

The Treasury

Budget 2024 Information Release

September 2024

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
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- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
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- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [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
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Reference: T2024/213

Date: 30 January 2024

To: Minister of Finance (Hon Nicola Willis)

Deadline: For discussion at Budget Matters on 31 January
(if any)

Update on Budget 2024 Operating Allowance

1. This note summarises our current assessment of the pressures on the Budget 2024 operating allowance. These figures remain based on Treasury's assessment of likely costs associated with invited initiatives and the tax package as outlined in the National Party's tax plan. In all cases, we expect that the figures submitted by agencies or agreed by Ministers would differ, including because:
 - Agencies may submit a different funding request than our most recent assessment, on the basis of additional work or information.
 - Ministers may make policy decisions on specific savings, spending, or tax initiatives different to our assumptions.
2. This note focusses on pressures on the operating allowance only. You are receiving a note setting out next steps on the Multi-Year Capital Allowance.

Fiscal forecast at HYEFU

3. The table below restates the fiscal forecast as at PREFU and HYEFU. You are receiving a verbal update at the Weekly Agency Meeting on recent economic data. Preliminary economic and tax forecasts will be sent to you on 19 February, and preliminary fiscal forecasts on 21 March.

Fiscal forecast

OBEGAL \$millions Savings / (Deficit)	2024/25	2025/26	2026/27	2027/28
PREFU	(6,200)	(1,500)	2,100	-
HYEFU	(6,100)	(3,500)	100	3,400

Current position of Budget 2024 Operating Allowance

4. The table below sets out our current assessment of the Budget 2024 Allowance. Typically, the allowance is stated on an average annual basis (the grey shaded column below).
5. In HYEFU, we assumed that spending/revenue from the allowance would be phased evenly (\$3.5 billion p.a.) over the forecast period. The final fiscal forecasts for Budget will incorporate any different phasing.

Budget 2024 Allowance

Operating \$millions Savings / (Spending)	Average Per Annum (\$m)	2024/25	2025/26	2026/27	2027/28 and Outyears
Budget 2024 Allowance at HYEFU	3,500	3,500	3,500	3,500	3,500
Precommitments at HYEFU	(2,371)	(2,406)	(2,405)	(2,529)	(2,144)
Mini Budget decisions	1,867	1,153	2,501	2,112	1,475
Expected Pharmac precommitment	(444)	(421)	(443)	(455)	(455)
Remaining Unallocated Allowances	2,553	1,826	3,154	2,628	2,377

6. There is around \$2.5 billion on average remaining in the Budget 2024 operating allowance, reflecting a combination of precommitments made by the previous Government, savings announced at Mini Budget, and the expected pre-commitment to extend Pharmac's time-limited funding.

Pressures on the Budget 2024 Operating Allowance

7. As we advised at Mini Budget, the savings measures announced at the time would not be sufficient alone to offset expected expenditure pressures at Budget 2024. The table below sets out our assessment of current pressures.
8. These are unphased and unscaled, and there are risks on the upside and the downside. However, a particular downside risk is that we have made no assumptions about operating impacts of any additional capital expenditure.

Budget 2024 Allowance

Operating \$millions Savings / (Spending)	Average Per Annum (\$m)	2024/25	2025/26	2026/27	2027/28 and Outyears
Remaining Unallocated Allowances	2,553	1,826	3,154	2,628	2,377
Savings and pressures against B24 allowance:					
Baseline savings target (excl. previous Govt's)	1,000	1,000	1,000	1,000	1,000
Policy savings & new revenue	868	522	912	1,017	1,022
Remaining tax package	(3,591)	(2,688)	(3,810)	(3,947)	(3,912)
Invited new spending (including time-limited funding)	(1,864)	(1,181)	(1,696)	(2,139)	(2,424)
Invited cost pressures	(1,413)	(1,413)	(1,413)	(1,413)	(1,413)
Current assessment of B24 Allowance position	(2,445)	(1,933)	(1,853)	(2,853)	(3,349)

9. Two key conclusions are:
- The allowance is currently heavily oversubscribed. That is not unusual at this point in the Budget process. However, meeting the current allowance will require significant scaling of new spending, revenue measures, and cost pressures; and additional targeted saving options.
 - The profile of expenditure will depend on the final Budget package, but currently the later years of the forecast period look more challenging. This is driven by initiatives where the expected cost grows over time (e.g. the transport GPS and law and order policies).

Next steps

10. Agencies will submit their Budget initiatives on 16 February, at which point Treasury will update you on what agencies have submitted, ahead of providing a draft Budget package on 4 March.

Stephen Bond, Manager, Budget, ^[39]

Annex 1: Full fiscal table

The table below replicates the tables in this note, as well as a summary of the position of future Budget allowances.

Budget 2024 Allowance position after Mini Budget

Fiscal forecast

OBEFAL \$millions Savings / (Deficit)	2024/25	2025/26	2026/27	2027/28
PREFU	(6,200)	(1,500)	2,100	-
HYEFU	(6,100)	(3,500)	100	3,400

Budget 2024 Allowance

Operating \$millions Savings / (Spending)	Average Per Annum (\$m)	2024/25	2025/26	2026/27	2027/28 and Outyears
Budget 2024 Allowance at HYEFU	3,500	3,500	3,500	3,500	3,500
Precommitments at HYEFU	(2,371)	(2,406)	(2,405)	(2,529)	(2,144)
Mini Budget decisions	1,867	1,153	2,501	2,112	1,475
Expected Pharmac precommitment	(444)	(421)	(443)	(455)	(455)
Remaining Unallocated Allowances	2,553	1,826	3,154	2,628	2,377
Savings and pressures against B24 allowance:					
Baseline savings target (excl. previous Govt's)	1,000	1,000	1,000	1,000	1,000
Policy savings & new revenue	868	522	912	1,017	1,022
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Invited new spending (including time-limited funding)	(1,864)	(1,181)	(1,696)	(2,139)	(2,424)
Invited cost pressures	(1,413)	(1,413)	(1,413)	(1,413)	(1,413)
Current assessment of B24 Allowance position	(2,445)	(1,933)	(1,853)	(2,853)	(3,349)

All Budget allowances

Operating \$millions, Average per annum	Budget 2024	Budget 2025	Budget 2026	Budget 2027
HYEFU Allowances	3,500	3,250	3,000	3,000
Net precommitments as at Mini Budget	(947)	(1,370)	(1,370)	(1,370)
Precommitments Since HYEFU	-	-	-	-
Indicative impact of unscaled Government commitments	(4,998)	-	-	-
Remaining Unallocated Allowances	(2,445)	1,880	1,630	1,630

Annex 2 – breakdown of contents of fiscal table

Note: the headline numbers do not include the following savings, on the basis that net savings are uncertain or unknown.

1. **Savings from the repeal of water reform** ^[33]
as we do not yet have an estimate of replacement costs.
2. **Targeted policy savings** (in addition to those needed to make up the \$1.5 billion baseline savings target) that have been commissioned from agencies. This includes IR's invite for audit and compliance activity.

Potential additional expenditure initiatives Ministers are seeking to invite have also not been included.

Precommitments at HYEPU (\$2.4b p.a.) is comprised of:

- Health sector (**\$1.4b p.a.**)
- Natural Resources and Justice Cluster (**\$0.4b p.a.**)
- Previous Government's GPS (**\$0.3b p.a.**)
- Education forecast changes (**\$0.1b p.a.**) and teachers bargaining (**\$0.1b p.a.**)
- Balance of other smaller precommitments (e.g. NIWE loan scheme)

Policy savings & new revenue (\$0.9b p.a.) is comprised of:

- Smokefree Aotearoa (**\$0.4b p.a.**)
- Reform to Fees Free (**\$0.1b p.a.**)
- Immigration savings (**\$0.1b p.a.**)
- Removing Workforce Development Councils (**\$0.1b p.a.**)
- Targeting free prescriptions (**\$0.1b p.a.**)
- Several smaller items <\$100m each (e.g. gambling tax changes)

Remaining tax package (\$3.6b p.a.) is comprised of:

- Personal income tax (**\$2.5b p.a.**)
- Interest deductibility (**\$0.7b p.a.**)
- Family Boost and In Work Tax Credit (**\$0.2b each p.a.**)

Invited new spending ^[33] **is comprised of:**

- Net additional operating grant for the transport GPS ^[33] [
- Free school lunches programme (**\$0.35b p.a.**)
- Funding associated with sentencing changes (**\$0.2b p.a.**)
- Screen production grants (**\$0.15b p.a.**)
- Apprenticeship boost (**\$0.1b p.a.**)
- New police funding (**\$0.1b p.a.**)
- Balance is other time limited funding (**\$0.25b p.a.**) and smaller initiatives.

Cost pressures ^[33] **is comprised of:**

- Education (and tertiary education) (**\$0.5b p.a.**)
- Whaikaha & OT ^[33]
- Justice cluster (**\$0.35b p.a.**)
- Defence (**\$0.1b p.a.**)