before allocating savings targets. This is not feasible within current timeframes.

Other design choices

39. Two other design choices underpinning our recommendation are that there is a flat percentage target given to agencies upfront (with the flexibility to change this during the assurance process), and the base year for calculations takes the average across the forecast period. We note you have indicated a preference to vary the percentage target based on growth. Further detail underpinning these recommendations are in Annex A.

40. Our proposed design is consistent with the Public Service Commission's advice to you on implementing savings (PSC report 2023-0291 of 27 November 2023 refers). It sets a single savings target and makes clear that the exercise includes non-departmental spending. It

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[7] https://www.publicservice.govt.nz/system/central-government-organisations/

[8] Due to the unique nature of their appropriations, we judge that the Ministry of Business, Innovation and Employment and The Treasury could be most at risk from having non-discretionary spend left in their eligible base.

establishes clear accountability for identifying savings options and enables senior Ministers to consider any reductions or trade-offs proposed.

Developing savings proposals for non-departmental expenditure

41. Non-departmental appropriations are a significant proportion of Crown expenditure, as shown in the Historical Operating Expenditure and Forecast Appropriation Limits Graph under paragraph 32. In our proposed design, the savings target applies to departmental funding as well as to funding that flows through departments to Crown entities and other third parties (non-departmental spending).

42. Our recommended approach is for responsible Ministers, monitoring departments and entities to work together to understand the implications of making any substantive changes to non-departmental appropriations that either fund these entities operations, or purchase goods or services from them. This includes the implications on the ability for entities to fulfil their statutory functions and deliver programmes for the Crown.

43. We propose:

- writing to Crown entity, Schedule 4A companies and SOE boards on the high-level fiscal strategy and Budget 2024 priorities and the fiscal sustainability programme
- responsible Ministers write to their Crown entity, Schedule 4A companies and SOE boards encouraging them to participate in the initial baseline exercise. This letter would establish that Crown funding received by them is within scope of the baseline reduction and recommend they work with their monitoring department and portfolio Minister to identify savings.

44. We can provide you with draft letters as proposed above, including templates for responsible Ministers to use.

45. In the absence of savings being identified in the process above, Government can adjust non-departmental appropriations. Further, there are levers to require certain information from the board of a Crown entity.[9]

46. The main risk of this approach is of impacting the ability of these entities to carry out their statutory functions. Crown entities, Public Finance Act 1989 Schedule 4A companies (Schedule 4A companies) and state-owned enterprises (SOEs) have arms-length governance arrangements, and their boards are responsible for the entity's operational decisions. A further risk is that directive approaches may interfere with establishing strong relationships and trust.

Protecting service performance and other rules

47. The Budget 2024 initial baseline exercise template and guidance can provide the opportunity to specify any rules agencies should adhere to when identifying savings.

48. We recommend providing agencies with maximum flexibility to propose savings, with Budget Ministers using the assurance process to tailor the final savings proposals. If you wanted to be more directive in the rules and guidance on protecting specific areas, our initial advice would be to focus these protections on specified outcomes (e.g. to ensure that Government targets are not compromised). We can provide further advice on this as required.

[9] For example, section 133 of the Crown Entities Act 2004 provides that the board of a Crown entity must supply any information relating to the operations and performance of the Crown entity that the Minister requests.

49. Other considerations to include within the agency guidance are as follows.

a) Revenue raising options: we recommend enabling agencies to include revenue-generating options to reach their target. We note however that revenue-generating options may take longer to realise.

b) Contractor and consultants: baseline reductions will continue to assert downward pressure on contractor and consultant spend in line with the National Policy Programme commitments. PSC will collect regular data on contractor and consultant spend, to monitor spend over time.

c) Flexibility to find savings from spending 'out of scope' of the eligible base: calculating a savings target requires blunt decisions about what spend should be in or out of scope, to achieve the most effective allocation across agencies. However, we recommend flexibility for agencies to propose savings from areas excluded from the eligible base.

d) Excluding capital and capital related operating expenditure, because this is to be addressed via a separate process. See Annex A.

50. We will provide the Budget 2024 template and guidance for your review as you consider your Budget 2024 strategy.

Implementation and assurance process

51. Agencies and Ministers will review their expenditure to identify savings (and revenue-generating options, if applicable) to meet their targets, as part of the Budget 2024 Initial Baseline Exercise (see T2023/1953). This will provide Ministers with a clear understanding of trade-offs to inform decisions.

52. The exercise will require chief executives to make their best judgement on the *benefits* and *costs* (both fiscal and non-fiscal), the *deliverability* (including resourcing and likeliness of achieving outcomes) and *alignment* with the government priorities. Agencies are already developing proposals to meet their 1-2% savings targets and in reaction to the announcement of further savings requirements following the election.

53. A carefully managed process will ensure Ministers and Cabinet can have confidence that agencies have delivered genuine savings proposals at the scale required, that proposals meet Ministers' objectives and Ministers are comfortable with the impact of proposals on services. We propose actions at the start, during and end of the process to support the successful delivery of the baseline reduction.

54. Successful implementation of the baseline reduction will require Cabinet and Ministerial buy-in. In response to early feedback from you, we propose that you and/or Cabinet agree to the following:

Start of the process

- Set strong upfront expectations that Ministers are responsible for the quality and delivery of the savings proposals, and Ministers will hold Chief Executives responsible for advising on savings proposals that meet Government expectations

- Ensure that rules, guidance and templates are sufficiently clear on expectations (while maintaining flexibility so that Ministers and Chief Executives can make judgments about savings proposals). For example, setting expectations to reduce contractor and consultant spend

During the process

- Invite Ministers to work closely with their Chief Executives and officials on savings proposals with regular reporting upward so that Ministers can make judgments and take action as needed

- Direct agencies to engage with us on their internal process and plan, and Treasury to provide scrutiny on the proposals as they develop. We can report to you where we identify issues

- Treasury can also provide briefings to portfolio / responsible Ministers on agency baselines, to support Ministers to engage with their agencies

- Agree upfront to approximately five agencies being subject to more in-depth review via Challenge Panels. Panel membership could include senior officials from each of the central agencies, an independent member(s), and system leads where appropriate. Selection of departments could be based on growth and/or size, with options to commission external reviews. *(This responds to your request for advice on 5-6 reviews pre-Budget 2024)*

End of process

- Treasury review and reporting to you and Budget Ministers about value, alignment and delivery of proposals. Budget Ministers make judgments about trade-offs and where you want further information, before approving savings plans.

- Through the buffer, you and Budget Ministers have the ability to vary the amount of savings from respective agencies. The buffer we propose is built into the savings targets and allows for some agencies' savings targets to be adjusted up or down. This means Budget Ministers can make trade-offs across agencies' baselines and acknowledges that agencies have different capacities to reduce spending and their functions and programmes differ in alignment to the new Government's priorities. The ability to decide a higher savings amount could also be used as an incentive to encourage genuine proposals.

- PSC have advised that they can support with setting and monitoring expectations to reduce reliance on contractors and consultants, and providing assurance that key customer facing services have been protected.

55. During the Budget, we will provide advice on the aggregate composition of cost pressures, savings and new spending for the agency. This will include information about how baselines have changed over time.

56. Given the size of the savings required, we recommend robust monitoring arrangements beyond Budget 2024 to ensure proposals are implemented, risks are identified and managed appropriately, including the risk that identified savings do not eventuate. This further signals an approach to strong fiscal discipline, consistent with other plans such as the introduction of a Cabinet Expenditure Control (CEC) committee. Savings targets could also be incorporated into the proposed savings and performance plans as part of phase two of the fiscal sustainability programme,[10] and these targets could be tracked as part of the associated monitoring and reporting (by Treasury on your behalf) on the plans.

57. We also suggest that:

- Savings be a clear priority within public management mechanisms – government policy statements, portfolio expectations, agency accountability documents, Chief Executive performance expectations etc.

[10] The Treasury report *Implementing the Fiscal Strategy* (T2023/1987) provides more information about the proposed fiscal sustainability programme including phase two.

- Agencies be required to report regularly to the portfolio Minister, and to Treasury/central agencies, on progress, including any particular risks resulting from savings

- Treasury/central agencies report, in aggregate, on progress made against savings

- Minister of Finance/Budget Ministers to regularly report, in aggregate, to Cabinet and, where appropriate, invite Ministers to report on their medium-term savings in their portfolio

58. We propose that agencies provide savings options that come into effect from 2024/25. We note that some savings options may take time to implement (e.g. due to contractual arrangements) and that there may be transition costs (e.g. redundancy payments). We can provide further advice on managing this, including for example funding mechanisms that help with implementation (e.g. agencies using underspends from the current year to fund transition costs).

Broader considerations and risks

59. A baseline haircut is a blunt tool. It can be usefully deployed when significant and widespread savings are needed quickly and provides flexibility for Ministers and agencies to determine where savings are most appropriately found. There are three key risks.

    - The larger the savings targets required of agencies, the greater the risk of negative impacts on New Zealanders, including cost of living. Further, savings may come from the 'wrong' areas that then result in the potential for greater future costs. As an example, previous similar savings exercises have resulted in savings from, e.g. asset maintenance, which resulted in faster deterioration and earlier asset renewal. Similarly, it takes time for the public service to build capability and significant input controls can reverse some gains.

    - Savings may ultimately be lower than set and communicated in the Mini Budget. This subtlety in the design, to have a buffer and make final allocations at the end based on proposals, may not be obvious to all. This risk can be managed through communications.

    - Baseline reductions can have uneven impacts and perverse incentives. They can reward agencies that have ‘excesses’ that can be easily stopped and penalises agencies who have acted prudently.

60. We have sought to mitigate these risks in the design of the baseline reductions and assurance process.

Next Steps

61. We welcome your feedback on the proposed design and process, so that we can reflect this in your upcoming Cabinet paper on fiscal discipline, Mini Budget and Budget 2024 strategy.

Expenditure types in scope

1. Our recommended approach for the type of spend that is in scope is covered in the main report. There is one other exception to the principle of including a broad range of expenditure types in scope, considered below.

Capital investments and capital-related operating expenditure

2. The initiation of the investment pipeline review as part of Budget 2024, and improvements to the Investment Management System, will enable Cabinet and agencies to prioritise and sequence investments to meet market capacity. We recommend capital investment decisions are made through those processes and seek to address capital-related operating through the same process.

Agencies in scope

3. Our recommended approach to including agencies in scope is covered in the main report. There are two further assumptions we have made for agencies.

Clusters

4. In 2021, the previous Government agreed to pilot two multi-agency clusters for related public service agencies in the Justice sector (comprising the New Zealand Police, Ministry of Justice, Department of Corrections, Crown Law Office and Serious Fraud Office) and Natural Resources sector (Department of Conservation, Ministry for the Environment and the Ministry for Primary Industries).

5. To protect the objectives of the cluster pilots, these agencies' savings from the PREFU exercise were deferred a year to come into effect in 2025/26. In our analysis in this report, we have included cluster agencies in scope from 2024/25.

6. You have a choice about how to treat clusters at Budget 2024. This choice has implications for the allocation of savings across agencies. It also extends beyond savings and has implications for cost pressures and new spending (T2023/1953 refers).

7. Notwithstanding your choices on clusters, collaboration across the justice sector will be important to ensure the government's justice priorities are progressed efficiently. As such we recommend that all justice sector agencies retain flexibility to return savings options that ensure the aggregate savings target for the whole sector is met, rather than each individual agency target.

8. Should you choose to include cluster agencies for savings from 2024/25 onwards, they will be required to return the 1-2% savings requirement from this earlier date which is a different basis on which they have been preparing savings plans to date.

Offices of Parliament

9. We have assumed the Offices of Parliament are excluded from scope as their expenditure is determined by Parliament, not the Executive. However, there are several options to advise Parliament to take into account the Government's fiscal sustainability objectives in determining the appropriations for Officers of Parliament. We can advise you on these separately if you would like to consider these options.

Other exclusions

10. The main report considers the need to exclude certain areas of spend that is either non-discretionary or not suitable for savings. We note that agencies can still find savings attributable to these spend areas despite their exclusion from the calculation process which

has been done to determine the most appropriate eligible spend base across agencies. These are considered in more detail below.

a) *BOREs:* Welfare and benefit spend supports vulnerable New Zealanders, including those on low incomes who are particularly at risk from the high cost of living. The majority of 'Benefits or related expenses' (BOREs) are based on legislative entitlements. BOREs are an imperfect definition of welfare and benefit spend, but there is a trade-off between a perfectly effective scope and simplicity and transparency.

b) *Departmental 3rd party revenue:* revenue from 3rd parties that recovers the costs of delivering a service is recorded in memorandum accounts, and closely linked to the expense of delivering those services. Any reduction in these expenses results in a corresponding reduction in revenue, so does not improve OBEGAL. We have applied this exclusion to departmental spend only as this spend has the clearest links between cost and expenditure.

c) *Departmental revenue from other departments/State Owned Enterprises/Crown entities:* Like 3rd party revenue, revenue from cost recovered services to other agencies/entities is linked to the expense of delivering the service. Reductions in these expenses could therefore have no improvement in OBEGAL. For example, Crown Law receives revenue from legal services provided to other agencies. We have applied this exclusion to departmental spend only as this spend has the clearest links between cost and expenditure.

d) *Finance costs:* Finance and debt-servicing costs are non-discretionary and can be material for certain agencies which distorts the 'effective' percentage savings target.

e) *Permanent Legislative Authorities* (PLAs, i.e. appropriations that are authorised by legislation other than an Appropriation Act and continue in effect until revoked by Parliament): PLAs can be volatile and driven by factors outside of agencies' control. Some will be self-funded so may not impact OBEGAL. They can also be material.

f) *Depreciation*: Depreciation places pressure on certain agencies (e.g. Education) much more than others which can significantly distort allocation of savings targets.

g) *Capital charge*: Agencies are charged a percentage based on the public sector discount rate. The capital charge is broadly considered a non-discretionary cost.

h) *'Other'*: A number of other spend areas do not fit into cross-cutting agency categories of exclusions, but we deem unsuitable for savings measures. These are:
   a. Issuing NZ Units under Emissions Trading Scheme
   b. Write-downs and Impairment of Student Loans
   c. Historic Treaty settlement MYA (including redress through the transfer of assets from the Crown to the claimant groups, and any simple interest payable on settlements between the date specified in the Deed of Settlement and the settlement date)
   d. Employer General Super Fund tax contributions
   e. Income related rent subsidy
   f. ACC non-earners account
   g. LINZ Proceeds from Sale of Waka Kotahi NZ Transport Agency Properties ('pass through' cost)
   h. Material bad debt costs for MSD representing $120m per year (other less material bad debts are left in the scope for calculating savings targets)
   i. PSC Chief Executive remuneration costs ('pass through' cost)

Percentage target

11. The percentage savings target required is a product of the quantum of savings needed and the scope of eligible spend, however you can choose to vary whether the percentage requirement is applied consistently or varied across agencies.

12. Our proposal is to set upfront a single percentage target across agencies as it signals an approach that everyone is 'in this together' and helps foster fiscal discipline. We then recommend that, through the buffer and assurance process, you adjust final allocations based on the proposals and their impacts.

13. If you prefer to vary the percentage upfront, we recommend agency baseline size is used as the variable. Larger agencies are more likely to find savings through reprioritisation and making use of economies of scale than smaller agencies, and this allows the percentages to be kept low by extracting more savings from larger sources.

14. The National Policy Programme indicated a preference for agencies with high expenditure growth to deliver more. While there has been significant growth in the public sector over the past few years, some of this is time-limited and many agencies have falling baselines. Growth could also be attributable to an agency taking on new functions and responsibilities or due to cost pressure increases in demand or prices, or because they are newer agencies whose baseline spend started from a low base as machinery of government changes were implemented. Further, many of the fastest growing agencies are also the smallest and vice versa.

15. Alternatively, the National/ACT Coalition Agreement proposes that targets for each agency are informed by growth based on the increase in back-office head count at that agency since 2017. This approach to percentage allocation will raise the same issues as those noted for expenditure growth and would be difficult to measure.

Base year

16. You have a choice around which year to use as the basis for baseline reduction target calculations, which can have material implications for the allocation of targets across agencies. The PREFU baseline savings exercise used 2024/25 baselines as the base year for calculating agency allocations as this was the first year the reductions would apply from. The National Policy Programme used 2023/24 as the basis for calculations.

17. We recommend basing the calculation of targets on an average measure of agency baselines across the forecast period. This is to account for the general trend of agency baselines decreasing over time, primarily due to the presence of time-limited funding. Most Votes have decreasing baselines across the forecast period which, across all agencies, results in a $16bn decrease between 2023/24 and 2026/27. However, there is significant variation in agency profiles.

18. If we do not account for these changes in baseline profiles in the calculation of savings targets, there is a risk that agencies whose baselines decrease disproportionately more than others will be more negatively impacted in outyears compared to those whose baseline decreases by less (or not at all). This risk is partially mitigated by adopting an average approach.

[1]

19. [1]

Annex B: Agency savings targets

Recommended design

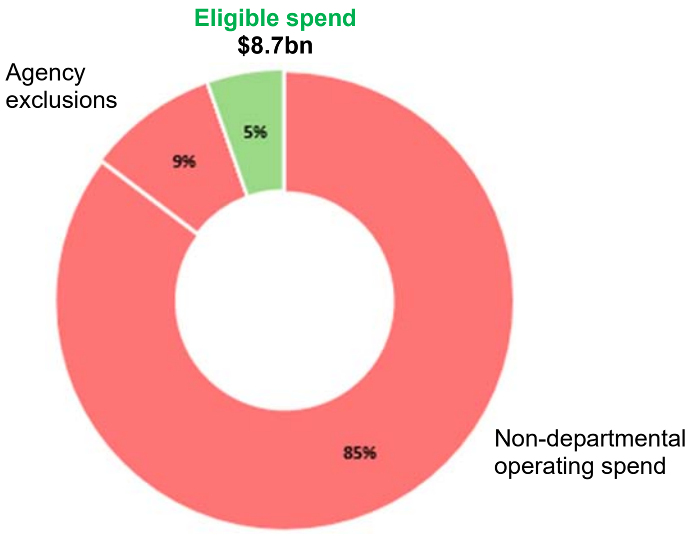
Indicative agency savings allocations are reflected in the table below. This analysis does not separate out the Executive Board for Family and Sexual Violence. We can provide a separate target for this, and any other departmental agencies as required.

		Indicative savings per annum			
Agency	**Eligible spend (p.a. $m)**	**5%**	**6.1%**	**8.1%**	**16.2%**
Ministry of Business, Innovation and Employment	3,323	166.17	202.73	269.20	538.41
New Zealand Defence Force	2,307	115.36	140.74	186.88	373.76
New Zealand Police	2,148	107.40	131.03	173.99	347.98
Ministry of Social Development	1,838	91.88	112.09	148.84	297.68
Department of Corrections	1,671	83.55	101.94	135.36	270.72
Ministry of Foreign Affairs and Trade	1,521	76.07	92.81	123.24	246.48
Oranga Tamariki - Ministry for Children	1,475	73.75	89.97	119.47	238.95
Ministry of Housing and Urban Development	1,447	72.34	88.25	117.18	234.37
Ministry of Justice	1,314	65.68	80.13	106.41	212.82
Ministry of Education	982	49.08	59.88	79.51	159.03
Ministry for Primary Industries	849	42.43	51.76	68.73	137.47
Ministry for the Environment	727	36.34	44.34	58.88	117.76
Ministry of Transport	611	30.54	37.26	49.48	98.95
Inland Revenue Department	610	30.50	37.21	49.40	98.81
Department of Conservation	562	28.11	34.29	45.54	91.07
Ministry of Māori Development - Te Puni Kōkiri	532	26.59	32.44	43.07	86.15
Ministry for Culture and Heritage	500	24.98	30.47	40.46	80.92
Department of Internal Affairs	403	20.14	24.57	32.62	65.24
Government Communications Security Bureau	[1]				
Department of the Prime Minister and Cabinet	238	11.91	14.53	19.29	38.58
Statistics New Zealand	217	10.85	13.23	17.57	35.15
Ministry of Health	210	10.49	12.80	17.00	33.99
The Treasury	147	7.33	8.94	11.88	23.76
Land Information New Zealand	133	6.64	8.10	10.75	21.51
Parliamentary Service	115	5.75	7.01	9.31	18.62
New Zealand Security Intelligence Service	[1]				
Crown Law Office	102	5.08	6.20	8.23	16.46
Ministry for Pacific Peoples	75	3.76	4.58	6.09	12.18
Whaikaha - Ministry of Disabled People	69	3.44	4.20	5.57	11.15
Public Service Commission	55	2.76	3.37	4.47	8.95
Education Review Office	49	2.47	3.02	4.01	8.02
New Zealand Customs Service	27	1.35	1.64	2.18	4.36
Ministry of Defence	27	1.35	1.64	2.18	4.36
Parliamentary Counsel Office	25	1.24	1.51	2.01	4.02
Office of the Clerk	24	1.21	1.47	1.95	3.91
Serious Fraud Office	17	0.86	1.05	1.39	2.79
Ministry for Women	15	0.74	0.90	1.20	2.40
Controller and Auditor-General		-	-	-	-
Office of the Ombudsman		-	-	-	-
Parliamentary Commissioner for the Environment		-	-	-	-
Per annum	**$24,710m**	**$1235m**	**$1507m**	**$2001m**	**$4003m**

Alternative design

The National Policy Programme proposed applying savings to the **departmental** output expenses of **24 agencies**, without further exclusions. The below tables and charts consider the agency savings requirements based on those assumptions.

Average departmental and non-departmental operating spend across forecast period:



Note, the below analysis assumes a consistent percentage target across agencies and uses the average baseline across the forecast period as the basis of the calculations, as per our recommended scope.

	$m	**%**
Average p.a. of all Departmental and non-departmental spend across forecast period	**160,422**	**100.00%**
Non-Departmental spend	(136,900)	(85.337%)
Controller and Auditor-General	(158)	(0.098%)
Office of the Clerk	(26)	(0.016%)
Department of Corrections	(2,252)	(1.404%)
Education Review Office	(52)	(0.033%)
Government Communications Security Bureau	[1]	
Ministry of Health	(218)	(0.136%)
Ministry of Defence	(27)	(0.017%)
Ministry of Education	(4,009)	(2.499%)
New Zealand Defence Force	(3,672)	(2.289%)
Office of the Ombudsman	(48)	(0.030%)
Oranga Tamariki - Ministry for Children	(1,528)	(0.953%)
Parliamentary Commissioner for the Environment	(4)	(0.003%)
Parliamentary Counsel Office	(26)	(0.016%)
New Zealand Police	(2,405)	(1.499%)
Parliamentary Service	(81)	(0.050%)
New Zealand Security Intelligence Service	[1]	
Eligible spend	**8,655**	**5.4%**

		Indicative savings per annum			
Agency	**Eligible spend (p.a. $m)**	**5%**	**6.1%**	**8.1%**	**16.2%**
Ministry of Social Development (incl. Whaikaha)	1485.8	74.3	90.6	120.4	240.7
Ministry of Business, Innovation and Employment	1144.3	57.2	69.8	92.7	185.4
Ministry of Justice	926.7	46.3	56.5	75.1	150.1
Ministry for Primary Industries	874.6	43.7	53.4	70.8	141.7
Inland Revenue Department	709.1	35.5	43.3	57.4	114.9
Department of Conservation	666.9	33.3	40.7	54.0	108.0
Department of Internal Affairs	599.0	29.9	36.5	48.5	97.0
Ministry of Foreign Affairs and Trade	541.4	27.1	33.0	43.8	87.7
Land Information New Zealand	277.1	13.9	16.9	22.4	44.9
New Zealand Customs Service	258.4	12.9	15.8	20.9	41.9
Statistics New Zealand	252.9	12.6	15.4	20.5	41.0
Ministry for the Environment	204.1	10.2	12.5	16.5	33.1
Crown Law Office	133.6	6.7	8.2	10.8	21.6
The Treasury	131.4	6.6	8.0	10.6	21.3
Department of the Prime Minister and Cabinet	95.1	4.8	5.8	7.7	15.4
Ministry of Māori Development - Te Puni Kōkiri	89.5	4.5	5.5	7.3	14.5
Ministry of Housing and Urban Development	65.4	3.3	4.0	5.3	10.6
Ministry of Transport	60.4	3.0	3.7	4.9	9.8
Public Service Commission	45.0	2.2	2.7	3.6	7.3
Ministry for Pacific Peoples	34.2	1.7	2.1	2.8	5.5
Ministry for Culture and Heritage	26.9	1.3	1.6	2.2	4.4
Serious Fraud Office	17.6	0.9	1.1	1.4	2.8
Ministry for Women	15.2	0.8	0.9	1.2	2.5
Controller and Auditor-General	0.0	0.0	0.0	0.0	0.0
Office of the Clerk	0.0	0.0	0.0	0.0	0.0
Department of Corrections	0.0	0.0	0.0	0.0	0.0
Education Review Office	0.0	0.0	0.0	0.0	0.0
Government Communications Security Bureau	0.0	0.0	0.0	0.0	0.0
Ministry of Health	0.0	0.0	0.0	0.0	0.0
Ministry of Defence	0.0	0.0	0.0	0.0	0.0
Ministry of Education	0.0	0.0	0.0	0.0	0.0
New Zealand Defence Force	0.0	0.0	0.0	0.0	0.0
Office of the Ombudsman	0.0	0.0	0.0	0.0	0.0
Oranga Tamariki - Ministry for Children	0.0	0.0	0.0	0.0	0.0
Parliamentary Commissioner for the Environment	0.0	0.0	0.0	0.0	0.0
Parliamentary Counsel Office	0.0	0.0	0.0	0.0	0.0
New Zealand Police	0.0	0.0	0.0	0.0	0.0
Parliamentary Service	0.0	0.0	0.0	0.0	0.0
New Zealand Security Intelligence Service	0.0	0.0	0.0	0.0	0.0
Per annum	**$8,655m**	**$433m**	**$528m**	**$701m**	**$1,402m**

Annex C

TE TAI ŌHANGA
THE TREASURY

Composition of Government Spending

5 DECEMBER

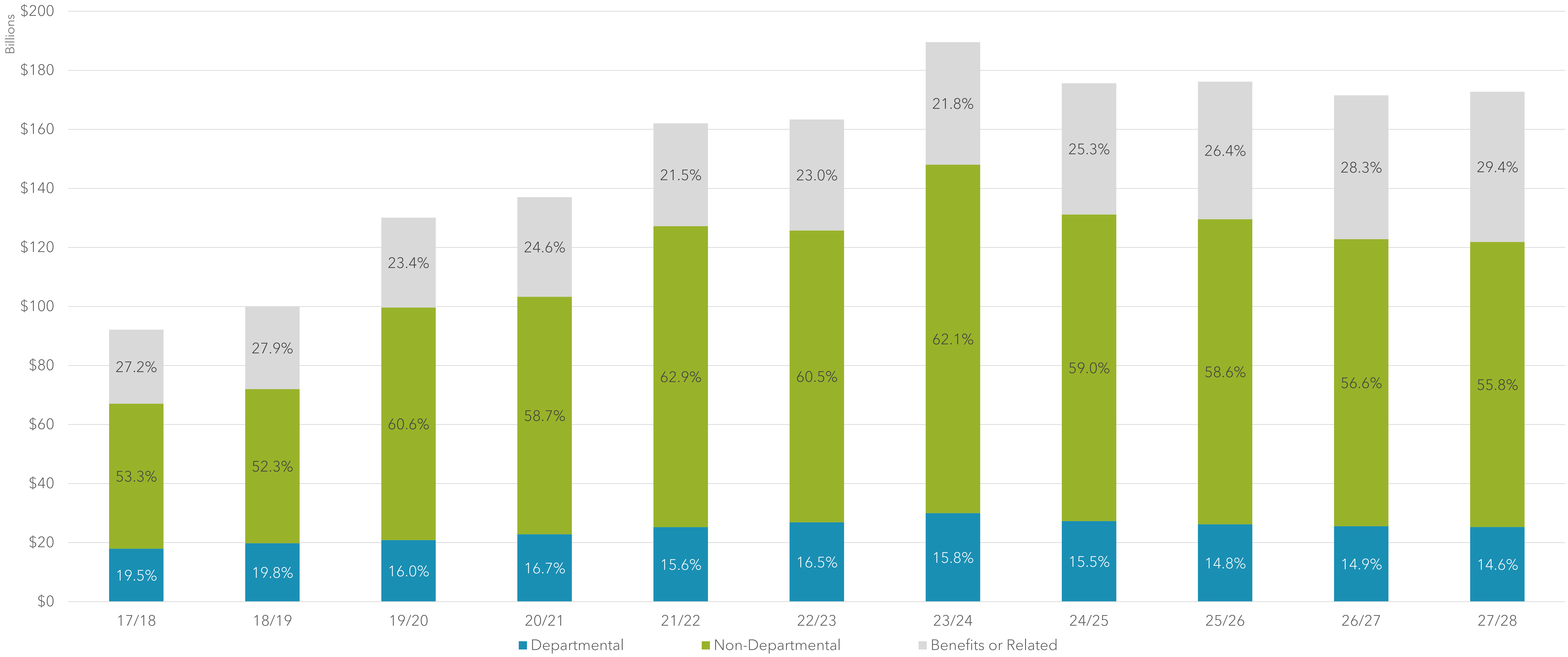
Aggregate Data

Government Appropriations Operating – Capital Split

Security Agencies have appropriations made up of a combination of operating and capital – These make up less that 0.3% of a given year

Source: CFIS Year-end actuals 2017- 2023/2023 OBU

Government Appropriations by Type



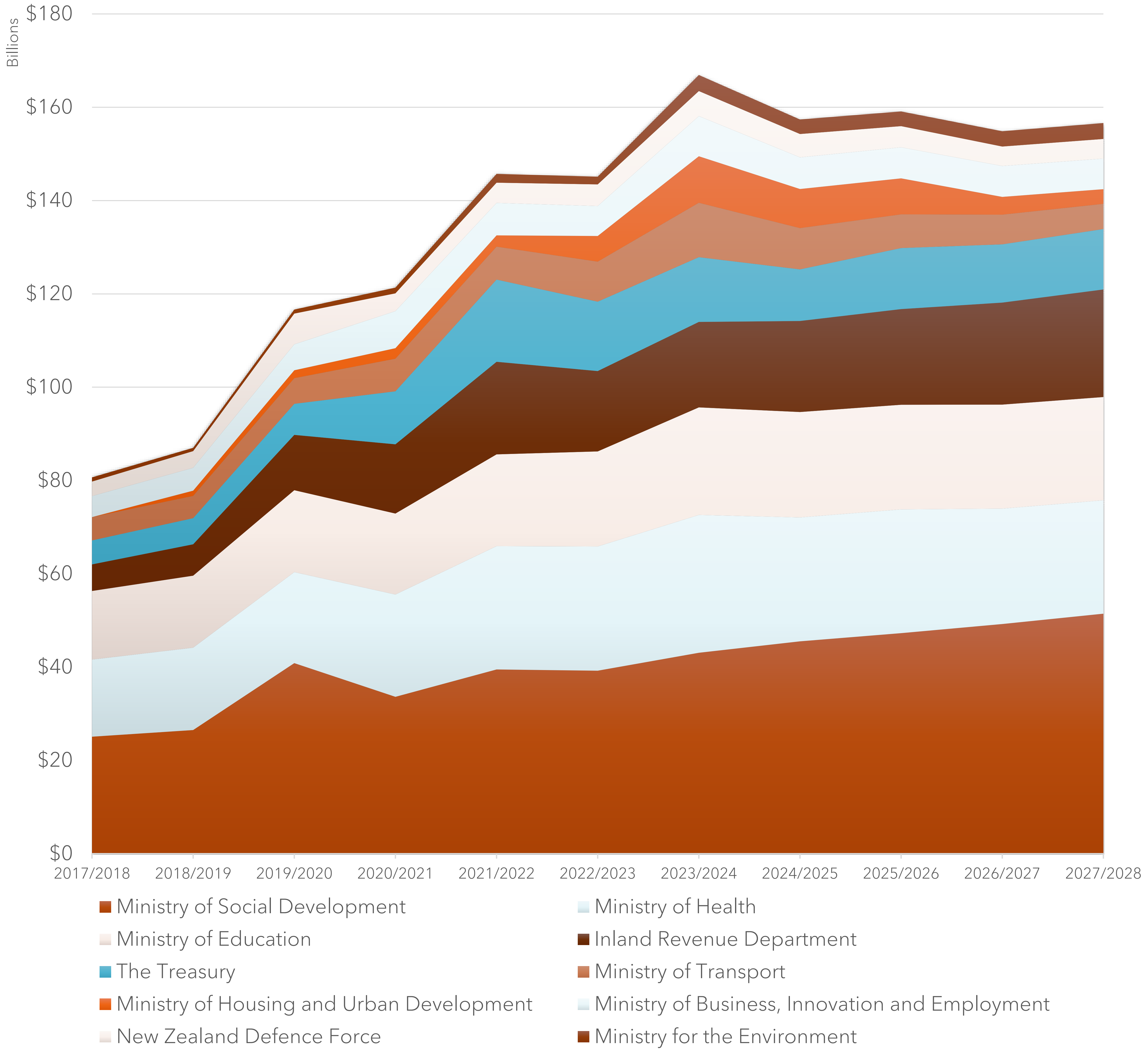
Forecast New Spending which would apply to years from 23/24 *is unavailable for the OBU exercise,*
this includes but is not limited to – *Unallocated Contingencies, Baseline Savings, Budget Operating Allowances, Multi-year Capital Allowances*

Other minor forecast expenditure makes up less than 0.3% of each out year and does not display on the above chart

Source: CFIS Year-end actuals 2017- 2023/2023 OBU

Analysis by entity

10 Largest Total Baselines (of 40)



$166.9 Billion
10 Largest in 2023/2024

Total Baselines
$190.2 bn
2023/2024

10 Largest make up
87.8%
of all appropriation spend
2023/24 OBU

Position by Appropriation Total	Name	Appropriation Amount 2023/2024 $	% of All Appropriations	% change from 2017/2018 – 2022/2023	% change from 2022/2023 – 2027/2028
1	Ministry of Social Development	$43,069,276,000	22.65%	56%	31%
2	Ministry of Health	$29,541,281,000	15.53%	61%	-9%
3	Ministry of Education	$23,070,171,000	12.13%	39%	9%
4	Inland Revenue Department	$18,296,426,000	9.62%	202%	34%
5	The Treasury	$13,884,533,000	7.30%	191%	-13%
6	Ministry of Transport	$11,667,792,000	6.14%	71%	-37%
7	Ministry of Housing and Urban Development	$9,968,825,000	5.24%		-42%
8	Ministry of Business, Innovation and Employment	$8,616,414,000	4.53%	43%	2%
9	New Zealand Defence Force	$5,360,062,000	2.82%	48%	-10%
10	Ministry for the Environment	$3,463,126,000	1.82%	88%	106%

Note – Baselines include both Capital and Operating appropriations, Departmental and Non-Departmental

Other Total Baselines

Position by size	Name	Appropriation Amount – 2023/2024	% of All Appropriations
11	New Zealand Police	$2,691,054,000	1.42%
12	Department of Corrections	$2,558,650,000	1.35%
13	Ministry of Justice	$2,523,633,000	1.33%
14	Ministry of Foreign Affairs and Trade	$2,161,023,000	1.14%
15	Ministry of Defence	$1,747,472,000	0.92%
16	Department of Internal Affairs	$1,735,651,000	0.91%
17	Oranga Tamariki - Ministry for Children	$1,597,734,000	0.84%
18	Ministry for Primary Industries	$1,558,329,000	0.82%
19	Department of the Prime Minister and Cabinet	$1,407,395,000	0.74%
20	Department of Conservation	$957,206,000	0.50%
21	Ministry for Culture and Heritage	$717,397,000	0.38%
22	Ministry of Māori Development - Te Puni Kōkiri	$689,563,000	0.36%
23	Land Information New Zealand	$679,775,000	0.36%
24	Government Communications Security Bureau	$494,562,000	0.26%
25	New Zealand Customs Service	$338,416,000	0.18%
26	Statistics New Zealand	$269,141,000	0.14%
27	Parliamentary Service	$264,048,000	0.14%
28	Controller and Auditor-General	$157,282,000	0.0827%
29	Crown Law Office	$149,657,000	0.0787%
30	New Zealand Security Intelligence Service	$124,492,000	0.0655%
31	Ministry for Pacific Peoples	$116,257,000	0.0611%
32	Public Service Commission	$72,162,000	0.0379%
33	Office of the Ombudsman	$56,854,000	0.0299%
34	Education Review Office	$54,316,000	0.0286%
35	Parliamentary Counsel Office	$33,591,000	0.0177%
36	Office of the Clerk of the House of Representatives	$27,972,000	0.0147%
37	Executive Board for the Elimination of Family Violence and Sexual Violence	$21,919,000	0.0115%
38	Serious Fraud Office	$17,607,000	0.0093%
39	Ministry for Women	$13,159,000	0.0069%
40	Parliamentary Commissioner for the Environment	$4,416,000	0.0023%

The 30 remaining entities make up 12.2% of Government Spend and each being less than 1.5% of the total

Remaining 30
$23.2 Billion

Total Baselines
$190.2 Billion

10 Largest
$166.9 Billion

Total Departmental
$30.0 Billion

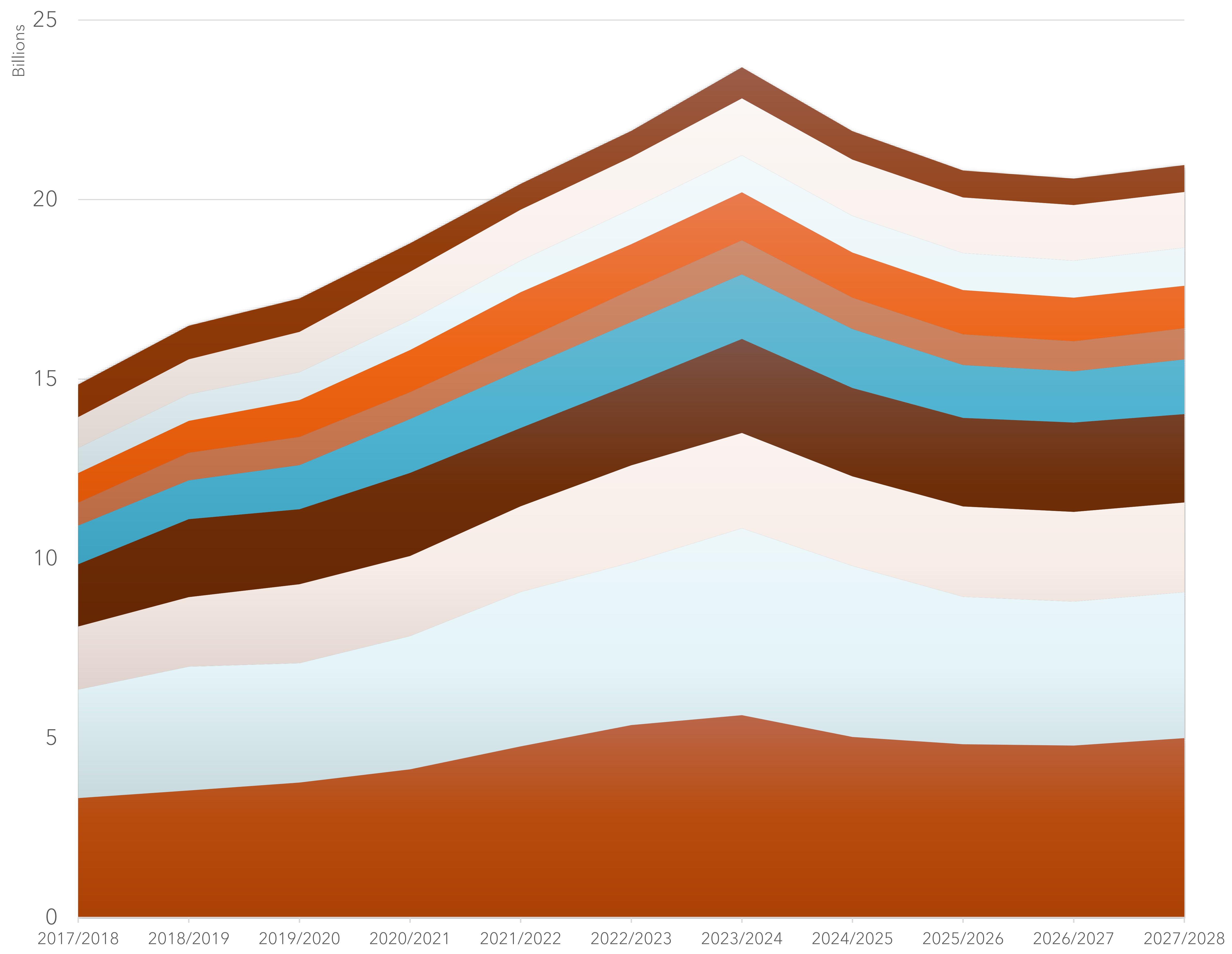
Total Non-Departmental
$118.0 Billion

Total Intelligence Agencies
$0.6 Billion

Total Benefits or Related
$41.5 Billion

Note – Total Baseline groups totals have minor variance due to rounding

10 Largest Departmental Baselines (of 38)



$24.7 Billion
10 Largest in 2023/2024

Total Departmental Baselines
$30.0 Billion

10 Largest make up
82.6%
of departmental appropriations spend
2023/24 OBU

Position by Appropriation Total	Name	Appropriation Amount 2023/2024	% of Dept Appropriations $	% change from 2017/2018 – 2022/2023	% change from 2022/2023 – 2027/2028
1	Ministry of Education	$6,191,214,000	20.65%	61%	-7%
2	New Zealand Defence Force	$5,237,438,000	17.47%	50%	-10%
3	New Zealand Police	$2,690,954,000	8.98%	54%	-8%
4	Department of Corrections	$2,558,564,000	8.53%	30%	9%
5	Ministry of Social Development	$1,977,501,000	6.60%	61%	-12%
6	Oranga Tamariki - Ministry for Children	$1,590,085,000	5.30%	68%	7%
7	Ministry of Business, Innovation and Employment	$1,446,753,000	4.83%	54%	-7%
8	Ministry of Justice	$1,146,585,000	3.82%	40%	9%
9	Ministry for Primary Industries	$1,046,902,000	3.49%	40%	-4%
10	Inland Revenue Department	$862,292,000	2.88%	-19%	2%

Note – Baselines include both Capital and Operating appropriations
The 2 security agency baselines are not defined at this level meaning they are excluded here

Other Departmental Baselines

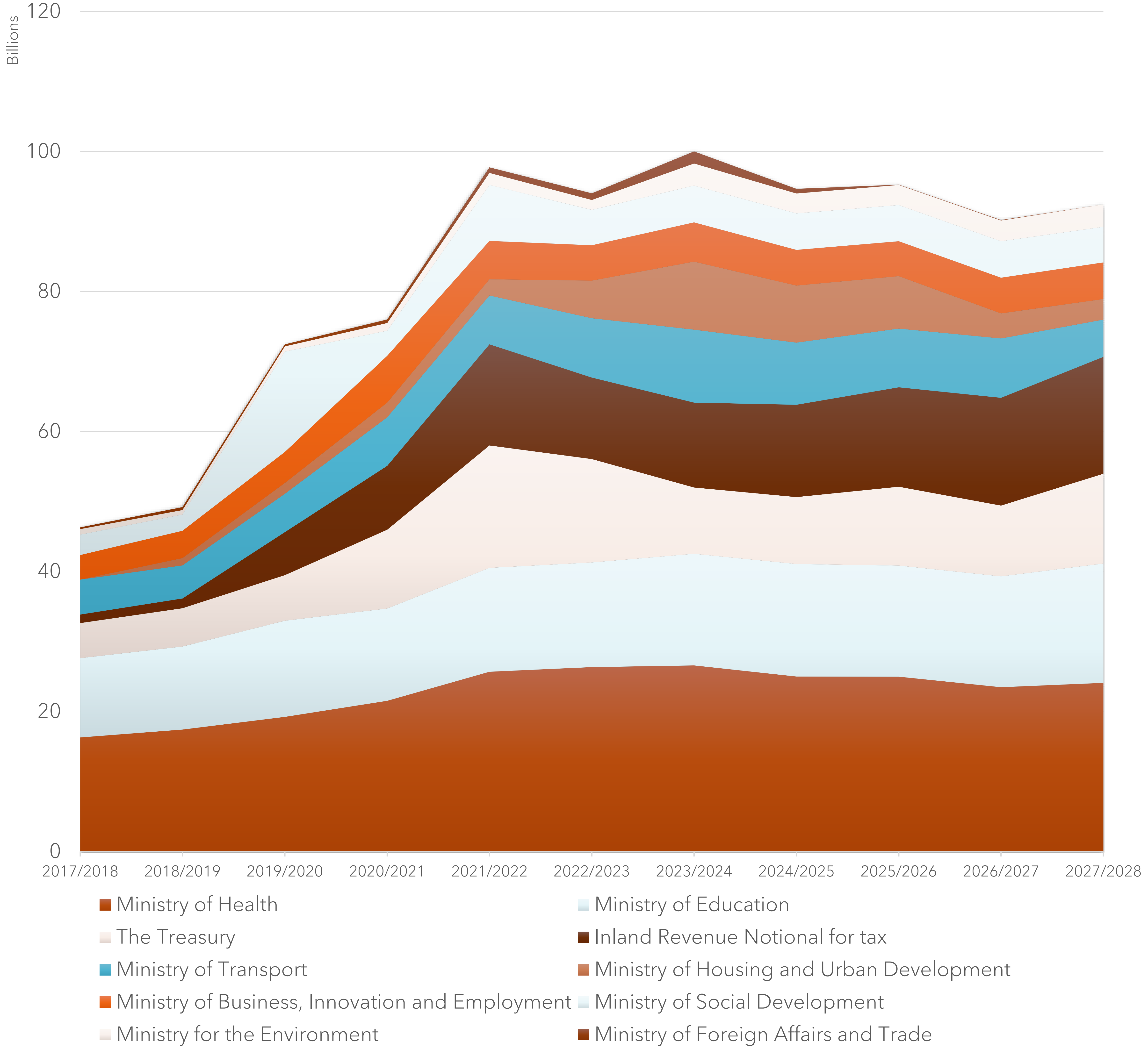
Position by size	Name	Appropriation Amount – 2023/2024	% of All Appropriations
11	Department of Internal Affairs	$857,506,000	2.86%
12	Department of Conservation	$815,400,000	2.72%
13	Ministry of Foreign Affairs and Trade	$658,023,000	2.20%
14	Land Information New Zealand	$404,985,000	1.35%
15	New Zealand Customs Service	$330,336,000	1.10%
16	Ministry of Health	$289,254,000	0.96%
17	Statistics New Zealand	$269,141,000	0.90%
18	Ministry for the Environment	$268,675,000	0.90%
19	Controller and Auditor-General	$157,282,000	0.52%
20	The Treasury	$152,633,000	0.51%
21	Crown Law Office	$149,657,000	0.50%
22	Department of the Prime Minister and Cabinet	$139,285,000	0.46%
23	Ministry of Māori Development - Te Puni Kōkiri	$97,066,000	0.32%
24	Parliamentary Service	$88,953,000	0.30%
25	Ministry of Housing and Urban Development	$85,980,000	0.29%
26	Ministry of Transport	$79,518,000	0.27%
27	Office of the Ombudsman	$56,854,000	0.19%
28	Education Review Office	$54,316,000	0.18%
29	Public Service Commission	$52,042,000	0.17%
30	Ministry for Pacific Peoples	$41,693,000	0.14%
31	Parliamentary Counsel Office	$33,591,000	0.11%
32	Ministry for Culture and Heritage	$33,383,000	0.11%
33	Ministry of Defence	$30,110,000	0.10%
34	Office of the Clerk of the House of Representatives	$27,972,000	0.0933%
35	Executive Board for the Elimination of Family Violence and Sexual Violence	$21,919,000	0.0731%
36	Serious Fraud Office	$17,607,000	0.0587%
37	Ministry for Women	$12,159,000	0.0406%
38	Parliamentary Commissioner for the Environment	$4,416,000	0.0147%

The 28 smallest entities (of 38) make up 17.4% of Departmental Spend, with the majority being less than 1% of the total

Remaining 28

$5.3 Billion

10 Largest Non-Departmental Baselines (of 28)



$110.5 Billion
10 Largest in 2023/2024

Total Non-Departmental Baselines
$118.0bn
2023/2024

10 Largest make up
93.6%
of non-departmental appropriations spend
2023/24 OBU

Position by Appropriation Total	Name	Appropriation Amount 2023/2024	% of Non-Dept Appropriations $	% change from 2017/2018 – 2022/2023	% change from 2022/2023 – 2027/2028
1	Ministry of Health	$29,252,027,000	24.78%	62%	-9%
2	Ministry of Education	$16,796,508,000	14.23%	32%	14%
3	The Treasury	$13,731,900,000	11.63%	194%	-13%
4	Inland Revenue Department	$12,202,634,000	10.34%	856%	44%
5	Ministry of Transport	$11,588,274,000	9.82%	70%	-37%
6	Ministry of Housing and Urban Development	$9,737,695,000	8.25%		-45%
7	Ministry of Business, Innovation and Employment	$7,055,546,000	5.98%	44%	3%
8	Ministry of Social Development	$5,191,422,000	4.40%	74%	1%
9	Ministry for the Environment	$3,194,451,000	2.71%	76%	125%
10	Ministry of Defence	$1,717,362,000	1.45%	309%	-100%

Note – Baselines include both Capital and Operating appropriations
The 2 security agency baselines are not defined at this level meaning they are excluded here

Other Non-Departmental Baselines

Position by size	Name	Appropriation Amount – 2023/2024	% of All Appropriations
11	Ministry of Foreign Affairs and Trade	$1,503,000,000	1.27%
12	Ministry of Justice	$1,377,048,000	1.17%
13	Department of the Prime Minister and Cabinet	$1,268,110,000	1.07%
14	Department of Internal Affairs	$808,145,000	0.68%
15	Ministry for Culture and Heritage	$684,014,000	0.58%
16	Ministry of Māori Development - Te Puni Kōkiri	$592,017,000	0.50%
17	Ministry for Primary Industries	$509,777,000	0.43%
18	Land Information New Zealand	$274,790,000	0.23%
19	Parliamentary Service	$175,095,000	0.15%
20	Department of Conservation	$141,806,000	0.12%
21	New Zealand Defence Force	$122,624,000	0.10%
22	Ministry for Pacific Peoples	$73,342,000	0.0621%
23	Public Service Commission	$20,120,000	0.0170%
24	New Zealand Customs Service	$8,080,000	0.0068%
25	Oranga Tamariki - Ministry for Children	$7,649,000	0.0065%
26	Ministry for Women	$1,000,000	0.0008%
27	New Zealand Police	$100,000	0.0001%
28	Department of Corrections	$86,000	0.0001%

The 18 smallest entities (of 28) make up 6.4% of Non-Departmental Spend, with the majority being less than 1% of the total

Remaining 18

$7.6 Billion

Analysis by appropriation

Largest Appropriations

Appropriation Name	Position by size	2023 OBU 23/24	2023 OBU 27/28
New Zealand Superannuation	1	$21,610,345,000	$28,253,107,000
Delivering Hospital and Specialist Services	2	$14,346,862,000	$13,658,129,000
KiwiSaver: Employee and Employer Contributions	3	$9,910,000,000	$14,270,000,000
Delivering Primary, Community, Public and Population Health Services	4	$8,721,257,000	$8,519,600,000
Primary and Secondary Education	5	$8,247,176,000	$8,462,122,000
Debt Servicing	6	$6,282,160,000	$10,182,764,000
Kāinga Ora – Homes and Communities Crown Lending Facility	7	$4,737,710,000	
Jobseeker Support and Emergency Benefit	8	$4,051,956,000	$4,765,507,000
School Property Portfolio Management	9	$3,102,186,000	$3,258,630,000
National Land Transport Programme	10	$3,005,419,000	$3,930,531,000
Tertiary Tuition and Training	11	$2,982,804,000	$2,907,370,000
Early Learning	12	$2,761,919,000	$3,280,256,000
Supported Living Payment	13	$2,536,887,000	$3,004,188,000
Accommodation Assistance	14	$2,491,707,000	$2,705,077,000
Supporting tāngata whaikaha Māori and disabled people	15	$2,281,058,000	$2,301,052,000
Family Tax Credit	16	$2,278,000,000	$2,312,000,000
Sole Parent Support	17	$2,139,201,000	$2,494,071,000
Allocation of New Zealand Units	18	$2,136,300,000	$2,543,500,000
Ministry of Education - Capital Expenditure	19	$2,102,560,000	$946,973,000
Policing Services	20	$2,081,724,000	$2,051,726,000
Public Safety is Improved	21	$1,809,979,000	$1,850,716,000
Public Housing	22	$1,772,498,000	$2,141,725,000
Defence Capabilities	23	$1,717,362,000	
Remediation and resolution of Holidays Act 2003 historical claims	24	$1,642,330,000	
New Zealand Defence Force - Capital Expenditure	25	$1,620,584,000	$388,628,000
NZ Superannuation Fund - Contributions	26	$1,602,000,000	$1,577,000,000
Payments and Expenses in Respect of Guarantees and Indemnities	27	$1,577,697,000	$842,000
Investing in Children and Young People	28	$1,511,128,000	$1,512,022,000
Student Loans	29	$1,500,965,000	$1,634,526,000
National Land Transport Programme Loan 2021 – 2024	30	$1,500,000,000	

30 Largest of 858 Appropriations make up

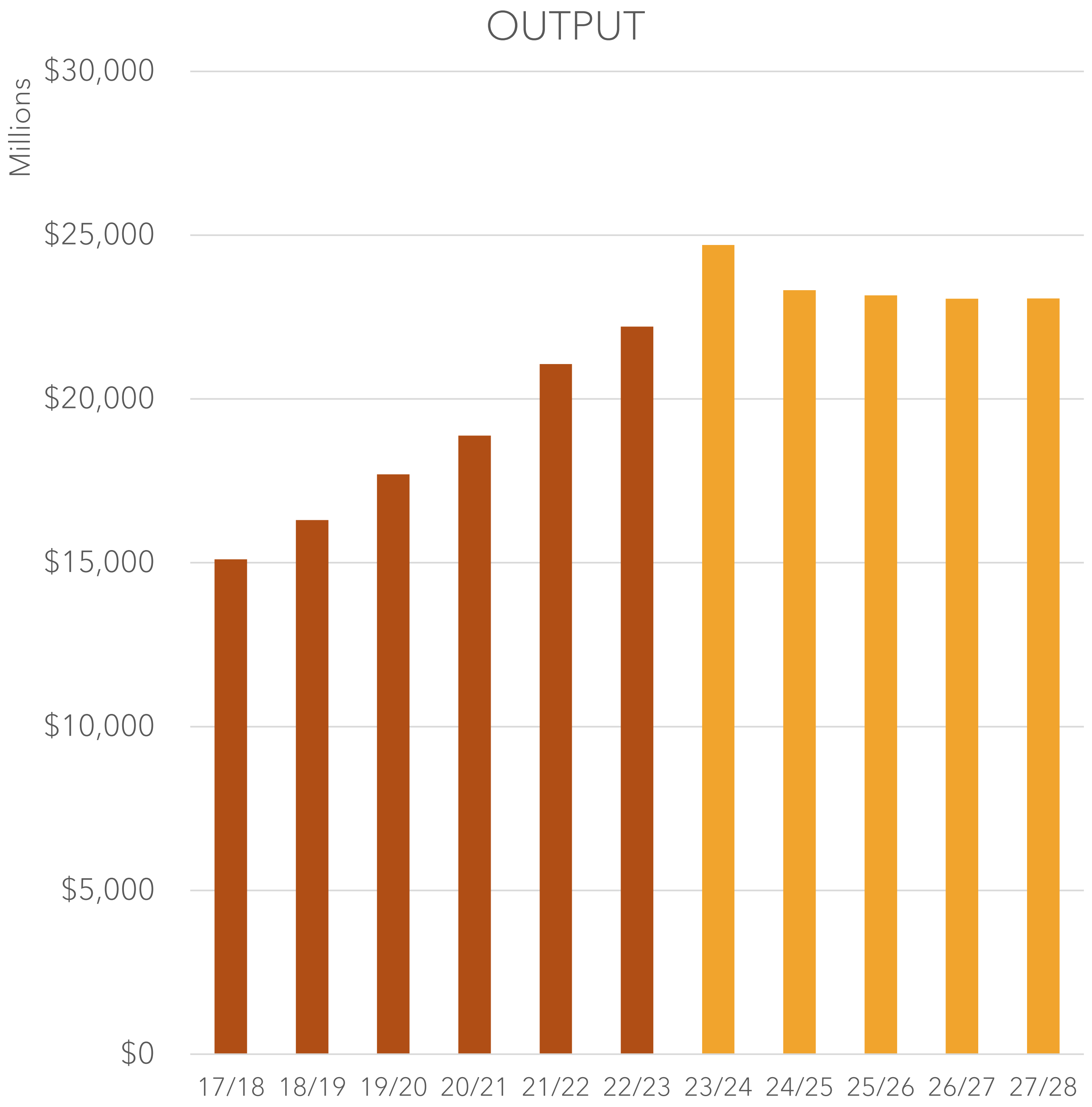
65.2%

of total appropriations

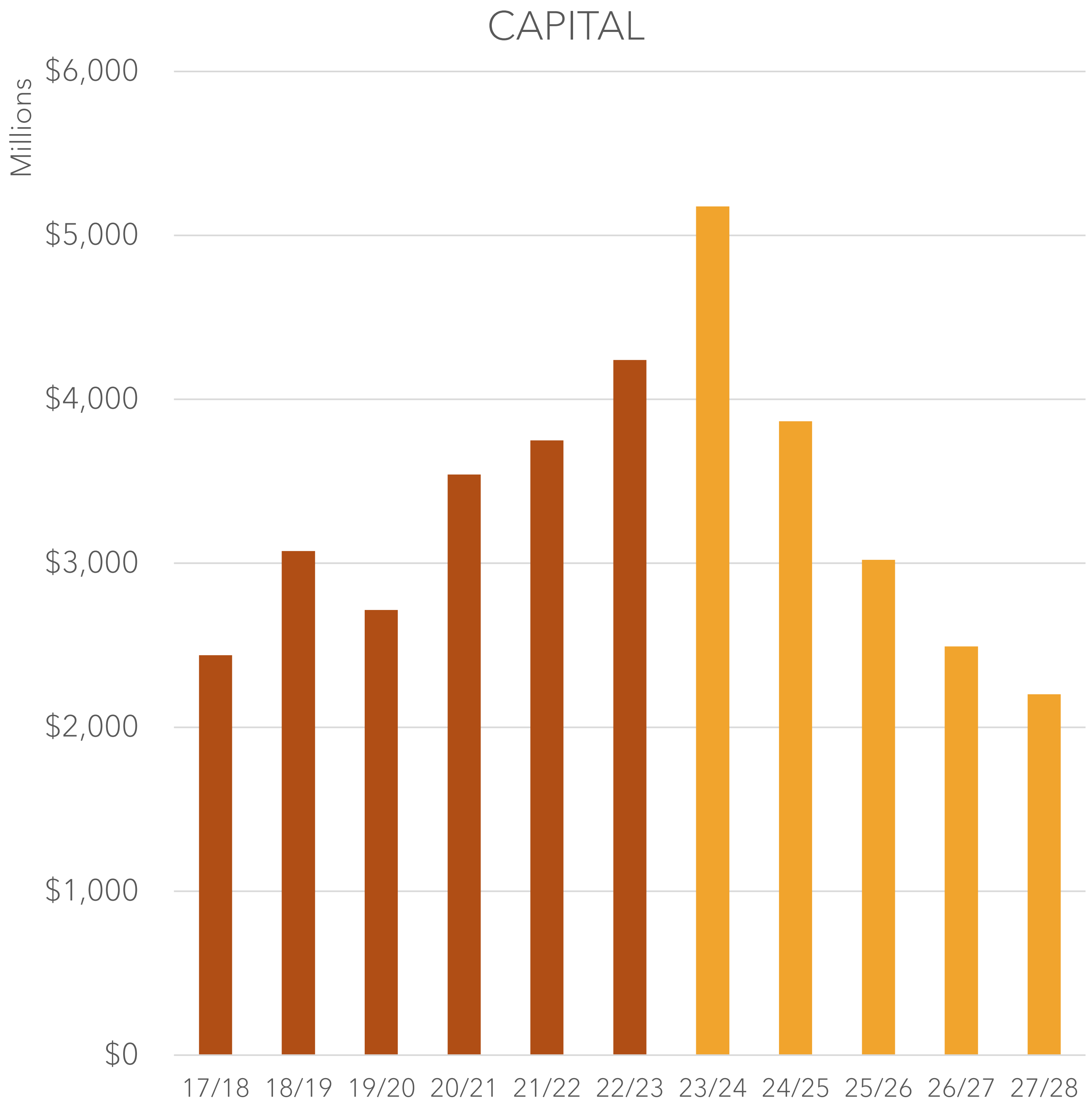
2023/24 OBU

Departmental Expenses

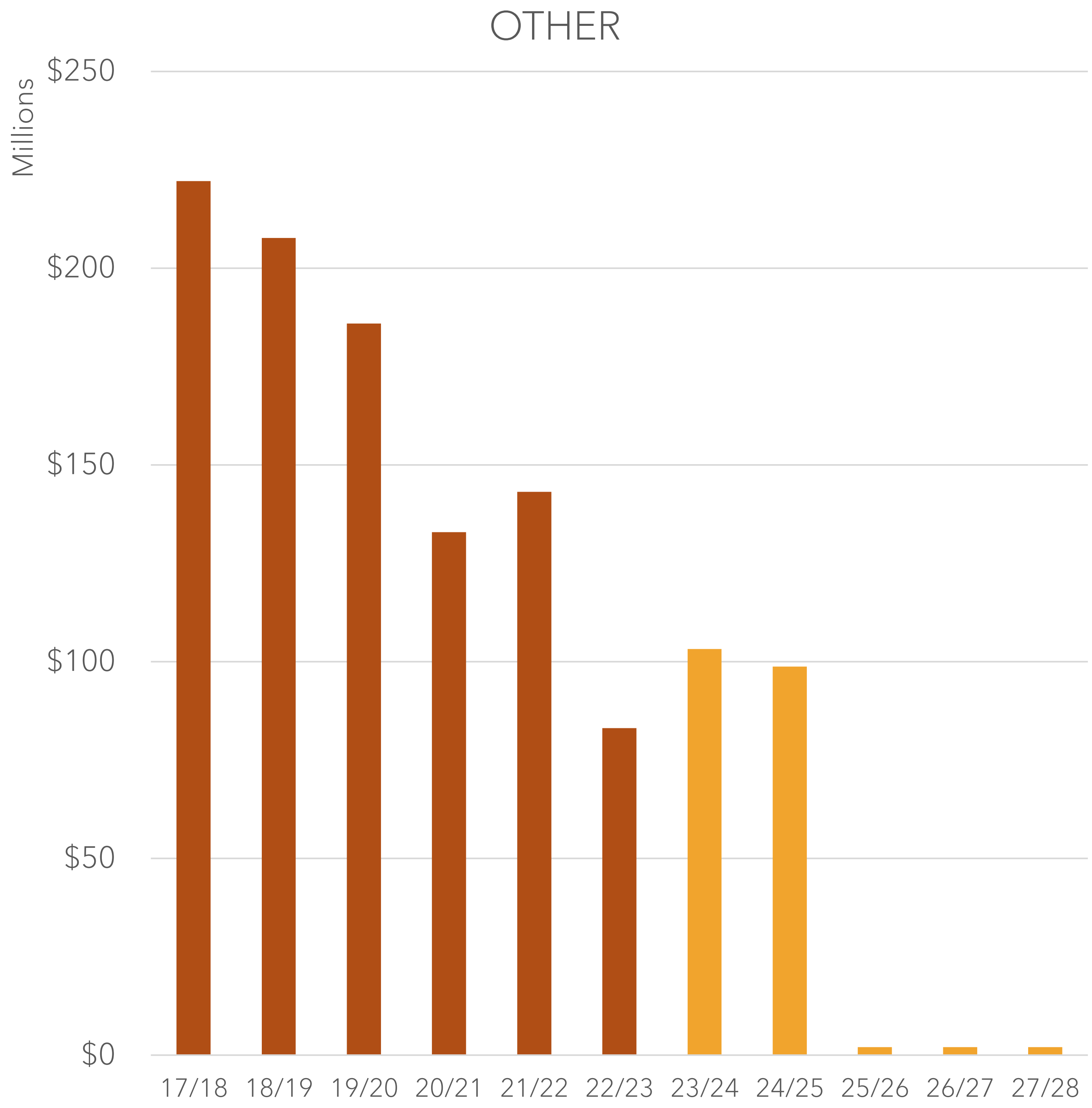
With top 10 appropriations by class



Appropriation		2023 OBU 2023/2024
School Property Portfolio Management		$3,102,186,000
Prison-based Custodial Services	MCA	$1,402,247,000
Army Capabilities Prepared for Joint Operations and Other Tasks		$1,157,681,000
Air Force Capabilities Prepared for Joint Operations and Other Tasks		$1,066,333,000
Statutory Intervention and Transition	MCA	$1,019,485,000
Investigations and Case Resolution	MCA	$824,050,000
Navy Capabilities Prepared for Joint Operations and Other Tasks		$730,305,000
Primary Response Management	MCA	$682,237,000
Crime Prevention	MCA	$563,226,000
Administering Income Support	MCA	$524,175,000



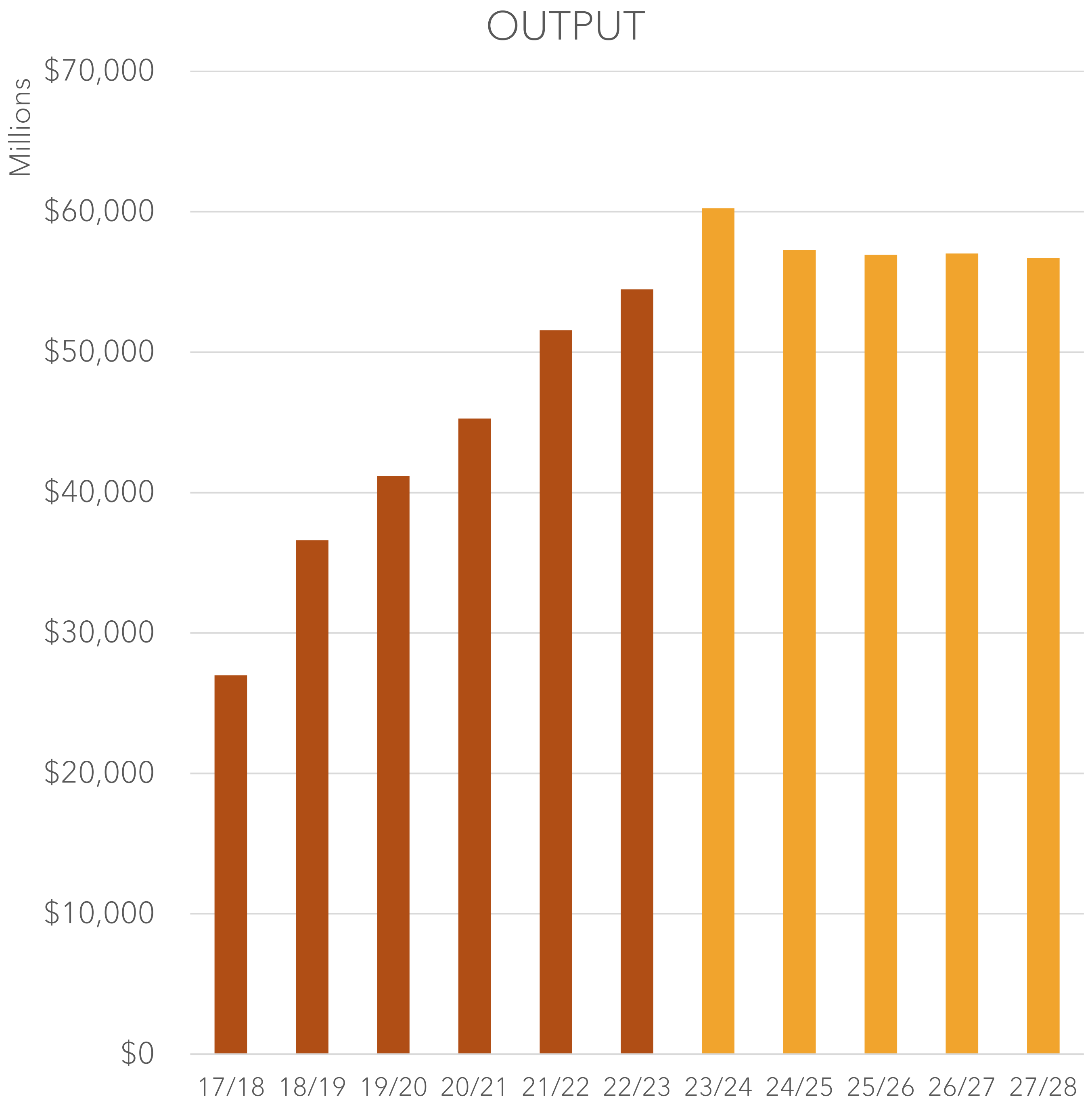
Appropriation	2023 OBU 2023/2024
Ministry of Education - Capital Expenditure	$2,102,560,000
New Zealand Defence Force - Capital Expenditure	$1,620,584,000
Department of Corrections - Capital Expenditure	$328,797,000
Ministry of Justice - Capital Expenditure	$191,766,000
Department of Internal Affairs - Capital Expenditure	$150,000,000
Ministry of Social Development - Capital Expenditure	$138,250,000
New Zealand Police - Capital Expenditure	$101,945,000
Ministry for Primary Industries - Capital Expenditure	$91,743,000
Ministry of Foreign Affairs and Trade - Capital Expenditure	$87,309,000
Ministry of Business, Innovation and Employment - Capital Expenditure	$77,084,000



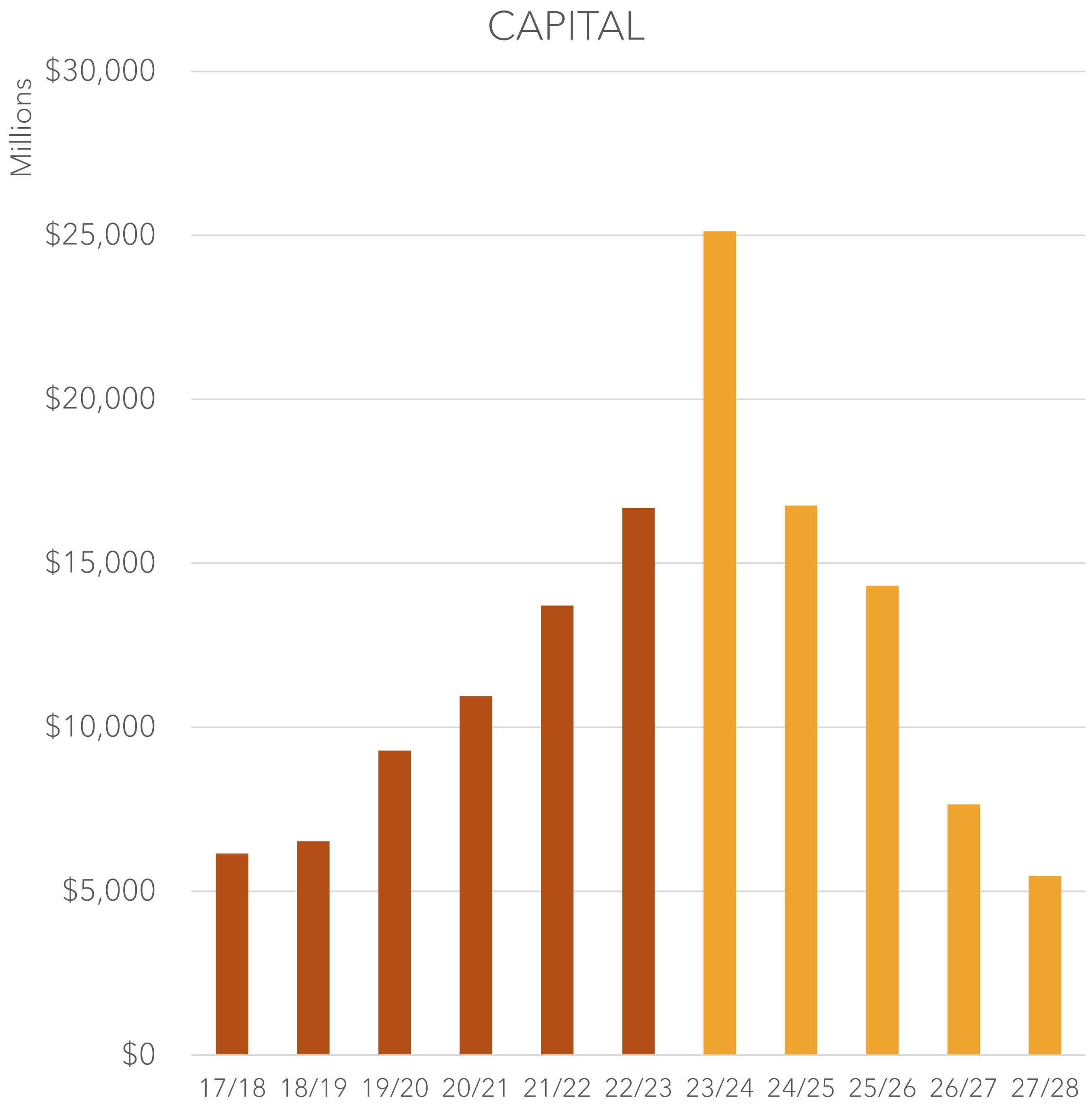
Appropriation	2023 OBU 2023/2024
Te Pae Tawhiti – Horizon One	$69,728,000
Residual activities following the transformation programme's substantive closure	$18,012,000
Loss on Sale of Physical Assets	$7,260,000
Transfer of Three Waters Assets	$6,200,000
Remuneration of Auditor-General and Deputy Auditor-General	$1,099,000
Remuneration of Ombudsmen	$506,000
Remuneration of the Parliamentary Commissioner for the Environment	$398,000
Compensation for Confiscated Firearms	$10,000

Non-Departmental Expenses

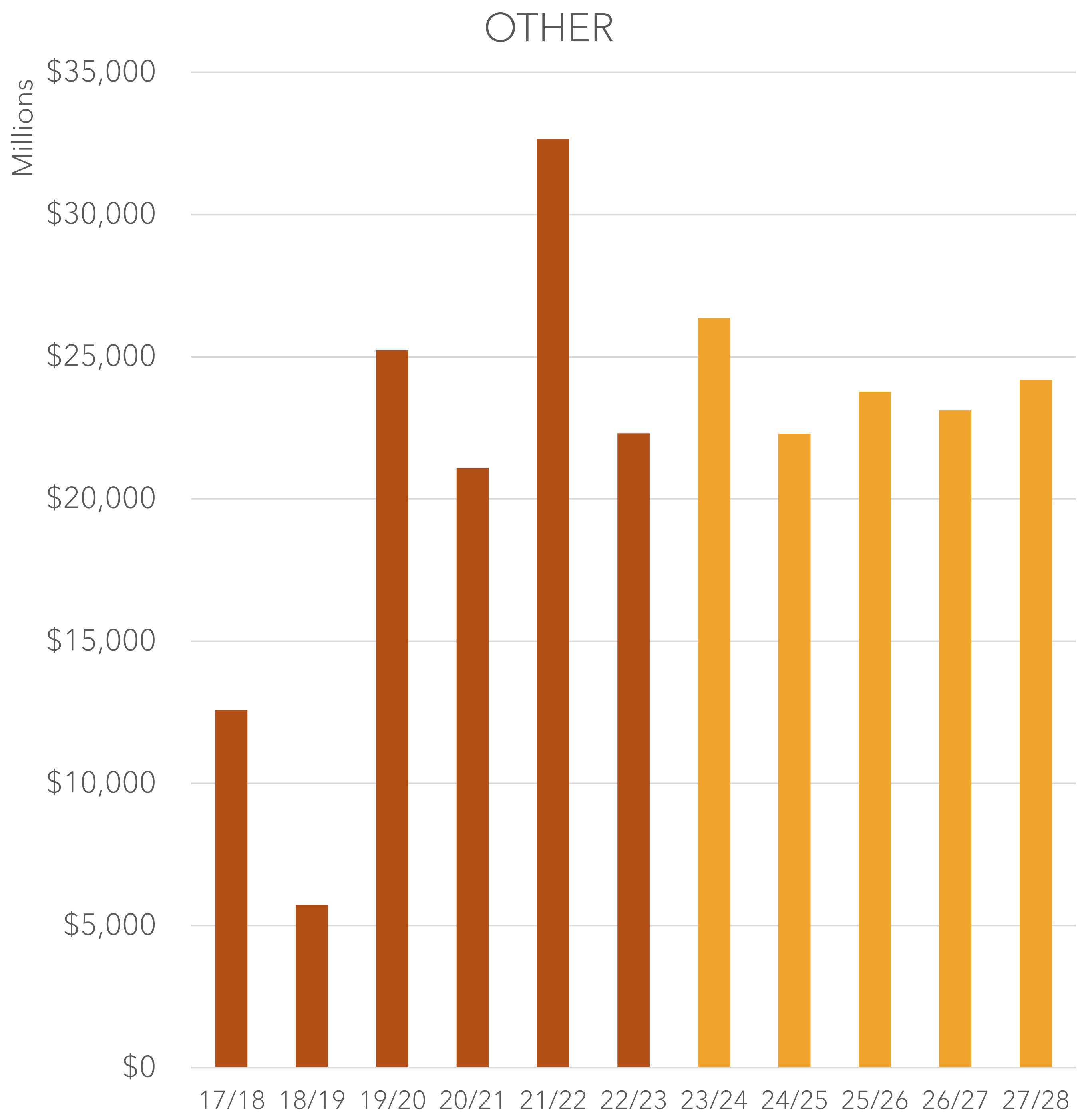
With top 10 appropriations by class



Appropriation		2023 OBU 2023/2024
Delivering Hospital and Specialist Services		$14,346,862,000
Delivering Primary, Community, Public and Population Health Services		$8,721,257,000
Primary Education	MCA	$4,603,720,000
Secondary Education	MCA	$3,403,499,000
National Land Transport Programme		$3,005,419,000
Early Learning		$2,761,919,000
Qualification Delivery	MCA	$2,579,175,000
Purchase of Public Housing Provision	MCA	$1,660,173,000
National Pharmaceuticals Purchasing		$1,497,600,000
Residential-based support services	MCA	$1,066,880,000



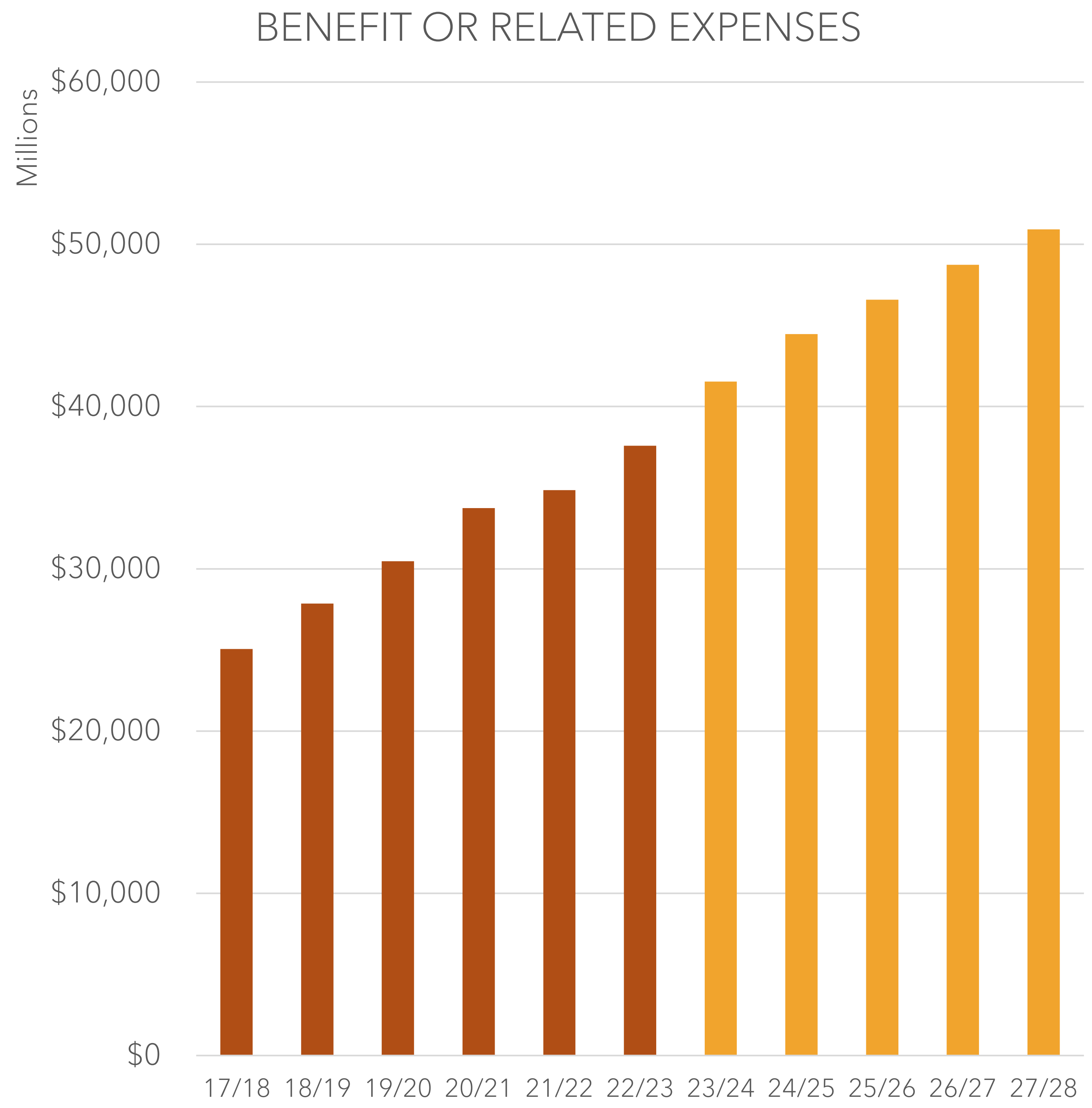
Appropriation		2023 OBU 2023/2024
Kāinga Ora – Homes and Communities Crown Lending Facility		$4,737,710,000
Defence Capability Delivery	MCA	$1,710,795,000
Remediation and resolution of Holidays Act 2003 historical claims		$1,642,330,000
NZ Superannuation Fund - Contributions		$1,602,000,000
Student Loans		$1,500,965,000
National Land Transport Programme Loan 2021 – 2024		$1,500,000,000
Capital Contribution to the Reserve Bank of New Zealand - Current and Future Risk Management		$1,300,000,000
Health Capital Envelope		$1,240,000,000
Capital Investment Package - Funding for Crown assets		$1,189,705,000
NLTF Borrowing Facility for Short-Term Advances		$750,000,000



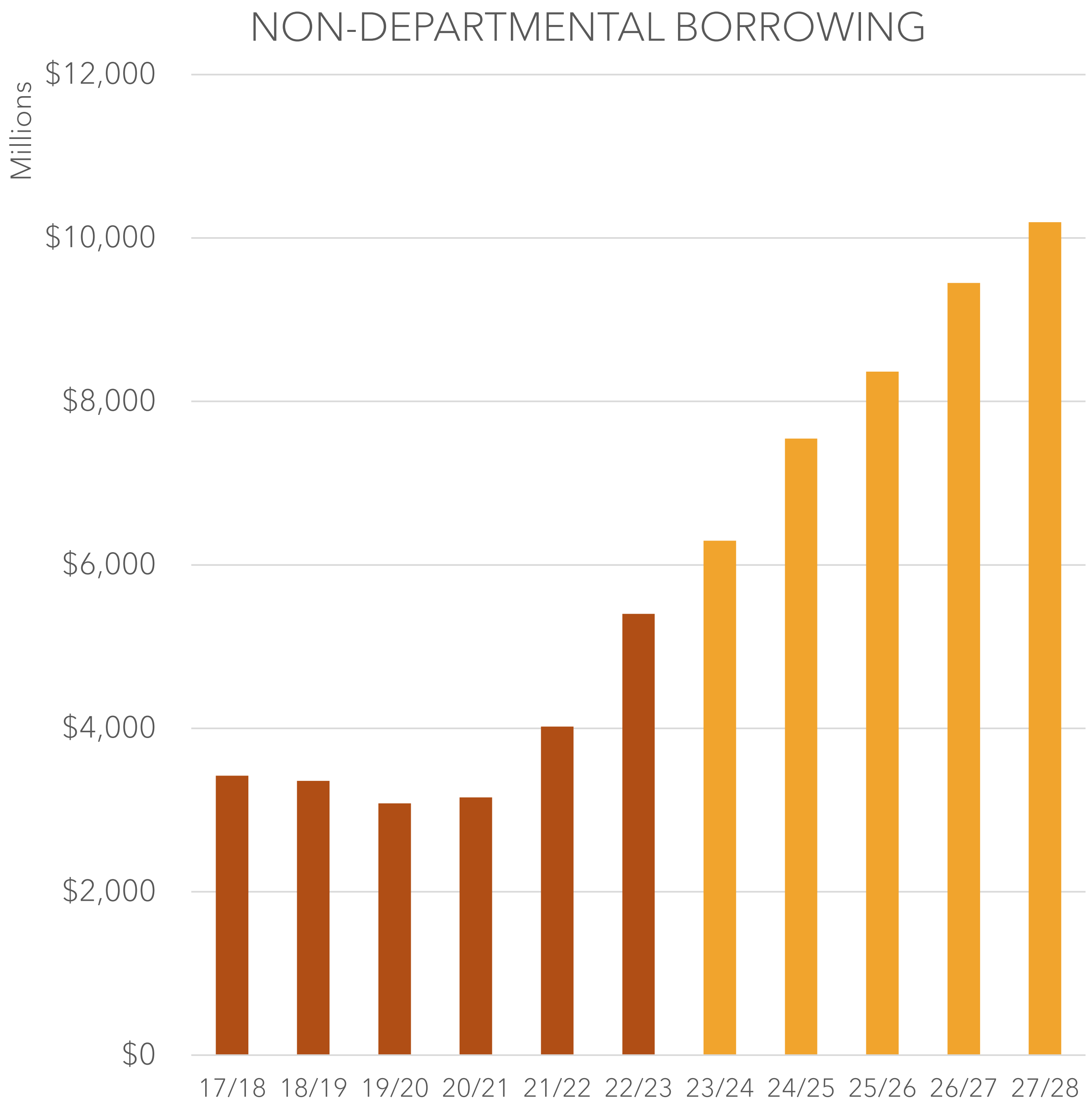
Appropriation	2023 OBU 2023/2024
KiwiSaver: Employee and Employer Contributions	$9,910,000,000
Allocation of New Zealand Units	$2,136,300,000
Payments and Expenses in Respect of Guarantees and Indemnities	$1,577,697,000
International Development Cooperation	$1,214,108,000
Impairment of Debt and Debt Write-Offs	$1,200,000,000
North Island Severe Weather Events	$1,173,587,000
Government Superannuation Fund Unfunded Liability	$783,449,000
Initial Fair Value Write-Down Relating to Student Loans	$601,000,000
Loss on Sale of New Zealand Units	$500,000,000
Research, Science and Innovation: R&D Tax Incentive	$470,334,000

Other Expenses

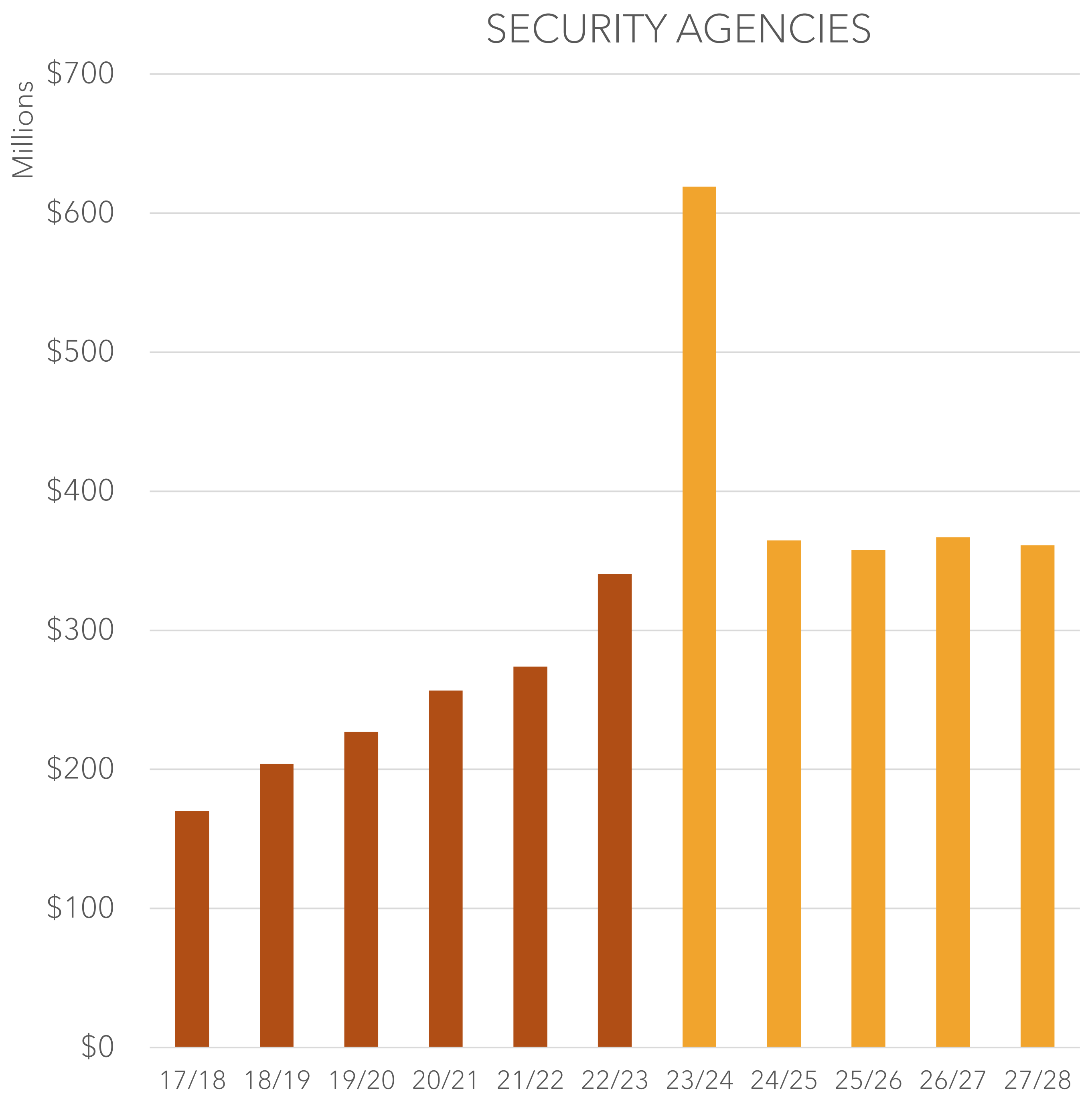
With top 10 appropriations by class



Appropriation	2023 OBU 2023/2024
New Zealand Superannuation	$21,610,345,000
Jobseeker Support and Emergency Benefit	$4,051,956,000
Supported Living Payment	$2,536,887,000
Accommodation Assistance	$2,491,707,000
Family Tax Credit	$2,278,000,000
Sole Parent Support	$2,139,201,000
KiwiSaver: Tax Credit	$1,058,000,000
Hardship Assistance	$701,628,000
Paid Parental Leave Payments	$650,000,000
Student Allowances	$555,177,000



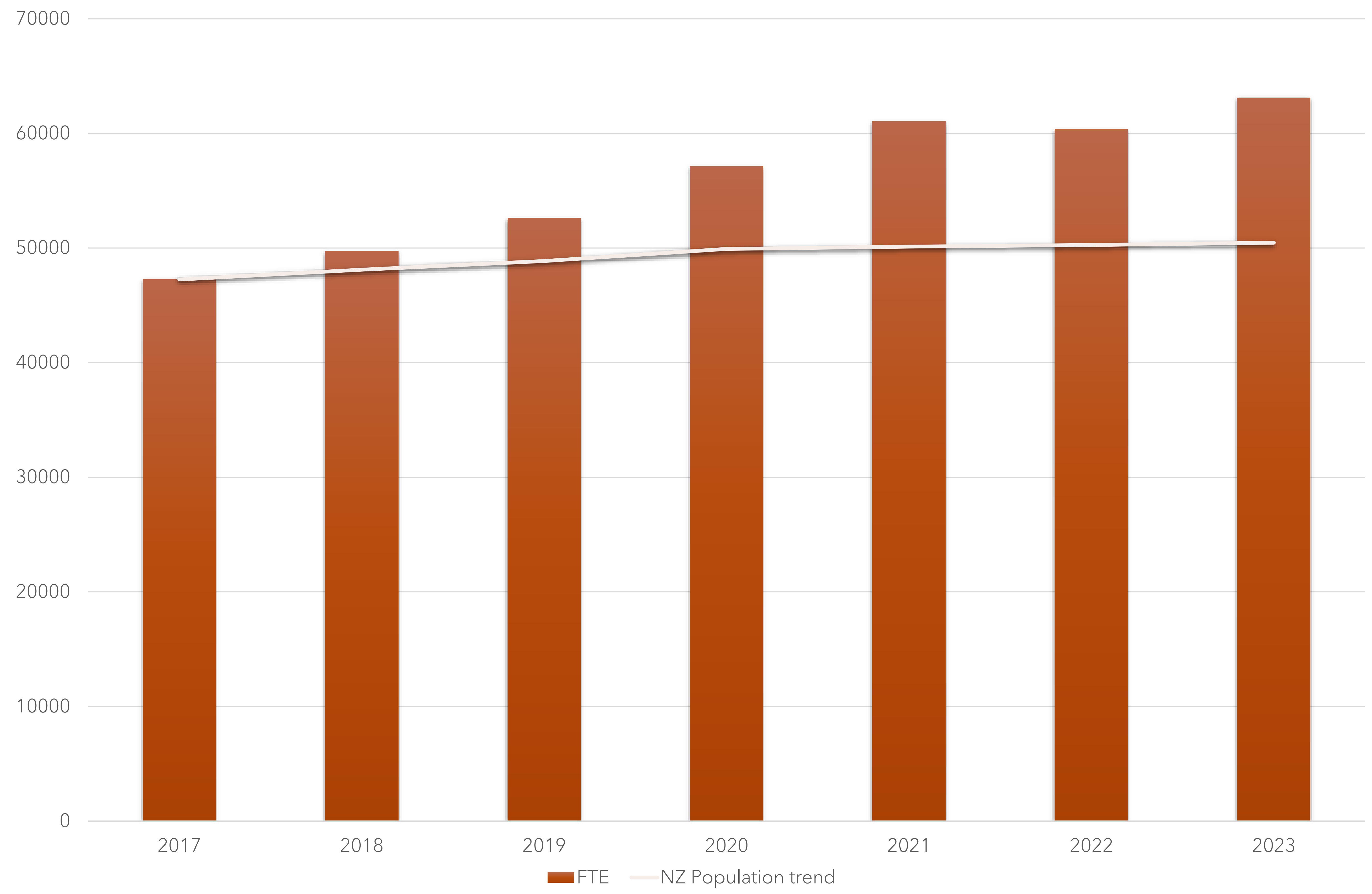
Appropriation	2023 OBU 2023/2024
Debt Servicing	$6,282,160,000
Income Equalisation Interest	$10,000,000
Environmental Restoration Account Interest	$4,300,000



Appropriation	2023 OBU 2023/2024
Communications Security and Intelligence	$494,562,000
Security Intelligence	$124,492,000

Analysis by FTE

Public Service Departments FTE



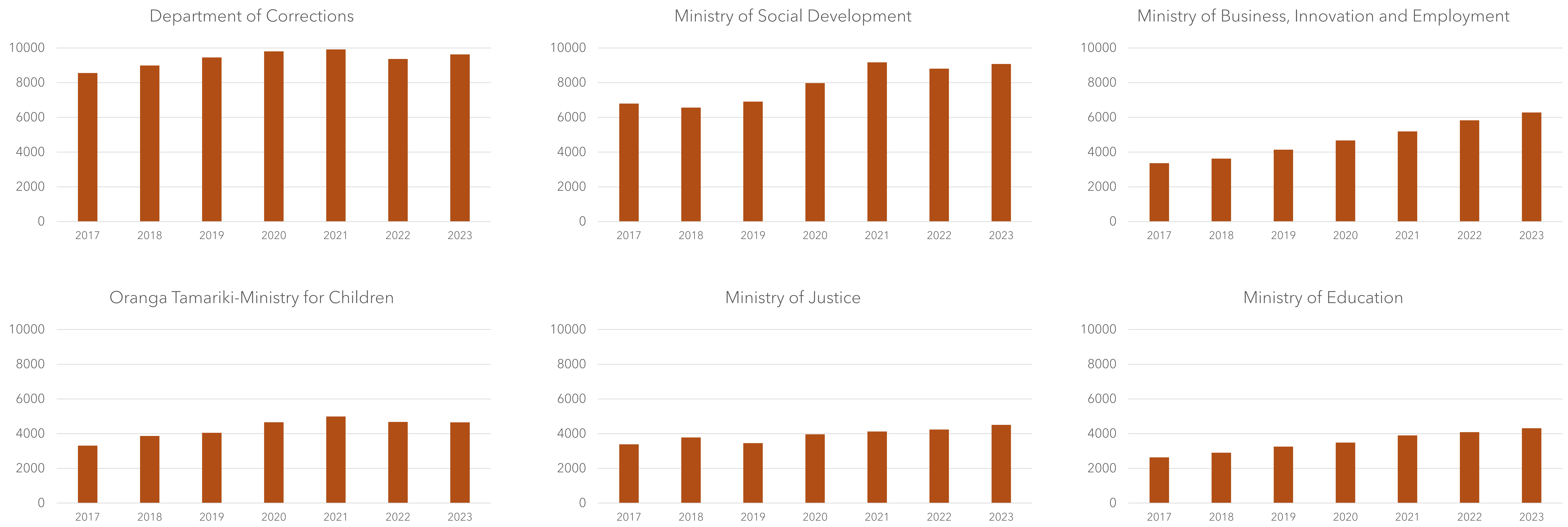
2023

Organisation	FTE
Department of Corrections	9,628.14
Ministry of Social Development	9,076.55
Ministry of Business, Innovation and Employment	6,282.07
Oranga Tamariki-Ministry for Children	4,650.57
Ministry of Justice	4,509.80
Ministry of Education	4,310.97
Inland Revenue Department	4,023.36
Ministry for Primary Industries	3,755.65
Department of Internal Affairs	2,662.60
Department of Conservation	2,554.23
Statistics New Zealand	1,700.13
New Zealand Customs Service	1,322.44
Ministry of Foreign Affairs and Trade	1,171.36
Ministry for the Environment	1,010.16
Land Information New Zealand	795.73
Ministry of Health	729.59
The Treasury	623.40
Government Communications Security Bureau	539.79
Ministry of Māori Development-Te Puni Kōkiri	443.80
New Zealand Security Intelligence Service	420.15
Ministry of Housing and Urban Development	383.27
Department of the Prime Minister and Cabinet	264.63
Ministry of Transport	241.44
Education Review Office	219.66
Crown Law Office	212.31
Public Service Commission	199.90
Ministry of Defence	191.10
Office for Māori Crown Relations-Te Arawhiti	186.90
Ministry for Culture and Heritage	182.18
Ministry for Disabled People	171.51
National Emergency Management Agency	154.28
Ministry for Pacific Peoples	135.98
Serious Fraud Office	73.80
Ministry for Ethnic Communities	61.15
Aroturuki Tamariki - Independent Children's Monitor	56.10
Cancer Control Agency	56.10
Ministry for Women	43.01
Social Wellbeing Agency	36.06

NOTE: 'Public Service' excludes some broader Government personnel, e.g. NZ Defence Force and Police
Source: Te Kawa Mataaho Public Service Commission - Workforce data

Largest Public Service Departments in 2023 by FTE

FTE movement since 2017



Source: Te Kawa Mataaho Public Service Commission - Workforce data

TE TAI ŌHANGA
THE TREASURY