

# The Treasury

## Budget 2024 Information Release

### September 2024

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
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- [27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

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## Treasury Report: Advice on time-limited funding

|              |                 |                     |               |
|--------------|-----------------|---------------------|---------------|
| <b>Date:</b> | 4 December 2023 | <b>Report No:</b>   | T2023/2026    |
|              |                 | <b>File Number:</b> | BM-2-1-2024-6 |

### Action Sought

|  | Action Sought  | Deadline        |
|--|--|-----------------|
| Minister of Finance<br>(Hon Nicola Willis) | <p><b>Agree</b> to the Treasury recommendation for each individual time-limited funded programme in Annex A or indicate your preference if you disagree.</p> <p><b>Agree</b> that even where you have agreed that the time-limited funded programme should be considered through Budget 2024, this does not indicate a preference that this is funded through Budget 2024.</p> <p><b>Agree</b> that the letter to Ministers outlining the process for Budget 2024 will include a section that outlines your expectations on time-limited funding.</p> <p><b>Agree</b> to include as an element of a fiscal sustainability programme, work to develop rules to outline when time-limited funding is appropriate (and when it is not) to set clear expectations to the public service and Ministers.</p> | 7 December 2023 |

### Contact for Telephone Discussion (if required)

| Name            | Position                                    | Telephone | 1st Contact    |
|-----------------|---|-----------|----------------|
| Bonar Robertson | Principal Advisor,<br>Public Finance Policy | [35]      | N/A<br>(mob) ✓ |
| Keiran Kennedy  | Manager                                     |           | N/A<br>(mob)   |

### Minister of Finance's Office Actions (if required)

|  |
|--|
| Return the signed report to Treasury with Annex A reflecting your preferences. |
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Note any feedback on the quality of the report

**Enclosure:**

Yes:

- Annex A: Summary of assessments on each time-limited funded programme identified by the Treasury
- Annex B: Individual assessments on each time-limited funded programme identified by the Treasury

## Executive Summary

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Providing time-limited funding where there is a clear public expectation of ongoing service provision should generally be avoided. This means that in advice where policies being agreed are clearly intended to be ongoing, the Treasury does not typically support time-limited funding.

However, there are situations where a time-limited funding approach might be appropriate for a policy intervention that may be ongoing, such as pilots, a temporary increase for an urgent need, or responding to a significant event. As part of your priority on fiscal sustainability and discipline, we recommend establishing rules that outline when time-limited funding is appropriate (and when it is not) to set clear expectations to the public service and Ministers to avoid time-limited funding where not appropriate in the future.

We have defined time-limited funding that results in a funding cliff as being where funding has been provided for a limited period and there is a clear public expectation of ongoing service delivery and funding. There can be judgement as to whether time-limited funding results in a funding cliff, and we have taken a broad view of what would meet this definition for the purposes of identifying individual time-limited funded programmes for our advice.

Under the Public Finance Act 1989, we are required to reflect government decisions in the fiscal forecasts. Where a choice remains for the government on funding a policy, including extending time-limited funding, it will not be reflected in the fiscal forecasts. However, the fiscal risks created by time-limited funding are disclosed in our Economic and Fiscal Updates, with the proposed Specific Fiscal Risk statement for the Half-Year Economic and Fiscal Update disclosing all time-limited funding that could result in a fiscal cliff (that meets the materiality threshold for being published).

There is already significant pressure on the Budget 2024 operating allowance and a substantial savings exercise is proposed to help achieve the Government's fiscal strategy, and fund critical cost pressures and Government policy commitments. In addition, the Coalition agreements include the principle of basing spending decisions on rigorous cost-benefit analysis to ensure taxpayer money is treated with respect and recognising the need to reduce the overall fiscal impact of Government. Some specific Coalition commitments may affect decisions on time-limited funding, such as the requirement to improve the cost-effectiveness of the school lunch programme.

Budget allowances are a mechanism for providing ongoing funding. We recommend most time-limited funding decisions are best managed through Budget 2024 based on detailed advice on the options and the value for money around providing ongoing funding. There may be a requirement to make decisions on some time-limited funding before Budget 2024. However, taking decisions in the short-term to fund time-limited funded programmes will reduce the choices the Government has at Budget 2024 or require more savings to be found through the Initial Baseline Exercise. In addition, taking decisions in the short-term risks building into baselines low value spending. Prioritisation and trade-off decisions are better managed as part of the full Budget 2024 process.

Attached to this report are individual assessments of the time-limited funded programme that we have identified (Annex B). Alongside this, we have provided Annex A which provides a summary of these assessments and our recommendation for next steps for each programme. We are seeking your agreement to these recommendations, or, where you disagree, an indication of your preference for responding to the time-limited funding.

It will be important that Ministers are across the areas of time-limited funding in their portfolios and that solving challenges of time-limited funding is not left to you as the Minister of Finance. This is to ensure your colleagues seek advice from their individual agencies on these, including how they can be managed before Budget 2024. To support this, we have recommended that you outline your expectations on time-limited funding as part of your letter to Ministers outlining the process for Budget 2024. If you agree with this, we will draft wording to be included in the letter.

### Recommended Action

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We recommend that you:

- a **review** the attached assessments (Annex B) on each time-limited funded programme identified by the Treasury
- b **refer** to the attached Annex A that provides a summary of the assessments and Treasury’s recommendation on each time-limited funded programme
- c **agree** to the Treasury recommendation in Annex A or **indicate** your preference if you disagree
- d **agree** that even where you have agreed that the time-limited funded programme should be considered through Budget 2024, this does not indicate a preference that this is funded through Budget 2024

*Agree/disagree.*

- e **agree** that the letters to Ministers outlining the process for Budget 2024 will include a section that outlines your expectations on time-limited funding

*Agree/disagree*

- f **agree** to include as an element of a fiscal sustainability programme, work to develop rules that outline when time-limited funding is appropriate (and when it is not) to set clear expectations to the public service and Ministers

*Agree/disagree*

- g **note** that this advice focuses on time-limited funding that relates to operating expenditure, not capital expenditure or system transformation, and Table 1 in this report outlines the timeframe for advice to the Government on fiscal risks related to capital expenditure or system transformation

- h **note** the further advice on the North Island Weather Events and the COVID-19 health response.

Keiran Kennedy  
**Manager**

Hon Nicola Willis  
**Minister of Finance**

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# Treasury Report: Advice on time-limited funding

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## Purpose of Report

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1. This report provides advice on time-limited funding. It includes advice on what time-limited funding is, when using time-limited funding is appropriate, and various considerations for deciding whether to provide further funding for time-limited funded programmes.
2. This report also outlines information and when you can expect further advice on fiscal risks relating to capital projects and system transformation, and the North Island Weather Events and COVID-19 health responses.

## Context

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3. In our recent engagement, you requested further advice on ongoing programmes with time-limited funding. The Treasury has undertaken an individual assessment of the time-limited funding that we are aware of (see Annex B). We have identified 22 time-limited funded programmes. The assessment includes:
  - details of the time-limited funding,
  - what further funding would be required to fund beyond the time-limited period,
  - the implications of not providing further funding,
  - what options are available for managing the time-limited funding, and
  - Treasury's recommendation.
4. These assessments reflect our first best advice. We have not consulted with individual agencies on these assessments, and while some costings are well developed, other costings would require further work to ensure they are robust.

## Advice on time-limited funding

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*Establishing a clear framework for when time-limited funding may be appropriate and putting in place the rules and disciplines to apply this will support your priority of fiscal sustainability*

5. When policy decisions are made, the full fiscal implications should be considered. A key component of this is getting the right balance between ensuring the funding is sufficient to enable implementation and delivery of the policy now and in the future, while being at a level that supports efficient and effective use of public funds and value for money.
6. Providing time-limited funding where there is a clear public expectation of ongoing service provision should generally be avoided. This means that in advice where policies being agreed are clearly intended to be ongoing, the Treasury does not typically support time-limited funding.

7. However, there are situations where a time-limited funding approach might be appropriate for a policy intervention that may be ongoing:
  - When the government is piloting or trialling policy approaches – where there will be an evaluation of the pilot or trial to assess its effectiveness and value for money before decisions to fund a full roll-out of the policy are made.
  - Programmes being funded that will be subject to a review process, which will assess whether funding should continue to be provided. Providing time-limited funding creates an incentive to ensure the review process is completed.
  - Where temporary extension funding has been provided under urgency to support an ongoing programme, alongside a clear expectation that further work will be completed to review the funding requirements before further funding will be approved.
  - In response to significant events (such as an adverse weather event or pandemic), when the length of time required to fund the response might be uncertain. Providing too much funding up front in these situations risks locking in higher levels of spend, and there is an opportunity cost of providing funding that may not end up being required.
8. Once the time-limited funding has been provided in these situations, we would expect decisions to provide ongoing funding (such as rolling out the pilot or providing further funding after the review) to be dealt with through the Budget process and within allowances.
9. We have provided you with initial advice on options to reinforce fiscal discipline, including setting revised and new expectations on what is required for policy proposals (TR 2023/1987 refers). We recommend that you include, as an element of a fiscal sustainability programme, work to develop rules that outline when time-limited funding is appropriate (and when it is not) to set clear expectations to the public service and Ministers to avoid time limited funding where not appropriate in the future. This may include options such as:
  - Clear communication to affected stakeholders that the policy is time-limited;
  - Clear off-ramps for the policy, such as a realistic exit strategy;
  - Additional gateways and approval processes for proposals with time-limited funding to ensure this is appropriate; and
  - Enhancing disclosures, such as more clearly identifying time-limited funding in the Specific Fiscal Risk statement in the Economic and Fiscal Updates or a disclosure from the Treasury on whether time-limited funding is consistent with the rules.
10. There are several ways the rules and expectations on time-limited funding could be embedded. This includes the Treasury driving changed practice in the public sector, through to updates to Cabinet Office circulars or changes to the Public Finance Act 1989. We have also recommended as part of the next steps below that you include your expectations on time-limited funding as part of your letter to Ministers outlining the process for Budget 2024. We can provide further advice on these options as part of the development of the fiscal sustainability programme.

*How we have defined time-limited funding for the purposes of this advice*

11. On 27 November, we provided you with information on the top fiscal risks. This included different categories of fiscal risk, including cost pressures from increasing demand and expectation on services, potential fiscal implications from reviews, cost escalations in capital projects, and time-limited funding.



12. This week, you will also receive a report on the proposed Specific Fiscal Risks statement in the HYEPU, which will highlight new, changed and expired risks since the published Pre-Election Economic and Fiscal Update [TR 2023/2033 refers].
13. The difference between a fiscal risk created by time-limited funding (where the activity itself is not time-limited) and other types of fiscal risks (e.g. cost pressures) can be unclear. To identify areas of time-limited funding we have applied a definition that **time-limited funding is where funding has been provided for a limited period and there is a clear public expectation of ongoing service delivery and funding**. This does not include cost pressures (including price and volume pressures) or intentionally reducing baselines.
14. Figure 1 shows the difference between genuine time-limited funding because the activity is time-limited, time-limited funding that results in a funding cliff, cost pressures, and situations where there is both a cost pressure and a funding cliff.

*Figure 1: Difference between time-limited activity, cost pressures, and funding cliffs*



15. To provide a comprehensive view across time-limited funding for our assessments, we have taken a broad view on what constitutes public expectations for ongoing funding or service delivery. This means the assessments for time-limited funding has expanded from the list of fiscal cliffs we have previously provided to you. In addition, we have sought further information on costings, which has resulted in changes to the previous estimate of further funding required to provide ongoing funding for some time-limited funded programmes.
16. Judgement can be required as to whether funding is genuinely time-limited versus those facing a funding cliff. In Annex A we have categorised the time-limited options between those that (in our view) are genuine time-limited programmes and those that are more indicative of a funding cliff for an ongoing service.

17. A challenge with time-limited funded programmes is that when funding is initially provided, there can be uncertainty on the end date, and programmes may be delayed for a number of reasons. An example of this is the Jobs for Nature programme (refer to Annex B) which has seen some funding extended over more years than initially intended. This can create a sense that there is a funding cliff over time, when the programme was always intended to be time limited. In this case, our recommendation is not to provide further funding as the programme was always intended to end.
18. Sometimes delays can mean additional funding is required to extend the time-limited period. An example of this is the liquidity facility for the Civil Aviation Authority (refer to Annex B), where delays in the fees and funding review for their levies and charges has resulted in a funding cliff. In this case, we would recommend providing funding, but only for the minimum period required to incentivise the agency to complete its fees and funding review. This treatment would also apply to funding allocated to Historic Claims to Abuse in Care (see Annex B) which is dependent on decisions related to the broader work programme related to redress for survivors of abuse in care.
19. We have excluded the Ministry of Social Development's (MSD) Oranga Mahi employment programme that was on the list of time-limited funding that we previously provided to you. While the specific funding for this programme presents as time-limited funding due to recent increases in spending (predominantly due to COVID-19), this is part of a broader Employment Multi-Category Appropriation (MCA) that includes a number of employment programmes. The design of the MCA gives MSD flexibility to direct funding to the highest value activities. This means the funding for Oranga Mahi needs to be considered within the context of the trade-offs across the multiple employment programmes that is made possible by the MCA.
20. There will still be smaller levels of time-limited funding across the public sector. For example, period products in schools, originally funded at \$8.145 million per annum through an underspend in the school lunches programme, is due to expire at the end of the 2024/25 financial year. We have not included these smaller programmes as we would expect agencies to work with their portfolio Ministers to develop options for managing smaller time-limited funding, including through reprioritisation of existing baseline funding.

## Broader fiscal risks that we will provide further advice to you on

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21. There are two broader fiscal risks that we will provide further advice to you on in the coming weeks.  
*COVID-19 public health response*
22. The COVID-19 public health response (\$232.3m in 2023/24) and the COVID-19 vaccine programme (\$105.3m in 2023/24) are only funded until the end of this financial year. This funding has stepped down significantly from previous years and continues to decrease during the current financial year. Policy decisions are required to determine the future of these programmes and the ongoing level of COVID-19 public health funding, if any, beyond baselines. You and the Minister of Health are due to receive a report back from Te Whatu Ora on COVID-19 public activity and expenditure early in the new year.

*North Island Weather Events (NIWE)*

23. The attached annexes and assessments include two specific large areas of time-limited funding for the response and recovery from NIWE: *Temporary Accommodation Services* and *Road and Response and Recovery Works*.
24. There is also a broader set of possible NIWE cost pressures that you will receive advice on:
- Woody debris and silt in Tairāwhiti and Hawke's Bay presents risks to economic activity, infrastructure and to human and animal health.
    - To date, the Crown has provided \$232.2 million to these regions for this issue. <sup>[38]</sup>
    - Treasury has not assessed or verified the underlying assumptions, and consider there is a high degree of uncertainty in the estimates provided. An application for <sup>[33]</sup> was submitted against the National Resilience Plan (NRP) Phase 3, but no decisions on this application have been taken. The remaining funding pressures do not have an identified funding source currently. There is policy discretion over the extent to which further Crown funding is provided, the terms for any further funding <sup>[38]</sup>
  - Completing cost sharing arrangements with remaining areas. <sup>[38]</sup>
  - Whenua Māori and marae pathway funding:
    - An initial allocation of \$75 million was made to support the relocation of residents and marae from category 3 whenua Māori. Since that allocation was provided additional marae have been categorised as category 3.
    - <sup>[33]</sup>
  - Existing cost sharing arrangements.
    - There is the potential for increased costs associated with the category 3 buyout process in Hawke's Bay, Gisborne, and Auckland where cost agreement contracts have been executed. Additional category 3 properties can arise if risk mitigation infrastructure proves infeasible.
    - <sup>[33]</sup>
25. The NRP has previously been a source of funds for some of these initiatives. We recommend that decisions for any ongoing funding be considered in Budget 2024.



28. We will provide advice on improved management of the capital investment pipeline, including a proposed review of the capital pipeline to undertake through Budget 2024, to help to address cost escalations and delivery delays (T2023/1967 refers).

## How should existing time-limited funding be managed?

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*To recognise further funding of time-limited programmes in the fiscal forecasts, Cabinet will need to take policy decisions*

29. The preparation of the Treasury's fiscal forecasts is based on generally accepted accounting practice (GAAP), following standards set by an independent body. Under GAAP, the fiscal forecasts must include all Government decisions and other circumstances to the fullest extent possible. The fiscal forecasts represent the Treasury's best estimate of the Government's fiscal performance and position for the current year and next four years, based on the information we have available and our best professional judgement.
30. Under the Public Finance Act 1989, we are required to reflect government decisions in the fiscal forecasts. Where a choice remains for the government on funding a policy, including extending time-limited funding, it will not be reflected in the fiscal forecasts unless there is a clear authority or intent from the government of the day to do so.
31. However, while further time-limited funding may not be reflected in the fiscal forecasts, the fiscal risks created by time-limited funding are disclosed in our Economic and Fiscal Updates. The proposed Specific Fiscal Risk statement for the Half-Year Economic and Fiscal Update, required under the Public Finance Act 1989, will disclose all time-limited funding that could result in a fiscal cliff (that meets the materiality threshold for being published).

*We recommend that the Government take decisions on providing funding for time-limited funded programmes after receiving policy advice on the options and using the Budget process to enable trade-offs*

32. Ultimately, any of the policies that have resulted in time-limited funding can be stopped. However, in some areas this will necessarily have significant trade-offs, including impacts on living standards. An example of this is the time-limited funding for the Combined Pharmaceutical Budget (refer to Annex B).
33. In most cases there are clear policy choices that could be taken to manage or mitigate the amount of funding required. This includes opportunities to scale funding, including making changes to policy settings to better target or cap the funding required.
34. We have provided advice to you on the broader fiscal context, alongside a proposed fiscal and Budget 2024 strategy [T2023/1953 refers]. There is already significant pressure on the Budget 2024 operating allowance and a substantial savings exercise is proposed to help achieve the Government's fiscal strategy, and fund critical cost pressures and Government policy commitments.
35. In addition, the Coalition agreements include the principle of basing spending decisions on rigorous cost-benefit analysis to ensure taxpayer money is treated with respect and recognising the need to reduce the overall fiscal impact of Government. Some specific Coalition commitments may affect decisions on time-limited funding, such as the requirement to improve the cost-effectiveness of the school lunch programme.
36. There may be a requirement to make decisions on some time-limited funding before Budget 2024. However, taking decisions in the short-term to fund time-limited funded programmes will reduce the choices the Government has at Budget 2024 or require

more savings to be found through the Initial Baseline Exercise. Prioritisation and trade-off decisions are better managed as part of the full Budget 2024 process, either through inviting specific programmes with time-limited funding into the Budget process, or outlining expectations that agencies and portfolio Ministers manage these through reprioritisation and outline how in the Initial Baseline Exercise process.

37. In addition, taking decisions in the short-term risks building into baselines low value spending and potentially meeting cost pressures that would best be considered through Budget 2024.
38. For these reasons, we recommend most time-limited funding decisions would best be managed through Budget 2024 based on detailed advice on the options and the value for money around providing ongoing funding, allowing trade-offs to be made between your various spending commitments and the use of your Budget allowances. <sup>[33]</sup>

## Next Steps

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*We are seeking your decisions on each time-limited funded programme*

39. We have attached Annex A which lists the 22 time-limited funded programmes we have provided assessments for, and the Treasury recommendation for each item. We are seeking your agreement to these recommendations, or if not, what approach you want to take.
40. Most of our recommendations are that decisions for further funding be considered through the Budget 2024 process. This does not mean we recommend that these programmes are funded through Budget 2024, but that further work is completed (including detailed advice on options for the programme) in the lead up to Budget 2024, to allow informed trade-off and prioritisation decisions to be made.
41. Where you agree with the Treasury recommendation to consider the time-limited funding through Budget 2024, it is important that this recommendation is not seen as being your preference that these are funded through Budget 2024. If you would like to invite specific time-limited funded programmes into the Budget 2024 process, please indicate your preference in Annex A.

*Taking action to support collective Ministerial ownership of fiscal risks*

42. In our advice to you on implementing your fiscal strategy, we emphasised the importance of collective Cabinet ownership of the fiscal strategy and the fiscal sustainability programme. You have already shown your desire to ensure there is this collective commitment to this programme through the proposal of a Cabinet Expenditure Control Committee.
43. It will be important that Ministers are across the areas of time-limited funding in their portfolios and that solving challenges of time-limited funding is not left to you as the Minister of Finance. This is to ensure your colleagues seek advice from their individual agencies on these, including how these can be managed before Budget 2024.
44. To support this, we have recommended that you include your expectations on time-limited funding as part of your letter to Ministers outlining the process for Budget 2024. If you agree with this, we will draft wording to be included in the letter.