The Treasury

Budget 2024 Information Release

September 2024

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[25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

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

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

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[36] 9(2)(h) - to maintain legal professional privilege

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

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Treasury Report: Mini Budget Scope and Decisions

Date:	5 December 2023	**Report No:**	T2023/2030
		File Number:	BM-2-1

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Provide** feedback on initiatives for inclusion in the Mini Budget. **Agree** which critical cost pressures, Government policy commitments, and time limited funding to invite into the Budget 2024 process. **Note** we will incorporate these decisions into your draft Cabinet paper for 11 December.	Wednesday 6 December

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Chris Brunt	Senior Analyst, Budget	[39]	N/A (mob)	✓
Stephen Bond	Manager, Budget		N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Executive Summary

We understand that – alongside setting out the economic and fiscal context and announcing measures to improve fiscal discipline in response to the deterioration in the fiscal forecast – you will use the Mini Budget to announce:

1. final decisions on time-critical and other priorities, as well as finalising the fiscal implications of your 100-day plan, and

2. “in-principle” decisions that would allow the Government demonstrate how its tax commitments will be fully funded.

On (1), this paper provides initiative-by-initiative advice and seeks your decisions on the inclusion of these initiatives in your Mini Budget Cabinet paper on 11 December. This includes separate advice commissioned on the Budget 2023 subsidies for Early Childhood Education. Recommendations for your agreement are included in callout boxes throughout this report.

On (2), this paper seeks your decisions regarding what “in-principle” decisions you would like to take via a Mini Budget. The approach of taking “in-principle” decisions does carry risks, particularly reducing your scope to make choices and trade-offs between your tax and non-tax manifesto commitments in Budget 2024. We consider these risks can only be partly mitigated by ensuring that any announcement of “in-principle” decisions includes caveats regarding final decisions not having been taken yet, and costings being indicative only and subject to change.

Identifying sufficient savings (via final and in-principle decisions) to offset the indicative cost of your tax commitments is possible, but would involve almost every programme saving that you have committed to already. You will accordingly need to identify further savings or revenue options as part of the Budget 2024 process to fund the remainder of your commitments, meet cost pressures, and extend any time-limited funding. To assist you in making these judgments, we have included the following annexes:

- **Annex 1:** Mini Budget Initiatives
- **Annex 2:** Government Policy Commitments for invite into Budget 2024
- **Annex 3:** Time-limited funding for invite into Budget 2024
- **Annex 4:** Indicative Cost Pressures for Invite into Budget 2024

We also provide advice and seek your decisions regarding treatment of other 100-day commitments with fiscal costs post 11 December, and next steps in preparing for your Mini Budget communications on 20 December.

Recommended Action

We recommend that you:

a **provide** your recommendations on each of the potential Mini Budget initiatives via the callout boxes in this body of this paper, b **agree** that the announcement of any in-principle decisions on 20 December should include caveats regarding final decisions not having been taken yet, and costings being indicative only and subject to change,

Yes / No

c **agree** to, given pressure on the Budget 2024 allowance, recommend to your Cabinet colleagues that, until the Cabinet Expenditure Committee is established:

i. Portfolio Ministers bringing papers to Cabinet which have your fiscal implications should seek your prior approval before lodging papers, and

Yes / No

ii. Agencies must consult all financial recommendations with the Treasury prior to papers being lodged.

Yes / No

d **agree** to recommend to your Cabinet colleagues that 100-day plan decisions with modest fiscal implications taken after 11 December should be met via reprioritisation,

Yes / No

e **agree** for the Treasury consult with the Climate Change Interdepartmental Executive Board secretariat in preparation of a draft of the legislatively required 'Climate Implications of Policy Assessment' (CIPA) section of the Mini Budget Cabinet paper, and

Yes / No

f **agree** for the Treasury to proceed with creating a simplified Mini Budget supporting document in coordination with your office.

Yes / No

g **indicate** in the following annexes which initiatives you want to invite portfolio Ministers and agencies to submit into the Budget 2024 process**:**

- Annex 2: Government Policy Commitments for invite into Budget 2024
- Annex 3: Time-limited funding for invite into Budget 2024, and
- Annex 4: Indicative Cost Pressures for Invite into Budget 2024

Stephen Bond
Manager, Budget

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Treasury Report: Mini Budget Scope and Decisions

Purpose

1. This report seeks your decisions on what to include in the Mini Budget package Cabinet paper on 11 December. We understand you wish for these to comprise:

   a a small number of final decisions (i.e., policy and financial recommendations agreed), and

   b a series of "in-principle" decisions, where Cabinet agrees to progress certain policies in the Coalition agreements, subject to final decisions in early 2024.

2. You can then publicly announce these decisions on 20 December.

3. This paper also seeks your agreement on:

   a which critical cost pressures, Government policy commitments and time limited funding you want to invite for submission into the Budget 2024 process, and

   b which agencies you want to provide further targeted policy savings to help create fiscal headroom (in addition to the baseline reduction savings target).

Budget 2024 and Mini Budget strategy and fiscal context

Overall context

4. You have said that you expect the Mini Budget to focus on:

   a setting out the economic and fiscal context,

   b announcing how the Government will introduce additional fiscal discipline in response to the deterioration in the fiscal forecast, and

   c announcing savings associated with 100-day decisions and announcing "in-principle" decisions that would allow the Government to demonstrate how its tax commitments will be fully funded.

5. Identifying sufficient savings from the final and "in-principle" decisions to offset the fiscal costs of your tax package is possible, but would involve using almost every programme saving that you have committed to already. This is summarised in Annex 1.

6. As we have set out in previous advice, around $1 – 2 billion of further savings per annum could be required to:

   a fund the remainder of the Government's policy commitments (see Annex 2),

   b fund programmes with current time-limited funding (see Annex 3), and

   c meet critical cost pressures (see Annex 4).

7. The critical cost pressures set out in Annex 4 are targeted even if you were to invite all those listed. The Treasury undertook a pre-election information collection exercise where agencies and Treasury vote teams raised other cost pressures that agencies would implicitly be required to reprioritise within their baselines to meet.

8. The total quantum that would be funded from inviting these initiatives and would therefore need to be saved could be substantially lower than $1 – 2 billion depending on decisions throughout the Budget process.

9. To reduce this savings quantum upfront, you can choose to invite fewer of these initiatives into the Budget 2024 process. We are seeking your decisions in the attached annexes on which initiatives you want to invite (noting an invite is not a guarantee of funding). We will provide a final savings number to you following your decisions.

Interaction with HYEFU

10. Given HYEFU fiscal forecasts are being finalised as at 24 November, decisions taken via the Mini Budget (including those taken in-principle) would not be reflected in the forecasts. However, they may be disclosed in the document as decisions taken after the finalisation of the fiscal forecast.

11. Your 100-day plan also included an action to bring forward a new draft of the Government Policy Statement on Land Transport for 2024-27 (GPS24). This will not include the fuel excise duty increases proposed in the draft released by the previous Government. This change – alongside removing other pre-commitments associated with the current draft GPS – is reflected in the annex tables.

12. To demonstrate that this decision can be managed in the context of a tight Budget 2024 allowance, you may wish to include signalling in the Mini Budget that the updated draft GPS will reflect different priorities and that the Government will need to reprioritise expenditure in the capital pipeline in line with fiscal and capacity constraints (refer T2023/1967) and/or identify alternative funding mechanisms.

Final decisions to make at Mini Budget

13. Initiatives for potential final policy and financial decisions in your Mini Budget are:

    a time-critical tax changes,

    b financial implications of 100-day decisions you have already taken,

    c other decisions where there could be potential risks to deferring decisions until early 2024,

    d savings from repeal decisions already taken where replacement decisions are likely to occur in 2024. We do not recommend that these savings are netted off against tax commitments in your Mini Budget communications, due to the likelihood of these funds being (partially or fully) required to fund the replacement (e.g., the new Resource Management system and GPS24), and

    e "Climate Dividend" savings from your Fiscal Plan (e.g., from the Government Investment in Decarbonising Industry Fund (GIDI)).

14. A full list of these initiatives for potential final decisions is set out in Table 1below. Note that total operating figures are subject to change depending on decisions taken in this report and production of final costings (e.g., for tax).

Table 1 – Initiatives for final decisions at Mini Budget [1]

ID	Title	Total Operating over forecast period ($m)
Time critical tax changes		664
58	*Restoring interest deductibility for rental property*	*2,795*
61	*Brightline test adjustment*	*180*
63	*Commercial buildings depreciation*	*(2,311)*
Other stop work instructions from 100 day plans		(354)
19	*Primary Sector Industry Transformation Plans*	*(29)*
23	*Business, Science and Innovation Industry Transformation Plans*	*(138)*
12	*Stop work on Lake Onslow*	*(64)*
109	*Repeal Fair Pay Agreements (FPA) regime*	*(65)*
11	*Stop establishment of New Zealand Income Insurance Scheme (NZIIS)*	*(8)*
14	*Stopping the clean car discount*	*(50)*
Time critical changes not in the 100-day plan		(2,535)
128 or 33	*Index main benefits to CPI rather than wages*	*(670)*
73	*Unwinding of Budget 2023 ECE extension to 2-year-olds*	*(1,181)*
1011	*Unwinding of Budget 2023 4.6% uplift in ECE subsidies*	*(373)*
46	*End free Public Transport for 5-12 year olds and half price Public Transport for 13-24 year olds*	*(265)*
15	*Abolish the Regional Skills Leadership Groups (RSLG)*	*(46)*
Savings from repeal decisions when replacement likely to occur in 2024		(854)
25	*Resource Management Reforms*	*(329)*
7	*Exiting the Crown's contributions to Let's Get Wellington Moving*	*(525)*
Fiscal Plan "Climate Dividend"		(2,050)
38 and 2	*Return funds from GIDI*	*(650)*
40	*Return funding from the remaining Climate Emergency Response Fund (CERF)*	*(900)*
39	*Return funding from the National Land Transport Fund (NLTF)*	*(500)*
Net fiscal impact (over forecast) of all decisions		**(5,129)**

15. The Treasury's advice on the treatment of each of these initiatives at Mini Budget is set out below.

Time critical tax changes

16. We understand you are potentially interested in taking final decisions (i.e., with policy and financial recommendations) regarding three of your tax policies in the Mini Budget, depending on the overall fiscal impacts:

   a reinstating interest deductibility for residential property,

   b changes to the bright-line test, and

   c denying deductions for depreciation of commercial and industrial buildings.

1

Indicate whether you want to take full financial decisions or in-principle decisions on each of these via your Mini Budget Cabinet paper on 11 December:

- reinstating interest deductibility for residential property,
  Full policy and financial / In-principle only
- changes to the bright-line test, and
  Full policy and financial / In-principle only
- denying deductions for depreciation of commercial and industrial buildings.
  Full policy and financial / In-principle only

Other stop work instructions from 100 day plans

Stop work on Industry Transformation Plans (Primary Sector) (ID 19)

17. On 29 November 2023, Cabinet agreed to direct officials to stop work on the Industry Transformation Plans. We recommend that:

    a you return $29.3 million of operating savings for the Vote Primary Industries Industry Transformation Plans (ITP) to the centre via the Mini Budget, and

    b you return up to a further $4.6 million of ITP savings to the centre through the Budget 2024 process once the consequences of exiting contractual and other legal commitments are worked through.

Agree to seek Cabinet agreement to return $29.3 million from the Vote Primary Industries Industry Transformation Plans to the centre via the Mini Budget.

Yes / No

Stop work on Industry Transformation Plans (Business, Science and Innovation) (ID 23)

18. On 29 November 2023, Cabinet agreed to direct officials to stop work on ITPs. We recommend that:

    a you return all uncommitted funds for the Vote Business, Science and Innovation ITPs in the Mini Budget, resulting in approximately $138.0 million of savings being returned to the centre, and

    b you return further ITP savings to the centre through the Budget 2024, once the consequences of exiting contractual and other legal commitments are worked through.

19. Funding to continue some projects where, for example, the previous Government has already made significant investments could be invited into future Budgets as required.

20. The Game Development Sector Rebate is also an ITP initiative (worth $199.46 million over the forecast period). It is already live for the current year. You have separately indicated you intend to maintain the rebate, and so it is not included in this total.

Agree to seek Cabinet agreement to return $138.0 million from the Vote Business, Science and Innovation Transformation Plans to the centre via the Mini Budget.

Yes / No

Stop work on Lake Onslow (ID 12)

21. On 29 November 2023, Cabinet agreed to direct officials to stop work on the Lake Onslow pumped hydro scheme. We recommend that you return all remaining funding

($64.0 million) to the center. The Minister for Energy has expressed interest in continued work on the dry year problem, but we do not recommend that the Ministry of Business, Innovation and Employment (MBIE) retain funding for this. Once the Minister's intentions for future work on energy security are clearer, funding can be sought through future Budgets or through reprioritisation of MBIE's work programme.

Agree to seek Cabinet agreement to return $64.0 million from funding dedicated to the New Zealand Battery Project to the centre via the Mini Budget. *Yes / No*

Repeal Fair Pay Agreements (FPA) regime (ID 109)

22. On 4 December, Cabinet agreed to repeal the Fair Pay Agreement legislation. We recommend that you fully return funding from 2024/25 and partially funding return in 2023/24 (totalling $64.8 million), to allow for restructuring and redundancy costs and to help meet high demand for non-discretionary Employment Relations Services and Employment Relations Authority pressures.

Agree to seek Cabinet agreement to return $64.8 million from funding dedicated to Fair Pay Agreements to the centre via the Mini Budget. *Yes / No*

Stop work on the Income Insurance Scheme (ID 11)

23. On 29 November 2023, Cabinet agreed to direct officials to stop work on the Income Insurance Scheme. We recommend that:

    a $8.2 million total operating savings are returned to the centre via Mini Budget, with policy work to reduce 'wage scarring' met through MBIE baselines if considered a priority, and

    b Funding of $1.4 million to ACC to support Income Insurance in 2023/24 is returned to the centre through Budget 2024, once the Minister of ACC has issued a direction to the Board of ACC.

Agree to seek Cabinet agreement to: • return $8.2 million from funding dedicated to the Income Insurance Scheme to the centre via the Mini Budget, and *Yes / No* • instruct the Minister of ACC to issue a direction to the Board of ACC to return the $1.4 million of funding dedicated to the Income Insurance Scheme via Budget 2024. *Yes / No*

Stopping the clean car discount (ID 14)

24. Cabinet agreed to repeal the Clean Car Discount on 4 December, returning $50.0 million to the centre now (leaving an appropriate buffer for wind-up costs and behavioural changes in the final weeks of December 2023). The remaining quantum will be returned through Budget 2024 once the programme has ended and it is clear what the remaining sum is.

Agree to include the repeal of the clean car discount in your 20 December Mini Budget announcement. *Yes/No*

Potential time critical changes not in the 100-day plan

Abolish the Regional Skills Leadership Groups (RSLG)

25. Your tax plan includes ending funding for RSLGs. This can be achieved via your Mini Budget Cabinet paper. There are no immediate flow on policy considerations associated with disestablishment and we understand that the Minister for Social Development and Employment is comfortable with this item being included in the Mini Budget. The Minister for Social Development and Employment will need to manage transitional arrangements that need to be made to wind down the RSLG function, including the disestablishment of roles at MBIE and the dissolution of the groups.[2]

26. We recommend that, per your Coalition Agreement, your Mini Budget Cabinet paper seeks agreement to:

    a abolish the RSLGs, and

    b return $45.9 million of funding for RSLGs to the centre.

Agree to seek Cabinet agreement to return $45.9 million from funding dedicated to the Regional Skills Leadership Groups to the centre via the Mini Budget. *Yes/No*

Main Benefit Indexation (IDs 128 or 33)

27. You have two choices regarding your commitment to index benefits to CPI. These are:

    a Take a final policy decision with fiscal implications at Mini Budget to implement this policy from 1 April 2024. This would deliver savings of $670 million over the forecast period (based on preliminary HYEFU forecasts), or

    b Take an in-principle decision at the Mini Budget, but delay implementation until 1 April 2025. Based on preliminary HYEFU forecasts, this would deliver savings of $925 million over the forecast period. The final quantum of savings is likely to change depending on BEFU 2024 forecasts.

28. Main benefits are increased each year on 1 April through the Annual General Adjustment. Delaying implementation until 1 April 2025 will avoid the need to pass urgent legislation by 7 March 2024. Moreover, based on preliminary HYEFU forecasts, allowing benefits to remain indexed to wage growth on 1 April 2024 will generate greater savings over the forecast period as CPI is forecast to be higher than wage growth in 2024.

Indicate whether you would like to seek Cabinet agreement at the Mini Budget to: • Take a final policy decision with fiscal implications at Mini Budget to implement this policy from 1 April 2024 (savings of $670m), or *Yes/No* • Take an in-principle decision at the Mini Budget, but delay implementation until 1 April 2025 (indicative savings of $925 million, based on preliminary HYEFU forecasts). *Yes/No*

[2] This may have flow on impacts for the Coalition Agreement proposal to establish a new 'Essential Worker' Workforce Planning mechanism.

__End free Public Transport for 5-12 year olds and half price Public Transport for 13-24 year olds (ID 46)__

25. Your fiscal plan committed to reversing the Budget 2023 subsidies for 5-12 and 13-24 year olds. Given that this funding is ongoing, the sooner you implement this decision, the greater the quantum of savings you can bring back to the centre.

13. You could also make decisions to end half-price Public Transport subsidies for Community Services cardholders and/or free off-peak Public Transport for SuperGold cardholders.

14. For the subsidies for 5-12 and 13-24 year olds, we expect that $265 million of operating funding could be returned now. This comprises funding from July 2024 onward only, to allow a buffer period for disestablishment. Decisions on detailed implementation could be delegated to the Minister of Transport, with any further residual funding to be returned later once the subsidy is fully disestablished.

15. Note that the funding agreement in place between the Ministry of Transport and Waka Kotahi allows for a 3 month minimum termination period, with disestablishment costs (around $8m) to be paid by the Crown.

Agree to seek Cabinet agreement to return approximately $265 million from ending free Public Transport for 5-12 year olds and half price Public Transport for 13-24 year olds to the centre via the Mini Budget.

__Reverse Budget 2023 Early Childhood Education (ECE) subsidies (IDs 73 and 1011)__

16. We understand that the Minister of Education will take a paper to Cabinet 100-Day Plan Committee on 13 December and Cabinet on 18 December recommending reversal of the Budget 2023 20 Hours ECE initiative. That initiative was intended to be implemented in March 2024. The Ministry of Education (MoE) has advised that it is critical Cabinet consider this paper as soon as possible before Christmas, so the reversal can be communicated to the sector. This decision will be in two parts:

    a whether to reverse the extension of 20 hour ECE to two-year-olds – this will result in $1,240 million savings, and costs of $59 million to the Ministry of Social Development[3] (resulting in a net $1,181 million saving), and

    b whether to reverse the 4.6% uplift to the 20 hours ECE subsidy for all age groups – this will result in $373 million savings.

17. The reversal would mean less downward pressure on childcare costs for some families with two-year-olds. The FamilyBoost policy will mitigate some of these cost-of-living impacts, but we note there will be some lag in that effect as FamilyBoost will not be in place by March 2024.

18. Government has a general lack of visibility around the impacts of ECE subsidies on providers and their pricing structures and operating models. This is largely because there are currently no fee data-sharing flows in place between providers and MoE. This means that it is difficult to assess the impact of subsidies on ECE affordability and availability of places, and to establish the materiality of any risk should these subsidies be reduced or removed.

19. As part of the Budget 2023 20 Hours ECE initiative, funding conditions for providers that opt-in to 20 Hours ECE were amended (to require they make publicly available their hourly fees, provide fee schedule data to MoE, etc). This was intended to help

[3] The Vote Social Development costs relate to MSD Childcare Assistance. MSD returned this funding to the centre as a saving at Budget 2023 on the assumption of lower uptake of Childcare Assistance for two-year-olds. This effect will now be reversed.

ensure the full value of the 20 Hours ECE subsidy was “passed through” to parents (i.e., that providers would reduce their fees). However, the value of the subsidy had declined over time, and introducing fee conditions without adjusting the subsidy could risk providers opting out of 20 Hours ECE. Consequently, a 4.6% uplift to the 20 Hours subsidy was attached to the funding conditions. We understand the Minister of Education intends to remove most of those new funding conditions, apart from one enabling home-based educators to charge top-up fees. This significantly reduces the case for ECE providers to retain the entirety of the 4.6% uplift.

20. In light of the above, the Treasury recommends that the $373 million funding previously committed to a 4.6% subsidy uplift is returned to the centre. This will increase scope to fund other higher priority commitments within the Government's tax package.

21. We understand that MoE has raised concerns with the Minister of Education around a proposed return of the 4.6% subsidy uplift. As a result, you may wish to consult the Minister of Education on this decision ahead of the Mini Budget paper being considered by Cabinet on 11 December.

Indicate your preferred approach to reversal of the Budget 2023 20 House ECE initiative:

- Reversal of the extension of 20 Hours ECE to two-year-olds only, or

  Yes/No

- *(Treasury recommended)* Reversal of the extension of 20 Hours ECE to two-year-olds and the 4.6% subsidy uplift agreed at Budget 2023

  Yes/No

Agree for the Treasury to convey your feedback to the Ministry of Education

Yes/No

Note you may wish to consult the Minister of Education on your decision ahead of the Mini Budget paper being considered by Cabinet on 11 December.

Savings from repeal decisions, when replacement likely to occur in 2024

22. For decisions on Let’s Get Wellington Moving and Resource Management Reform, we recommend that:

    a you seek a Cabinet decision to return most unspent funds to the centre through the Mini Budget, but

    b you do not include these decisions as “savings” to offset your tax commitments in your Mini Budget communications on 20 December, as you will likely have to incur further costs prior to Budget 2024 to fund the replacements for these policies (i.e., the new Resource Management programme and GPS24).

Resource Management Reform (ID 25)

23. On 4 December, Cabinet agreed to repeal the Spatial Planning Act and the Natural Built Environment Act. Over Budgets 2019, 2021 and 2022, the Ministry for the Environment (MfE) received $530 million to support design, delivery, implementation and transition to the new resource management system. Further engagement with MfE is required to determine their responsibilities in delivering existing obligations under the RMA and implementing further amendments in accordance with the 100-Day Plan.

24. There are three choices regarding the quantum of savings you could return to the centre via the Mini Budget:

a MfE could return any unspent funding (including from 2023/24) and bid through future Budgets or reprioritise if required to deliver further changes. This would involve returning approximately $355.4 million to the centre via Mini Budget.

b ***(Treasury recommended)*** MfE could return all funding for 2024/25, 2025/26 and outyears but retain some funding for 2023/24 to wind down the programme, deliver their responsibilities under the RMA and the 100-Day Plan. This would involve returning approximately $328.9 million to the centre via Mini Budget.

c MfE could retain some or all its funding across years until Ministers have agreed the future direction of RMA reforms, at which point any costs/savings associated with the Spatial Planning Bill could be assessed. This would involve returning approximately $248.9 million to the centre via Mini Budget.

Indicate whether you would like to seek Cabinet agreement to:

- Return all unspent funding, including that in 2023/24,

  Yes/No

- Return all funding for 2024/25, 2025/26 and outyears but MfE retain some funding for 2023/24 to wind down the programme, deliver their responsibilities under the RMA and the 100-Day Plan, or

  Yes/No

- Retain some or all funding across years until Ministers have agreed the future direction of RMA reforms.

  Yes/No

Withdraw central Government from Let's Get Wellington Moving (ID 7)

25. On 29 November 2023, Cabinet invited the Minister to withdraw central Government support from Let's Get Wellington Moving (LGWM) as soon as possible. You have two choices regarding the quantum of savings you could return to the centre at Mini Budget:[4]

    a $525 million total operating savings and $355 million total capital savings, if you return the portion of 'Strategic Investment Programme' (SIP) funding intended to be the Crown's direct contribution to LGWM (with indirect contributions through the National Land Transport Fund to be worked through separately).

    b $841 million total operating savings and $1,544 million total capital savings if you return the full amount of funding set aside for the SIP – this comprises the funding tagged for LGWM under (a) above, as well as funding for other projects that were a priority for the previous Government (again, indirect contributions to LGWM through the National Land Transport Fund to be worked through separately).

26. The SIP was a package of projects (including key components of LGWM) agreed in-principle by the previous Government as part of decisions GPS24. As you are intending to issue a new draft of GPS24, with different investment priorities, flagship projects and funding mix, it may be more straightforward to return all SIP funding in full at Mini Budget and prepare your new GPS funding package from a clean slate.

Indicate whether you would like to seek Cabinet agreement to:

- Return only the portion of the Strategic Investment Programme (SIP) funding intended to be the Crown's direct contribution to LGWM,

  Yes/No

[4] For the avoidance of doubt, returning the funding below does not, in and of itself, constitute withdrawal from LGWM, and there will be a range of further policy matters for the Minister of Transport to work through over time.

- Return the full amount of funding for the Strategic Investment Programme (SIP).
  Yes/No

Climate Dividend

"Climate Dividend" – GIDI (IDs 2 and 38)

27. Your fiscal plan committed that $306 million over the forecast period would be returned to the centre from GIDI. Our engagement with MBIE indicates that a total of $650 million (over six years) remains uncommitted. You have two choices regarding the quantum of savings you could return to the centre at Mini Budget:

    a ***(Treasury recommended)*** returning all unallocated funding $650 million, or

    b Returning only the $306 million envisaged in your Fiscal Plan. The Minister for Energy has expressed his preference to retain the remaining $344 million in GIDI, but it is unclear how this funding would be used/allocated. We recommend funding is returned to centre and replacement funding is sought through future Budgets as required.

28. We do not recommend terminating existing GIDI contracts (with an additional saving of $100-$200 million) but recommend that all existing applications are declined.

29. Energy Efficiency & Conservation Authority (EECA) was also provided funding to administer the GIDI Fund in Budget 2022. Some of this funding will be required to manage existing GIDI agreements and we recommend that the remainder is returned to the centre in Budget 2024, to allow time for details to be worked through with EECA.

Indicate whether you would like to seek Cabinet agreement to:

- return $650 million from GIDI to the centre via the Mini Budget, or
  Yes/No
- return $306 million from GIDI to the centre via the Mini Budget.
  Yes/No

"Climate Dividend" – Climate Emergency Response Fund (CERF) (ID 40)

30. There are two key decisions for you to make regarding the CERF elements of the "Climate Dividend".

31. First, how to manage the impact of changes to ETS forecasts between PREFU and HYEFU. In PREFU, the CERF was forecast with $900 million operating and $100 million capital over the forecast period. The final HYEFU forecasts will include the 6 December ETS auction not clearing. On current assumptions, the resulting reduction in forecast cash proceeds will lead to a net debt impact of $794 million over the forecast period compared to PREFU (T2023/1981 refers). Your options to manage this are:

    a Reduce the CERF and seek savings elsewhere to top up your allowances. This would leave $206 million operating in the CERF. Doing this would have a positive OBEGAL impact and be consistent with the net debt track in your fiscal plan.

    b Maintain the size of the CERF, which would allow you to use it to fund the "Climate Dividend", by allowing the reduced cash proceeds from the ETS auction to flow through to net debt ($794 million impact). This is consistent with how you committed to treat the CERF balance in your fiscal plan.

32. Second, whether to return available CERF funding to the operating and capital allowances to fund your manifesto commitments (e.g., on tax). This would involve:

   a Returning up to $100 million capital and $900 million operating to the capital and operating allowances. This is different to the Fiscal Plan, which assumed $1 billion of available operating funding in the CERF for use in your "Climate Dividend".

   b Additionally, your Fiscal Plan assumed that $482 million of cash proceeds would become available in 2027/28 and would be added to the CERF. Our HYEFU forecasts include $569 million of ETS cash proceeds in 2027/28, but we do not assume that these will be added to the CERF. Adding this to the operating allowance would reduce OBEGAL and increase net debt by $569 million in 2027/28, but this consistent with the assumed fiscal outlook in your Fiscal Plan.

Note that we are using a forecast date of 24 November for HYEFU and will assume that the 6 December Emissions Trading Scheme auction will not clear.

Indicate whether you would like to include the climate dividend changes in the Mini Budget package, including your preference for managing the $794 million net debt impact from the change in ETS forecast assumptions:

- Reducing the size of the CERF by $100 million capital and $694 million operating (leaving $206 million operating remaining), or *Yes/No*
- Maintaining the size of the CERF and allowing the $794 million impact to flow through to net debt. *Yes/No*

Agree to recommend that Cabinet should add remaining funding in the CERF (subject to the recommendation above) between 2024/25 and 2026/27 to the operating and multi-year capital allowances.

Yes/No

Note that the Treasury's HYEFU forecasts do not assume that the CERF would be topped up proportionally to Emissions Trading Scheme cash proceeds in 2027/28 ($569 million).

Agree to recommend that Cabinet should increase the operating allowance by $569 million (subject to the recommendations above), with a corresponding impact on OBEGAL and net debt in 2027/28.

Yes/No

"Climate Dividend" – NLTF (ID 39)

33. Your Fiscal Plan also envisages that $500 million of funding from the National Land Transport Fund will be returned to the centre. As you are intending to issue a new draft GPS24, with different investment priorities and a different funding mix, you could return elements of previous the Government's GPS funding package (which included this $500 million of CERF funding) now, and prepare your new GPS funding package from a clean slate.

Agree to seek Cabinet agreement to return $500 million from the National Land Transport Fund to the centre via the Mini Budget.

Yes / No

Taking “in-principle” decisions at Mini Budget and announcing them on 20 December

34. Considerations when making “in-principle” decisions include:

    a **Impact on Budget process**: Making and announcing “in-principle” decisions (and the associated indicative costings) as part of your Mini Budget will reduce your room to make trade-offs at Budget 2024 once agencies have proposed savings options.

    b **Design choices**: The fiscal impact of several policies you could make “in-principle” decisions on at Mini Budget could depend on design choices that you and Ministers will take in early 2024. There are several policies (fees free, personal income tax, etc) where fiscal impact is very sensitive to particular design choices.

    c **Stakeholder management:** Announcing “in-principle” decisions could impact stakeholder expectations before final decisions are made (e.g., ECE providers incorporating FamilyBoost into their annual budgeting processes).

    d **Impact on statutory functions:** Announcing “in-principle” savings carries particular risk where savings relate to the disestablishment of entities performing statutory functions. This is particularly the case with Workforce Development Councils.

35. These risks can only be partly mitigated by ensuring that any announcement of in-principle decisions on 20 December includes strong caveats regarding final decisions not having been taken yet, and costings being indicative only and subject to change.

36. Noting the above, you could choose to make in-principle decisions at Mini Budget on the initiatives in Table 2.

Table 2 - Potential “in-principle” decisions at Mini Budget

ID	Initiative	Total Operating ($m) - Indicative
57	Adjustment of personal income tax threshold	10,046
59	Independent Earner Tax Credit (IETC) adjustment	
8	Family Boost	677
5	Working for Families change - increase the In-Work Tax Credit (IWTC) by $25 per week	620
65	“Immigration Savings”	(492)
64	Gambling tax changes	(192)
104	“Bureaucracy Savings”	(2,376)
105	“Contractor Savings”	(1,600)
72	Remove Workforce Development Councils	(260)
1006	Replace the Fees Free programme with a final year fees free policy from 2025	(595)
1010	Repeal amendments to the Smokefree Environments and Regulated Products Act 1990 and regulations	(1,500)
27	Targeting free prescriptions to Community Service Card and SuperGold Card users	(300)

37. If you total:

    a the final costings of the decisions taken in Table 1, and

    b the indicative costings arising for the in-principle decisions in Table 2, while excluding

    c savings from Resource Management Reform and Let’s Get Wellington Moving (for the reasons set out in paragraph 22), the net indicative fiscal impact of your package is $247 million positive over the forecast period. This does, however, mean that savings identified in your manifesto documents and Coalition agreement are being used to pay for your tax commitments, whereas these were set against the Budget 2024 allowance in your Fiscal Plan. This will require you to identify further savings to fund critical cost drivers and time limited funding, as well as any Government priorities not outlined in your manifesto documents.

Indicate which initiatives you wish to seek Cabinet agreement to take in-principle decisions to proceed with.

- Adjustment of personal income tax threshold *Yes / No*
- Independent Earner Tax Credit (IETC) adjustment *Yes / No*
- Family Boost *Yes / No*
- Working for Families change - increase the In-Work Tax Credit (IWTC) by $25 per week *Yes / No*
- "Immigration Savings" *Yes / No*
- Gambling tax changes *Yes / No*
- "Bureaucracy Savings" *Yes / No*
- "Contractor Savings" *Yes / No*
- Remove Workforce Development Councils *Yes / No*
- Replace the Fees Free programme with a final year fees free policy from 2025 *Yes / No*
- Repeal amendments to the Smokefree Environments and Regulated Products Act 1990 and regulations *Yes / No*
- Targeting free prescriptions to Community Service Card and SuperGold Card users *Yes / No*

Recommended approach to other 100-day plans with fiscal implications

We recommend Cabinet considers the fiscal implications of your 100-day plans at the same time policy decisions are made

38. Central to achieving your fiscal sustainability goals will be ensuring that Cabinet considers policy decisions alongside their fiscal implications. It will be particularly important to monitor out-of-cycle funding requests given the significant pressure (including from pre-commitments) on the Budget 2024 allowance. In the intervening period before the Cabinet Expenditure Committee (CEC) is established, we recommend that you seek Cabinet agreement to retain the previous Government's out-of-cycle funding process which requires:

    a Portfolio Ministers bringing papers to Cabinet which have your fiscal implications to seek your approval prior to lodging papers, and

    b agencies to consult all financial recommendations with the Treasury prior to papers being lodged.

39. For 100-day plan decisions taken after 11 December (e.g., in early 2024) with modest fiscal impacts, we recommend costs are managed via reprioritisation (e.g., via Ministers' Cabinet Papers identifying which specific programmes they will stop to release funding for the 100-day plan).

40. We have provided further advice regarding the treatment of justice-related commitments at paragraph 41 below. Further detailed advice on commitments that are associated with longer or more complex policy process – such as your 100-day commitments relating to water reform and the NLTF – will be provided when required.

Approach to fiscal implications of justice-related papers on 18 December

41. We understand that Cabinet will consider a suite of justice related papers on 18 December, including changes to legislation relating to gangs, stopping taxpayer funding for section 27 cultural reports, and extending the eligibility of rehabilitation programmes for prisoners. We anticipate these policy changes to incur costs, relating primarily to the flow on implications for Corrections capacity.

42. To deal with these costs, we recommend that you establish a tagged contingency and pre-commit it against the Budget 2024 allowance, with draw-down subject to Corrections' assessment of capacity requirements. We recommend that Cabinet adjusts the size of the contingency as each decision is taken, so that the cumulative fiscal impact of these decisions is considered alongside policy decisions.

43. The removal of taxpayer funding for section 27 reports is estimated to save approximately $24 million over the forecast period. There are options on how these savings can be repurposed including:

    a transferring the funding to victims' services (as set out in your manifesto);

    b ***(Treasury recommended)*** offsetting the increased costs to Corrections nearly in full by transferring the funding to the tagged contingency described above; or

    c [33]

Provide feedback on the proposed approach, which the Treasury will relay to the Ministry of Justice and use to assist your office in Ministerial consultation for these papers.

Next steps

Including your decisions in the Cabinet paper

44. Once we receive your decisions on this paper, we will include them in the draft paper provided to you on **Wednesday 6 December.** We will then work closely with you and your office to finalise the paper for lodgement on **Friday 8 December.**

Climate implications of your decisions

45. Recent Crown Law advice indicates that Cabinet should be advised of impacts that spending or savings could have on New Zealand's ability to meet emissions budgets. We recommend that:

    a The Treasury consult with the Climate Change Interdepartmental Executive Board secretariat (which maintains the information base on emissions impacts) on Wednesday 6 December regarding the possible emissions impacts of Mini Budget decisions, and

    b any such impacts are included in the legislatively required 'Climate Implications of Policy Assessment' section of the draft Cabinet paper provided to you later this week.

20 December communications

46. In preparation for the Mini Budget date, we have been working with your office on the communications approach and materials that you may require.

47. We understand that you would like a simplified supporting document in the form of an annex or addendum, which could accompany an overarching press release. This supporting document would expand on your Mini Budget priority areas and look toward the Budget 24 process.

48. We have provided verbal advice to your office on attending the HYEFU restricted briefing event. This event would include a presentation by the Secretary of the Treasury, distribution of HYEFU material, and an opportunity for you to address attendees before taking questions.

49. We have provided a skeleton of the document and what it will cover. This is an early indication of contents, which we are working on and will share with your office this week.

DRAFT: SKELETON OF MINI BUDGET DOCUMENT CONTENTS

MINI BUDGET 2023

ANNEX
20 December 2023

The state of New Zealand's finances

This section would include one–two pages on:

- Overview of New Zealand's economic and fiscal context.
- Economic conditions inherited by the Coalition Government, including fiscal risks and time limited funding.
- Need for restoring fiscal discipline to government spending.

Tables or graphs could be used to illustrate elements e.g. OBEGAL, time limited funding.

Coalition Government response

This section would include one page on:

- Measures being introduced to restore fiscal discipline (e.g. Cabinet Expenditure Control Committee)
- High-level approach to the Mini Budget and fiscal strategy, keeping to allowances and running a tight Budget process with limited new spending and cost pressures
- Further integrating savings and reprioritisation into the Budget process to embed a culture of continuously improving value for money across the public service
- Other key initiatives and decisions.

How we'll deliver our plan

This section would include one-two pages on:

- Pathway for savings and reprioritisations.
- Delivering our tax package.

Looking to Budget 2024
This shorter subsection would include:

- Priorities for the Budget 24 process.
- Expectation setting for public sector spending and fiscal management.