The Treasury

Budget 2024 Information Release

September 2024

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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

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[40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Advice on risks and levers for Budget 2024

Date:	8 February 2024	**Report No:**	T2024/260
		File Number:	BM-2-4-2024

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	Agree to meet with several portfolio Ministers prior to 16 February for high-risk initiatives that are off track Agree for your Office and/or the Treasury to follow up on medium risk initiatives Agree to have a Budget bilateral with the Minister for Tertiary Education and Skills	9 February 2024

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Emily Fulford	Senior Analyst, Budget	[39]	[35]	✓
Stephen Bond	Manager, Budget			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Treasury Report: Advice on risks and levers for Budget 2024

Executive Summary

The Budget 2024 operating allowance and multi-year capital allowance are under significant pressure and oversubscribed. This, combined with the deteriorated fiscal outlook at the Half-Year Economic and Fiscal Update (HYEFU), means significant trade-offs will need to be made at Budget 2024.

At the Budget Matters meeting on 31 January, Treasury committed to providing advice on the risks and levers for Budget 2024 to enable early action where needed to ensure that the Budget can be met within allowances. The Treasury has undertaken work to identify these based on the savings and spending initiatives invited into the Budget process.

a **Risks:** These are areas where new spending initiatives may cost more, or savings yield a lower quantum, than anticipated.

b **Levers:** These are areas that will help Budget Ministers get the Budget package back within allowances (such as targeted savings).

In most cases, we expect agencies are on track to submit in-line with your expectations. Where agencies are not on track, this report outlines where we recommend you engage with portfolio Ministers prior to initiative submission on 16 February. It also outlines where your Office and the Treasury can undertake actions with relevant counterparts pre-submission and the options available to you post initiative submission, such as Budget bilaterals.

Managing known risks and levers may not be sufficient alone to manage within allowances. Further action you could take includes:

a **Commissioning work on additional levers to manage within allowances**, such as:

- o Further targeted policy savings. Treasury recommends in particular that there could be scope for additional savings in the social development space (beyond those we expect to be submitted on 16 February) that it could jointly advise you on with MSD.
- o Options to scale, phase in, or explore further revenue or income support savings options to offset the tax package.

b **Minimising additional risks to the allowance,** in particular by minimising additional invites into the Budget process and emphasising that Government priorities and targets are not a route for additional Budget funding.

The Treasury has provided an update on a range of issues annexed (note these are working documents from Treasury Vote teams), and can provide further detail if needed to support any Ministerial conversations.

You are also receiving separate advice (concurrent to this report) on the second round of Assurance Panel engagements and departments' progress on meeting their baseline reduction targets to achieve the $1.5 billion of required savings announced at the Mini Budget [T2024182 refers].

Recommended Action

We recommend that you:

a **agree** to action the steps outlined below related to high-risk areas and levers to manage with relevant portfolio Ministers prior to initiative submission on 16 February;

Minister	Areas of concern	Action prior to 16 February	Decision
Minister for ACC (Minister Doocey) Associate Minister of Finance (Minister Seymour)	Efficiency and Financial Sustainability of ACC	Reiterate to the Minister for ACC the expectation that MBIE's submitted savings initiatives must have a fiscal impact through a meeting.	Agree / Disagree
Associate Minister of Finance (Minister Seymour) – *for Personal Income Tax* Minister of Revenue (Minister Watts)	Adjustment of Personal Income Tax Thresholds	We understand you are already planning to meet with portfolio Ministers to reach a common view on the parameters/design principles for the tax relief package.	
	[33]		
Minister for Tertiary Education and Skills (Minister Simmonds)	Replacing the Fees Free Programme with a final year fees free policy	Discuss the policy design options being explored with the portfolio Minister and reiterate your expectation that associated savings will be submitted.	Agree / Disagree
	Unwind Te Pūkenga merger	Reiterate with the portfolio Minster that a full spectrum of options are included in the Budget submission and seek clarity on why costs are higher than initially anticipated	Agree / Disagree
	Savings-related options for student loans [33]	Meet with the portfolio Minister to reiterate the expectation that targeted policy savings are submitted for student loans.	Agree / Disagree
	Remove Workforce Development Councils (WDC)	Confirm your expectation with the portfolio Minister that other savings options are considered for the $65 million shortfall in 2024/25.	Agree / Disagree
Minister of Housing (Minister Bishop)	Kāinga Ora independent review	Meet with the Minister to discuss savings options for Kāinga Ora and to seek an update on the independent review prior to the March 2024 report.	Agree / Disagree
[33]			

b **agree** to discuss the immigration fee and levy review options being explored with the Minister of Immigration [Aide Memoire 2024/211 refers];

Agree / Disagree

c **indicate** whether there are additional areas of concern that you would like to engage with the relevant portfolio Minister prior to initiative submission on 16 February;

d **agree** for your Office and/or the Treasury to follow up on the following initiatives with their respective counterparts:

Portfolio(s)	**Areas of concern**	**Action prior to 16 February**	**Decision**	**Via**
Emergency Management Science, Innovation and Technology	Geohazards Science Services, Data and Modelling	Reiterate expectation to develop options that [33] and to include a minimum viable option for Geohazards in their Budget submission, which should require substantially less than the funding provided in Budget 2023.	Agree / Disagree	MoF office / Treasury
Environment	Waste levy	Reiterate expectation that a full suite of options for the Waste Levy is included in the targeted savings submission.	Agree / Disagree	MoF office / Treasury
Education	Healthy School Lunch	Reiterate expectation that scaling options are presented in the Budget submission.	Agree / Disagree	MoF office / Treasury
Health	Prescription co-payment	Ask for the Budget submission to include additional options that would target the initiative further and increase the net savings (e.g. only exempting Community Service Card holders or people over 65).	Agree / Disagree	MoF office / Treasury
Agriculture	Agricultural emissions pricing	Reiterate that the Budget submission should include an option for returning the full tagged contingency.	Agree / Disagree	MoF office / Treasury

e **agree** to have a Budget bilateral with the Minister for Tertiary Education and Skills in mid-March either as part of the meeting with the Minister of Education or separately;

Agree / Disagree

f **direct** the Treasury and Ministry of Social Development to provide further advice to you and the Minister for Social Development on a package of policy savings options in social development;

Agree / Disagree

g **indicate** whether you want to:

- invite any late targeted policy savings initiatives from Annex B

Yes/No

- commission work on options to scale, phase, or explore further revenue or income support savings options to offset the tax package;

Yes/No

[33]

Stephen Bond
Manager, Budget

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Treasury Report: Advice on risks and levers for Budget 2024

Purpose of Report

1. This report provides you with an update on the risks to the Budget 2024 allowance and levers to bring the Budget package back within the allowance, and outlines where we recommend you take action ahead of initiative submission on 16 February 2024.

2. Concurrent to this report, you will also receive further advice on the second round of Assurance Panel engagements and departments' progress on meeting their baseline reduction targets to achieve the $1.5 billion of required savings announced at the Mini Budget [T2024182 refers].

3. You also received separate advice on 2 February regarding the capital pipeline review and new capital initiatives [T2024/207 refers]. This report focuses on the risks and levers associated with the other components of Budget 2024 outlined in paragraph 9 below, including targeted policy savings.

Background

Economic and fiscal context

4. The Government has been in deficit since 2019/20, with the fiscal position and outlook deteriorating even as the economy recovered from COVID-19. While temporary factors such as COVID-19 and the North Island Weather Events have contributed to the weak fiscal position, much of the gap between current expenses and revenues (i.e., the operating deficit) is structural. Growth in government expenditure has been the main factor behind the deteriorating structural position since 2021.

5. The fiscal outlook deteriorated at the Half-Year Economic and Fiscal Update (HYEFU) relative to the Pre-election Fiscal and Economic Update (PREFU). This is largely driven by slower economic growth, which impacted tax revenue forecasts and a higher interest rate track leading to higher finance costs in the future. A return to the operating balance before gains and losses (OBEGAL) surplus is still forecast for 2026/27, however the surplus is very slim ($100 million).

6. Data revisions and recent outturns since HYEFU indicate that the economy is likely to be in a weaker position than understood at HYEFU with slower growth but less intensive price pressures. GDP growth was weaker than expected in the September quarter, contracting 0.3%, and growth in the preceding two quarters was revised down. Quarterly inflation for December was 0.5%, well below the forecast 0.9% at HYEFU, pulling annual inflation down to 4.7% (its lowest since June 2021).

7. Looking ahead, while business confidence has picked up, a prolonged period of pressure on household budgets means growth is expected to remain weak and high migration means GDP per capita is expected to continue to decline.

8. This combination of slower growth and lower inflation may result in weaker revenue expectations, placing further pressure on the pace of the fiscal recovery, necessitating ongoing fiscal restraint. An updated view of the fiscal outlook will not be known until Tuesday 19 March.

Budget 2024 Strategy

9. On 11 December 2023, Cabinet agreed that Budget 2024 will be a strictly top-down invitation process focused on [CAB-23-MIN-0490 refers]:

   a progressing time-critical Government policy commitments

   b extending programmes and services with time limited funding expiring at the end of 2023/24

   c funding urgent cost pressures that cannot be funded through reprioritisation without significant trade-offs to public services

   d reviewing existing capital investments and considering additional funding for capital cost escalations and new spending that met specific criteria

   e identifying savings through:

      i a baseline reduction target for each department,

      ii targeted policy savings and revenue options, and

      iii already agreed savings through the 100 Day Plan and/or Mini Budget.

10. In late December, you wrote to Ministers outlining your expectations for Budget 2024, including which initiatives and savings proposals they have been invited to submit on 16 February. In addition to Treasury engaging with agencies on their new spending initiatives, an Assurance Panel of central agency officials has been meeting with senior agency officials on progress to meet their baseline reduction target and targeted policy savings. You received an overview of the Assurance Panel's initial engagements in mid-January [T2024/25 refers].

Pressures on and approach to Budget 2024

11. As previously advised [T2024/213], the Budget 2024 operating allowances and multi-year capital allowance are under significant pressure and oversubscribed. While this is not unusual for this point of the Budget process, we expect that there will be significant trade-offs for the Budget 2024 process, particularly because:

    a The size of the tax package and the limited scope to scale it (unlike some other Budget initiatives); and

    b The volume of risks that may mean less savings are available for, or more costs need to be funded from, the allowance.

12. At the Budget Matters meeting on 31 January, Treasury committed to provide advice on the risks and levers for Budget 2024 to enable early action where needed to ensure that the Budget can be met within allowances. The Treasury has undertaken work to identify these based on the savings and spending initiatives invited into the Budget process.

    a **Risks:** These are areas where new spending initiatives may cost more, or savings yield a lower quantum, than anticipated.

    b **Levers:** These are levers that will help Budget Ministers get the Budget package back within allowances.

13. In addition to these specific risks and levers, there are more general risks and levers that will arise normally through the Budget process: for example, we expect that the value of cost pressure initiatives from agencies will be somewhat different to our initial assessment last year; and there is an established process and mechanism to consider scaling of those.

14. There are generally four actions that we can take now and as part of the Budget process to manage these pressures:

    a **Mitigating specific risks**, for example by ensuring that any new expenditure initiatives are sufficiently scaled or Ministers are identifying reprioritisation options to fund initiatives.

    b **Maximising specific levers**, for example by ensuring that Ministers and agencies are developing sufficient targeted policy savings.

    c **Identifying further levers,** including bringing new targeted policy options into the process.

    d **Minimising further risks,** for example, taking a strict approach to inviting late initiatives into the process.

15. Following initiative submission on 16 February, the savings process will converge back into the main Budget process so that Budget Ministers can consider the Budget package in its entirety (i.e. where to increase *and* reduce spending) as well as the Government's priorities and broader macro-economic and fiscal context.

Specific risks and levers

16. The tables below outline the specific risks and levers that we have identified to date. We have given a high-level assessment of the scale of the risk and the chance of it materialising:

    a **Low.** We expect that the initiative submitted will be in line with expectations.

    b **Medium.** We have some concerns but think these can be addressed through Treasury engagement with agencies or post-submission Ministerial engagements, such as Budget bilaterals.

    c **High.** We think the initiative is off track and requires intervention.

17. Annex A provides more information on each risk and lever, including the category, the scale of additional risk and lever, and recommended next steps. Note these are working documents from Treasury Vote teams.

Table 1: Overview of specific risks to the allowance

Risk to delivery	Title	Category	Cost/saving (over forecast) currently assumed[1]	Scale of additional Risk	Recommended next steps
High	Unwind Te Pūkenga merger	New Spending	$112m operating	<$100m operating	Ministerial discussion
	Alternative personal income tax options	New Spending	$10,200m operating	>$1,000m in operating	Ministerial discussion
	Kāinga Ora Review	New Spending	None	Unknown	Ministerial Discussion
	Remove Workforce Development Councils	Savings	$260m operating	<$100m operating	Ministerial Discussion
Medium	Regional Infrastructure Fund	New Spending	<$100m operating $1,100m capital	Unknown	None now – Treasury providing further advice
	Accounting adjustments for amortisation and grant funding in Housing	New Spending	None	Unknown	None now – Treasury providing further advice
	Additional Cost Pressures in Health	New Spending	$5,720m operating	[33]	Consider in B24 process
	NIWE Road Response and Recovery	New Spending	[33]		Consider in B24 process
	Justice Cluster – New Spending Initiatives	New Spending			Consider in B24 process
	Targeting the removal of prescription co-payment	Targeted Savings	$300m operating	$100m - $500m operating	Office or Treasury follow up
	Replace Fees Free Programme with Final Years Fees	Savings	$595m operating	$100m - $500m operating	Ministerial Discussion
	Immigration Savings	Savings	$492m operating	Unknown	Ministerial discussion
Low	Gambling Tax Changes	Savings	$192m operating	None	Consider in B24 process

[1] As assumed in previous estimates of the position of the allowance. Treasury may have provided separate estimates.

Table 2: Overview of Specific Levers

Risk to delivery	Title	Category	Cost/saving (over forecast) currently assumed	Scale of lever	Recommended next steps
High	[33]				
	Revenue Positive Options Associated with Maintenance of the Tax System	Targeted Savings	None	$500m - $1,000m operating	Ministerial Discussion
	Savings options for student loans	Targeted Savings	None	Uncertain	Ministerial Discussion
	[33]				
Medium	Targeting Healthy School Lunch Programme	TL Funding	$1.4b operating	$500m - $1,000m operating	Office/Treasury follow up
	Scaling/self-funding Geohazards Science Services, Data and Modelling	TL Funding	$100m operating	<$100m operating from alternative funding	Office/Treasury follow up
	Welfare Settings (MSD)	Targeted Savings	None	$500m - $1,000m operating	Consider in B24 process
	Return of the Agricultural Emissions Pricing Tagged Contingency	Targeted Savings	None	$100m - $500m operating	Office/Treasury follow up
	The Waste Disposal Levy and Waste Minimisation Fund	Targeted Savings	None	$100m - $500m operating	Office/Treasury follow up
	Three Waters Repeal and Local Water Done Well	Savings	None	$100m - $500m operating	Likely to be included in March Cabinet paper or consider in B24 process
	Transport GPS	New Spending	$1.4b operating	$100m - $500m operating	Consider in B24 process
	Pay Equity reforms	Targeted Savings	None	Unknown	None now – Treasury providing further advice
	Reprioritisation options in Health	Savings	None	[33]	Consider in B24 process
	Reprioritisation options in Education	Savings	None	>$1,000m operating	Consider in B24 process
	[33]				
Low	Warmer Kiwi Homes	Targeted Savings	None	<$100m operating	Consider in B24 process
	Reprioritisation options in Whaikaha	Savings	None	$500m - $1,000m operating	Consider in B24 process
	Time-limited Funding in Education	TL Funding	$360m operating	$100m - $500m operating	Consider in B24 process
	Apprenticeship Boost	TL Funding	$320m operating	<$100m operating	Consider in B24 process
	[33]				
	Wind-down of the First Home Grants Scheme	Targeted Savings	None	$100m - $500m operating	Consider in B24 process
	Revenue associated with Investment in Tax Compliance and Audit	Savings	None	$100m - $500m operating	Consider in B24 process

18. We consider that most initiatives invited into Budget 2024 are on track to submit credible options for you to consider through the normal package process. This includes options to realise additional savings and scale new spending initiatives.

19. You have choices about how to proceed with managing these risks and levers over the course of the Budget process and beyond, which are outlined below.

    a **Pre-submission engagement with select portfolio Ministers**. Agencies and Ministers are submitting initiatives on 16 February. In some circumstances, we recommend you (or your Office) discuss with the relevant Minister(s) key concerns either related to savings or spending proposals. We suggest this is limited to where significant funding is involved and there is a high risk that the initiative submitted will not meet Cabinet's or your expectations.

    b **Vote 101s (pre- and post-submission)**. You have requested "101" in-person briefings on several key Votes in early-mid February, 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.

    c **Draft package advice (post-submission)**. You will receive advice on the draft Budget package developed by the Treasury in early March. This will include funding recommendations, any key risks and whether agencies and Ministers have fulfilled the requirements set by Cabinet and yourself in December.

    d **Budget bilaterals (post-submission)**. You have agreed to hold twelve bilateral meetings in mid-March with portfolio Ministers on their spending and savings submissions, and the status of these in the draft Budget package [T2024/45 refers]. These meetings are an opportunity for you to ask for further information about phasing, scaling, and deferring initiatives and the trade-offs associated with savings proposals and not providing additional funding for new spending initiatives. The Treasury will provide you with briefings to support these meetings, including talking points to raise with your colleagues.

    e **Budget Ministers and Cabinet Expenditure and Regulatory Review Committee (post-submission)**. 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 to discuss key outstanding issues arising from Budget Ministers 3 and the Budget bilaterals that need to be resolved prior to final Budget decisions.

    f **Post Budget 2024**. The Government's Fiscal Sustainability Programme extends beyond Budget 2024 with portfolio Ministers needing to implement and monitor the agreed savings. There will also be Phase Two of the Programme, including Savings and Performance Plans from April 2025 and the ongoing role of the EXP Committee in reviewing significant expenditure, investment and procurement proposals.

20. Per option A above, we recommend that for initiatives categorised as high risk that you discuss key concerns with relevant portfolio Ministers pre-submission. The table below outlines the relevant portfolio Minister for the high-risk areas of concerns identified by the Treasury and suggested actions for you to take to manage risks and realise levers for Budget 2024.

Table 3: Initiatives that we recommend you discuss with portfolio Ministers

Minister	Areas of concern	Action prior to 16 February submission
Minister for ACC (Minister Doocey) Associate Minister of Finance (Minister Seymour)	Efficiency and Financial Sustainability of ACC	Reiterate to the Minister for ACC the expectation that MBIE's submitted savings initiatives must have a fiscal impact through a meeting.
Associate Minister of Finance (Minister Seymour) – *for Personal Income Tax* Minister of Revenue (Minister Watts)	Adjustment of Personal Income Tax Thresholds	We understand you are already planning to meet with portfolio Ministers to reach a common view on the parameters/design principles for the tax relief package.
	[33]	
Minister for Tertiary Education and Skills (Minister Simmonds)	Replacing the Fees Free Programme with a final year fees free policy	Discuss the policy design options being explored with the portfolio Minister and reiterate your expectation that associated savings will be submitted.
	Unwind Te Pūkenga merger	Reiterate with the portfolio Minster that a full spectrum of options are included in the Budget submission and seek clarity on why costs are higher than initially anticipated
	Savings-related options for student loans [33]	Meet with the portfolio Minister to reiterate the expectation that targeted policy savings are submitted for student loans.
	Remove Workforce Development Councils (WDC)	Confirm your expectation with the portfolio Minister that other savings options are considered for the $65 million shortfall in 2024/25.
Minister of Housing (Minister Bishop)	Kāinga Ora independent review	Meet with the Minister to discuss savings options for Kāinga Ora and to seek an update on the independent review prior to the March 2024 report.
[33]		

22. We recommend that you also have a Budget bilateral meeting with the Minister for Tertiary Education and Skills in mid-March given the significance of the spending and savings proposals for this portfolio. You could have this as part of your meeting with the Minister of Education or separately.

23. There are several other initiatives that we think do not warrant Ministerial discussion at this stage but would benefit from reiterating expectations by your Office and/or the Treasury to the relevant portfolio Minister office and/or agency (see table below).

Table 4: Initiatives that we recommend your Office and/or the Treasury discusses with respective counterparts

Portfolio	Areas of concern	Action prior to 16 February submission
Emergency Management Science, Innovation and Technology	Geohazards Science Services, Data and Modelling	Reiterate expectation to develop options that do not involve fully funding the shortfall from the centre and to include a minimum viable option for Geohazards in their Budget submission which should require substantially less than the funding provided in Budget 2023.
Environment	Waste levy	Reiterate expectation that a full suite of options for the Waste Levy is included in the targeted savings submission.
Education	Healthy School Lunch	Reiterate expectation that scaling options are presented in the Budget submission.
Health	Prescription co-payment	Ask for the Budget submission to include additional options that would target the initiative further and increase the net savings (e.g. only exempting Community Service Card holders or people over 65).
Agriculture	Agricultural emissions pricing	Reiterate that the Budget submission should include an option for returning the full tagged contingency.

Other levers available

24. Even if you generate sufficient targeted savings and minimise new expenditure on the specific items above, it is likely that meeting the Budget 2024 allowance will remain challenging. Other levers available to minimise new spending and/or create additional headroom in Budget allowances are set out below.

Further targeted policy savings

25. Further targeted policy savings would generate additional headroom, but would require lead-in time for policy work to be undertaken and for Ministers to make decisions. Therefore, any further commissioning would need to take place soon.

26. As part of the Mini Budget process, we provided you with a list of targeted policy savings to consider. You indicated which of these you wanted agencies and Ministers to develop as part of Budget 2024. You could decide to commission work on the remaining targeted policy saving options if you need to create further headroom, such as:

    a [33]

    b [33] and [37]

    c **Expanding the scope** of existing targeted policy commissions on student loans.

27. In addition to this list, there may be areas of policy where further savings (beyond those suggested by agencies based on current commissioning) could be possible. Further information on which areas of spending could generate additional savings (based on the Budget 2024 timeframes) will be available after agency submissions on 16 February. However, there are two areas where we currently judge there could be additional opportunities at this stage:

   a [33]

   b **Policy savings from contestable / discretionary funds and grants**. We expect agencies to submit 'haircuts' of some of these funds as part of their baseline reduction targets, and there may be options to make more significant savings from agencies with significant numbers of these funds. At this point, we suggest no further commissioning before Budget initiative submissions, but Treasury will undertake preparatory work to identify areas with opportunity for further savings.

Targeting, phasing, or revenue elements of the tax package

28. The Government's tax commitments are the largest single call on the Budget allowance (albeit mostly offset by other savings and revenue items). [33]

29. You, the Minister of Revenue, and the Minister for Social Development could also consider exploring other feasible revenue options to increase tax revenue and/or consider further changes to income support settings as part of the tax package to increase its self-funding, particularly if the baseline savings exercise does not meet the $1.5 billion savings target itself.

30. Decisions on further commissioning at or before Budget Ministers 1 on 26 February would allow officials to present deliverable options and trade-off discussions for Budget 2024. If you agree, we will provide relevant material to support as conversation as part of draft Budget Ministers 1 collateral.

Out-of-cycle spending

31. The overall expectations for submitting funding proposals to Cabinet outside of the Budget process is outlined in Cabinet Office Circular (18) 2: *Proposals with Financial Implications and Financial Authorities*. The process currently requires:

   a The relevant portfolio Minister to write a letter to the Minister of Finance for pre-approval of the request, prior to when Ministerial consultation commences on the relevant Cabinet paper. If the Minister of Finance agrees, the request can proceed to Cabinet for approval.

   b Agencies to fill out an Out-of-Cycle Funding Request template outlining why the proposal is important, why it is urgent and what baseline reprioritisation options have been considered, attached to the letter to the Minister of Finance.

32. To manage the risk of out-of-cycle funding for Budget 2024, we recommend that you continue to enforce the current process as outlined above. This process allows you to put a greater emphasis on alternative funding options (including baseline reprioritisation) to meet out-of-cycle funding needs, rather than using new funding as the default approach.

Review of tagged contingencies

33. You agreed to review existing tagged contingencies through the March Baseline Update (MBU) process [T2024/89]. Agencies and Ministers will provide in submission letters, a full list of their existing tagged contingencies and explain why the tagged contingency is still required and when funding will be drawn down. It will also seek your approval to extend the expiry date for tagged contingencies expired on 1 February 2024.

34. Following these MBU submission letters, you will receive advice from the Treasury in mid-March on potential tagged contingencies that can be reprioritised to help fund Government priorities in Budget 2024.

National Resilience Plan

35. The previous Government established the National Resilience Plan (NRP) in Budget 2023 with $6 billion from the multi-year capital allowance. You have received separate advice on discontinuing the NRP and how to proceed with the remaining $3.3 billion of unspent funding [T2024/234]. Based on our recommendations in that advice, $2.9 billion would be returned to allowances to support Budget 2024 funding decisions.

Climate Emergency Response Fund initiatives

36. The previous Government established the Climate Emergency Response Fund (CERF) in Budget 2022. You will receive separate advice in early-mid February outlining the results of CERF initiatives for Quarter 4 of 2022/23 and Quarter 1 of 2023/24 [T2024/249 refers]. Results indicate there is scope to consider reprioritising some CERF related funding given that only 54 percent of 2022/23 baseline expenditure was spent, and agencies have spent 7.1 percent of the 2023/24 baseline in the first quarter.

37. We have included in the Budget 2024 guidance that agencies can identify CERF savings (including from rolled forward underspends) as part of the initial baseline exercise, and we can provide further advice on these through the Budget process (including any additional opportunities not identified through the standard process).

Additional risks

38. There are a number of general additional risks that will require careful oversight throughout the Budget process.

Capital initiatives

39. You agreed that the capital component of Budget 2024 includes reprioritisation options identified through a capital pipeline review, cost escalations for investments in delivery, and new initiatives that meet specific criteria [T2024/47]. On 2 February, we provided you with an update on the preparation of capital initiatives for Budget 2024 and sought decisions on whether you wish to invite new initiatives that do not meet the criteria into the Budget process [T2024/207].

40. While we have initial indications of costs for capital initiatives through the Quarterly Investment Reporting, we expect that the funding sought by agencies and Ministers through Budget 2024 will be higher. Of key concern is the quantum of associated operating funding that agencies will be seeking for their capital initiatives and where options analysis has not been undertaken for known cost pressures. For example, we understand:

   a **The Ministry of Defence and New Zealand Defence Force** intend to seek up to [33] operating over the forecast for their capital initiatives.

b **Transport agencies (Ministry of Transport, KiwiRail and Waka Kotahi)** will be submitting a significant number of capital cost pressures and new spending. This includes further cost pressures for New Zealand Upgrade Programme projects (which have already received significant levels of funding to address cost pressures since 2020) [33]

Agencies have indicated that they may not be able to provide options analysis for cost pressures by the submission date. However, these are existing pressures that have been known about for a period of time.

41. The Treasury will continue to support agencies on capital initiatives prior to submission and use the Investment Panel to help draw out key risks and trade-offs as part of our draft Budget package advice.

Late initiatives

42. On 1 February 2024, you agreed that several Ministers could submit late initiatives into the Budget 2024 process [T2024/204 refers]. It is possible that other Ministers will seek late invitations throughout the remainder of the Budget process. Although these should be considered on a case-by-case basis, we recommend that late initiatives should only be invited in very limited circumstances, given tight Budget allowances and timeframes.

43. Annex A includes the following potential new late initiatives that Ministers may seek an invitation into the Budget 2024 process for.

Vote	Initiative	Treasury Recommendation
[33]		
	[33]	

Uninvited cost pressures

44. You have agreed to invite cost pressure initiatives 'by exception' with only specific Ministers being invited to submit cost pressures in particular areas. This includes where there is genuinely urgent need for funding and agencies have demonstrated that costs cannot be absorbed within baselines without significant trade-offs across critical services [CAB-23-MIN-0490 refers]. Agencies are expected to outline how they will manage within reduced baselines, key risks associated with savings proposals and uninvited cost pressures, and how these risks are being mitigated within their Budget 2024 submissions.

45. The Treasury will assess the risks associated with uninvited cost pressures and agencies' mitigation proposals and provide Budget Ministers with advice on the limited instances where we consider there to be genuine cost pressures that cannot be managed within baselines or where agencies' mitigation options represent a significant risk to service delivery.

Proposed public service targets

46. In late December, the Prime Minister wrote to a number of Ministers asking them to outline their priorities over the term and proposed targets to achieve better results for New Zealanders. The priorities are expected to be consistent with the strategy for Budget 2024 and the Government's ongoing fiscal sustainability programme. The letter also reiterated that there will be no new funding considered in addition to what has been invited into the Budget 2024 process.

47. We understand the Department of the Prime Minister and Cabinet (DPMC) has provided draft targets to the Prime Minister for consideration. The set of targets will be subject to further discussion between the Prime Minister and responsible Minister, and therefore are likely to continue to change. Based on what the Treasury has seen to date, we have assessed that most targets can be achieved through existing baseline funding by realigning resources and changing operating models. [33]

We will continue to work with DPMC and agencies to understand the potential funding implications of these targets.

Next steps

48. You are meeting with the Treasury the week commencing 12 February to discuss this report at the Weekly Agency Meeting. Where we have recommended that you meet with a Minister to discuss key concerns ahead of initiative submission on 16 February, we can provide you with additional supporting material for those discussions.

Contents

Lever for Budget 2024 – Pharmac Combined Pharmaceutical Budget (including COVID-19 vaccines and therapeutics)

<table>
<tr><td>Category</td><td>Time limited funding</td></tr>
<tr><td>Portfolio/Responsible Minister</td><td>Hon Dr Shane Reti, Minister of Health;
Hon David Seymour, Associate Minister of Health (Pharmac)</td></tr>
<tr><td>Description</td><td>Pharmac requires $1.8 billion funding across the forecast period for its Combined Pharmaceutical Budget to continue to provide access to currently funded medicines. This shortfall arose from time-limited medicines investments over the past two years, as well as time-limited COVID-19 vaccine and therapeutic purchasing funding.

The Treasury provided you with advice in December 2023 on the Pharmac Combined Pharmaceutical Budget funding (T2023/2029 refers) and Ministers and officials met on 25 January 2024 to discuss the funding shortfall and next steps. At this meeting, Ministers informed officials of their intention to fund the full $1.8 billion and directed officials to progress a Cabinet paper ahead of Budget 2024 to provide Pharmac with certainty to manage its contracts and ensure the ongoing provision of publicly funded medicines.</td></tr>
<tr><td>Total Cost to fund / Savings amount (operating, $m)</td><td><table><tr><td></td><td>2024/25</td><td>2025/26</td><td>2026/27</td><td>2027/28</td><td>Total</td></tr><tr><td>Total ($m)</td><td>420.400</td><td>442.420</td><td>455.430</td><td>455.430</td><td>1,773.680</td></tr></table></td></tr>
<tr><td>Previous commitments</td><td>The Coalition Government have publicly committed to increasing Pharmac’s budget every year, and reforming the funding model.</td></tr>
<tr><td>Status Update</td><td>Low risk
Our understanding following the Ministers’ meeting, and later confirmed by your office, is that the Cabinet paper should agree to appropriate the full $1.8 billion funding and pre-commit it against the Budget 2024 operating allowances. The Cabinet paper will still consider the fiscal environment and reprioritisation, while also setting out the rationale for why this decision is being taken ahead of B24.</td></tr>
<tr><td>Option/s</td><td>None.</td></tr>
<tr><td>Treasury view</td><td>We note that the agreed Pharmac Combined Pharmaceutical funding amount includes funding for COVID-19 vaccines and therapeutics [38] This funding would only be to purchase these products and does not include delivery costs (such as vaccine administration and payment per doses). These costs will be assessed in a separate initiative on the COVID-19 public health response and immunisation programme, which you recently agreed to invite into the Budget 2024 process (T2024/204 refers).</td></tr>
<tr><td>Treasury’s next step/s</td><td>The Treasury is continuing to engage with the Ministry of Health and Pharmac on the draft Cabinet paper, in preparation of sending it to Ministers on 13 February 2024.</td></tr>
<tr><td>Recommended next step/s for Minister of Finance</td><td>We recommend no additional steps but note the interdependency between this funding and the COVID-19 public health response and immunisation programme initiative. Ministers still have options in assessing this initiative, including directing entities to fund delivery costs through reprioritisation, and we note that this initiative will also have to be prioritised against the other Vote Health new spending initiatives.</td></tr>
</table>

Lever for Budget 2024 – Update on Education reprioritisation options to fund cost pressures

Category	Cost pressures
Portfolio Minister	Hon Erica Stanford, Minister of Education
Description	Your Budget 2024 letter for education required that rather than identifying savings for non-departmental (frontline) services, the Ministry and Minister of Education must identify specific reprioritisation options that could be used to fund 25% and 50% of the total cost pressures. In addition to offsetting 25% and 50% of the total cost pressures through reprioritisation, the Treasury, in consultation with the Minister of Finance's office, has agreed that: • the Minister of Education can also provide options to scale the submitted cost pressure initiatives to offset the total value of the package, and • the Ministry can include a scaled quantum for its school property portfolio revaluation (depreciation) initiative as an option in its full-funded cost pressure package (and consequently a lesser amount of reprioritisation is required to offset this in the 25% and 50% offset scenarios).
Total Cost to fund / Savings amount (operating, $m)	The total amount of reprioritisation the Ministry will need to find to fulfil this exercise will be dependent on the total quantum of submitted cost pressures, which is still being determined. Based on previous cost driver information from the Ministry, we estimate 25% and 50% of the total cost pressures could amount to around $550-750 million and $1,100-1,475 million respectively (depending on the treatment of a scaled depreciation initiative – with the higher estimates including a full depreciation initiative).
Previous commitments	None.
Status Update	**Medium Risk** We have recently sought an update from the Ministry of Education on progress in developing options to offset the total cost pressure costs to fulfil this exercise. The Ministry has advised that work is progressing on track. However, the Ministry has emphasised the challenging trade-offs this requires given the scale of the reprioritisation that must be found. For example, options may include scaling back major spending proposals such as, reprioritising funding away from school operating grants, [33] , school property spend, or scaling beyond the expected policy commitment for Ka Ora Ka Ako | Healthy School Lunches. Within Vote Tertiary, reprioritisation options could include further rolling back Fees-Free beyond expected targeted savings, or not funding all student places. While we are conscious these reprioritisation options may not be palatable to Ministers, we recognise that due to the significant amount of savings and reprioritisation that has been/is being sought from the Ministry through other processes (see detail in Treasury view section below) the remaining options available for additional

	reprioritisation are largely those that represent the most challenging trade-offs. We note also that the Treasury's Baseline Savings Assurance Panel has to-date been largely comfortable that the Ministry is engaging in the process adequately (rating its progress Amber), which aligns with the Vote Team assessment that the Ministry is engaging in Budget 2024 savings and reprioritisation exercises in good faith, notwithstanding there will be challenging choices. Taking these factors into account, we consider this exercise to be at medium risk – this reflects an overall low risk of not producing an adequate quantum of reprioritisation options, but a moderate to high risk of those options being unpalatable to Ministers.
Option/s	See above.
Treasury view	The Ministry has already reprioritised a significant quantum of funds as part of previous exercises (e.g., $357 million for teacher bargaining), and is also working to identify $73.6 million of savings required to meet its 7.5% baseline savings target. Within this context, the Treasury recognises that the remaining options to cover additional reprioritisation are largely those which involve challenging trade-offs for Ministers. However, we do not have visibility of what, if any, large-scale reprioritisation options may have already been ruled out at a Ministerial level. If the final reprioritisation options submitted do not appear to be credible, you may wish to seek more information from the Ministers of Education and Tertiary Education on what reprioritisation options they ruled out.
Treasury's next step/s	The Vote Team is continuing to engage with the Ministry as it develops reprioritisation options leading up to Budget submissions.
Recommended next step/s for Minister of Finance	If the final reprioritisation options submitted do not appear to be credible, as part of your Budget 2024 bilateral discussion with the Minister of Education, you may wish to request an update directly from the Minister on her decision-making process for reprioritisation options. Specifically, information on what if any large-scale potential reprioritisation options were ruled out at a Ministerial level prior to the final submission. You may wish to also request similar information from the Minister of Tertiary Education regarding tertiary initiatives.

Risk for Budget 2024 – Replace the Fees Free programme with a final year fees free policy

Category	Government Policy Commitment / Targeted Policy Savings
Portfolio Minister	Hon Penny Simmonds, Minister for Tertiary Education and Skills
Description	The Minister for Tertiary Education and Skills has been invited to submit targeted policy savings relating to the Government policy commitment to replace the Fees Free programme with a final year fees free policy.
Total Cost to fund / Savings amount (operating, $m)	We do not have up-to-date costings, given the policy design is still being actively considered. Indicative costings (based on the New Zealand First policy to change fees free to third year) suggested that the cost of the new policy was likely to be $97.4m per annum (excluding student loan borrowing costs), providing a total saving of $170m per annum. It is now likely that savings will be significantly lower (estimated between $20m - $125m per annum) than initially anticipated due to updated modelling and ongoing policy design (e.g. scope and eligibility).
Previous commitments	The Government has committed to replace the Fees Free programme with a final year fees free policy with no change before 2025, in the Coalition Agreements.
Status Update	**Medium Risk** The Minister for Tertiary Education and Skills has received advice on policy options. We understand the Minister intends to discuss this with her Ministerial colleagues ahead of finalising the Budget initiative, however, there is a risk that final policy design decisions will not be made ahead of Budget submission on 16 February. We expect that the savings will be substantially lower than the indicative costings, which will have an impact on the overall Budget package.
Option/s	Options range from a tightly scoped policy (with higher savings associated) to a broader policy benefitting a greater number of students (with lower savings associated). We understand that an option to stop the programme is being considered, given challenges in recognising substantive savings in the proposed options.
Treasury view	The initial policy costing was based on a design which would have severely limited access to the Fees Free scheme (based on passing all previous coursework and studying full-time). It is not clear that these limitations were intended from the coalition agreements and while it would present significant savings there would also be substantial implementation and equity impacts. Changes to this policy are complex and have required ongoing engagement between the Ministry of Education, Tertiary Education Commission, Inland Revenue and the Ministry of Social Development.
Treasury's next step/s	None
Recommended next step/s for Minister of Finance	We expect the Minister of Tertiary Education and Skills will consult you on options for the Fees Free initiative ahead of initiative submission and have requested that advice on Fees Free policy design is forwarded to you. However, you may wish to proactively

	raise this initiative with the Minister ahead of 16 February to ensure your expectations are being met.

Risk for Budget 2024 – Three Waters Repeal

Category	100 Day Plan or Coalition Agreement
Portfolio Minister	Hon Simeon Brown, Minister of Local Government
Description	The initiative is likely to include the full suite of savings opportunities associated with the repeal of the Three Waters programme. The initiative is likely to include: (1) **Expected savings from decisions already taken**. This consists of Cabinet's decision to disestablish the Auckland Water Services Entity [CAB-23-MIN-0479 refers], and the Minister of Local Government's decision to unwind the Systems of Record investment and National Transitional Unit [LG202301376 refers]. (2) **Savings that do not require a decision to achieve.** This consists of departmental underspends, the balance of the transition funding titled *Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation,* and grants funding that has not been contractually committed. **Further savings opportunities.** This consists of areas that have been identified as savings opportunities, but where decisions have not yet been taken, and grant funding that has been committed but has not yet been paid or expended (including to local council and iwi/Māori). The advice is consistent with the DIA briefing titled 'Budget 2024 - further advice on savings from the previous Government's Three Waters programme and implementation costs for Local Water Done Well [LG20240021 refers]
Total Cost to fund / Savings amount (operating, $m)	The current forecasted savings for each of the savings' opportunities discussed are as follows: 1) Expected savings from decisions already taken - [33] 2) Savings that do not require a decision - [33] . **3)** Further savings opportunities - [33] (subject to significant change based on decisions) Note all savings options are for the 2023/24 financial year. There is no funding for Three Waters from 2024/25 onwards. These numbers may be subject to change depending on the timing of the relevant Cabinet decisions as well as employer obligations with respect to change processes and notification requirements for affected staff, where relevant.
Previous commitments	The Minister of Local Government and Cabinet have already made a range of decisions that are expected to result in savings from the repeal of the previous government's Three Waters programme. This includes decisions on the disestablishment of the Northland and Auckland Water Services Entity upon repeal of the Water Services Entities Act 2022 [CAB-23-MIN-0479 refers]. The Minister of Local Government also decided that the National Transition Unit and the

	Systems of Record project will be wound down [LG202301376 refers].
Status Update	**Medium Risk** There is a higher degree of certainty for savings that can be returned for decisions that have already been taken and savings that do not require a decision. There are significant legal risks associated with savings associated with grant funding that has been committed to local councils but has not yet been paid or expended. This is likely to have an impact on the amount of funding from the [33] that can be returned to the centre. In addition to legal risks, there are other factors that Ministers will need to consider when taking decisions on the options to realise savings from contractually committed grant funding. These include: - Reputation risk to the Government and the perceived reduction in support for local government - Impact on relationship with iwi - Implications for council planning and financial processes - Impacts on communities and ratepayers. - Fairness in distribution of funding.
Option/s	In relation to further savings opportunities relating to savings from contractually committed grant funding, DIA has signalled the following options: - Option 1: status quo (no funding returned to the centre) - Option 2: issue direction or expectations on the use of the funding (to align it better with Local Water Done Well) - Option 3: terminate funding agreements and recipients retain funding not yet spent - Option 4: Terminate funding agreements and clawback paid but unspent funding We will assess the above options (including any risks and trade-offs associated with different levels of savings) and provide further advice as part of the Budget assessment process.
Treasury view	There is a higher degree of certainty for savings that can be returned for decisions that have already been taken and savings that do not require a decision. However, there are significant legal risks with savings associated with committed grant funding. Any changes to the status quo will require Cabinet consideration.
Treasury's next step/s	None
Recommended next step/s for Minister of Finance	None

[33]

[33]

Lever for Budget 2024 – Return of the Agricultural Emissions Pricing Tagged Contingency

Category	Targeted Policy Saving
Portfolio Minister	Hon Todd McClay, Minister of Agriculture
Description	Setting up and operating an agricultural emissions pricing scheme
Total Cost to fund / Savings amount (operating, $m)	Based on remaining funding in the tagged contingency, total savings available from a full return are $174.5 million in operating expenditure across the forecast period.
Previous commitments	The Government has committed to pricing agricultural emissions by 2030, although detailed policy design and consultation on proposals is still to occur. This tagged contingency was established at Budget 23 to implement the previous Government's agricultural emissions pricing policy. No funding has been drawn down to date.
Status Update	**Medium Risk -** We understand that the Ministry for Primary Industries (MPI) are on track to include this targeted policy saving within their overall Budget 24 submission.
Option/s	MPI has indicated it is considering a spectrum of options for the scale of savings and will seek direction from the Minister of Agriculture on this matter. As part of this, we anticipate MPI may seek to retain some of the funding held in tagged contingency to fund further development of a pricing policy. We do not have information on the total quantum they may recommend retaining.
Treasury view	An option for the full return of the tagged contingency at Budget 24 should be included for consideration, given: • Further policy design and consultation is needed before costs for implementing the Government's agricultural emissions pricing policy are finalised, and • This tagged contingency was costed on the basis of implementing the previous Government's policy proposal.
Treasury's next step/s	Continue to engage with MPI officials on the options they are seeking to include in their Budget 24 submission, including the implications of the options they recommend.
Recommended next step/s for Minister of Finance	You may wish to raise with the Minister of Agriculture your expectation that an option is included in his submission for the full return of the tagged contingency.

Lever for Budget 2024 – *Apprenticeship Boost*

Category	Government policy commitment and time-limited funding
Portfolio Minister	Hon Penny Simmonds, Minister for Tertiary Education and Skills; Hon Louise Upston, Minister for Social Development and Employment
Description	The Ministry of Social Development and the Ministry of Education have been invited to submit an initiative at Budget 2024 to address the end of time-limited funding for the Apprenticeship Boost Initiative (ABI). The ABI is a subsidy paid to employers of eligible first- and second-year apprentices, which supports apprentices while they work toward a qualification. The ABI is funded through Vote Social Development, but is administered by the Tertiary Education Commission. The scheme was established in 2020 as part of the COVID-19 response and received time-limited funding from the Covid Response and Recovery Fund (CRRF). Funding was extended via Budget 2022 and Budget 2023 and is due to end on 31 December 2024.
Total Cost to fund (operating, $m)	The Ministry of Education have advised that, if the ABI were to continue unchanged, it would cost approximately $80 million per annum. In 2024/25, six months of funding has been appropriated already, and there may be some underspends that could be used to offset the additional cost if the scheme continues. The costs above include the associated costs for MSD and TEC to administer the scheme, if it continues beyond the current end date.
Previous commitments	The National Party / New Zealand First coalition agreement committed to maintaining the Apprenticeship Boost scheme, at a pre-election estimated cost of $120m per annum. Note that there is no formal forecasting of apprenticeship numbers. However, an approximate cost of $80 million each year is officials' current best estimate, which is lower than the amount indicated in the National Party's Fiscal Plan.
Status Update	**Low Risk -** We understand agencies are on-track to propose an option at Budget 2024 that will be in line with your expectations. However, this initiative will require new funding. Some underspends may be available to offset the cost.
Option/s	The Minister for Tertiary Education and Skills has received advice on options to further target the ABI at Budget 2024, which decrease the costs. The options include introducing sector targeting, either from 1 July 2024 or from 1 January 2025. We understand that the Minister has not yet directed officials as to her preferred option.
Treasury view	We do not have any concerns about the development of this initiative.
Treasury's next step/s	We will continue to engage with agencies on the development of all relevant Budget 2024 initiatives.
Recommended next step/s for Minister of Finance	We recommend you invite the Minister for Tertiary Education and Skills to a bilateral discussion, either as part of the meeting with the Minister of Education or separately.

Lever for Budget 2024 – Education time limited funding initiatives

Category	Time limited funding
Portfolio Minister	Hon Erica Stanford, Minister of Education
Description	The Minister of Education has been invited to submit the following initiatives that received time-limited funding at Budget 2023: • **Teacher Supply Initiatives** (funded to the end of 23/24) - covers a range of schemes to support teacher recruitment and retention. These include programmes to increase Initial Teacher Education enrolment, incentivise overseas teachers to move to New Zealand, assist former teachers to return to the profession and help match graduates and returning teachers to long-term roles. • **Cyber Security Programmes** (funded to the end of 23/24) - increases the level of support from the Ministry of Education to schools for cybersecurity and managed digital services • **Equitable Digital Access** (funded to the end of 23/24) - provides free home internet access for up to 18,000 student households until June 2024. The programme was started as part of the previous Government's COVID-19 distance learning programme.
Total Cost to fund / Savings amount (operating, $m)	The Treasury has provided indicative costings for each of these initiatives as part of previous advice on time-limited funding: • **Teacher Supply:** [33] operating in 2024/25 • **Cyber Security:** [33] per annum • **Equitable Digital Access:** [33] per annum
Previous commitments	We are not aware of any public commitments by Government related to these initiatives.
Status update	**Low Risk** We consider these initiatives to be relatively low risk: • **Teacher Supply:** This initiative is made up of several sub-programmes, meaning options could be considered to scale and prioritise to focus on the most effective programmes. • **Cyber Security:** There is discretion around: (i) whether to continue funding the initiative and (ii) if the initiative is funded, the level of funding committed. Not funding the initiative would involve stopping or scaling back the additional support that the Ministry of Education has provided to schools around improving the security of day-to-day products used by schools and supporting schools' capacity to operate in a cybersecure way. Scaled funding would enable continued partial risk mitigation. • **Equitable Digital Access:** Our previous advice indicated that this is a discretionary policy (noting many students have returned to in-person education) that could be scaled by reducing the number of eligible students or discontinued.
Option/s	See above
Treasury view	The Treasury has not had any indications from the Ministry of Education on these initiatives that concern is warranted.
Treasury's next step/s	The Vote Team will continue to engage with the Ministry on their draft Budget package.
Recommended next step/s for Minister of Finance	No immediate steps. These will be considered as part the Budget 24 decision-making process and you can discuss scaling and phasing options at your Budget bilateral with the Minister of Education.

Risk for Budget 2024 - Stopping Work on Auckland Light Rail

Category	100 Day Plan or Coalition Agreement
Portfolio Minister	Hon Simeon Brown, Minister of Transport
Description	Government's 100 day Commitment to stop central government work on the Auckland Light Rail (ALR) Project
Savings amount (operating, $m)	$98 million of capital funding was returned to the centre in December 2023 [CAB-23-MIN-0496 refers]. Additional savings - estimated to be up to [33] held by Auckland Light Rail Limited (ALR Ltd) - could be returned once disestablishment of ALR Ltd is completed. The final amount returned will be dependent on the cost of winding down ALR Ltd.
Previous commitments	Cancelling Auckland Light Rail was specifically identified in the Government's 100 Day Action Plan.
Status Update	**Low risk** The majority of funding has already been returned, as part of decisions considered at Cabinet on 18 December 2023; with the remainder to be returned as wind-down of ALR Ltd allows. The Ministry of Transport have indicated that wind-down is expected to be largely complete by 31 March 2024, and that they therefore intend to return the bulk of remaining funding through the March Baseline Update (MBU), with a small further return once property and audit processes are complete.
Option/s	N/A
Treasury view	We are comfortable that, between the decisions already taken by Cabinet decision on 18 December 2023, and the Ministry's plan to return the bulk of remaining funding through MBU, this 100 day Commitment is on track to be be completed. There is no further work required at this stage and we do not expect Ministry of Transport to submit a separate Budget Savings Initiative for this project.
Treasury's next step/s	Treasury will process the return of the majority of remaining funding when it is submitted through the March Baseline Update.
Recommended next step/s for Minister of Finance	None

Lever for Budget 2024 - Civil Aviation Authority Liquidity Funding

Category	Time-limited Funding
Portfolio Minister	Hon Simeon Brown, Minister of Transport
Description	This initiative will enable the Civil Aviation Authority (CAA) to undertake its statutory functions by bridging the gap between the revenue recovered from the aviation sector and its costs of delivery. [33]
Total Cost to fund (operating, $m)	
Previous commitments	No
Status Update	**Low Risk -** On track to provide reasonable options
Option/s	[33]
Treasury view	No significant concerns for the formal submission. We have provided feedback to the Ministry on a draft bid in relation to how the options are framed for Ministers to review, as well as the need to tie the narrative back to the Funding Review currently in progress. **Two Opportunities to Reduce Funding Required** 1. <u>Ensuring the current funding review progresses on planned timelines with no further delays.</u> The liquidity funding is requested through to June 2025. If Ministers are able to progress the decision making for the current Funding Review at the Ministry's recommended pace to meet all Cabinet deadlines, it is likely the decisions from the Review can be implemented by March 2025. If this timeframe is met there is the option to provide a *scaled* amount that would cover to <u>March 2025 only</u>, ensuring the Review is completed by this time to reduce obligations on the Crown. 2. [33]
Treasury's next step/s	Review final Budget Bid on 16 February.
Recommended next step/s for Minister of Finance	1. Assist Minister Brown by making timely decisions on the Funding Review to ensure new levies are able to be implemented by March 2025, rather than delaying to June 2025. 2. [33]

Lever for Budget 2024 – Disestablishing the Māori Health Authority

Category	Targeted Policy Savings
Portfolio Minister	Hon Shane Reti, Minister of Health
Description	For Budget 2024, the Minister of Health must submit a savings initiative for the disestablishment of the Māori Health Authority. All functions and frontline services will be transferred to Health New Zealand and the Ministry of Health. Savings will likely reflect the amalgamation of this entity and not a reduction of frontline services or funding for service delivery.
Total Cost to fund / Savings amount (operating, $m)	Approximately $30 million operating expenditure across the forecast period, with most savings in the 2024/25 financial year (per the Joint Ministers meeting on 31 January). This is an increase of $10 million from previous advice the Treasury provided (refer Mini Budget indicative costings from 20 December 2023). As this is largely a transfer of services, with no reduction in frontline services or service delivery, we expect that the net savings made are modest.
Previous commitments	The Government's 100 Day Action Plan includes an action to introduce legislation to disestablish the Māori Health Authority.
Status Update	**Low Risk** Health officials are currently undertaking work for this Budget 2024 savings submission.
Option/s	The Treasury will test assumptions and the wider option analysis as part of the Minister of Health's Budget 2024 submission on 16 February.
Treasury view	We are confident the Minister of Health will submit this initiative for Budget Ministers consideration for Budget 2024.
Treasury's next step/s	As above.
Recommended next step/s for Minister of Finance	We do not recommend the Minister of Finance takes any action at this point.

Lever for Budget 2024 – New Zealand Screen Production Rebate (Domestic)

Category	Time-limited funding
Portfolio Minister	Hon Paul Goldsmith, Minister for Arts, Culture and Heritage
Description	The New Zealand Screen Production Rebate (SPR) is a demand-driven and uncapped scheme. There are two separate schemes – the domestic scheme for New Zealand based productions and the international scheme for non-New Zealand based productions. Eligible productions can receive a rebate on qualifying New Zealand production expenditure from the schemes (40% and 20% for eligible domestic and international productions respectively).
Total Cost to fund (operating, $m)	The expected cost of the programme in future years is approximately $70 million per annum (starting from financial year 2024/25). Due to the demand-based nature of the scheme, these costings uncertain and may not reflect actual demand over the forecast period.
Previous commitments	We are not aware of any commitments made by the Government. However, legal risk is expected to arise where rebates are not provided to applicants who have incurred costs in the belief that they would be entitled to a rebate. The liability for the rebate is incurred when applicants register or apply prior to starting principal photography. Due to the timing of this liability and the nature of the film production cycles, changes to the scheme generally take two years to feed through into increased or decreased costs. This will need to be considered when making changes to funding or policy levels.
Status Update	[33]
Option/s	
Treasury view	
Treasury's next step/s	Treasury intends to have a joint meeting with MCH and MBIE to discuss a consistent approach across the domestic and international rebate programmes.
Recommended next step/s for Minister of Finance	None

Risk for Budget 2024 - Establish a Regional Infrastructure Fund with $1.2 Billion in Capital Funding over the Parliamentary Term

<table>
<tr><td>Category</td><td>Government Policy Commitment</td></tr>
<tr><td>Portfolio Minister</td><td>Hon Shane Jones, Minister for Regional Development</td></tr>
<tr><td>Description</td><td>The establishment of the Regional Infrastructure Fund is a coalition commitment, with the Government committing to $1.2 billion of funding over the Parliamentary term. The split between capital and operating funding is still to be determined as it will be dependent on the final design of the fund, including the scope and nature of the projects funded.</td></tr>
<tr><td>Total Cost to fund / Savings amount (operating, $m)</td><td>Establishing the Regional Infrastructure Fund will require $1.2 billion in funding for the fund value, which could either be inclusive or exclusive of an estimated $72 million (2% of Fund value) to support administration of the Fund. Both would be split evenly across the next three financial years. We recommend that the administration costs are funded within the overall quantum.
<table>
<tr><td>Operating ($millions)</td><td>2024/25</td><td>2025/26</td><td>2026/27</td><td>Total</td></tr>
<tr><td>Regional Infrastructure Fund</td><td>376</td><td>376</td><td>376</td><td>1,128</td></tr>
<tr><td>Administration</td><td>24</td><td>24</td><td>24</td><td>72</td></tr>
</table></td></tr>
<tr><td>Previous commitments</td><td>The Government has committed to establishing a Regional Infrastructure Fund (RIF) with $1.2 billion of funding over the Parliamentary term as part of one of the coalition agreements.</td></tr>
<tr><td>Status Update</td><td>Medium Risk - There is certainty around the Fund quantum given the coalition agreement. However, there will likely be a lot of design matters still to be determined when the budget bid is submitted; design details will be critically important to ensure the value for money of investments made by the Fund.</td></tr>
<tr><td>Option/s</td><td>Scaled options for the Fund could be possible but would depend on the final design of the Fund and require Ministerial agreement given the nature of the coalition agreement. Examples of scaled options MBIE could be asked to provide include reducing the overall quantum, focusing some of the quantum on existing Government priorities/cost pressures or spreading the overall quantum over a longer timeframe.
Kānoa has also been invited to apply for future operational funding as a condition of the Regional Infrastructure Fund bid through Budget 24 as they have not been appropriated ongoing operational funding past this financial year. This will need to be considered alongside the bid as Kānoa still needs to manage the existing portfolio of contracted investments to maturity.</td></tr>
<tr><td>Treasury view</td><td>We will be providing the Minister of Finance with fuller advice week commencing 5 February on some of the current MBIE proposals that will cover Fund design matters you should be across. Some of these include:
The relative demand for the proposed investment compared to the quantum
Options to focus some of the quantum on wider Government priorities</td></tr>
</table>

	• The right approach to ensuring any assets brought onto the Crown balance sheet deliver value over the medium-long term
Treasury's next step/s	Continue to engage with Kānoa on the development on the Fund and providing high-level comments on its design and provide you with advice as outlined above.
Recommended next step/s for Minister of Finance	Provide direction and level of interest in engaging in the design process prior to Budget process through the Treasury advice outlined above.

[33]

Lever for Budget 2024 – Geohazards Science Services, Data and Modelling

Category	Time-limited Funding
Portfolio Minister	Hon Mark Mitchell, Minister of Emergency Management and Recovery
Description	GeoNet is New Zealand's geological hazard monitoring system for earthquakes, volcanoes, tsunamis and landslides, operated by GNS Science. GeoNet's technology underpins the National Seismic Hazard model (NSHM), which informs our collective understanding of seismic risk in New Zealand. There has been a funding shortfall for Geohazard services since 2021/22, which has been temporarily addressed through top-up funding from the centre. The shortfall arose because agencies which had previously provided most of the funding reduced or withdrew their support. The shortfall has been exacerbated by significant increases in the services' operating costs.
Total Cost to fund	MBIE have confirmed that their preferred option is a bid for [33] from the $25 million per annum funding provided in Budget 2023 and reflects an increase in underlying operating costs of almost 100% since 2021/22 *MBIE's preferred option for funding through Budget 2024* Additionally, MBIE have indicated they require [33] "per annum" in capital expenditure (capital expenditure is normally presented as the total cost of a project). MBIE have not provided detail regarding what this is for. This initiative is ineligible for the Budget 2024 capital process as no business case has been developed.
Previous commitments	*None*
Status Update	**Medium Risk** We have two main concerns: • The total cost of this initiative has increased significantly over time with limited supporting information • MBIE has outlined several challenges to putting forward a model including mandatory agency contributions and/or cost recovery and these options will likely be poorly developed.
Option/s	As noted above, MBIE's preferred option is for the funding shortfall to be fully funded from the centre [33] MBIE is working on alternatives to this, but has signalled the following challenges in forming an alternative model: • [33]

<table>
<tr><td></td><td>

[33]

</td></tr>
<tr><td>Treasury view</td><td>
Some of the Geohazard services should be classed as a public good, and this justifies some funding from the centre [33]
However, we are concerned about the cost escalation in recent years and decisions by agencies to withdraw support
[33]

The total cost of the initiative has significantly increased year on year (see table below).
Operating spend for Geohazard services, 2021/22 - 2024/25
<table>
<tr><th></th><th>21/22 ($m)</th><th>22/23 ($m)</th><th>23/24 ($m)</th><th>24/25 ($m)</th></tr>
<tr><td>Existing agency/govt funding</td><td>21.3</td><td>18.2</td><td>11.2</td><td>11.1</td></tr>
<tr><td>“new” Centre funding</td><td>1.90</td><td>8.70</td><td>25.1</td><td rowspan="2">[33]</td></tr>
<tr><td>Total cost of the initiative</td><td>23.2</td><td>26.9</td><td>36.3</td></tr>
</table>
</td></tr>
<tr><td>Treasury’s next step/s</td><td>
The Treasury Vote Team is beginning to build an alternate funding option in case MBIE does not put forward a credible proposal.

A Treasury-developed funding proposal will inevitably be quite crude.
[33]
</td></tr>
<tr><td>Recommended next step/s for Minister of Finance</td><td>
Emphasise to the Minister of Emergency Management and the Minister of Science, Innovation and Technology the importance of their officials developing:

[33]
a minimum viable option to maintain critical services (supported by a line-by-line costing breakdown), which mitigates the cost escalation noted above. The funding from Budget 24 will needto be substantially less than the funding provided through Budget 23 ($25.1 million).

</td></tr>
</table>

Risk and/or Lever for Budget 2024 – Transport GPS

Category	Government Policy Commitment
Portfolio Minister	Hon Simeon Brown, Minister of Transport
Description	This initiative will seek any new Crown grant funding (operating and capital) required to deliver with the Government Policy Statement on Land Transport for 2024-27 (GPS 24).
Total Cost to fund / Savings amount (operating, $m)	We have not yet reviewed the updated package in detail, but initial indications suggest that if all the options put on the table by the Ministry of Transport in the past few days (as of 2 February) were agree by Cabinet, then the level of operating grant required could reduce to zero (and in addition, the majority of the $716 million already set aside as part of HYEFU could potentially be returned). The level of new capital grant sought currently remains at $1,955 million (in addition to $1,189m already set aside by the previous government).
Previous commitments	The Government has committed to issuing a new draft Government Policy Statement on Transport as part of its 100-day plan.
Status Update	**Medium Risk –** while the scale of this bid remains substantial, and there are significant implications to work through regarding the medium-term fiscal sustainability of the transport system, we are comfortable that work is progressing as expected.
Option/s	Since we met with the Minister of Finance on Monday 29 January, we understand the Ministry of Transport have incorporated several further scaling/cost recovery measures into the latest draft – embedding Motor Vehicle Registration fee increases; building in a 12cpl FED/RUC increase for 1 January 2027 followed by 6cpl in 2028; as well as small cuts to activity class expenditure. [33]
Treasury view	We are comfortable that work on the GPS is progressing as expected, and that appropriate consideration is being given to available options. Whilst the current draft package would leave some medium-term sustainability issues unresolved for now, it represents a reasonable step in the right direction, and reduces the cost to the Crown substantially compared with earlier drafts. One element we understand the Minister of Transport may not yet be fully comfortable with is the Ministry's proposed 7.5% 'efficiency dividend' for NZTA as part of its baseline savings proposal (which would reduce GPS expenditure by $25m p.a.). We are supportive of this both in that it would enable a reduced level of grant funding for the GPS, but also in that it is consistent with the spirit of the broader baseline savings exercise.
Treasury's next step/s	We will continue to engage with the Ministry of Transport and with the Office as the GPS package develops in line with directions from Ministers. The GPS Cabinet paper is expected out for departmental consultation on 2 February.
Recommended next step/s for Minister of Finance	Review the latest draft of the GPS cabinet paper (and associated updated funding proposal) and provide any further feedback to the Minister of Transport. You may wish to specifically emphasise to the

	Minister that you support including the Ministry's proposed 7.5% efficiency dividend for NZTA.

Lever for Budget 2024 – Historic Claims of Abuse in Care

Category	Time-limited Funding
Portfolio Minister	Hon Louise Upston, Minister for Social Development and Employment
Description	For context, MSD manages approximately 90% of claims of historic abuse received by the government, largely arising from abuse of children in state care. This function received time-limited funding at Budget 2023 in the expectation that the Royal Commission on Abuse in Care would recommend the establishment of a new redress system. This expectation remains, with the Royal Commission's delayed final report now due by 28 March 2024. The likely date of establishment of a new redress system is unclear, but we understand it is very unlikely to be established in the next financial year, hence a further year of funding for the existing system will be required.
Total Cost to fund (operating, $m)	We expect MSD to seek $58.4 million per annum for one or two years. This figure has not changed since the Treasury reported on time-limited funding in December 2023, and it reflects the current annual cost of resolving claims of historic abuse. We note, however, that this level of funding is insufficient to address the backlog of claims that has arisen (which will need to be addressed through the design of any new redress system).
Previous commitments	The Government has not made any commitments impacting this initiative, as far as we are aware.
Status Update	**Low Risk** We understand MSD to be on-track to propose an option at Budget 2024 that will be in line with your expectations. However, this initiative will require new funding. Note that the cost is short-term (i.e. until the development of a new redress system, assuming Ministers agree to this recommendation), and distinct from other activities carried out by MSD.
Option/s	We do not know whether MSD will propose a scaling option for this initiative, although we note that any scaling options would reduce the number and/or timeliness of claims that can be resolved. This would increase the possibility of litigation against the Government.
Treasury view	We do not have any concerns about the development of this initiative.
Treasury's next step/s	We will continue to engage with MSD on the development of all relevant Budget 2024 initiatives.
Recommended next step/s for Minister of Finance	None

Lever for Budget 2024 – Temporary Accommodation Services

Category	Time-Limited Funding
Portfolio Minister	Hon Chris Bishop, Minister of Housing
Description	Temporary Accommodation Services (TAS) in response to Cyclone Gabrielle in 2023.
Total Cost to fund / Savings amount (operating, $m)	We understand that MBIE will submit a budget bid for approximately $30m total operating for two financial years to continue TAS response for Cyclone Gabrielle.
Previous commitments	Treasury vote team is unaware of any commitments made publicly on this matter.
Status Update	**Low Risk –** The policy team at MBIE have been in early consultation with the Treasury Vote team and are engaged in ongoing discussions concerning modelling demand and cost estimates.
Option/s	Ministers can consider options to fund this service as part of budget assessment. Options will depend on the confidence in the demand modelling. Not funding this service will place pressures on other Government housing interventions including emergency housing.
Treasury view	None
Treasury's next step/s	None
Recommended next step/s for Minister of Finance	We recommend the Minister of Finance to speak to the Minister of Housing about the current system review of temporary accommodation programme.

Risk for Budget 2024 – Accounting Adjustments for Amortisation and Grant funding

Category	Other
Portfolio Minister	Hon Chris Bishop, Minister of Housing
Description	To address accounting adjustments to correctly recognise amortisation expenditure for multiple Housing initiatives/programmes.
Total Cost to fund / Savings amount (operating, $m)	No additional funding is required in forecast period and there are no impacts on allowances, however there are flow on impacts on fiscal indicators and forecasts. There are appropriation changes required to rectify the accounting adjustments and this will improve the Operating balance before gains and losses (OBEGAL) position by approximately $30m (in the forecast period). It has a net debt impact of $204m. There will be an ongoing amortisation expense beyond the forecast period, that may require additional funding in the future and may impact allowances.
Previous commitments	Decisions have been taken by you and the Minister of Housing to appropriate all amortisation funding associated with existing and future proposals.
Status Update	**Medium Risk to Fiscal Indicators and position –** The Ministry have indicated they will submit a technical budget initiative to make the necessary appropriation changes.
Option/s	None
Treasury view	Treasury has no significant concerns however, we do note that while the fiscal position improves in the forecast period due to the decision, there will be a deterioration in OBEGAL beyond the forecast period. Treasury will continue to advise on additional MHUD spending proposals that the MOF is required to sign off on to ensure that MHUD has considered the amortisation requirements.
Treasury's next step/s	Treasury's Vote Team will continue to engage regularly with MHUD on this matter and monitor future decisions to ensure that all necessary funding approvals are in place at the time of decision. Treasury acknowledges the Minister's concern that this problem may present itself across portfolios and is taking steps to ensure policy choices are fully understood and costed prior to decisions being made, with papers being clear on potential fiscal risks of changing settings (e.g. policy, accounting). We note that agencies are responsible for ensuring their fiscal submissions to the Treasury are accurate and we are taking steps to communicate this to CFOs and finance teams.
Recommended next step/s for Minister of Finance	None

Lever for Budget 2024 – Transitional Housing Motels

Category	Time-Limited Funding
Portfolio Minister	Hon Chris Bishop, Minister of Housing
Description:	Provision of Transitional Housing Motels
Total Cost to fund / Savings amount (Operating, $m)	Ministry of Housing and Urban Development have indicated they can manage within existing baseline funding and will not submit a budget bid.
Previous commitments	We understand the intention of the coalition government is to end large scale use of motels.
Status Update	None
Option/s	None
Treasury view	**Low Risk –** The Transitional Housing appropriation historically been underspent and therefore increased demand can be managed within existing baselines.
Treasury's next step/s	None
Recommended next step/s for Minister of Finance	None

Lever for Budget 2024 – First Home Grants Scheme (wind-down)

Category	Targeted Policy Savings/Revenue
Portfolio Minister	Hon Chris Bishop, Minister of Housing
Description	Savings Opportunity – Wind down and return the funding associated with providing the First Home Grant
Total Cost to fund / Savings amount (operating, $m)	Winding down the First Home Grant Scheme would result in total operating savings of $280m between financial years 2024/25 and 2027/28. The Ministry make forecast adjustments to reflect expected expenditure which are lower than appropriation limits. This forecasted expenditure flows onto Operating Balance before gains and losses (OBEGAL) calculation. Winding down the First Home Grant Scheme would result in a total operating saving of $280m ($70m per annum).
Previous commitments	None
Status Update	**Low Risk –** proposal to fully wind-down the scheme.
Option/s	We understand the Ministry is progressing work so that if directed, they can wind-down the First Home Grant Scheme. However, have also indicated options to scale the scheme.
Treasury view	No concerns on proposal
Treasury's next step/s	Ongoing engagement with the Ministry of Housing and Urban Development
Recommended next step/s for Minister of Finance	None

Please note that KO and Immigration savings have been incorrectly mixed on this page

Risk and/or Lever for Budget 2024 – Kāinga Ora Review

Category	Targeted Policy Savings
Portfolio Minister	Hon Erica Stanford, Minister of Immigration
Description	This manifesto commitment is to shift Immigration Services to a largely 'user pays' model, where costs of processing visa applications are recovered through fees charged to applicants. Currently, approximately 73% of the immigration system is funded through cost-recovery.
Total Cost to fund / Savings amount (operating, $m)	The Ministry have reprioritised $0.5m total operating from existing baselines to fund the review. The review has yet to identify costs or savings.
Previous commitments	The Government has committed through its 100-day plan to undertake an independent review of Kāinga Ora
Status Update	**High Risk –** The Review has commenced and will report to the Government by the end of March 2024. [33]
Option/s	None
Treasury view	The review is underway. The assurance panel process there have been no indication of saving options being presented by Kainga Ora.
Treasury's next step/s	Ongoing engagement with Kainga Ora review.
Recommended next step/s for Minister of Finance	Meet with the Minister to discuss savings options for Kāinga Ora and to seek an update on the independent review prior to the March 2024 report. Also to discuss if any savings can be identified through the review, including both back-office functions and/or policy options.

Lever for Budget 2024 – Immigration Savings

Total Cost to fund / Savings amount (operating, $m)	$123m Operating per annum
Previous commitments	Included in National's Fiscal Plan
Status Update and Treasury View	**Medium Risk** Treasury provided an Aide Memoire to you on 31 January to support a discussion with the Minister of Immigration, on immigration savings and options for the planned fee and levy review (2024/211 refers). The $123 million p.a. immigration savings target is achievable, and there are options for how this amount is made up which we provide advice on in the Aide Memoire. As outlined in the Aide Memoire, one option which could be explored is to transfer [33] and a significant portion of ESOL costs to the Immigration Levy, which could give you savings over and above the $123 million amount. [33] you may wish to raise this option with the Minister of Immigration if you would like the inclusion of this option in the cabinet paper.
Recommended next step/s for Minister of Finance	We have recommended that the Minister discusses the questions and options with the Minister of Immigration.

[33]

[33]

Risk for Budget 2024 – New Spending initiatives for the Justice Sector

Category	Government Policy Commitment
Portfolio Minister	Hon Paul Goldsmith, Minister of Justice; Hon Mark Mitchell, Minister of Corrections
Description	Sentencing Changes – restoring three strikes and limiting sentencing discounts. Conditional on phasing/sequencing options.
Total Cost to fund (operating, $m)	Indicative numbers suggest Corrections will bid for [33] **operating over the forecast period and** [37] **capital** for volume pressures over the forecast period. This does not include frontline remuneration. Costings for the Courts component is not yet known. All invited justice sector initiatives (manifesto commitments already agreed by Cabinet, the sentencing initiatives still to be agreed and cost pressures) are likely to result in volume pressure for the justice system and therefore all the initiatives will likely seek to purchase the same outputs to increase courts and prison capacity. Notably, even before accounting for the policy changes, these capacity pressures are already being incurred by Courts and Corrections. The drivers for these existing pressures are largely outside agencies' control and are mainly driven by discretion in the justice system responding to policy signalling even before implementation. Per the below table showing the Justice Sector's latest estimates of the growth in the prison population, the majority of the expected growth in the prison population occurs regardless of government policy change. As such, the volume pressures are likely to be realised whether or not the individual policy changes are scaled or phased. [33]
Previous commitments	The National-ACT coalition agreement included commitment to increase funding for Corrections. The National Party Fiscal Plan included $718m operating funding over the forecast period for Corrections relating to increased volume.
Status Update	**Medium Risk**
Option/s	In the short-term, additional capacity is likely to be needed to meet demand, deliver on the Government's commitments and maintain service delivery and safety standards. Savings options to reduce service quality may be inconsistent with the minimum entitlements provided in legislation and under international obligations.

	In the longer term, a strategic focus on court timeliness and crime prevention would reduce the volumes going through the justice pipeline and alleviate pressures for Corrections and Courts.
Treasury view	It is likely that volume pressures will continue to be incurred by Courts and Corrections regardless of scaling or phasing funding options for the individual initiatives. Some Budget 2024 funding, including capital investment, is likely to be needed to meet court and prison demand.
Treasury's next step/s	The Treasury will assess Budget initiatives with a view to ensuring that the funding provided is only for required capacity. The Treasury has also prepared a briefing covering the Justice Sector, including potential areas of focus that can reduce costs over the medium-to-long term, which it can share with you.
Recommended next step/s for Minister of Finance	We recommend that you; - forward the Treasury's Justice briefing to Justice sector Ministers before savings submissions are due; and - consider whether you would like to meet with Justice sector Ministers to pass on your expectations around focusing on reducing costs.

Lever for Budget 2024 – Ka Ora, Ka Ako | Healthy School Lunches Programme

<table>
<tr><td>Category</td><td>Government policy commitment / time limited funding</td></tr>
<tr><td>Portfolio Minister</td><td>Hon Erica Stanford, Minister of Education</td></tr>
<tr><td>Description</td><td>The Healthy School Lunches Programme, which currently provides lunches to over 230,000 learners in 998 schools and kura, was first piloted in 2020, and has been progressively expanded since then. The programme is currently funded to the end of the 2024 school year.</td></tr>
<tr><td>Total Cost to fund / Savings amount (operating, $m)</td><td><table><tr><th>2023/24</th><th>2024/25</th><th>2025/26</th><th>2026/27</th><th>2027/28</th><th>Total</th></tr><tr><td>-</td><td>164.959</td><td>362.910</td><td>399.201</td><td>439.121</td><td>1366.191</td></tr></table></td></tr>
<tr><td>Previous commitments</td><td>National’s Fiscal Plan has committed $650 million operating to continue the Programme for two additional school years.</td></tr>
<tr><td>Status Update</td><td>Medium Risk - The Minister of Education has been invited to submit an initiative on Ka Ora, Ka Ako in Budget 2024. The invite letter noted your expectation that options are explored for further targeting the scope of this programme, including different structural design options and ways to manage demand. The Ministry has indicated that it is working to consider options for scaling and efficiencies to reduce the overall cost of the programme. We rate this initiative as a ‘medium risk’. While we have not had any indications that work on scaling options is not progressing, the significant quantum involved, Ministerial expectations on scaling and expected public interest in any large-scale changes may make trade-offs around scaling or reprioritisation to offset costs challenging.</td></tr>
<tr><td>Option/s</td><td>The Ministry has not shared its draft initiative with the Treasury at this stage.</td></tr>
<tr><td>Treasury view</td><td>The Treasury has not had any indications at this stage to suggest the Ministry is not progressing scaling options as requested. Alongside assessing options to scale or find efficiencies in the programme, we will also be interested in any updates on Programme performance since Budget 2023, particularly regarding the results of the Kaupapa Māori study, and the implementation of the pilot ‘Delivery to Attendance’ Programme to reduce surplus lunches.</td></tr>
<tr><td>Treasury’s next step/s</td><td>The Vote Team will continue to engage with the Ministry on its draft Ka Ora, Ka Ako initiative and ensure scaling options are provided.</td></tr>
<tr><td>Recommended next step/s for Minister of Finance</td><td>Minister of Finance to meet Minister of Education to reiterate expectation that scaling options are presented in Budget submission.

We recommend Ka Ora, Ka Ako is discussed between the Minister of Finance and Minister of Education as part of the Budget 24 Education bilateral meeting.</td></tr>
</table>

Risk for Budget 2024 – Local Water Done Well

Category	Government Policy Commitment
Portfolio Minister	Hon Simeon Brown, Minister of Local Government
Description	This initiative seeks funding for resourcing costs to implement Local Water Done Well. This includes ongoing water services policy support (including for the Technical Advisory Group and Crown Infrastructure Partners) and to address regulator funding issues for the Commerce Commission and Taumata Arowai.
Total Cost to fund / Savings amount (operating, $m)	We understand that the Minister of Local Government's preferred implementation package is likely to seek [33] across 2024/25 and 2025/26.
Previous commitments	The Minister of Local Government and Cabinet have already made a range of decisions that are expected to result in savings from the repeal of the previous government's Three Waters programme. This includes decisions on the disestablishment of the Northland and Auckland Water Services Entity upon repeal of the Water Services Entities Act 2022 [CAB-23-MIN-0479 refers] and winding down the National Transition Unit and the Systems of Record project [LG202301376 refers].
Status Update	**Low Risk**
Option/s	We understand that DIA's submission will outline the following three options: 1) Option 1: [33] over 2024/25 and 2025/26 (minimum funding option) 2) Option 2: [33] over 2024/25 and 2025/26 (enhanced funding option) 3) Option 3: [33] (option currently preferred by the Minister of Local Government) We understand that the differences in costings are based on the level of policy resources, and funding provided to address funding issues faced by regulators, Taumata Arowai and the Commerce Commission. We note that further discussion of possible scaling options has been outlined in the DIA briefing titled 'Budget 2024 – further advice on savings from the previous Government's Three Waters programme and implementation costs for Local Water Done Well' [LG LG202400021 refers]. We will assess the above options (including any risks and trade-offs associated with different levels of funding) and provide further advice as part of the Budget assessment process.
Treasury view	Our initial sense is that this initiative cannot be delayed until a future Budget, as current funding associated with Three Waters will expire on 30 June 2024 and it will be important to provide councils with clarity on the Government's future direction under Local Water Done Well. Costs are unlikely to be able to be met from DIA's baselines as funding related to the Three Waters programme is all going to be returned to the centre through the Budget 24 process, the wider

	Local Government portfolio is already facing cost pressures from expected increases in stewardship requirements, and the expiry of funding supporting the climate resilience work programme.
Treasury's next step/s	None
Recommended next step/s for Minister of Finance	None

Lever for Budget 2024 – Welfare setting changes

Category	Targeted Policy Savings / Revenue
Portfolio Minister	Hon Louise Upston, Minister for Social Development and Employment
Description:	MSD have been asked to submit targeted policy savings from changes to welfare settings.
Savings amount (operating, $m)	Note: all costings are indicative only. Unless otherwise stated, this information is based on MSD's submissions to the baseline savings assurance process, not their final Budget submissions. All costs or savings are expressed over the forecast period (OFP). **Options that we expect MSD to submit for consideration at Budget 2024:** • Including income from boarders when calculating housing subsidies ($244 million), • [33] • Changes to gateway for Emergency Housing Special Needs Grants (EH SNGs) and continuing supports ($20.9 million*). * Note that it is currently unclear how this saving was calculated, especially as it appears to be an example of 'invest to save' - discussed further below. **Options that MSD intend to raise for future consideration:** • [33] • • **Other options that could be considered:** • [33] • •
Previous commitments	[33] The National Party committed to ensuring that every person or family in an emergency housing motel is assessed for social housing eligibility, and to establish a new 'priority one' category to get families into social housing faster. The National Party committed to implement 'Welfare that Works' (at a cost of $122.2 million over the forecast period) which includes a new traffic light system for sanctions and obligations, work incentive payments, job coaches, and money management for young Jobseekers.

Status Update	**High Risk** We are confident that MSD will submit policy options that, in combination with other savings proposals, will add up to MSD's savings target ($119.4 million per annum). However, we are unclear as to whether further policy savings will be presented. This includes options resulting from operational and/or policy changes, as outlined above. These options are likely to have more significant impacts on low-income New Zealanders and, in the case of operational changes, there is likely to be less certainty as to the fiscal impacts. These further options may not be sufficiently well-developed in time for agency submissions on 16 February.
Option/s	See above.
Treasury view	In general, we have confidence that MSD will present savings options that meet the baseline savings target, including some savings based on changing policies, such as changing eligibility criteria for particular payments, the fiscal impacts of which can be quantified with a high degree of certainty. Savings are based on operational changes, without changing any policy settings, tend to be more difficult to accurately forecast, compared to policy or programme changes. We would expect MSD to describe how any operational savings will lead to any forecast savings. Specifically, MSD is considering a proposal suggesting that a $30 million investment in housing support services will yield $37.9 million in savings to EH SNGs through getting people into more suitable accommodation (transitional housing, social housing and private rentals). We do not have clarity over how MSD calculated these projected savings, what evidence/evaluations they can point to that demonstrate these projected savings, and how they would monitor implementation to ensure these savings eventuate. Similarly, changes from Welfare that Works could result in BORE savings, but it is unclear how these savings would be quantified and included in forecasts. The Minister of Finance invited Minister Upston to submit a related B24 initiative, so we expect MSD may propose new spending in this area but lack a clear way to demonstrate impact any resulting benefit reductions. [33]
Treasury's next step/s	We will continue to engage with MSD on the development of all relevant Budget 2024 initiatives.

Recommended next step/s for Minister of Finance	You may wish to reiterate to Minister Upston the need for targeted policy changes to be considered alongside other savings at Budget 2024.

Risk for Budget 2024 – Invited new spending for Health

Category	Government policy commitments
Portfolio Minister	Hon Dr Shane Reti, Minister of Health; Hon Matt Doocey, Minister for Mental Health (for Mental Health Innovation Fund and funding for Gumboot Friday only)
Description	The Minister of Health was invited to submit 10 new spending initiatives, consisting of eight Government policy commitments and two initiatives to address time-limited funding. The Minister of Health is expected to consider the phasing and sequencing of six of these initiatives across the term, and only submit priority initiatives for B24.
Total Cost to fund / Savings amount (operating, $m)	[33] These costings are indicative and based on pre-costed commitments from the Government's fiscal plan. At this stage we do not have any further costings available. However, we expect costs to change for the Minister of Health's Budget submission on16 February. We will assess the initiatives and associated costings, and provide you with further advice through the standard Budget 24 process.
Previous commitments	All the invited new spending initiatives, except for the late initiative for the COVID-19 Public Health Response [33] are Government policy commitments.
Status Update	**Low Risk** The Budget 2024 invitation letter was sent in December 2023. Since then, Joint Ministers have agreed to fund $1.8 billion for Pharmac (including COVID-19 vaccine and therapeutic funding) across the forecast period. Treasury, Ministry of Health – Manatū Hauora and Pharmac officials are preparing a Cabinet paper for a pre-commitment against the Budget 2024 allowances. Treasury and Manatū Hauora officials met with the Minister of Health on Thursday 25 January to discuss Budget 2024. At the meeting, the Minister of Health discussed prioritisation including phasing and sequencing for these initiatives against his health priorities for 2024-27. Health officials are providing formal advice on prioritisation to their Minister by 9 February.
Option/s	Health officials have advised that the Minister of Health is actively considering his prioritisation and options for the Budget 2024 submission. At the conclusion of next week's Minister's meeting, Treasury officials will work with health officials on prioritisation and expectations for Budget 2024.
Treasury view	We are confident the Minister's submission will be prioritised and include phasing and sequencing of health initiatives for Budget 2024.
Treasury's next step/s	Following submissions on 16 February, we will assess each initiative and provide advice to you on their quality and prioritisation decisions.
Recommended next step/s for Minister of Finance	No recommended next steps for the Minister of Finance.

Lever for Budget 2024 - New Zealand Screen Production Rebate (International)

Category	Time-limited Funding
Portfolio Minister	Hon Melissa Lee, Minister for Economic Development
Description	The New Zealand Screen Production Rebate (NZSPR) is a demand-driven and uncapped scheme. Current funding was allocated to an MYA on the basis of expected demand through 2025/26. It is highly likely that further funding beyond the level already allocated will be required for the NZSPR – International in 2025/26. Our current understanding is that MBIE's budget bid will seek only additional funding to fill this gap in 2025/26 - though new funding for 2026/27 and 2027/28 will be required before the current allocation expires - [33] Note there is a separate NZSPR (Domestic) in Vote Arts, Culture and Heritage. This template refers only to the International Rebate
Total Cost to fund (operating, $m)	[33] The costing information comes from the figures submitted by the Ministry of Business, Innovation and Employment for the NZSPR Significant Fiscal Risk. Due to the demand-based nature of the scheme these costings are inherently uncertain, but we understand that MBIE's bid intends to seek funding for 2025/26. [33] addressing expected demand in 2026/27 and outyears. [33]
Previous commitments	N/A
Status Update	**Medium Risk** – Given the nature of the NZSPR, this initiative will need to be funded. [33]
Option/s	Given the demand-based nature of the scheme, this will need to be funded [33] as (we understand) the liability for the rebate is incurred when applicants register or apply prior to starting principal photography. Due to the timescales for production [33] Similarly, scaling the initiative would just defer the cost pressure to Budget 2025 years rather than decreasing the cost in 25/26 in real terms. [33]

Treasury view	We would recommend supporting this bid, given the SPR will continue incurring costs, [33] .
Treasury's next step/s	We are engaging with MBIE [33]
Recommended next step/s for Minister of Finance	None, [33]

Lever for Budget 2024 – NIWE Road Response and Recovery

<table>
<tr><td>Category</td><td>Time-limited Funding</td></tr>
<tr><td>Portfolio Minister</td><td>Hon Simeon Brown, Minister of Transport</td></tr>
<tr><td>Description</td><td>This initiative provides funding for recovery, response [33] of New Zealand’s state highway and local road network following the North Island Weather Events (Cyclone Gabrielle and Auckland Anniversary Floods) in early 2023.</td></tr>
<tr><td>Total Cost to fund (operating, $m)</td><td>The draft version of the initiative that has been shared with us included the following maximum total funding profile – we expect that this will continue to be revised ahead of the final submission. This covers both funding for core response and recovery works, [33]
<table>
<tr><th colspan="6">Operating costs associated with initiative ($m) - Note this is Local Roads</th></tr>
<tr><th>2023/24</th><th>2024/25</th><th>2025/26</th><th>2026/27</th><th>2027/28 & outyears*</th><th>Total</th></tr>
<tr><td>50</td><td>280</td><td>[33]</td><td></td><td></td><td></td></tr>
</table>
<table>
<tr><th colspan="11">Capital costs associated with initiative ($m) – Note this is State Highways</th></tr>
<tr><th>23/24</th><th>24/25</th><th>25/26</th><th>26/27</th><th>27/28</th><th>28/29</th><th>29/30</th><th>30/31</th><th>31/32</th><th>32/33*</th><th>Total</th></tr>
<tr><td>[33]</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>
</td></tr>
<tr><td>Previous commitments</td><td>The Government’s Transport for the Future plan, announced prior to the election, signalled a commitment to three key priorities, one of which was ‘rebuilding regions and improving resilience’, including ‘priority projects to reconstruct transport infrastructure damaged during recent floods and Cyclone Gabrielle, enhancing long-term resilience in flood-affected regions’.</td></tr>
<tr><td>Status Update</td><td>Medium Risk
We have reviewed a draft version of the initiative submission and provided reasonably detailed feedback to NZTA and the Ministry of Transport around the increased level of detail and optionality we would expect to see ahead of the final submission. Whilst there is still significant room for improvement, we are comfortable that NZTA and the Ministry are capable of providing the additional analysis and context we have asked for.

We do not expect that self-funded options will be presented for this work, given that it represents a significant level of additional delivery above ‘Business as Usual’ (BAU) – however, we have asked for the submission to include an explanation of how this work would interact with BAU work (including the Transport GPS) in terms of funding, delivery capacity, and relative priorities.</td></tr>
<tr><td>Option/s</td><td>Key scaling options relate to focusing on recovery/response components only, [33] . We have asked for clear component-by-component breakdowns to give Ministers good visibility of possible choices, as well as further explanation of how local government contributions can be maximised.</td></tr>
</table>

Treasury view	No significant concerns ahead of formal submission; we are comfortable that the Ministry of Transport and NZTA understand our expectations for the additional level of detail and optionality they should provide on February 16th.
Treasury's next step/s	Await formal submission on February 16th. Engage with the Ministry of Transport and NZTA as needed during the assessment process.
Recommended next step/s for Minister of Finance	None.

[33]

Lever for Budget 2024 – Targeting the removal of prescription co-payment

Category	Targeted policy savings
Portfolio Minister	Hon Dr Shane Reti, Minister of Health
Description	The Minister of Health is submitting a savings initiative for targeting the removal of prescription co-payments. This initiative will reinstate the $5 prescription co-payment for those 14 years and over, with exemptions for people aged 65 and over, and those with a Community Service Card (CSC). It will retain the current settings for the Prescription Subsidy Card.
Total Cost to fund / Savings amount (operating, $m)	The latest numbers we have from the health entities is that the savings from the initiative could be $269 million across the forecast period, and the costs due to the additional impact of the policy on Pharmac's Combined Pharmaceutical Budget could be $153 million. The net savings across the forecast period are consequently currently estimated as in the realm of $116 million. These numbers have changed since earlier estimates in December 2023 and could still be subject to change pending further analysis.
Previous commitments	Targeting the removal of prescription co-payments is a government policy commitment. The National Party Manifesto committed to exempting Community Services Card and SuperGold Card holders. National's Fiscal Plan indicated the intention to return $317 million operating expenditure from targeting the removal of the prescription co-payment to purchase 13 new cancer treatments.
Status Update	**Medium risk** Health officials are continuing to work on this Budget 2024 savings submission. The Minister of Health also raised this initiative with you in your recent meeting with health officials on 1 February 2024 in terms of the broader savings work he is interrogating in Vote Health. There are some complex policy, modelling and implementation considerations involved in this initiative. For instance, we understand that heath officials have recently provided further advice to the Minister of Health relating to the $100 cap on co-payments for households and reducing the administrative burden of the policy on pharmacists. We understand these design decisions could have a further cost, potentially in the realm of $20 million over the forecast period, which would have a commensurate reduction on the net savings if progressed. Health officials are continuing to work on the data available from the recent prescription co-payment changes. However, the analysis remains subject to uncertainty. Health officials have noted while they have some data following the recent co-payment changes, it is still challenging to accurately estimate how or if different groups of New Zealanders will modify behaviours relating to targeted exemptions. They also note that responses by prescribers, pharmacists and pharmacies are also likely to have significant impact on prescription growth and medicine expenditure.

	Health New Zealand | Te Whatu Ora has begun preparing to implement this initiative, including the necessary IT development for changes to pharmacy management systems. Officials are also considering improvements to the Prescription Subsidy Card system.
Option/s	Health officials considered alternatives to the currently designed initiative, such as: • only exempting Community Services Card holders, including those with a Combination Community Services Card and a SuperGold card. • additional changes to prescription co-payment settings, including applying an annual $100 cap across all prescription co-payments.
Treasury view	We are supportive of the range of work and analysis health entities are progressing in relation to this initiative. We understand that the Minister of Health has indicated that the savings realised through this initiative should be directed to increasing access to cancer medicines (as per the manifesto commitment). We have indicated to the health entities that Ministers still have options on how to utilise these savings options as part of the Budget package development process. The current net savings proposed are lower than what was previously estimated, and this will have impacts for broader Budget package development. We have asked health officials whether there are further options that could be considered to increase revenue (noting that these may not fully meet the Government's initiatives, for instance if the policy was only targeting to exempt Community Service Card holders or people over 65, recognising the possible corresponding health impacts). We were aware that Pharmac was requesting additional funding in 2023/24 for its Combined Pharmaceutical Budget due to the impact of the previous universal removal of co-payments ($23.78 million). This is above the $21.8 million they have already received for the impact of the universal co-payment removal in 2023/24. However, we were only recently made aware that the initiative would also include an ongoing cost across the forecast period to account for the continued increase in medicine purchasing from the new initiative's policy settings, (potentially $129 million from 2024/25 onwards).
Treasury's next step/s	We will continue to engage with the health entities to better understand the costs and complexities involved in this initiative. We have also particularly inquired about the Pharmac Combined Pharmaceutical Budget costs. The Minister of Finance Office and/or Treasury to ask the Budget submission includes additional options that would target the initiative further and increase the net savings (e.g. only exempting Community Service Card holders or people over 65).

Recommended next step/s for Minister of Finance	Despite us raising this as medium risk, we do not think Ministerial intervention is required currently as we are continuing to receive additional information from the entities to better understand the initiatives and options. Minister Reti is also receiving further advice on this. The Minister of Health previously received on design options for this scheme, including exemptions, and provided his preference. Please indicate if you would be interested in the bid including additional options to increase the revenue of these options that may divert from the original manifesto commitment, such as only exempting Community Service Card holders or people over 65.

[33]

[33]

Risk for Budget 2024 – Gambling Tax Changes

Category	100 Day plan or Coalition agreement
Portfolio Minister	Hon Simon Watts, Minister of Revenue
Description	Create a regulatory regime for online casino gambling to ensure tax are accurately paid.
Total Cost to fund / Savings amount (operating, $m)	Current proposed approach would generate total $193m additional tax revenue. There are corresponding administration costs that have not yet been quantified.
Previous commitments	Coalition Agreements to establish a regulatory regime for online casino gambling to ensure they pay their fair share of tax.
Status Update	***Low Risk –*** Policy report provided; final sign-out required from Ministers on preferred option. Fiscals are relatively small and Inland Revenue is confident in its ability to deliver the tax changes.
Option/s	The project includes options on whether to regulate online casinos or not. There are three options as to the rate of tax and gaming levies to impose on online casinos, which range from $143m to $271m additional tax revenue.
Treasury view	The Treasury supports the proposal to regulate and tax online casinos.
Treasury's next step/s	Treasury are awaiting final Portfolio Ministers (Minister of Finance, Minister of Revenue and Minister for Internal Affairs) decisions on project proposal. This may require Cabinet agreement prior to Budget and therefore Treasury recommends a pre-cabinet Ministerial engagement. The team is assisting with the drafting of the relevant Cabinet paper and the Regulatory Impact Statements.
Recommended next step/s for Minister of Finance	The next steps following decisions from Ministers would be the lodgement of a Cabinet Paper to get final decisions on the policy in time for inclusion of the tax changes in a March tax bill.

Risk for Budget 2024 – Revenue associated with investment in tax compliance and audit

Category	Targeted Policy Savings/Revenue
Portfolio Minister	Hon Simon Watts, Minister of Revenue
Description	Increasing compliance activities for tax audits to expand capacity, minimise taxation losses due to insufficient oversight and to ensure greater integrity and fairness of the tax system. Inland Revenue proposal also increase other compliance activities (not just audit) that impact voluntary compliance, integrity activities and enforcement actions.
Total Cost to fund / Savings amount (operating, $m)	Total Operating funding required: $120m Total Savings/Revenue increased compliance activities will raise: $660m Net Savings/Revenue: $540m
Previous commitments	Commitment made in the coalition agreement.
Status Update	**Low risk -** Inland Revenue have sent Treasury a draft briefing note on compliance activity options.
Option/s	Inland Revenue have presented a high, medium, and low option of how much additional funding is required in order to generate additional compliance revenue.
Treasury view	Concerns around the lack of diminishing returns present in the "Upper end" option presented. There are also non-departmental appropriation impacts on debt impairment and debt write-offs, however, those have not been firmed up yet. (These will be positive for OBEGAL).
Treasury's next step/s	None
Recommended next step/s for Minister of Finance	Engagement with the Minister of Revenue

[33]

[33]

Risk and/or Lever for Budget 2024 – Adjustment of personal income tax thresholds

Category	Government Policy Commitments
Portfolio/ Responsible Minister	Hon Nicola Willis, Minister of Finance Hon David Seymour, Associate Minister of Finance Hon Simon Watts, Minister of Revenue
Description	The Minister of Finance has asked officials to develop a Personal Income Tax package for Budget 2024.
Total Cost to fund / Savings amount (operating, $m)	Personal Income Tax relief options are scalable to meet the desired cost. Total cost will depend therefore on the size of the agreed package. The National Party plan included a proposal which would cost $10.75b over the forecast period and $2.8b in 2027/28. This includes changes to the Independent Earner Tax Credit (IETC) and In-work Tax Credit (IWTC).
Previous commitments	The Government has committed to implementing Personal Income Tax relief in line with the Coalition Agreement.
Status Update	**High Risk -** High risk given potential quantum, short time for decision making and reaching consensus across Cabinet. PIT changes will have a significant impact on the overall Budget package and decisions are likely to only be made very late in the process meaning additional fiscal constraints.
Option/s	Ministers have so far received costings for five different Personal Income Tax relief options. Latest advice [T2024/130 25 January 2024] indicated a lower-end cost option (proposed by Minister Seymour) of $6.07 billion ($1.8b in 27/28) compared to costings for the National Party manifesto policy at $9.411 billion ($2.5 billion in 27/28) excluding IETC and IWTC. Taxpayers gain less under the cheaper plan. As above, options are fully scalable according to how much Ministers are willing to spend and the desired quantum of tax relief delivered.
Treasury view	Given the extent of optionality, decisions on the structure and scale of the final package, will need to be guided by parameters set by Ministers (e.g., fiscal cost; design features; distributional impacts; market impacts).
Treasury's next step/s	The Treasury is engaging with Ministers' offices on parameters to help to narrow the scope of options on the table. There will likely be meetings with relevant Ministers prior to Budget Ministers meetings. Officials will then prepare further advice to Ministers on scaled options to deliver manifesto/Coalition Agreement commitments, in line with any new guidance on parameters.
Recommended next step/s for Minister of Finance	It would be helpful to focus at this stage on reaching a common view among portfolio Ministers on the parameters/design principles for the tax relief package.

Risk for Budget 2024 – Interest Deductibility

Category	Government Policy Commitment
Portfolio/ Responsible Minister	Hon Nicola Willis, Minister of Finance Hon David Seymour, Associate Minister of Finance Hon Simon Watts, Minister of Revenue
Description	Inland Revenue is preparing a Cabinet paper (expected to be lodged in late February) that will seek agreement to: • phase back in interest deductibility over three years – 50% in 2023/24 tax year, 80% in 2024/25 tax year, and 100% from 2025/26 tax year and beyond • charge the resulting reduction in Crown tax revenue ($2.92 billion over the forecast period) against the Budget 2024 operating allowance as a pre-commitment.
Total Cost to fund / Savings amount (operating, $m)	Reduction in Crown tax revenue of $2.92 billion over the forecast period ($915m in 2027/28).
Previous commitments	As part of the coalition agreements, the Government agreed to restore interest deductibility for residential property. The Government confirmed this commitment in its Mini Budget announcements in December 2023, with details to be worked out and announced in early 2024.
Status Update	**Low Risk -** Ministers have indicated that the Government wants interest deductibility to be phased back in on the basis noted above. A Cabinet paper seeking to pre-commit the resulting reduction in Crown tax revenue against the Budget 2024 operating allowance is expected to be lodged in late February.
Option/s	There were multiple options considered by Ministers during Ministerial consultation prior to Cabinet paper being lodged. Some of these options had a lower overall fiscal cost than the preferred option.
Treasury view	As with any pre-commitment, this decision will reduce the available headroom in the allowance and limit Ministers' ability to make trade-offs against other Budget initiatives (PIT in particular). However, we accept that this decision needs to occur as soon as possible to allow for implementation on Ministers' desired timeframes.
Treasury's next step/s	We have already provided our comments on the draft Cabinet paper. We may be asked for a final review prior to the Cabinet paper being lodged.
Recommended next step/s for Minister of Finance	Authorise the lodgement of the relevant Cabinet paper, once finalised, for the Cabinet Business Committee to consider in late February.

Lever for Budget 2024 – Te Matatini – Funding to Stimulate the Sustainable Growth of Kapa Haka

<table>
<tr><td>Category</td><td>Time-limited Funding</td></tr>
<tr><td>Portfolio Minister</td><td>Hon Paul Goldsmith, Minister for Arts, Culture and Heritage</td></tr>
<tr><td>Description</td><td>The Te Matatini Society Inc manages the biennial Te Matatini Kapa Haka competition. Budget 23 provided $34 million across 2023/24 and 2024/25 to expand the scope and role of Te Matatini by embedding a regional-based Kapa Haka network (with a view to reviewing this after two years). This included funding for the development of regional units, participation-based funding to those units, and funding for governance, an international touring fund and Kapa Haka development for government agencies.

Te Matatini already has baseline funding of $2.9 million per annum to deliver its biennial Kapa Haka festival, which would not be affected by a decision to discontinue this funding.</td></tr>
<tr><td>Total Cost to fund / Savings amount (operating, $m)</td><td><table><tr><th>2023/24</th><th>2024/25</th><th>2025/26</th><th>2026/27</th><th>2027/28</th><th>Total</th></tr><tr><td>[33]</td><td></td><td></td><td></td><td></td><td></td></tr></table>The original bid requested [33]
The above costings therefore reflect the original bid, if fully funded.</td></tr>
<tr><td>Previous commitments</td><td>No commitments have been made to funding beyond 2024/25. However, MoF confirmed commitment to the $34 million granted through Budget 2023 in December.</td></tr>
<tr><td>Status Update</td><td>Low Risk
We consider this low risk due to options to scale or discontinue. Our understanding is that MCH have engaged in multiple conversations with Te Matatini to construct a realistic bid that will address cost pressures to continue programmes that were initially funded through the Budget 2023 bid.</td></tr>
<tr><td>Option/s</td><td>The funding could be stopped entirely or scaled.

Participation-based funding to regional groups comprises a large part ($12.8 million) of the annual funding and could likely be scaled.

Further scaling could also be carried out by removing or limiting funding for other programmes funded through the initiative, including funding for governance, an international touring fund and Kapa Haka development for government agencies. If funding is not provided beyond the time-limited period, Te Matatini are unlikely to have sufficient resources to continue the regional-based Kapa Haka network or other smaller projects enabled by this funding.</td></tr>
<tr><td>Treasury view</td><td>If no funding is provided for this initiative beyond 2024/25 will cause difficulties for Te Matatini, including the potential need to reduce staffing levels, due to clear signalling of time-limited funding in</td></tr>
</table>

Category	Government Policy Commitment
Portfolio Minister	Hon Penny Simmonds, Minister for Tertiary Education and Skills
Description	This initiative is expected to fund the transition and establishment costs associated with disestablishing Te Pūkenga and establishing the replacement entities.
	Budget 23 we do not expect any contractual issues to arise if further funding is not provided. There is a risk that a legal challenge is made to such a decision or that a claim is lodged with the Waitangi Tribunal if funding is not continued. We are not aware of any legal advice on this risk but expect MCH to cover this in their Budget submissions.
Treasury's next step/s	None
Recommended next step/s for Minister of Finance	None

Risk for Budget 2024 – Unwind Te Pūkenga merger

Total Cost to fund / Savings amount (operating, $m)	The Ministry of Education's placeholder figure for this initiative is [33] in additional total operating funding. The Treasury's indicative numbers ahead of the Mini Budget were $112 million operating and $35 million capital based on the previous Government's Reform of Vocational Education programme.
Previous commitments	The Government's 100-day plan committed to begin disestablishing Te Pūkenga. The Minister for Tertiary Education and Skills has also made several public commitments including indicating that 1 January 2025 will be when enabling legislation for the new structure will be in place. No costs related to this initiative were included in the National Party's Fiscal Plan.
Status Update	**High Risk** Costings for this initiative are highly uncertain as policy work and decisions on the entities that will replace Te Pūkenga are still yet to be finalised, and these are likely to highlight underlying financial viability concerns. The Minister for Tertiary Education and Skills is expected to report back to Cabinet by the end of February on this programme of work as part of the 100-day Plan and will likely seek Cabinet agreement to key policy decisions. The timing of the report back presents challenges relative to the deadline for initiative submission and assessment.
Option/s	There are a range of options being considered by the Minister of Tertiary Education and Skills, but final decisions are yet to be made. Costs could vary significantly depending on these decisions.
Treasury view	The Ministry of Education is providing the Minister for Tertiary Education and Skills advice on a wide range of options. We do not consider there are any key steps that can be taken ahead of initiative submission. The Cabinet report back in late February is the next significant opportunity for the Minister of Finance to manage risks associated with this initiative.
Treasury's next step/s	The Treasury Vote team continue to engage closely with the Ministry of Education and the Tertiary Education Commission as they provide advice to the Minister and develop the Budget initiative and Cabinet report back. The Treasury Vote team will provide further advice to support the Minister of Finance in the report back discussion at Cabinet in late February.
Recommended next step/s for Minister of Finance	Reiterate with the portfolio Minster that a full spectrum of options are included in the Budget submission and seek clarity on why costs are higher than initially anticipated.

Risk and/or Lever for Budget 2024 – Health cost pressures and reprioritisation for Te Whatu Ora

Title	Cost pressures
Portfolio Minister	Hon Dr Shane Reti, Minister of Health
Description	This covers cost pressures and reprioritisation options for Health New Zealand | Te Whatu Ora as well as the Māori Health Authority | Te Aka Whai Ora frontline service delivery. Cost pressures cover volume, wage and price pressures. For simplicity in the rest of this template when we refer to Te Whatu Ora cost pressures and reprioritisation we are including Te Aka Whai Ora frontline service delivery. Savings from the disestablishment of Te Aka Whai Ora are covered in a separate template.
Total Cost to fund / Savings amount (operating, $m)	Treasury's advice on health cost pressures and reprioritisation in Budget 2024 for Te Whatu Ora will be informed by both a top-down funding model and bottom-up planning and budgeting by Te Whatu Ora as part of developing the 2024 New Zealand Health Plan (covering 2024/25 to 2026/27), along with a consideration of what is required to achieve the Government's fiscal strategy (refer T2023/2003). The table below sets out: • bottom-up cost pressure forecasts from Te Whatu Ora (and Te Aka Whai Ora), and • top-down health cost pressure planning parameters as issued to Te Whatu Ora (and Te Aka Whai Ora) in March 2023 based on a top-down funding model. These were published in the Half-Year Economic and Fiscal Update 2023 (HYEFU).[2] Te Whatu Ora are forecasting higher cost pressures than proposed pre-committed costs in HYEFU 2023, as noted in T2023/2003. Treasury are currently reviewing the bottom up cost pressure forecasts. [33] and [38] Te Whatu Ora is required to provide reprioritisation options to enable cost pressures to be scaled to fit within three scenarios: the top-down planning parameters, 75% ($1.1 billion per annum for B24) and 50% ($715 million per annum for B24) of bottom-up cost pressure forecasts.
Previous commitments	National's fiscal plan committed to funding the top-down cost pressure planning parameters published in Treasury's 2023 Economic and Fiscal Updates. The Ministers of Health and Finance have agreed to provide three years of cost pressure funding for Vote Health in Budget 2024 (refer Ministerial feedback on T2023/2003).
Status Update	**Medium Risk**

[2] Figures are the addition funding for that financial year i.e. add on to the previous column's funding.

	We still have a number of questions on Te Whatu Ora's expenditure forecasts and reprioritisation options that we are working through with Te Whatu Ora and the Ministry of Health. In general, the information we have received to date has less depth and comprehensiveness than we had originally expected when we commissioned the Budget 2024 "financial annexes" covering 24/25 to 26/27 in July 2023. However, it still represents a more detailed picture than we've had previously to inform health cost pressure decisions. Based on the information Treasury has seen we expect to have sufficient information to provide options to manage health cost pressure funding within the (deliberately cautious) planning parameters provided to Te Whatu Ora in March 2023. Scaling health cost pressure funding further, particularly to manage within the 50% reprioritisation option will require difficult trade-offs around the scope and coverage of the publicly funded health system.
Option/s	As part of the papers for a Joint Ministers of Finance and Health discussion on 1 February 2024 you received an A3 from Te Whatu Ora setting out high level information on the implications of the different funding scenarios (including the reprioritisation scenarios you requested in your pre-Christmas letter). [33] As the Minister of Health noted in his 1 February 2024 discussion with you, we understand that he is working with Manatū Hauora to consider some additional reprioritisation options focused on scaling back Budget 2022 initiatives and reprioritising tagged contingencies.

Treasury view	Some of the detail on Te Whatu Ora's expenditure forecast and reprioritisation options has come through later than requested (we commissioned this information in July 2023 to be delivered in December 2023) and Treasury is working closely with Te Whatu Ora and Manatū Hauora to fill gaps in information. This delay will condense the time for Treasury and Manatū Hauora review of material, but we still expect to be in a reasonable position to provide advice on the quantum of health cost pressure funding as part of our budget bilateral advice in March. Based on what we have seen to date there are no obvious additional reprioritisation options available to Te Whatu Ora that are not being considered.
Treasury's next step/s	Treasury is working with Te Whatu Ora and Manatū Hauora to: • Test detail of bottom-up expenditure and activity forecasts including underpinning assumptions • [33] • Consider implications of Treasury's preliminary BEFU 2024 wage and CPI forecasts for Treasury's advice on health cost pressures.
Recommended next step/s for Minister of Finance	We do not recommend the Minister of Finance takes any action at this point. We can update you further on progress at our upcoming Vote Health 101 session.

Lever for Budget 2024 - Warmer Kiwi Homes

<table>
<tr><td>Category</td><td>Targeted Policy Savings</td></tr>
<tr><td>Portfolio Minister</td><td>Hon Simeon Brown, Minister for Energy</td></tr>
<tr><td>Description:</td><td>Warmer Kiwi Homes (WKH) provides grants covering up to 90% of the costs to purchase and install insulation; and up to 80% of the cost of an approved heater installation.

WKH was extended and expanded at Budget 2023. The expansion included grants for energy efficient hot water appliances and lighting, a community focused outreach approach to target hard-to-reach households, and basic home repairs.</td></tr>
<tr><td>Total Cost to fund / Savings amount (opex, $m)</td><td>MBIE have indicated that the following savings (totalling $103 million) can be generated from WKH.
<table>
<tr><th>Title</th><th>2023/24</th><th>2024/25</th><th>2025/26</th><th>2026/27</th><th>2027/28 & outyears</th><th>Total</th></tr>
<tr><td>EECA Warmer Kiwi Homes implementation costs</td><td>-</td><td>1.000</td><td>1.000</td><td>1.000</td><td>-</td><td>3.000</td></tr>
<tr><td>EECA Warmer Kiwi Homes Grants</td><td>-</td><td>28.333</td><td>28.333</td><td>28.333</td><td>-</td><td>85.000</td></tr>
<tr><td>EECA Warmer Kiwi Homes LED lighting grants</td><td>-</td><td>5.000</td><td>5.000</td><td>5.000</td><td>-</td><td>15.000</td></tr>
</table></td></tr>
<tr><td>Previous commitments</td><td>No previous commitments.</td></tr>
<tr><td>Status Update</td><td>Low Risk</td></tr>
<tr><td>Option/s</td><td>See table above. We don’t think additional options need to be provided.</td></tr>
<tr><td>Treasury view</td><td>This savings proposal will scale WKH back to the core heating/insulation programme and retain the basic home repairs extension funded at Budget 2023.
We support scaling WKH back to the base programme. Stopping the extension and expansion components (except for basic home repairs) is unlikely to have a significant impact.
Retaining the basic home repairs programme will remove barriers to accessing WKH for some households. This will help to extend the reach of the programme.</td></tr>
<tr><td>Treasury’s next step/s</td><td>None</td></tr>
<tr><td>Recommended next step/s for Minister of Finance</td><td>None</td></tr>
</table>

Lever for Budget 2024 – Waste Disposal Levy and Waste Minimisation Fund

Category	Targeted Policy Saving/Revenue
Portfolio Minister	Hon Penny Simmonds, Minister for the Environment
Description:	The Ministry for the Environment (MfE) was invited to provide options for targeted savings associated with the Waste Levy and Waste

<table>
<tr><td></td><td>Minimisation Fund. MfE has given us early visibility of two savings options that require legislative change:
Option 1: an expansion of the Waste Levy scope
Option 2: $100m of waste levy revenue redirected to the Crown via a tax.</td></tr>
<tr><td>Total Cost to fund / Savings amount (operating, $m)</td><td>According to the latest version of MfE’s modelling Treasury has seen, levy revenue is forecast to rise to (in $m):<table><tr><td>Total forecast revenue</td><td>24/25</td><td>25/26</td><td>26/27</td><td>27/28</td><td>Total</td></tr><tr><td></td><td>259.044</td><td>257.245</td><td>253.935</td><td>248.539</td><td>1,018.763</td></tr></table>Based on these forecasts (which are subject to variability), MfE has provided the following indicative options to the Vote team:<table><tr><td>Options</td><td>24/25</td><td>25/26</td><td>26/27</td><td>27/28</td><td>Total</td></tr><tr><td>Option 1 (preferred by Ministers)</td><td>30.91</td><td>31.61</td><td>20.23</td><td>20.23</td><td>102.97</td></tr><tr><td>Option 2</td><td>25</td><td>25</td><td>25</td><td>25</td><td>100</td></tr></table></td></tr>
<tr><td>Previous commitments</td><td>Through the Mini Budget process, the Minister of Finance signalled an interest in a review of hypothecation settings for the waste levy.</td></tr>
<tr><td>Status Update</td><td>Medium risk – MfE has held initial engagements with Ministers Simmonds, Watts and Bishop so are well positioned to provide more detailed submissions on February 16. However, Treasury expects MfE to include a wider range of options than currently proposed in the final submission to allow Ministers to consider opportunities, risks and trade-offs.</td></tr>
<tr><td>Options</td><td>Levy revenue is currently hypothecated 50:50 between Central and local government for spending on waste minimisation activities (and associated administration costs).

Option 1 would require legislative amendments to expand the scope of the levy to enable spending on a wider range of waste activities, such as remediation of contaminated sites. In this scenario, levy revenue would be used to cover MfE’s baseline funding for activities that are currently funded by revenue Crown.

Option 2 would return revenue to the centre by replacing the levy with a tax. This would also involve legislative change and carry a higher degree of complexity.
We note there are other options for returning revenue to the centre, such as:
Returning all forecast levy revenue to the centre, which would generate approx. $1 billion over the forecast period (from 24/25) based on current forecasts.
Retaining a ring-fenced portion of forecast levy revenue for waste minimisation activities (for example, the portion for local government) and returning the rest to the centre.
There is potential for significant variation or scaling across, and within, the options presented.</td></tr>
</table>

Treasury view	The Treasury's view is that the full suite of options should be included in MfE's submission, including options for an expansion of the levy scope, the return of all or a portion of the levy revenue to the centre via legislative change that alters hypothecation settings, and a further increase in levy rates (beyond 2024) to allow Ministers to make informed decisions about risks and trade-offs. MfE's proposals could be considered as a sequenced approach, or as separate options. All options will involve legislative reform. There are also several risks associated with options that will need to be considered, including the potential for local government pushback (given 50% of the levy is currently hypothecated to local government), cost of living implications, and impacts on broader climate and environmental policy if revenue is redirected to general spending.
Treasury's next step/s	We are continuing to work closely with MfE as they develop their options. The Vote team will engage with other relevant teams, including the Budget and Tax teams.
Recommended next step/s for Minister of Finance	We recommend that the Minister of Finance confirm her expectation that a full suite of options for the Waste Levy be included in the Minister for the Environment's targeted savings submission. If a bilateral is held between MoF and the Minister for the Environment, Treasury anticipates these options would be discussed. Other Ministers (e.g. Local Government and Revenue) would also likely need to be consulted on option 2.

Risk for Budget 2024 - Reprioritisation options to fund Disability cost pressures

Category	Cost Pressures
Portfolio Minister	Hon Penny Simmonds, Minister for Disability Issues
Description	Minister Simmonds was invited to submit an initiative seeking cost pressure funding for Whaikaha's disability support services (DSS). These services are commissioned by Whaikaha and support almost 50,000 disabled people. Whaikaha has $2,211 million appropriated for DSS in the 2023/24 year.[3]
Total Cost to fund (operating, $m)	Whaikaha has indicated it will seek cost pressure funding totalling [33] with around $40-$60 million falling in the current financial year. The overall scale of cost pressures is slightly lower than previously indicated. As required, Whaikaha will also present scaled options.
Previous commitments	None
Status Update	**Low risk -** Whaikaha is on track to present credible options to mitigate 25% and 50% of its cost pressures from 2024/25 onwards. Trade-offs involved with these scaling options will be outlined in the submission. While Whaikaha has taken actions to reduce expenditure in 2023/24, we expect a shortfall of around $40-$60 million will remain. Whaikaha will need Budget funding to avoid going unappropriated.
Option/s	[33]
Treasury view	
Treasury's next step/s	None
Recommended next step/s for Minister of Finance	None

[3] As at the 2023 October Baseline Update.

Risk for Budget 2024 – Remove Workforce Development Councils

Category	Targeted Policy Savings
Portfolio Minister	Hon Penny Simmonds, Minister for Tertiary Education and Skills
Description	The Government has committed to disestablishing the Workforce Development Councils (WDCs). WDCs are established through legislation as such amendments to legislation will be required to disestablish the WDCs. New legislation is not expected to be in place until at least 1 January 2025. Once the legislation is in place, it is expected a transition period will be required to disestablish WDCs and establish the replacement functions.
Savings amount (operating, $m)	$65 million savings per annum from 2025/26. The National Party's Fiscal Plan recognised savings of $65 million from 2024/25. However, this is unlikely to be achievable in 2024/25 as legislation requires the functions of the WDCs to continue until a replacement system is in place and further policy work and substantial industry consultation needs to happen first. There may be limited savings that can be achieved in 2024/25 depending on the chosen features of the replacement system.
Previous commitments	Savings of $65 million per annum from 2024/25 is in the National Party's Fiscal Plan. This $65 million per annum of savings from 2024/25 onwards was included as an "indicative costing" in the Mini Budget but was not publicly announced.
Status Update	**High Risk to achieve full savings from 2024/25.** **Low Risk to achieve savings from 2025/26.** We have provided the Minister of Finance's office advice around this shortfall. The Ministry of Education is awaiting confirmation from the Minister of Finance's office on whether they would need to find the expected shortfall in savings for 2024/25 elsewhere.
Option/s	The Ministry of Education are currently planning to submit a savings initiative with savings reflected from 2025/26. There may be limited savings options for Ministers to consider for 2024/25. See below.
Treasury view	• If WDCs are disestablished before a new system is established there would be a significant gap in areas where there is a non-discretionary obligation, particularly with the core assessment and moderation function as well as with standard setting. Establishing the new system will require substantial engagement with industry and cannot feasibly be done under urgency. [36] • There is significant uncertainty around both the timing and nature of the replacement functions as Cabinet is yet to make any policy decisions on these matters. Given this risk, we think it is reasonable to rephase the saving to begin from 2025/26, while asking the Ministry of Education to identify any smaller savings options for Ministers to consider for 2024/25 that could result from reducing WDC discretionary functions. • We expect it will be challenging for the Ministry of Education to provide savings options to cover this first-year shortfall on top of existing savings requirements, particularly given the short timeframe until submission.
Treasury's next step/s	None
Recommended next step/s for	Confirm with the Treasury and Minister for Tertiary Education and Skills prior to agency submissions on 16 February whether: the Ministry of Education must

Minister of Finance	meet the $65 million shortfall in 2024/25 from savings elsewhere in their baseline <u>or</u> that they can identify smaller savings options in 2024/25 from reducing WDC discretionary functions with the $65 million of savings per annum instead applying from 2025/26.

[33]

[33]