

# The Treasury

## Budget 2024 Information Release

### September 2024

This document has been proactively released and is available on:

- The Budget website from September 2024 to May 2025 only at: <https://budget.govt.nz/information-release/2024>, and on
- The Treasury website from later in 2024 at: <https://www.treasury.govt.nz/publications/information-release/budget-2024-information-release>

#### Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [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
- [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

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

## **Copyright and Licensing**

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

## **Accessibility**

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to [information@treasury.govt.nz](mailto:information@treasury.govt.nz).

## Treasury Report: The Budget 2024 Process and Finalising the Baseline Reduction Targets

<b>Date:</b>	13 December 2023	<b>Report No:</b>	T2023/2063
		<b>File Number:</b>	BM-2-2-2024-M100430

### Action sought

	Action sought	Deadline
<b>Minister of Finance</b> (Hon Nicola Willis)	Confirm the final baseline reduction savings targets for each agency  Provide feedback on the guidance, templates and other materials to be issued to agencies for the Initial Baseline Exercise  Provide feedback on the attached letters  Agree to an indicative Budget Day of 30 May	14 December 2023

### Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Catriona Low	Senior Analyst, Budget <sup>[39]</sup>	<sup>[35]</sup>	
Jon Cable	Principal Advisor, Spending Review	-	
Stephen Bond	Manager, Budget	-	✓
Awhi Fleming	Manager, Spending Review	-	

### Minister's Office actions (if required)

**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** Yes (Attached)

## Enclosures

- **Annex A:** Final Baseline Reduction Targets for Departments (below)
- **Annex B:** Assurance Process Overview – Triaging and Intensive Assurance
- **Annex C:** Budget 2024 Indicative Timeline
- **Annex D:** Budget 2024 Guidance
- **Annex E:** Budget 2024 Summary Template
- **Annex F:** Budget 2024 Savings Template
- **Annex G:** Budget 2024 New Spending Template
- **Annex H:** Budget 2024 Cost Pressure Template
- **Annex I:** Budget 2024 Supplementary Template for Capital Intensive Agencies
- **Annex J:** Budget 2024 Invitation Letter Template and Annex from you to portfolio Ministers
- **Annex K:** Bespoke content for Invitation letters
- **Annex L:** Initial Baseline Exercise Explainer to be attached to Invitation Letters
- **Annex M:** Draft letter template on the initial baseline exercise from portfolio Ministers to Crown Entity
- **Annex N:** Draft letter template on the initial baseline exercise from portfolio Ministers to Crown Entity Companies
- **Annex O:** Draft letter template on the initial baseline exercise from portfolio Ministers to Schedule 4A Companies
- **Annex P:** Draft letter from MOF to the Speaker on the B24 process for Offices of Parliament

# Treasury Report: The Budget 2024 Process and Finalising the Baseline Reduction Targets

---

## Executive Summary

---

- This report seeks your direction on finalising the baseline reduction targets for agencies for the Initial Baseline Exercise (IBE), and your feedback on key materials relating to the Budget 2024 IBE process.
- We are seeking your agreement to
  - Technical amendments to the baseline reduction savings targets for agencies
  - Which agencies should be invited to identify additional targeted policy savings and revenue-raising options.
  - Whether the Justice cluster may meet the full baseline reduction target from a combination of across the cluster as well as individual departments.
  - A proposed approach to requesting reprioritisation options for non-departmental spending within the health, education and disability services funded through Whaikaha – Ministry of Disabled People
  - provide draft letter templates for portfolio Ministers to public sector leaders to outline the fiscal strategy and their role in the IBE.
- We are seeking your feedback on;
  - a number of templates, guidance and letters that would be issued to Ministers and their agencies as part of the formal commission of the IBE. Ensuring portfolio Ministers are responsible for providing actionable and viable savings, is essential to the success of this exercise.
  - Whether to send Budget 2024 Invitation letters this week, or after HYEUFU on 20 December
- Lastly, subject to your agreement and feedback on the below, we will work with your office to send the Budget 2024 invitation letters to portfolio Ministers (and template letters for portfolio Ministers to send to Crown entities and companies). The Treasury will provide agencies with the guidance and templates following letters being sent, so that the formal Budget 2024 processes can begin, for submissions of returns by 16 February, on the basis of an indicative Budget Day of 30 May.

## Recommended Action

---

We recommend that you:

- a **agree** to technical amendments to the final baseline reduction targets for agencies as set out in Annex A

*Agree/disagree.*

b **agree** that the Justice cluster agencies (Ministry of Justice, New Zealand Police, Department of Corrections, Serious Fraud Office and the Crown Law Office) can meet a combined Justice cluster target (of the same value) rather than department targets.  
*Agree/disagree.*

c **agree** to use scaling options for cost pressure initiatives to request reprioritisation discipline across the non-departmental spending areas of Education, Health and the disability services funded through Whaikaha – Ministry of Disabled People

*Agree/disagree.*

d **agree** that multiple agencies provide targeted policy savings and/or revenue options of greater than \$100 million over the forecast period as part of the Initial Baseline Exercise, and invite the following savings initiatives in particular:

Department	Treasury identified savings options	Decision
Ministry of Social Development	<ul style="list-style-type: none"> <li>options associated with welfare settings (e.g. from Benefit or Related Expenses appropriations, which were excluded from the eligible base for the baseline reduction)</li> </ul>	<i>Agree/disagree.</i>
Ministry of Business, Innovation and Employment (MBIE)	<ul style="list-style-type: none"> <li>options associated with the International Visitor Conservation and Tourism Levy</li> <li>Warmer Kiwi Homes</li> <li>[33]</li> </ul>	<i>Agree/disagree.</i>
Ministry of Housing and Urban Development	<ul style="list-style-type: none"> <li>wind-down of the First Home Grants Scheme</li> <li>note the Kainga Ora review</li> </ul>	<i>Agree/disagree.</i>
Ministry for the Environment	<ul style="list-style-type: none"> <li>options associated with the Waste Disposal Levy and Waste Minimisation Fund</li> </ul>	<i>Agree/disagree.</i>
Ministry for Primary Industries	<ul style="list-style-type: none"> <li>opportunities to consolidate industry funding across government</li> <li>return of the agricultural emissions pricing tagged contingency</li> </ul>	<i>Agree/disagree.</i>
Inland Revenue Department	<ul style="list-style-type: none"> <li>revenue raising options</li> <li>[33]</li> </ul>	<i>Agree/disagree.</i>

e **agree**, that the targeted policy savings and revenue raising options be may be used to partially offset the department's final baseline reduction target, however this will be finally determined through the Budget 2024 process once all proposals have been considered

*Agree/disagree.*

f **agree** to invite the following agencies to work together to provide advice on a single proposal:

Department	Treasury identified savings options and settings	Decision
Ministry of Education and	Options on student loans, including repayment settings, including	<i>Agree/disagree.</i>

Inland Revenue	repayment and compliance activity settings with Inland Revenue	
MBIE and Public Service Commission	Options to reduce the cost of pay equity settlements – examining existing policy settings, with advice from PSC as the government lead agency	<i>Agree/disagree.</i>

- g **note** that levy-funding for Crown entities, and other public organisations, is not appropriated (as the entities do not need Parliament’s permission to spend that funding) and so not included in the eligible base
- h **note** that the Budget 2024 process have been streamlined compared to previous Budgets, to run as an Initial Baseline Exercise, and reflecting the shorter than usual timeframes
- i **agree** that the Budget 2024 process should run to an indicative Budget date of 30 May  
*Agree / Disagree*
- j **note** that assurance processes have been strengthened to provide more visibility and assurance as departments develop their savings proposals
- k **agree** to a tiered assurance approach where an intensive assurance track will ensure a greater level of support and rigour for agencies that are at a higher risk of not presenting viable savings options or that are facing more complexity and challenge  
*Agree/disagree.*
- l **provide feedback** on the templates and guidance at Annexes D-I for Budget 2024
- m **note** you will receive final Budget 2024 invitation letters for each Minister for approval on 14 December, reflecting your decisions in this report
- n indicate whether to send the Budget 2024 Invitation letters this week, or hold them to issue after HYEPU on 20 December  
*This week/20 December*
- o **provide feedback** on the draft template letters on the initial baseline exercise for portfolio Ministers to send to various public bodies at Annexes M-O
- p **note** that the Public Service Commissions and the Treasury will provide analysis on workforce FTE numbers through specific occupational data, and
- q **agree** that a separate gender budgeting exercise is not run at Budget 2024.

Stephen Bond  
**Manager, Budget**

Hon Nicola Willis  
**Minister of Finance**

\_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

# Treasury Report: Budget 2024 Process

---

## Purpose of Report

---

1. This report outlines the key choices on the Budget 2024 process we recommend you take now, in order for Ministers to commence work with their agencies on developing their Initial Baseline Exercises this side of Christmas. To enable this, we are also seeking your agreement to technical amendments to the baseline reduction targets for departments and agree the process for communicating the Mini Budget and savings expectations. This includes seeking your feedback on the attached draft templates and guidance that will be shared with agencies.

## Final Baseline Reduction Targets

---

2. On Monday 11 December, you took a paper to Cabinet to confirm a baseline reduction. That paper contained an annex with an indicative eligible base and a baseline reduction targets for each agency. Cabinet authorised Budget Ministers to make substantive changes and you were authorised to make technical and minor changes to the final baseline reduction targets.
3. Our briefing to you on 8 December [T2023/1996 refers] indicated certain areas of spending that should be excluded from the eligible base. This included:
  - Benefits or Related Expenses (BOREs)
  - Departmental third party revenue
  - Departmental revenue from other departments
  - Finance costs
  - Permanent Legislative Authorities (PLAs)
  - Depreciation
  - Capital charge
  - Other department specific exclusions.
4. We undertook a rapid consultation with departmental Chief Finance Officers to identify any further spending that should also be excluded from the eligible base.
5. Much of the feedback identified areas of spending that, in our view, should remain within the eligible base for which Ministers will need to make judgements as part of Budget 2024. Other feedback identified small amounts of spending – less than three percent of a department’s eligible base – that we do not consider material enough to adjust the baseline reduction target up front. This spending remains within the eligible base and any issues can be resolved through the assurance process.
6. However there was some feedback which identifies areas where we recommend changes are made before the targets are finalised and communicated to agencies. These are minor and technical changes that require detailed knowledge of a department’s financial accounting to identify. In particular:
  - Further debt impairment costs identified for the Ministry of Transport and New Zealand Customs Service
  - Further third-party funding that must be spent on particular activities (hypothecation) for the Department of Conservation
  - Further third-party funding that is passed through for the Ministry of Health.



7. In addition, the Department of the Prime Minister and Cabinet (DPMC) has substantial time-limited funding to support Government's response to the North Island Weather Events. This funding represents more than half of the department's eligible base. We consider it insufficient to address the issues raised across the forecast period to determine an eligible base in this instance. Instead, we propose that this funding is removed from the eligible base.
8. Finally, we have made a further exclusion to acknowledge the Resource Management Reform decisions made at Cabinet on 11 December. We recommend adjusting the Ministry for the Environment's eligible base, and reduction target, to account for these decisions, given that Treasury now expects funding for the replacement regime will likely be sought at (not prior to) Budget 2024. This is consistent with how we have treated other Mini Budget funding decisions that factor in the baseline reduction calculations presented to Cabinet on 11 December.
9. These changes mean a reduction in the overall eligible base of \$311 million to \$23,809 million <sup>[33]</sup>  
 This reduced amount still maintains a buffer over and above a target \$1,500 million.
10. Achieving savings of the scale required will present a challenge for all agencies and their Ministers. We do expect some agencies may struggle more than others to find the required savings. The larger agencies we think may struggle the most are:
  - NZDF (\$150M per annum reduction)
  - Police (\$118M per annum reduction)
  - MHUD (\$108.8M per annum reduction)
  - Corrections (\$108.6M per annum reduction)
  - OT (\$95.9M per annum reduction)
11. Of these, NZDF, Police, Corrections and Oranga Tamariki are being invited for cost pressure funding as well as savings. Oranga Tamariki has received significant investments in the last few years and work with a number of vulnerable people, and there are high expectations from the communities they serve. The Ministry for Housing and Urban Development will likely be reliant on savings from their crown entity, Kāinga Ora. As will all agencies, we will look to understand and mitigate these risks through the assurance process and decisions at Budget 2024.
12. The table below shows the annual changes we recommend you agree.

Department	Initial eligible spend	Change to eligible spend after technical change	Updated Baseline reduction target	Change from Cabinet paper targets
Customs	27	-8	1.23	-0.52
DOC	562	-42	33.79	-2.75
DPMC	238	-141	6.28	-9.20
Health	210	-16	12.64	-1.00
Environment	727	-72	49.12	-5.4
MOT	545	-32	38.49	-2.35
<b>Total amount of technical changes proposed</b>		<b>-311</b>	<b>142</b>	<b>-21.22</b>
<b>Baseline Reductions Total</b>	<b>24,120</b>	<b>23,809</b>	<b>1,633</b>	<b>-21.22</b>

13. The table in Annex A contains our final proposed annual baseline reduction targets. Should you agree, we will use these targets in finalising your communications to portfolio Ministers about the next steps for Budget 2024.

### Treatment of Justice cluster for baseline reductions

14. The criminal justice system is interconnected and policies and services must align and be coordinated to enable more effective interdepartmental investment to deliver quality public services. The five Justice cluster agencies (Ministry of Justice, New Zealand Police, Department of Corrections, Serious Fraud Office and the Crown Law Office) work together to achieve this.
15. The Justice cluster has asked, and we agree, that the cluster be given flexibility to meet the full baseline reduction target from across the cluster rather than within each individual department, albeit with a focus as for all savings, on non-frontline.
16. We are seeking your approval for this approach, which can be reflected in your letters to portfolio Ministers.

### Approach to reprioritisation for Health, Education and Whaikaha

17. Your Cabinet paper (CAB-23-MIN-0490) noted that non-departmental spending within Health, Education and the disability services funded through Whaikaha – Ministry of Disabled People was excluded from the eligible base for baseline reductions nonetheless. You also indicated that this spending should be subject to the Initial Baseline Exercise.
18. We have considered how best to include this spending into the Initial Baseline Exercise. In all three spending areas, you have agreed to invite the portfolio Ministers to submit a cost pressure initiative, and so there would be an interplay between reprioritisation and new funding for cost pressures.
19. Therefore, we recommend that the simplest means to ensure that these three agencies are identifying savings would be to require them to identify specific savings options that could allow any cost pressures to be met with a less than 100% amount of additional funding requested.
20. The table below shows how much new operating spending could be avoided if these savings options were to be taken up. Note that these numbers are indicative only.

	Reprioritisation funds 25% of cost pressures requested	Reprioritisation funds 50% of cost pressures requested
Health	\$358m	\$715m
Education	\$134m	\$269m
Whaikaha – Ministry of Disabled People	\$88m	\$175m
Possible new operating spending avoided	\$580m per annum \$2,320m over forecast period	\$1,159m per annum \$4,636m over forecast period

21. This is an expanded approach to the one taken in previous Budgets where agencies are expected to provide information about the consequences of not funding or of

scaling cost pressure initiatives. We propose to include messaging in your letters to the portfolio Ministers for Education, Health and Disability Issues, and content in guidance and templates, that sets out:

- the need for real options to be exposed to allow Ministers to consider the trade-offs that might need to be made to meet Government's objectives
  - a request for specific options – including targeted policy options – that would allow cost pressures to be fully met with 75% or 50% of the additional funding that has been requested (in addition they will need to set out a summary of the impacts of not funding the cost pressure at all, which is a standard template question)
  - an expectation that there will be a focus on reprioritisation from areas where there has been high growth in back-office headcount since 2017 and on contractor and consultant spending.
22. For health non-departmental spending, this approach aligns well with the affordability scenario work that you and Minister Reti are progressing and will receive further advice on shortly.
23. The alternative option would be to set a common target (e.g. 6.5%). However, we judge that this could cause additional confusion for those agencies where non-departmental funding is excluded from the baseline reduction.
24. You may wish to engage with these portfolio Ministers early in the New Year to support your approach to Budget 2024.

### Additional targeted policy savings

25. To complement the baseline reduction and create fiscal headroom, we have advised that you could invite specific Ministers to submit significant targeted policy savings and/or revenue raising options as part of the Initial Baseline Exercise. We are seeking direction to which Ministers and agencies should be invited to provide targeted policy savings and revenue options.
26. We propose each department that is asked to provide multiple savings or revenue options, of at least \$100 million for each option, over the forecast period. Targeted policy savings should be specific policies or programmes to end or scale back and could include some time-limited funding. As with the baseline reduction, Ministers and their agencies will have flexibility to identify targeted policy savings and/or revenue raising options from across the relevant Vote, including savings from departmental and non-departmental spending, and changes to levies. Capital investment proposals are out of scope – given the capital pipeline review underway.
27. Options can include revenue raising such as recovering the cost of the government services from other actors (e.g., via introducing user-pays) should the measure be implementable in the short to medium term.
28. Based on agencies which have large baselines, significant FTE growth, and the greatest potential for further savings and revenue we have identified some specific savings and revenue options which could be commissioned as part of your letters to the relevant Ministers:

Department	Treasury identified savings options
MSD	<ul style="list-style-type: none"> <li>options associated with welfare settings (e.g. from Benefit or Related Expenses appropriations, which were excluded from the eligible base for the baseline reduction)</li> </ul>
MBIE	<ul style="list-style-type: none"> <li>options associated with the International Visitor Conservation and Tourism Levy</li> <li>Warmer Kiwi Homes</li> <li>[33]</li> </ul>
MHUD	<ul style="list-style-type: none"> <li>wind-down of the First Home Grants Scheme</li> <li>note the Kainga Ora review, with saving options to come forward where possible</li> </ul>
MfE	<ul style="list-style-type: none"> <li>options associated with the Waste Disposal Levy and Waste Minimisation Fund</li> </ul>
MPI	<ul style="list-style-type: none"> <li>opportunities to consolidate industry funding across government</li> <li>return of the agricultural emissions pricing tagged contingency</li> </ul>
Inland Revenue Department	<ul style="list-style-type: none"> <li>revenue raising options</li> </ul>

29. There are also agencies from whom you may like to invite work together to provide advice on a single proposal:

Department	Treasury identified savings options and settings
Ministry of Education and Inland Revenue	<ul style="list-style-type: none"> <li>options on student loans, including repayment settings, including repayment and compliance activity settings with Inland Revenue</li> </ul>
MBIE and PSC	<ul style="list-style-type: none"> <li>options to reduce the cost of pay equity settlements – examining existing policy settings, with advice from PSC as the government lead agency</li> </ul>

30. We considered how to incentivise agencies to put forward genuine additional options, given the potential to ‘hold’ those options to fulfil their baseline reduction targets. One option is that targeted policy savings and revenue raising options can help to partially offset the department’s final baseline reduction target. However, we recommend not committing to a specified amount or upper limit to this offset. This gives you and Budget Ministers flexibility to consider the overall package of savings and spending initiatives and the trade-offs between baseline reduction savings, targeted policy savings and revenue raising on a case by case basis.

## Levy-funded organisations

31. You have asked about the treatment of levy-funded organisations. The eligible base for the baseline reductions is determined on the basis of appropriated funding – i.e. all funding that flows to and through departments as approved by Parliament in appropriations. Some appropriations are for levy-funded spending. However, as agreed with you in our previous advice in calculating the eligible base, we excluded third-party revenue from departments.
32. Levy-funding for Crown entities, and other public organisations, is not appropriated (as the entities do not need Parliament’s permission to spend that funding). As such, this has not included in the eligible base. This includes, for instance, the levy-funding that supports Fire and Emergency New Zealand.

33. Ministers can and should expect levy-funded organisations to be efficient and provide quality public services. The appropriate time for Cabinet to consider whether savings can be identified and secured for levy-funded organisations is when the need and the amount of that levy is considered.

**Budget Process and Timelines**

---

34. Cabinet agreed the Budget 2024 strategy at Cabinet on 11 December. The next step would typically be to set out the Budget process and timelines in more detail (including, for example, the plan for the Ministerial decision-making process).

35. This year is different for two key reasons:
- a. The Budget Strategy is set comparatively late, given election timing; and
  - b. The change in the Government means that you may wish to consider some design issues, such as Ministerial engagement and decision-making process, in more detail.

36. We therefore propose to focus on time-critical decisions now and report to you on some of the less time-critical issues for discussion in the New Year. Time-critical decisions are those that are required to give clear direction to agencies on what is required for Budget 2024 before Christmas so they can work with their Ministers to submit initiatives in early February.

37. The following table sets out key dates for the Budget process, including the assurance and Capital pipeline review (which you received advice on through T2023/1967).

**Budget 2024 Timelines**

<b>Date</b>	<b>Milestone</b>
December 2023	<ul style="list-style-type: none"> <li>• Invitation letters communicating savings targets, and inviting cost pressure and new spending initiatives sent to portfolio Ministers</li> <li>• Budget 2024 templates and guidance issued</li> </ul>
December 2023 – Early February 2024	<ul style="list-style-type: none"> <li>• Agencies developing savings proposals and spending initiatives.</li> <li>• Assurance process from central agencies with agencies on draft submissions, including regular updates from Treasury to the Minister of Finance (and portfolio Ministers) on progress</li> <li>• Capital pipeline review process, led by Treasury investment panel</li> </ul>
<b>16 February 2024</b>	<b>Initial Baseline Exercise submissions due</b>
Mid-late February 2024	Treasury assessment of Budget 2024 Initial Baseline Exercise submissions and initial advice on proposed Budget package, including Capital pipeline review
March 2024	Budget Ministers and Bilateral meetings ( <i>we will provide further advice on this process in the New Year</i> )
Mid-late April 2024	Cabinet agrees Budget 2024 package
May 2024	Production period
<b>30 May 2024</b>	<b>Indicative Budget Day</b>

## **Letters to Ministers**

38. As we have previously discussed, you will write to Ministers confirming Cabinet decisions on 11 December. A revised draft of these letters is attached for your feedback. We have also included a draft letter from you to the Speaker of the House of Representatives to set out the Budget 2024 process for the Officers of Parliament, as Votes administered by an Office of Parliament are determined by the House, rather than by the Executive.
39. For agencies and Ministers, sending a letter by the end of this week will allow them to understand the scope and scale of what is required and work to begin on savings prior to Christmas. However, there are trade-offs with information security in terms of providing letters ahead of the Mini Budget on 20 December. We recommend that if you do not wish to send the letters this week, then you wait to send them on 20 December.
40. DPMC indicated that the Prime Minister was concerned that departments would focus on savings options from non-departmental spending and preserve their own baselines. We have messaging to counter this risk in the guidance and have also now emphasised this point in the letters to Ministers.
41. Further detail communicating fiscal sustainability messages is set out under the “Communication your Fiscal Sustainability Message” section.

## **Templates for agencies**

42. After you have written to Ministers, Treasury will then send Budget templates and accompanying guidance to Agencies. These are the templates that are used by Agencies and Treasury to collect information on Budget initiatives (both savings and expenditure) for the submission deadline.
43. Agencies will then have around seven weeks (including the Christmas holiday period) to provide advice to their Ministers and prepare their package of savings and (if invited) expenditure proposals to submit as their initial baseline exercise return by early February. As you requested, we have built into the process increased scrutiny of agencies’ draft submissions as they are prepared.
44. Further detail on these templates is set out under the “Templates and Guidance” section.

## **Assurance process before department submission**

45. After letters have been issued and templates shared with agencies, the Treasury will run an assurance process between early January and mid February to ensure that:
  - a. Agencies are on track to deliver sufficient deliverable savings to achieve the targets that they have been set; and
  - b. There is early visibility of challenges in higher-risk areas so that there can be early intervention.
46. Further detail on this assurance process is set out below under the “Assurance process” section.

## **After submissions from Agencies**

47. From mid-February, the broad process we propose is:
  - a. **Mid-February:** Treasury will evaluate and scrutinise department returns, through engagement with agencies, senior moderation and expert evaluations such as



the Investment Panel for capital initiatives. Some agencies may remain subject to an additional formal assurance process.

- b. **Late February – Early March:** Treasury will prepare a draft Budget 2024 package for you that sets out our best advice on which savings and expenditure decisions to make to achieve your spending goals and Budget priorities and align with value for money principles.
  - c. **Throughout March:** the Treasury will provide support through a series of Budget Minister and other Ministerial meetings and provide you with further advice as needed as the package develops – ahead of agreeing a final package at Cabinet in April.
  - d. **Following Cabinet’s decisions in April,** the Budget moratorium is in place. This means the Budget package is locked down and cannot be altered, to allow the preparation of accurate Estimates documents and legislation to be introduced to the House, as well as the drafting of the Budget document itself. During this time any public announcements of Budget decisions ahead of Budget Day would typically require the agreement of the Prime Minister and yourself.
48. The Budget date does not need to be announced now, it is typically made public a few months prior to the Budget, i.e in the New Year. However, for the purposes of commissioning agencies to submit their Initial Baseline Exercise returns, we recommend that we proceed on the basis of an indicative Budget date of 30 May 2024. Please see at Annex C a high-level timeline that sets out the milestones to Budget 2024.

## Communicating your Budget 2024 Invitations and Fiscal Sustainability Messages

---

49. We recommend you send two sets of letters to portfolio ministers – the Budget 2024 Invitation letters and annex with specific Budget 2024 detail (Annex J-K) and draft letters for portfolio Ministers to tailor and forward to public bodies (Annex M-O).
- a. The first, the Budget 2024 Invitation letters set out what each department must provide in savings options (both for the baseline reduction and where relevant, targeting policy options), and any invited new spending or cost pressures. The draft letter and annex is at Annex J and the bespoke lines for various portfolio Ministers are in Annex K. These bespoke lines will address specific requirements such as for Education, Health and Whaikaha on re-privatisation, or for the Justice cluster.
  - b. The second set of letters we are seeking your agreement to (Annexes M-O) are for portfolio Ministers to tailor and send to the statutory Crown entities, Crown entity companies, and schedule 4A companies for which they have responsibility. These letters would allow the portfolio Minister to tailor any specific messaging and provide further detail as needed for that organisation.
50. In terms of SOEs, you are a joint shareholding Minister. We have used a similar template to prepare letters for the responsible Ministers to send to SOEs.
51. Because these organisations are arms-length from the Crown, there will always be some risk that any communications are viewed as more directive than intended. We have worked with PSC on the Crown entities template letter, and all template letters have been reviewed by our legal team. The templates are intended to be tailored and monitoring departments should support their Minister in tailoring the letter and mitigating risks.

52. We are also preparing advice for you on an enduring letter of expectations for Crown entities to replace the existing 2019 Enduring letter of expectations. This would establish broad expectations for Crown entities across and beyond the current term of government. We anticipate discussing this with you in early 2024.
53. To assist incoming Ministers in leading the initial baseline exercises with their departments, we have also prepared a short document that provides further explanation of the exercise, its methodology, key terminology, and also suggests some key questions they should be posing to their departments. This document could be shared alongside the letters to portfolio Ministers informing them of the Budget 2024 invitations. Please see a draft at Annex L for your feedback.

## Assurance process

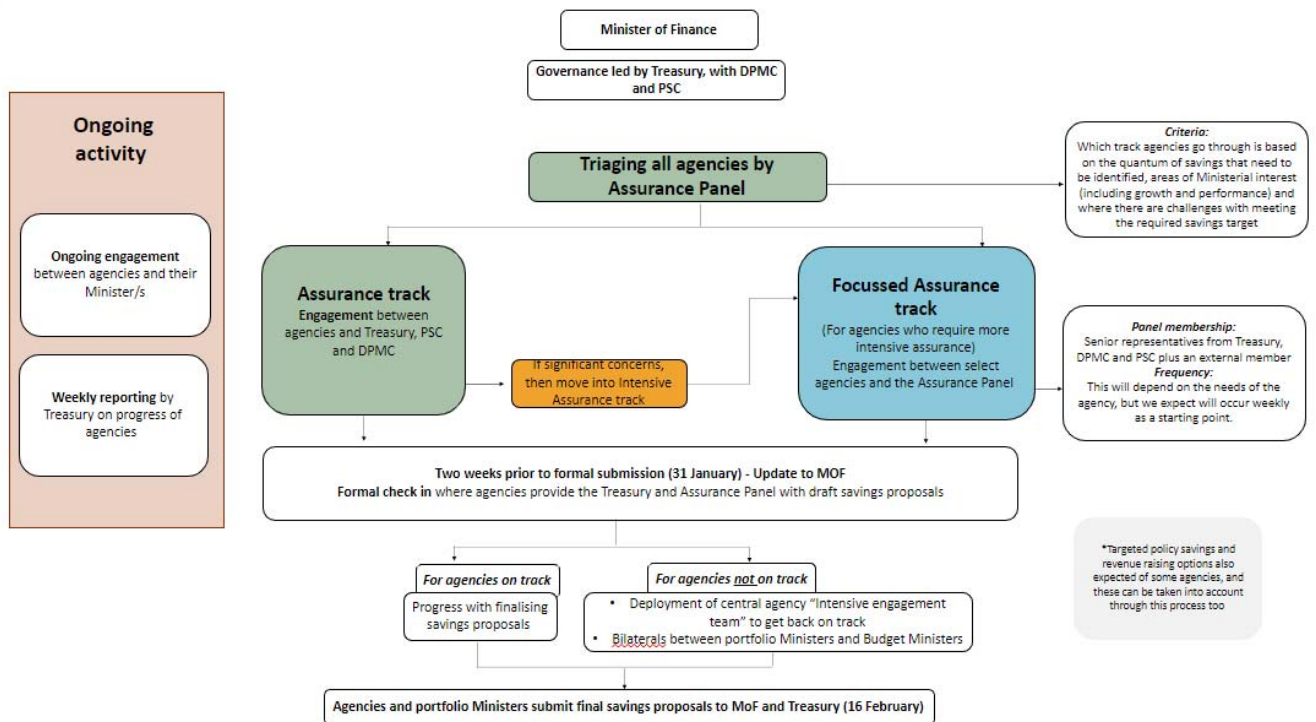
---

54. Based on your feedback, we have designed an assurance process to be run in the lead-up to and immediately after department submission to ensure that genuine savings options are surfaced. The process will be focussed on the baseline reduction targets, but where relevant also consider and support agencies in their work to deliver targeted policy savings.
55. The objective of the assurance process is to provide due challenge and visibility of progress. There is a trade-off between levels of assurance and oversight, and ensuring Departments and Ministers have the time and capacity to deliver an effective high quality savings proposal
56. **Responsible Ministers are essential to ensuring viable and actionable savings and that targets are met;** it is they who will need to submit the proposals and be confident in their delivery. As such, while the process below sets out how officials will work, you will have an important role in engaging with your colleagues through the process. The Budget 2024 letters you send shortly will be part of that expectation setting process.
57. The Assurance Panel will engage with all departments early in January 2024 to assess their progress, and to triage departments into one of two tracks:
  - a. **Assurance track:** This is for agencies who are making good progress. This will involve engagement and testing of proposals as well as review of draft department submissions. It will also enable the ability to bring agencies into the more intensive track if concerns are identified. Working level representatives from Treasury, PSC and DPMC will engage with agencies.
  - b. **Focussed Assurance track:** This would involve a Panel of senior officials from central agencies, chaired by an independent, who would provide intensive assurance for agencies at risk of not meeting your expectations. This will involve more frequent engagement and our expectation is that 'deep dives' into issue areas would occur at least weekly. The Assurance Panel would review draft department submissions.
58. This process would be used to provide weekly status updates to you where we could provide advice on action that you could take if needed (e.g. meeting, or asking one of the Associate Ministers of Finance to meet, the relevant portfolio minister(s) to emphasise expectations and/or hear and understand constraints).
59. The Treasury Secretary and leadership team will provide overall oversight of this process, and will establish a forum chaired by the Treasury Secretary with representatives from the Public Service Commission and Department of the Prime Minister and Cabinet where issues can be escalated. Depending on the timing of the



introduction of a Cabinet committee dealing with expenditure matters, there may also be a role for this committee to have a level of oversight.

60. The below diagram sets out at a high level how we expect this process to work, and an indicative timeframe is at Annex B.



61. We envision this process primarily running in the lead-up to department submission. Where challenges are not resolved by that point, or if at department submission there are additional concerns raised, we expect that both the assurance process and additional support or challenge it offers would continue to run and feed into decision making. Two weeks prior to formal submission, the Assurance Panel will check all agency submissions, followed by further engagement as needed to ensure quality. This process should mitigate the need for intervention further through the process.
62. The role of the Assurance Panel will be to ensure that there are sufficient options to meet the savings targets and those options are viable. This may require a while of Vote view. However, the Assurance Panel will not be tasked with assessing spending proposals or cost pressure bids. The Treasury assessment of the whole of package development will be completed after submissions.
63. Where there are multiple portfolio Ministers connected with a department, there may be benefits in sharing a summary of the issues and recommendations that come out of the Assurance Panel meetings so that there is awareness of the challenges across departments and Votes. We propose seeking your agreement to this on a case-by-case basis. In the case of MBIE it may be appropriate to consider having a 'Lead Minister' for this assurance process. MBIE is complex in the sense that it has a number of Ministers across a range of portfolios and votes. There are a number of senior Ministers who have MBIE portfolios.
64. We will provide you with more detailed timelines on the Budget 2024 process, including seeking your decisions on how you would like the decision-making process to look, in the New Year.

## Templates and Guidance

65. The Budget templates (Annexes E-I) are key to ensuring that Treasury receives the information we need to provide you with effective advice, but also to ensure agencies are factoring in all relevant considerations. They will be accompanied by guidance for agencies (Annex D), intended to be a working guide for how to accurately complete the templates. It reflects some of the key messages that you could set out more fully to Ministers and Chief Executives via the invitation letters.
66. Treasury has drafted these templates to be consistent with your Budget strategy decisions, and welcomes any feedback you may have.
67. For Budget 2024 the templates have the following components:
- a. **Summary template (all agencies)** – this asks Ministers to set out their strategic approach to the initial baseline exercise, what the department’s expenditure focuses on, how they have worked with their department to realign expenditure to Budget priorities, and outline how they will use reprioritisation to manage within a reduced baseline and fund cost pressures that were not invited into Budget 2024. We expect this to form the basis of Ministerial engagement on each department’s submission.
  - b. **Detailed initiative-by-initiative templates:**
    - i. **Savings template (all agencies)** – this template asks for a detailed breakdown which will be completed for each individual savings proposal, to cover both baseline savings and the targeted policy savings that the larger agencies must provide
    - ii. **New Spending template (only invited agencies)** – those invited to submit proposals for manifesto priorities will complete one of these templates for each initiative
    - iii. **Cost Pressure template (only invited agencies)** – those invited to submit proposals for urgent cost pressures will complete one of these templates for each initiative
68. These templates are fairly detailed to capture the information we need but are shorter and more focussed than in previous Budgets. The format of the templates, and some of the specific questions (e.g. tick box questions) are designed to mirror the submission of this data in the Government’s financial reporting tool (CFISNet) to allow for good tracking and data management throughout the process.
69. For capital, relevant agencies will capture their investment pipeline review responses in the summary template and relevant sections of the savings and cost pressure templates, and the capital-intensive agencies will complete a supplementary spreadsheet with further data (Annex I). Agencies will also be asked to attach a copy of their Strategic Assessment and their most recent business case to support assessments.
70. On reprioritisation, apart from Education, Health and Whaikaha – Ministry of Disabled People (outlined above) which we suggest have different requirements, departments will set out in their summary template their strategic approach to managing unfunded cost pressures and areas they would look to for reprioritisation. Departments will not be asked to set out initiative level reprioritisation options. Seeking such detailed reprioritisation at this stage would essentially require much higher savings targets from agencies, which risks poorer quality options due to the tight timelines, but could also incentivise departments to put forward less appealing or realistic savings options.
71. It will be important that you, supported by the Treasury, have oversight of some of the key trade-offs portfolio Ministers make in reprioritising to meet unfunded cost

pressures, which is why the savings and performance plans, due to be commissioned in April 2024, will ask departments to make these trade offs clear.

72. The templates are structured by the Treasury's value for money framework which reflects cost benefit analysis. The equity section seeks to understand how different groups may be impacted by proposals, captures data relating to legal requirements such as on climate impacts and emissions, and Treaty obligations.

### **Workforce data**

73. Agencies will need to set out for each Budget initiative – both savings and spending – what the workforce impacts will be in terms of increases or decreases in contractor and consultant expenditure. To ensure agencies use a standard definition of these, the guidance directs them to use PSC's agreed scope.
74. We understand from your manifesto that you are interested in 'back office' savings, however it will not be viable to split out back-office positions in a meaningful manner, as agencies financial or HR systems will have different categorisations. Instead, we propose to gather information based on the occupations<sup>1</sup> of any FTE savings, allowing PSC to provide more accurate data showing what sort of work any FTE savings were carrying out.

### **Gender Budgeting**

75. The Minister for Women has written to you seeking agreement to run a Gender Budgeting Exercise at Budget 2024. A Gender Budgeting Pilot was run in Budget 2023 where a number of initiatives had to outline in more detail the impacts they would have on women and girls, assisted by support from Ministry for Women experts. We do not recommend a similar exercise is run at Budget 2024 due to the timelines, which are such that it is unlikely departments would have the time to engage meaningfully with Ministry for Women expertise and provide well considered analysis. However departments will be able to capture any impacts on women and girls of their initiatives, through the distributional impacts question in the Budget 2024 templates.

### **Next Steps**

---

76. After reflecting any feedback you provide, the Budget 2024 initial Baseline Exercise templates and guidance will be shared with departments after invitation letters have been sent from you to portfolio Ministers.

---

<sup>1</sup> These are outlined in the Budget guidance, and are – managers; policy analysts; information professionals; social, health and education workers; ICT professionals and technicians; legal, HR and finance professions; other professionals; inspectors and regulatory workers; contact centre workers; clerical and administrative workers and other occupations.

## Annex A: Final Baseline Reduction Targets for Departments

Department	Eligible spend (p.a. \$m)	FTE Growth since 2017**	% saving	Baseline reduction target (p.a. \$m)
Ministry of Business, Innovation and Employment	3,119	86.7%	7.5%	233.9
New Zealand Defence Force (FTE is civilian only)	2,307	1.9%	6.5%	150.0
Ministry of Social Development	1,837	33.5%	6.5%	119.4
New Zealand Police	1,815	30.1%	6.5%	118.0
Ministry of Housing and Urban Development	1,451	57.2%	7.5%	108.8
Department of Corrections	1,671	12.5%	6.5%	108.6
Ministry of Foreign Affairs and Trade	1,521	35.1%	6.5%	98.9
Oranga Tamariki - Ministry for Children	1,475	40.5%	6.5%	95.9
Ministry of Justice	1,244	33.1%	6.5%	80.8
Ministry of Education	982	63.8%	7.5%	73.6
Ministry for Primary Industries	843	53.0%	7.5%	63.2
Ministry for the Environment	655	189.4%	7.5%	49.1
Inland Revenue Department	610	-25.5%	6.5%	39.6
Ministry of Transport	513	101.5%	7.5%	38.5
Ministry for Culture and Heritage	500	68.1%	7.5%	37.5
Ministry of Māori Development - Te Puni Kōkiri	532	47.5%	6.5%	34.6
Department of Conservation	520	28.2%	6.5%	33.8
Department of Internal Affairs	403	28.9%	6.5%	26.2
Government Communications Security Bureau* [33]				
Statistics New Zealand	217	84.6%	7.5%	16.3
Ministry of Health	194	-30.9%	6.5%	12.6
The Treasury	147	29.4%	6.5%	9.5
Land Information New Zealand	133	38.2%	6.5%	8.6
Parliamentary Service	115	-6.1%	6.5%	7.5
New Zealand Security Intelligence Service* [33]				
Crown Law Office	102	21.6%	6.5%	6.6
Department of the Prime Minister and Cabinet	97	24.4%	6.5%	6.3
Ministry for Pacific Peoples	75	269.5%	7.5%	5.6
Whaikaha - Ministry of Disabled People	69	n/a	7.5%	5.2
Te Arawhiti – Office of Māori Crown Relations	70	35.3%	6.5%	4.5
Education Review Office	49	10.6%	6.5%	3.2
Public Service Commission	36	73.9%	7.5%	2.7
Ministry of Defence	27	64.9%	7.5%	2.0
Parliamentary Counsel Office	25	-1.2%	6.5%	1.6
Office of the Clerk of the House of Representatives	24	8.1%	6.5%	1.6
Executive Board for the Elimination of Family and Sexual Violence	20	n/a	6.5%	1.3
New Zealand Customs Service	19	13.5%	6.5%	1.2
Serious Fraud Office	17	48.3%	6.5%	1.1
Ministry for Women	15	77.6%	7.5%	1.1
Controller and Auditor-General	-	n/a	0.0%	0
Office of the Ombudsman	-	n/a	0.0%	0
Parliamentary Commissioner for the Environment	-	n/a	0.0%	0
	23,809	-	-	1,633

\*Due to protective security requirements, the savings total is indicative only and based on top-line appropriation figures. The final baseline target will be confirmed during the assurance process.

\*\*Due to data limitations:

- FTE data is only held for departmental
- a different base year was used for some agencies: 2018 - New Zealand Security Intelligence Service; 2019 - Ministry of Housing and Urban Development, Te Arawhiti – Office of Māori Crown Relations

# Annex B: Assurance Process overview

## Triaging – Advice and support to establish approach

*Weeks beginning 8 and 15 January*

The purpose of this initial meeting is to ensure agencies are well set-up to approach the exercise by providing support and advice to:

- ensure agencies understand the eligible scope, savings target, guidance, expectations, and the right data and information to inform choices,
- ensure central agencies understand where the department is at in the process (including work underway), any road-blocks that need resolution, and (initial) views of where savings may come from,
- ensure the right governance and processes are in place to fully consider options and trade-offs from a risk and implementation perspective. This includes identifying if there are areas that require a 'deep dive'.

The outcome of this engagement is to determine whether the agency is in the Assurance or Intensive Assurance track.

## Assurance track: Further engagement from Treasury

*Week beginning 22 (noting Wellington Anniversary on Monday 22)*

This engagement will be frequent over the period and focus on testing the viability of options and whether the agency will meet its savings targets. These sessions also provide the opportunity to identify whether an agency is going off track and needs to be triaged into the Intensive Assurance track. The engagement will be led by Treasury Vote teams, involving DPMC and PSC as needed.

## Intensive Assurance track: Deep dive – Intensive support in specific areas of complexity or challenge

*From 22 January (noting Wellington Anniversary on Monday 22)*

These 'deep dives' would be tailored to the needs and structure of the department – they could cover options to manage workforce; difficult policy issues and trade-offs; where there are broader whole-of-Government consequences; or where support is needed to manage trade-offs between portfolios within a department. The purpose of these sessions is to provide agencies with support to robustly consider areas of complexity or which pose significant challenge. The focus for deep dives can be identified by agencies and/or the Panel.

## All tracks: Submission – draft spending and savings proposals due

*Wednesday 31 Jan*

Agencies will be requested to share their draft proposals for review by the Panel. The Panel will review the material, alongside information held by central agencies (particularly the Vote team) and make recommendations back to the department before their proposals are finalised with their Minister and submitted. It is expected that feedback on the savings proposals would be considered fully prior to submission.

## All tracks: Submission – spending and savings proposals due

*Friday 16 February*

## Visibility of progress

Regular progress reports will be provided by Treasury to the Minister of Finance which provide a summary of progress towards savings targets across the board with specific progress reports on the outcomes of Assurance Panels meetings. Issues and recommendations can be shared with the responsible Minister if agreed by the Minister of Finance.

This also enables the Minister of Finance to decide whether to have bilateral engagements with responsible Ministers where issues are arising.

The Treasury Secretary and leadership team will provide overarching oversight.