

The Treasury

Budget 2024 Information Release

September 2024

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- [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
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Treasury Report: Baseline Reductions - Report back from Phase 2 of the Assurance Process

Date:	8 February 2024	Report No:	T2024/182
		File Number:	BM-2-15-3-4-8

Action sought

	Action sought	Deadline
Hon Nicola Willis Minister of Finance	<p>Agree that you and your colleagues begin consideration of the high-risk savings areas identified in this report to expedite some of the difficult decisions that will be required during the Budget 2024 package development process, noting the Treasury will provide further advice on the package in due course.</p> <p>[34]</p> <p>Agree to take an oral item to Cabinet on 19 February 2024 OR to the Cabinet Expenditure and Regulatory Review Committee on 27 February 2024, providing an outline of the findings from the second phase of the assurance process.</p> <p>Agree to refer this report to the Prime Minister and the Associate Ministers of Finance.</p>	12 February 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Bonar Robertson	Principal Advisor, Public Finance Policy	[35]	✓
Amanda Wilson	Senior Analyst, Spending Review		
Keiran Kennedy	Manager, Spending Review – Assurance Process		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes – Annex A and Annex B (attached)

Treasury Report: Baseline Reductions - Report back from Phase 2 of the Assurance Process

Executive Summary

This report provides the results of the second phase of the Baseline Reduction Assurance Process. Phase 2 consisted of two tranches:

- All 39 agencies provided information on their draft baseline reduction savings options, including the overall quantum and phasing of savings.
- The Assurance Panel had a second engagement with 10 higher-risk agencies to provide further assurance that sufficient and credible options will be submitted.

Data received through Phase 2 indicates that agencies are generally on track to provide savings options of \$1.5 billion per annum, especially from 2025/26.

[33]

Of the \$1.5 billion savings options, Treasury has identified ^[34]

As a result, achieving the total savings target of \$1.5 billion will be challenging. This is because:

- Securing many of these savings will require challenging trade-offs and decisions: although savings options may be identified in line with the target, especially from 2025/26 onwards, there are likely to be options that are not palatable once subject to the trade-off process by Ministers through the Budget.
- The agencies that are still most at risk (rated red) are among the largest agencies so are significant in terms of achieving the overall savings target. These agencies also operate in areas that are Government priorities and contain the highest risk savings, which increases the challenge to secure targets overall.

- A few of these large organisations have cost or capability pressures greater than their savings target and/or have strategic reviews that are likely to surface either more options or greater fiscal risks.

This will mean using all of the levers you have, including focusing on targeted savings options, will be required to achieve a balanced Budget 2024 package. You are receiving separate advice on the risks and opportunities for Budget 2024, which outlines that there are risks with a number of the targeted savings options that will require intervention to ensure they stay on track [T2024/260 refers].

Whilst fulsome advice on initiatives is yet to be provided, this report highlights some of the high-risk policy areas which would benefit from your and your colleagues' early engagement in order to enable a smoother package development process.

This is the final report from the pre-submission assurance process. Once agencies submit their Budget initiatives, including their baseline reduction options, on 16 February 2024, the Budget 2024 assessment process and package development will take over. This will provide a number of opportunities for further detailed advice on savings options and Ministerial engagement. The advice and information in this report and the Annexes will be useful background information for you to take into these future engagements and as you consider the make-up of your Budget 2024 package.

As there is limited time for Budget discussions and package finalisation, we recommend you begin discussions with your colleagues now on the high risk areas and underlying policy challenges. While we recommend you wait for draft package advice from the Treasury before finalising any decisions, there is merit in expediting some of these trade-off discussions.

Recommended Action

We recommend that you:

- a **Note** that the Assurance Panel had a second engagement with 10 agencies, including those required to provide the most significant amount of savings and those identified as high risk from Phase 1.
- b **Note** that while most agencies are on track (or close to) for providing sufficient savings options, achieving the total savings target of \$1.5 billion annum will be challenging.
- c **Note** that reported savings estimates for 2024/25 are approximately \$418 million below target and estimates in 2025/26 and 2026/27 ^[34] respectively.
- d **Note** that the Treasury has identified approximately ^[34] of the \$1.5 billion as 'high-risk' savings.
- e **Note** that this is the completion of the pre-submission assurance process, with the Budget 2024 assessment process and package development continuing the assessment of options to inform your package decisions from 16 February 2024.
- f **Note** that the Treasury will provide you with advice on a draft Budget package, following receiving submissions on 16 February 2024, but that there is limited time to make significant Budget decisions throughout this process.
- g **Note** that a number of these high-risk savings are in areas of priority for the Government and will require difficult policy choices in order to be realised.

h **Note** that if these savings are not realised from high-risk savings options, significant pressure will be put on the savings package making it important to use all of the levers you have to achieve a balanced Budget 2024 package, including focusing on targeted savings options.

i **Agree** that you and your colleagues begin consideration of these high-risk savings areas and the underlying policy choices now, to expedite some of the difficult decisions that will be required during the Budget 2024 package development process, noting the Treasury will provide further advice on the package in due course.

Agree / Disagree

j **Note** you have, or will receive, a Vote “101” on Education, Health, Police, Defence and Social Development.

k [34]

l **Refer** to Annex A that provides risk rating on progress by each agency on developing its baseline savings options and explains how the ratings have changed since Phase 1.

m **Note** that the Assurance Panel had a second engagement with 10 agencies, including those required to provide the most significant amount of savings and those identified as high risk from Phase 1.

n **Refer** to Annex B that provides further information reflecting the Treasury’s summary of the conversations between the Assurance Panel and agencies [34]

o **Note** that you are also receiving advice on the risks and opportunities for Budget 2024 and that there are risks with a number of the targeted savings options that will require intervention to ensure they stay on track [T2024/260 refers].

EITHER

p **Agree** to take an oral item to Cabinet on 19 February 2024 providing an outline of the findings from the second phase of the assurance process.

Agree / Disagree

OR

q **Agree** to take an item to the Cabinet Expenditure and Regulatory Review Committee on 27 February 2024 providing an outline of the findings from the second phase of the assurance process.

Agree / Disagree

r **Agree to refer** this report to the Prime Minister.

Agree / Disagree

s **Agree to refer** this report to the Associate Ministers of Finance.

Agree / Disagree

Keiran Kennedy
Manager, Spending Review – Assurance Process

Hon Nicola Willis
Minister of Finance

____/____/____

Treasury Report: Baseline Reductions – Report back from Phase 2 of the Assurance Process

Purpose of Report

1. This report:
 - provides the Baseline Reduction Assurance Panel's findings on the progress being made by agencies on submission of savings proposals;
 - provides an early indication of the sufficiency of savings and the key issues and themes that have emerged; and
 - outlines the next steps in the budget process and longer-term fiscal sustainability programme and any recommendations we have to assist with expediting those challenging decisions.

Background to the Assurance Process and the Phase 1 report back

2. On 11 December 2023, as part of its decisions on Budget 2024 and the Initial Baseline Exercise process, Cabinet agreed that the public sector and Ministers deliver an overall baseline reduction of at least \$1.5 billion per annum from 2024/25. In addition, several agencies are expected to provide additional targeted savings and/or revenue options [CAB-23-MIN-0490].
3. Delivering significant savings is an important part of the Budget 2024 package. The Budget 2024 allowance is under significant pressure. Even with limited invitations for new spending and cost pressure initiatives, difficult trade-offs will be required.
4. These fiscal pressures are not temporary; pre-existing challenges such as demographic shifts and climate change will increase pressure on spending over the medium-term. Budget 2024 is a critical opportunity to set expectations of strong fiscal discipline and sustainable, well-planned spending across the public sector. The difficult choices required of agencies and Ministers to identify and secure the savings sought through the Initial Baseline Exercise reflect the broader shift required to operate in a fiscally constrained environment.
5. The Treasury ran an Assurance Process over January and early February 2024 to provide due challenge and visibility on progress in the lead up to the submission of savings initiatives by agencies and Ministers as part of the Initial Baseline Exercise, which is due on 16 February 2024 [T2023/2090 refers].
6. On 19 January 2024, we reported to you on Phase 1 of the Assurance Process to support the delivery of baseline reduction options for Budget 2024 [TR2024/25 refers]. An Assurance Panel comprised of senior staff from Central Agencies met with all agencies required to deliver savings to assess their progress on developing sufficient and credible savings options.
7. A number of key themes were identified through Phase 1, including the importance of clear prioritisation and Ministerial direction for making the challenging trade-offs required to realise savings and challenges in identifying savings in non-departmental activities, particularly where savings need to come from Crown entities, policy decisions and changes to third party services.

Actions undertaken as part of Phase 2

8. Phase 2 of the Assurance Process has consisted of two tranches:
 - **Information request from all agencies:** All 39 agencies in scope of the savings exercise were asked to provide information on their baseline reduction savings options, including the overall quantum and phasing of savings (across the forecast period). This information has been used to form a view whether there will be sufficient and credible savings options at an individual agency and aggregate level.
 - **Second round of engagement with the Assurance Panel:** The Panel had a second engagement with 10 agencies to provide further assurance that sufficient and credible options will be submitted into the Budget process. The 10 agencies selected are those required to provide the most significant amount of savings and those identified as high risk from Phase 1.
9. As explained in the Phase 1 report, the purpose of the Assurance Process is to assess the progress made by agencies in the development of their baseline reduction submissions to deliver sufficient and credible savings options by 16 February 2024. The role of the Assurance Process is not to assess the quality of the savings options, as these are still being developed and engaged on with Ministers and will be assessed through the Budget 2024 process. Further information on this transition from the Assurance Process into Budget 2024 and the broader financial sustainability programme is explained in paragraph 32 below.

Aggregate savings picture

10. Agencies provided us with their best estimates of their draft baseline reduction submission on 30 January 2024. We have used the data from this collection to assess at an aggregate level the likely order of magnitude of savings and identify emerging trends in the profile and source of savings.
11. It is important to note that these remain subject to change as agencies are continuing to work through options with their Ministers and Crown entities. Therefore, these figures may not necessarily reflect the final savings submitted by agencies. In the time available this data has not been assured or moderated further with agencies, nor do we have sufficient information to determine the credibility of individual savings initiatives or their impact on FTE or contractor/consultant spend. This detailed information, and Treasury's assessment of initiatives, will be available following Budget submissions, due on 16 February 2024.
12. Reported savings estimates for 2024/25 are significantly lower than the target (by \$418 million), but estimated savings from 2025/26 onwards are in line with target savings.
13. Approximately 60% of the total quantum of savings estimated is from departmental funding, while approximately 40% is non-departmental. Non-departmental funding may still represent 'back-office' spend in organisations such as Crown entities and non-departmental agencies.
14. Figures 1 and 2 below provide a summary of the total savings across the forecast period compared to the savings target.

[33]

Figure 2: Profile of submitted savings proposals – variance to \$1.5 billion p.a. target

Savings Type (\$m)	2024/25	2025/26	2026/27	2027/28 & outyears
Target per annum	1,500	1,500	1,500	1,500
Submitted Savings	[34]			
Variance: above / (below)	[34]			

[34]

17. In our advice to you on Budget 2024 timeframes, we indicated that there may be a case for making early Cabinet decisions (in mid-March 2024) on some savings or revenue options – particularly where there are savings and revenue proposals that would not be realisable in 2024/25 (or only delivered for part of the year) without sufficient lead in time [T2024/45 refers]. We will provide advice on whether this is required to avoid further slippage of savings in 2024/25 once we have received the full Initial Baseline Exercise submissions.

Risks to realisation of savings

18. Although reported savings are set to meet the target over the forecast period after 2024/25, the Treasury has identified some savings that are considered at ‘high-risk’ of not being delivered. The amount of ‘high-risk’ savings is around ^[34] per annum, ^[34]
19. The Treasury has identified these high-risk savings based on an assessment of all information provided to date by the ten agencies who had second engagements, and red rated agencies outside of these ten. These agencies are among the largest in terms of savings dollar value, making them significant in terms of achieving the overall savings target. This identification of high-risk savings does not represent a definitive list, but represents savings options which are likely to be challenging given current government policy priorities and therefore, will require significant trade-offs in order to be met.
20. Securing many of these savings will require challenging trade-offs and decisions: final submissions on 16 February 2024 may result in savings options in line with the target, especially from 2025/26 onwards, but there are likely to be options that are not palatable once subject to the trade-off process by Ministers through the Budget process. A number of these high-risk savings initiatives have been captured in this report, but the full extent of these trade-offs will become clear when assessing the final submissions (further information on the Budget 2024 process is provided in paragraph 32).
21. The Treasury’s fiscal forecasts that will be included in the 2024 Budget Economic and Fiscal Update will reflect decisions Cabinet have made around reducing agencies baselines. However, a further consideration for the fiscal forecasts is the ‘top-down adjustment’, which is a central adjustment made to the fiscal forecasts by the Treasury to reflect the extent to which departments historically over-forecast operating expenses and capital expenditure.
22. The changes in baselines from the baseline savings exercise will need to be considered when the Treasury assess the top-down adjustment for our fiscal forecasts

[34]

included in the 2024 Budget Economic and Fiscal Update. There is a chance we may reduce the level of our top-down adjustment as the size of overall expenditure would now be lower. However, given the level of the top-down adjustment is much smaller beyond the first year of the forecast period this is unlikely to have a material fiscal impact.

Savings profile

23. Delivering savings across the forecast period and beyond is key to delivering your fiscal strategy and it has been made clear to agencies that identified savings should represent permanent reductions in baseline spend. In some instances, agencies savings in later years decline; however, at an aggregate level, the consistency of estimated savings over time represent structural, long-term decreases in baselines. This is important for enduring baseline savings.
24. At an aggregate level, estimated savings proposals are in line with the target \$1.5 billion from 2025/26. However, seven agencies provided estimated average savings that are below their per annum savings target, and a further three estimated savings in 2027/28 that were below their target (despite their average meeting the required target). As 2027/28 savings are assumed to continue into outyears, significant estimated shortfalls in the final year of the forecast period could have a lasting impact on baselines.

[34]

Revenue raising opportunities

25. Agencies were also given the opportunity to present revenue raising initiatives to meet baseline savings targets. Only a small percentage of savings options submitted comprise revenue, totalling approximately \$36 million per annum. Five agencies submitted positive revenue items. ^[34]

[34]

Agency specific engagements

26. As in Phase 1, to provide an overall assessment of the progress being made by each agency, we have provided a “Red Amber Green” (RAG) rating approach. For consistency, the same RAG rating criteria as in Phase 1 has been used to provide an updated view on progress. The assessment criteria is:

RAG Rating	Rating Description
Green	No indications that the agency is not on track to deliver savings options by 16 February 2024. Successful delivery of sufficient and credible savings options to meet the baseline reduction target appears likely.
Amber	Successful delivery of sufficient and credible savings options to meet the baseline reduction target appears feasible – but some risks were noted.
Red	Successful delivery of sufficient and credible savings options to meet the baseline reduction target appears in doubt and unachievable without intervention and/or support.

27. For the 10 agencies who were subject to a second round of engagement with the Assurance Panel, the Panel have agreed and moderated the RAG ratings. For the remaining 29 agencies, the RAG ratings have been determined by the Treasury, based on the returns from the information request⁵.
28. A summary of ratings across all 39 is provided below. **Annex A** contains an agency breakdown of ratings and explains how they have changed since Phase 1.

Figure 5: Summary of RAG ratings

RAG rating	Phase 1: Number of agencies	Phase 2: Number of agencies
Green	20	24
Amber	10	8
Red	9	7

29. As noted in paragraph 8, the Assurance Panel had a second engagement with 10 agencies to provide further assurance that sufficient and credible options will be submitted into the Budget process on 16 February 2024. The 10 agencies selected were those required to provide the most significant amount of savings and those identified as high risk from Phase 1. The information below summarises the status for each of these agencies following this engagement alongside, where applicable, the Treasury’s high-risk estimate for potential savings referred to in paragraph 19. For more detail, see the relevant agency’s summary in **Annex B**:

- [34]

⁵ Agency rated as Red if they identified as ‘not on track’ to deliver sufficient/credible savings options and rated as Amber if they identified as ‘on track’ but submitted average savings below their target. ^[34]

[34]

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30.

31. It is recommended that you and your colleagues consider these high-risk savings areas and the underlying policy choices now, to expedite some of the difficult decisions that will be required during the Budget 2024 package development process. Whilst we do not recommend you rule in or out any of these options at this time, we are conscious that political consensus will be required in many of these areas which is likely to take some time to be agreed. The Budget process has tight timeframes and so early engagement with coalition partners on key matters will be important in putting together a Budget package.

Next Steps

32. This is the final report from the pre-submission assurance process. Agencies will be submitting their Budget 2024 initiatives, including their detailed savings options, on 16 February 2024. The Budget 2024 assessment process and package development will continue the assessment of savings options to inform your package decisions. This process will include:
- **Draft package advice** - You will receive advice on the draft Budget package developed by the Treasury in early March 2024. This will include the Treasury's assessment of individual initiatives and is the next clear picture on the sufficiency of baseline reduction options provided by agencies and responsible Ministers.
 - **Budget bilaterals** - You have agreed to hold twelve bilateral meetings in mid-March 2024 with portfolio Ministers on their spending and savings submissions, and the status of these in the draft Budget package [T2024/45 refers]. The Ministers you are meeting as part of bilaterals are responsible for the agencies with high-risk savings submissions, so you will have opportunities for further engagement on savings options through this.
 - **Budget Ministers and Cabinet Expenditure and Regulatory Review Committee (EXP)**. - Budget Ministers are the main decision-makers for Budget 2024 and will meet on a fortnightly basis to iterate the Budget package and discuss key issues and trade-offs. The EXP will be meeting in late February, which is an opportunity for you to set the scene for Budget 2024. The Committee will also be meeting early April 2024 to discuss key outstanding issues arising from Budget Ministers 3 and the Budget bilaterals that need to be resolved prior to final Budget decisions.
33. Whilst fulsome advice on initiatives is yet to be provided, this report highlights some of the high-risk policy areas which would benefit from yours and your colleagues' early engagement in order to enable a smoother package development process. These areas are outlined in paragraph 29-31 above.

34. In addition, you have requested “101” in person briefings on several key Votes in early-mid February 2024, including Education, Health, Police, Defence and Social Development. This is an opportunity for you to understand more about the spending, performance and key trends and risks in these Votes ahead of the decision-making phase of the Budget. These “101s” are generally in the same areas that have been identified by the Assurance Process as being high risk, however, you may wish to consider further “101’s” in the following areas:
- Corrections
 - Inland Revenue
 - Housing and Urban Development
 - Foreign Affairs and Trade.
35. The advice and information in this report and the Annexes will be useful background information for you to take into these future engagements and as you consider the make-up of your Budget 2024 package.
36. The challenges identified in this report on achieving baseline reduction targets will mean using all of the levers you have, including focusing on targeted savings options, will be essential to achieve a balanced Budget 2024 package. As our separate advice on the risks and opportunities for Budget 2024 outlines, there are risks with a number of the targeted savings options that will require intervention to ensure they stay on track [T2024/260 refers].
37. Given the significant challenges expected in meeting your savings targets, we recommend that communications continue to be kept to a minimum publicly, to allow for trade-offs to be discussed without prejudice as part of the Budget 2024 process.

Phase 2 of the fiscal sustainability programme will be important for securing enduring savings

38. Savings agreed to as part of the Budget 2024 package will need to be implemented by agencies and their responsible Ministers. Without a focus on securing the savings sought and ongoing assessment of resource allocation against priorities, there is a risk that the baseline reductions will not be enduring. These risks could manifest as cost pressures in the future.
39. We will be providing you with further advice on Phase 2 of the Fiscal Sustainability Programme by March 2024. This will outline the actions that could be taken to maintain a focus on strong fiscal discipline and sustainable, well-planned spending across the public sector; for example, savings and performance plans and deep dives/thematic reviews. These actions will be key to securing enduring savings.
40. There will also be an ongoing role for the Cabinet Expenditure and Regulatory Review Committee (EXP) in undertaking significant expenditure reviews, which could include being updated on progress being made by agencies to implement their savings after Budget 2024 and overseeing any deep dives/reviews required ahead of Budget 25, which would likely include some of the high-risk agencies identified through the Assurance process. Further advice on options for review will also be provided in early March 2024.