The Treasury

Budget 2024 Information Release

September 2024

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[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Advice on late Budget 2024 initiatives

Date:	31 January 2024	**Report No:**	T2024/204
		File Number:	BM-2-4-2024

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Nicola Willis)	**Agree** which late initiatives to invite into the Budget 2024 process **Agree** to additional Budget Ministers and Cabinet Expenditure and Regulatory Review Committee meetings	31 January 2024

Contact for Telephone Discussion (if required)

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

Minister of Finance's Office Actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Advice on late Budget 2024 initiatives

Purpose of Report

1. This report provides you with the Treasury's recommendations on whether to invite late initiatives into the Budget 2024 process and seeks your decisions on how you would like to proceed. It also seeks your agreement to additional meetings for Budget Ministers and the Cabinet Expenditure and Regulatory Review Committee.

2. You are receiving separate advice on the disestablishing the National Resilience Plan and what this means for outstanding North Island weather event related funding requests [T2023/2074].

Recommendations on late initiatives

3. On 26 January, we provided you with a list of initiatives that the Treasury is aware agencies and Ministers may seek your agreement to invite into the Budget 2024 process [T2024/181]. You requested further advice on whether the Treasury recommends inviting these initiatives. The initiatives the Treasury are aware of as at 30 January total approximately [33] over the forecast period (of which the largest are from the NZ Defence Force).

4. You have choices about whether you take a harder line on inviting additional initiatives now, which will lessen the need to make significant trade-offs during the decision-making phase of the Budget. Alternatively, you could invite more initiatives at this stage, however this will put more pressure on Ministers when making decisions.

5. Annex A outlines the Treasury's recommendations as well as responses to questions you had following our previous advice. While we think all of these initiatives have merit, we have largely recommended against inviting new initiatives into the Budget process. This is due to the fiscal environment and given Cabinet's agreement that Budget 2024 is a strictly top-down invitation process focused on savings, urgent cost pressures and meeting the Government's policy commitments [CAB-23-MIN-0490].

6. We are recommending new invites into the Budget process where some combination of the below is true:

   a. there are urgent and non-discretionary funding decisions that would need to be taken to avoid additional costs in the future;

   b. they are related to and complementary to existing invitations;

   c. there has been an unforeseen event after or a critical issue was not identified when Budget invitations were considered; and/or

   d. the potential initiatives in question are large in relation to the agency's baseline (meaning that there would be a case for new funding being required).

7. There is a judgement call on where to invite initiatives on depreciation costs for Justice and Defence. However, we have recommended not inviting these initiatives at this point as many cost pressures are non-discretionary. Agencies can instead raise the trade-offs to fund these costs from reprioritisation through the Budget summary template.

8. We understand from your Office that you have already signalled that you would like to invite the following initiatives into the Budget process:

   a [25]

   b **Local Water Done Well**. You will receive a briefing with further advice on savings from the previous Government's Three Waters programmes and implementation costs for Local Water Done Well. We have been informed you should receive this briefing shortly but have included a recommendation in this report in the meantime.

Budget 2024 timelines

9. At the 25 January Budget Matters meeting, you provided feedback on the proposed Budget 2024 timelines. You agreed with the overall timeline [T2024/45], however, requested the Treasury:

   a include an additional Budget Ministers' meeting in case there are further outstanding decisions post Budget Ministers 4, and

   b provide options for an additional Cabinet Expenditure and Regulatory Review Committee meeting during the decision-making phase of Budget 2024.

Budget Ministers' 5

10. We recommend that Budget Ministers 4 is moved to Monday, 8 April (from Tuesday, 9 April) and that there is a Budget Ministers 5 on Thursday, 11 April.

Confirming early decisions

11. Following Budget Ministers' funding decisions, the Treasury communicates these to agencies (known as "bilaterialising") to support the preparation of the Budget package Cabinet paper and detailed financial recommendations. To help manage this important process under tight timeframes, in previous Budgets the Treasury has agreed with the Minister of Finance where decisions in earlier Budget Ministers' meetings can be communicated to agencies (with the expectation that usual Budget security measures are followed).

12. For Budget 2024, we are anticipating that Budget Ministers will take substantive decisions at meetings 3 and 4. We will work with you and your Office following these meetings to confirm which decisions can be communicated to Ministers and agencies.

Cabinet Expenditure and Regulatory Review Committee

13. You have agreed that the new Cabinet Expenditure and Regulatory Review Committee (EXP) will have a role in Budget 2024 and indicated that this should be primarily focused on savings [T2024/45]. However, we think there is merit in providing broader context on the overall Budget.

14. Currently, there is an EXP meeting proposed for Tuesday, 2 April to discuss key issues arising from the Budget bilaterals with portfolio Ministers in mid-March and Budget Ministers 3 on Monday, 25 March. We recommend that there is an additional EXP earlier in the Budget process as opposed to later, particularly given the inclusion of a Budget Ministers 5. You could take an oral update to EXP on developments in package development towards the end of the Budget process.

15. There are two options for an EXP at the start of the process:

   a **Option 1:** Continue to have a Budget Ministers 1 on Monday, 26 February to set the scene for Budget 2024, discuss the fiscal context and provide an overview of the spending and savings proposals received on 16 February. You could then give a verbal update at CEC or share the material from Budget Ministers 1 with them for discussion on Monday, 4 March.

   This option allows Budget Ministers to have a preliminary discussion without other Ministers in attendance and agree what messages to share with a wider group of Ministers. You could also cover off broader Budget management questions such as how the process will run with Budget Ministers However, it adds a further meeting for yourself and the Treasury to prepare for and is potentially duplicative.

   b **Option 2:** Alternatively, you could replace Budget Ministers 1 with an EXP meeting. This would mean four Budget Ministers meetings and two EXP meetings.

   This option potentially increases the collective buy-in of Ministers and streamlines the number of Ministerial meetings. However, it means the EXP would be exposed to the wider Budget rather than just savings and removes your ability to have an initial discussion with Budget Ministers first.

16. We recommend proceeding with Option 1, as it allows you to have a discussion with a smaller group of Ministers to set the scene for Budget before sharing more widely.

Other outstanding issues

Ministry of Education savings

17. In Budget 2023, the Ministry of Education (MoE) received $10 million operating in departmental funding to implement new funding conditions associated with the 20 Hours ECE policy. This policy has since been reversed and we understand from MoE there is approximately $6.6 million operating remaining. You recently agreed to return this remaining funding to the centre as part of your decision-making on Inland Revenue's draft FamilyBoost Cabinet paper [IR2024/005 refers] which you are intending to take to Cabinet on March 6.

18. Separately, as part of Budget 2024, MoE has been directed to find $73.6 million per annum in savings from 2024/25. MoE has asked if the return of the $6.6 million can count towards this savings target. Previous directed policy savings (including the roll-back of the extension of 20 Hours ECE to 2-year-olds) have not been included in Ministry savings targets.

19. The quantum is small, so will not undermine meeting your savings objectives if MoE were to use the funding to help meeting their savings target. However, we recommend a consistent approach is taken across Government in the treatment of these types of savings. As such, we recommend this funding is returned to centre and not counted towards MoE's savings target.

Transport

20. The Ministry of Transport was not formally invited to submit a Budget initiative for the draft Government Policy Statement (GPS). However, their invitation letter noted that the GPS was in the process of being developed and would require funding, but that it was expected to follow a different timeline to the standard Budget process. Now that timeframes for the draft GPS have been developed and align to the Budget process more closely, we have clarified that this means they should submit the GPS funding request through the Budget process. This does not require a new invitation.

Next steps

21. Following your decisions in this report, we will work with your Office on communicating your decisions on late initiatives to agencies and Ministers as well as scheduling Budget Ministers meetings.

Recommended Action

We recommend that you:

a **indicate** which late initiatives you wish to invite into the Budget 2024 process (more detailed information is in Annex A)

Vote	Initiative title	Treasury Recommendation	MoF Decision
[33] and [38]			
Te Arawhiti	**Wakatū litigation: request for further funding to support court case**	Do not invite	*Invite / Do not invite*
Education	**Partnership schools**	Do not invite	*Invite / Do not invite*
Education	• Extending the Free Period Products in Schools programme • [33] • Cost pressures for the New Zealand Qualifications Authority (NZQA)'s IT systems • [33]	Do not invite	*Invite / Do not invite*
Tertiary Education	**Increase to the tertiary tuition fees**	Invite	*Invite / Do not invite*
Parliamentary Service	**Payroll system**	Invite	*Invite / Do not invite*
Health	**COVID-19 public health response and immunisation programme**	Invite	*Invite / Do not invite*
Defence Force	**NZ Defence Force other cost pressures (beyond remuneration)**	Do not invite	*Invite / Do not invite*
Justice	**Ministry of Justice – Asset Revaluation Cost Pressure**	Do not invite	*Invite / Do not invite*
Prime Minister and Cabinet	[33]	Invite	*Invite / Do not invite*

b **agree** to formally invite the following initiatives that you have signalled to your Office that you wish to invite:

[25]

- **Local Water Done Well**

Agree / Disagree

c **note** that the Minister of Transport will submit an initiative on 16 February for the Government Policy Statement on Land Transport covering the funding amount that has already been pre-committed and further funding options up to $350 million per annum

d **agree** that the $6.6 million operating departmental funding from the Budget 2023 20 Hours ECE initiative does not count towards the achievement of the Ministry of Education's savings target and must be returned to the centre

Agree / Disagree

e **agree** to move Budget Ministers 4 to 8 April and to schedule a Budget Ministers 5 for 11 April

Agree / Disagree

f **agree** to either:

Option 1 (*Treasury recommended*): Have an additional Cabinet Expenditure and Regulatory Review Committee meeting on 4 March where you provide a verbal update or share material discussed at Budget Ministers 1 on 26 February

Agree / Disagree

OR

Option 2: Replace Budget Ministers 1 on 26 February with a Cabinet Expenditure and Regulatory Review Committee meeting

Agree / Disagree

Stephen Bond
Manager, Budget

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Annex A: Late initiatives and Treasury recommendation

[33] and [38]

Title of proposed invitation	**Wakatū litigation: request for further funding to support court case**
Vote	Te Arawhiti
Description of proposed invitation	The Wakatū litigation is a private law breach of trust case against the Crown, relating to an 1839 agreement for the Crown (following the sale of land by Māori landowners) to set aside 15,100 acres of land as reserve. This agreement was not upheld, and the claimants are now seeking compensation in the range of $4.6 billion to $5.9 billion. There is no ongoing funding and further costs are expected in 2024/25, depending on the outcome of the pending judgement (due mid-2024) and whether either party appeals the judgement. Te Arawhiti have approximately $0.100 million in their current MYA to address immediate post-judgement costs. However, this will not be sufficient to cover litigation costs if an appeal takes place.
Indicative cost (total over the forecast period)	Approximately $4.5 million operating (based on previous costs)
Treasury advice and recommendation	We **do not recommend** that this initiative is invited into the process. The timing and amount of funding needed is still uncertain (and depends on the nature of the court's judgement). However, we note that if the judgement results in an appeal and further litigation, Te Arawhiti will likely seek out-of-cycle funding to meet costs. The Treasury will continue to work with Te Arawhiti on options for reprioritisation ahead of seeking out-of-cycle funding.

Title of proposed invitation	Partnership schools
Vote	Education
Description of proposed invitation	Minister Seymour (in his capacity as Associate Minister for Education – Partnership Schools) is potentially planning to seek funding for this initiative in Budget 2024. We understand the intent is to agree the policy and legislation to enable partnership schools to open, or for existing state schools to be converted to partnership schools. As part of the Budget 2024 invitation process you agreed for this initiative to be deferred to Budget 2025.
Indicative cost (total over the forecast period)	Unknown
Treasury advice and recommendation	We **do not recommend** that this initiative is invited into the process. We support maintaining the existing approach of deferring this initiative until Budget 2025. This is due to the significant policy work still required before this policy could be enacted, particularly in relation to determining the scope of the model. Without further work on the policy, the potential costs are highly uncertain, and we would not support funding them at this stage. If Ministers wish to invite a bid on partnership schools for Budget 2024, we suggest funding is held in a tagged contingency awaiting further development.
Questions from MoF and response	**Questions:** Has any costing work been commissioned for partnership schools? What is a realistic timeframe to get partnership schools established? **Response:** We received the below information from the Ministry of Education (MoE) as part of post-election information gathering. Note that this information was prepared quickly, and without a clear scope for what establishing partnership schools would include. MoE have indicated that there is a risk of significantly higher costs depending on the potential scope. **Implementation:** Note Minister Seymour has previously publicly indicated his intention that partnership schools will be reintroduced by 2025. Design work could begin in the first 100 days, including policy development and seeking Cabinet approvals on the high-level model for partnership schools. MoE has indicated that a Bill could be introduced in September 2024 to make necessary changes to primary legislation. This would also require early Cabinet decisions on scope (in particular, whether it focuses on re-introducing the previous model, or is widened to allow state schools to convert). **Costing:** MoE's initial costings of $101 million appear reasonable and draw on previous implementation experience (noting they do not include any Departmental costs). They assume that: the 10 state schools which were formerly partnership schools convert back from January 2026; 2 additional state schools convert each year thereafter; 4 entirely new partnership schools open in 2026; and 3 additional new partnership schools open each year thereafter. The conversion of state schools brings additional complexity. Early decisions are needed on the potential level of ambition (e.g. how many schools to open or convert per year) to develop a more detailed assessment of costs, risks and benefits.

Title of proposed invitation	**Four new spending initiatives (listed below)**
Vote	Education
Description of proposed invitation	On 30 January, the Ministry of Education informed the Treasury that Ministers Stanford and Seymour are actively considering whether to seek additional funding for initiatives relating to: • Extending the Free Period Products in Schools programme • [33] • Cost pressures for the New Zealand Qualifications Authority (NZQA)'s IT systems • [33] Ministers are aware that they must provide a letter to you seeking invitation for these bids into the Budget 2024 process. We are currently seeking further information from the Ministry of Education on these potential initiatives.
Indicative cost (total over the forecast period)	Unknown
Treasury advice and recommendation	Our initial recommendation (subject to further information from the Ministry of Education on the urgency of these initiatives and their ability to absorb the costs within baseline), is to **not invite these initiatives** into the Budget process. The Ministry of Education has already been invited to submit a large number of cost pressures and new spending initiatives, particularly in comparison to other agencies. Inviting several other Education initiatives into the Budget process, risks being counter to the strategy for Budget 2024 and takes the pressure off Ministers and agencies to prioritise a small number of initiatives this Budget.

Title of proposed invitation	Increase to the tertiary tuition fees
Vote	Tertiary Education
Description of proposed invitation	This funding would help manage cost pressures and maintain quality, accessibility and capability across the Tertiary Education system by allowing providers to increase fees by 4% or 8%. There is also a flow-on impact to student loans, which may have additional operating costs. These costs still need to be confirmed.
Indicative cost (total over the forecast period)	4% increase = $27.1 million operating and $145.5 million capital 8% increase = $89.4 million operating and $478.2 million capital
Treasury advice and recommendation	We **recommend** that this initiative is invited into the process. This is based on its urgency and interaction with another invited initiative (Cost Adjustment for Tertiary Education). The two initiatives together will increase the total funding available to tertiary institutions. The cost adjustment initiative does this by increasing tuition and training subsidies provided by government, and the tuition fees initiative does this by increasing the maximum fees that institutions can charge (albeit with some consequential impact on student loans). The tertiary education system is currently facing significant cost pressures, and by inviting the late initiative, Ministers could consider combinations of the two initiatives that would adjust the balance of costs borne by student fee-payers and the Crown respectively. While increasing student fees has an impact on the Crown (through flow on student loan impacts) the impact is less than providing additional funding through increases to tuition and training subsidies.
Questions from MoF and response	**Question:** For the increase to tertiary tuition fees recognise there is a flow-on cost to student loans but is there also an offset to Crown funding requests from the Universities if they are passing on costs through fees? **Response:** The government controls how much tertiary education providers can annually increase their fees. The amount that they can increase their fees is known as the Annual Maximum Fee Movement (AMFM). Although there are no direct costs associated with allowing tertiary institutions to increase their fees, there are flow on implications to student loans in terms of the amount expected to be lent to students (capital) and the associated fair value right down of this lending (operating). In other words, if the price of tertiary education increases, the Government will loan more money to eligible students to cover the cost of their tertiary education. The Ministry of Education has been invited to submit a ‘Cost Adjustment for Tertiary Education’ initiative for Budget 2024. There is a close relationship between the invited initiative and this late initiative. Tertiary institutions are facing cost pressures for which they require additional revenue. Ministers can choose whether they provide this additional revenue through subsidies through the ‘Cost Adjustment for Tertiary Education’ initiative or by allowing tertiary institutions to increase their revenue by increasing their fees (i.e. this late initiative). Ministers could also choose a combination of both initiatives depending on how much they are willing to impose the cost on student loan borrowers. Note the below text on the different impacts on allowances for each initiative. It is expected that allowing tertiary institutions to increase tuition fees will enable them to raise additional revenue which otherwise could have been provided through an increase to tuition and training subsidies. Roughly 20% of the total cost (operating and capital) of the increased fees initiative would impact allowances, while 100% of the total cost (operating and capital) of the increased subsidies initiative would impact allowances.

Title of proposed invitation	Payroll system
Vote	Parliamentary Service
Description of proposed invitation	The Speaker may request an invite to cover cost escalations for a planned replacement of Parliamentary Service's payroll system. The replacement system has already faced delays due to inherent complexity as it needs to cover five separate agencies and comply with multiple sets of employment terms and conditions and legislation. Parliamentary Service has $1.4 million in baseline funding for the replacement of its payroll system. This funding was through a capital to operating swap that was agreed at a previous baseline update. The project is currently on hold as the procurement and design phase showed that costs to replace the system are higher than available funding.
Indicative cost (total over the forecast period)	[33]
Treasury advice and recommendation	We **recommend** that this initiative is invited into the process. The Service has noted that its current system is at end-of-life with high risk of service delivery failure, and that it has limited opportunity for meeting this cost pressure through reprioritisation alongside its savings target. If an invitation is not provided, the Service will continue to use the $1.4 million baseline funding to maintain the existing system, however this is likely to be through 'quick fix' solutions only and there is still a high risk that the system may fail. There is an option to utilise some of the required savings target to meet this cost pressure. We will provide further advice on this as part of the package development process for Budget 2024.

Title of proposed invitation	COVID-19 public health response and immunisation programme
Vote	Health
Description of proposed invitation	Currently, only COVID-19 vaccine and therapeutic purchasing through Pharmac is invited into the Budget 2024 process. The COVID-19 public health response and immunisation programme wasn't invited for submission into the process, including funding for COVID-19 vaccines and therapeutics delivery and administration costs, PPE and RAT purchasing, PCR testing and public health surveillance. The Minister of Health received a paper on COVID-19 policy and funding options on 26 January 2024, which has a recommendation to refer the paper to you with his preferred option indicated (H2024034757 refers).
Indicative cost (total over the forecast period)	Unknown. The Ministry's paper provides a range of costings dependent on which programmes/activities Ministers may want to continue.
Treasury advice and recommendation	We **recommend** that this initiative is invited into the process. This is to ensure Ministers can align policy and funding decisions on any ongoing COVID-19 public health response and immunisation programme. Ministers recently agreed to provide funding for COVID-19 vaccines and therapeutics over the forecast period as part of addressing previous time-limited funding for Pharmac's Combined Pharmaceutical Budget. We think there is a case for some marginal additional investment to support the health system deliver these products (such as a payment per dose for GPs and pharmacists to provide the vaccine). However, any additional funding request should be rigorously scrutinised and assessed against other Vote Health new spending. The COVID-19 public health response has been a significant health programme for several years, both in terms of outreach and funding. There are policy decisions for Ministers to make on what COVID-19 products or services, if any, will continue to be funded (such as wastewater testing, PPE for healthcare workers, and publicly funded RATs). If this initiative is invited into the Budget 2024 process, we recommend that there is a clear expectation that it will be assessed and prioritised against any other Vote Health new spending, and is included in reprioritisation discussions with the health entities.

Title of proposed invitation	NZ Defence Force other cost pressures (beyond remuneration)
Vote	Defence Force
Description of proposed invitation	The Minister of Defence intends to submit a funding request for the remainder of NZDF's cost pressures. We expect these pressures to be composed of the following: • Approx. [33] for other personnel related initiatives • [33] for maintenance related initiatives • [33] for fuel • [33] for ammunition • [33] for digital enablers • [33] for other price related pressures • $127.6 million for depreciation resulting from building revaluation
Indicative cost (total over the forecast period)	[33]
Treasury advice and recommendation	We **<u>do not recommend</u>** inviting NZDF to submit **additional initiatives.** We recognise NZDF faces a range of pressures (particularly relating to attrition in critical trades) and has limited control over some of these (e.g. the price of fuel is outside of NZDF's control). However, other agencies are experiencing similar cost pressures and are being expected to manage them within baselines in addition to meeting savings targets. We do not think NZDF should receive unique treatment in contravention of the invitation process.
Questions from MoF and response	**Question:** What has approach by Defence been to cost pressure requests in pervious Budgets? **Response:** The Defence Capability Plan is the key mechanism for determining the overall capability mix the government desires for the NZDF. However, the efficient delivery of those capabilities is largely driven by NZDF decisions regarding its operating model and ways of working. NZDF has tended to have an expectation of increased funding to support its preferred operating model, and we have not seen evidence that it has reconsidered its operating model to date despite previous Ministerial directions for NZDF to do so and to focus on living within its means. Despite outputs remaining largely unchanged, NZDF has consistently sought cost pressure funding over recent Budgets, and the majority of funding provided to NZDF has been for this purpose. A Baseline Review of Defence was conducted in 2019 and informed funding provided at Budget 2020 to address the cost pressures facing NZDF. NZDF considers it has addressed key issues highlighted in the report, however cost pressures have persisted - since the completion of the Baseline Review, approximately $2 billion of cost pressure funding has been provided, and 73% of funding provided to NZDF between Budget 2021 and Budget 2023 was for this purpose.

Title of proposed invitation	NZ Defence Force other cost pressures (beyond remuneration)
Vote	Defence Force
	At Budget 2023, NZDF identified cost pressures totalling [33] NZDF subsequently received $440 million of cost pressure funding ($420 million for remuneration, and $23 million for a combination of other operational cost pressures). Despite significant funding in recent years, NZDF continues to face operational issues and cost pressures remain persistent. Most notably: • Personnel costs constitute the largest component of Defence's operating expenses and have consistently increased (up 29% since 2016/17). NZDF continues to face personnel challenges with high attrition in critical trades, driving continued demand for funding for remuneration and to increase allowances. • Expenditure relating to repairs and maintenance has grown sharply over a short period (up 38% since 2018/19, the years data is available), and maintenance continues to be a key cost pressure, largely driven by an ageing asset base and construction sector inflation.

Title of proposed invitation	Ministry of Justice – Asset Revaluation Cost Pressure
Vote	Justice
Description of proposed invitation	The Ministry has not been funded for asset revaluation of its property portfolio since 2022. If the cost is not funded the Ministry will need to find further savings to meet the costs. It also means the Ministry is likely to have less funding in its balance sheet depreciation reserve to fund upgrades to its courthouses, which are generally in a poor state and require significant investment. This could result in a need for increased capital injections to fund the required investment.
Indicative cost (total over the forecast period)	[33]
Treasury advice and recommendation	We **do not recommend** that this initiative is invited into the process. Depreciation is similar to other cost pressures outside of agencies' control and as such we think agencies should be expected to show how they will reprioritise existing funding to meet these costs.

[33]