

# The Treasury

## Budget 2024 Information Release

### September 2024

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- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
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Reference: T2024/385

Date: 18 February 2024

To: Minister of Finance (Hon Nicola Willis)

Deadline: None



## Overview of Budget 2024 Submissions

On 16 February, agencies submitted 408 spending and savings initiatives for Budget 2024. This aide memoire provides you with an overview of:

- the aggregate quantum of operating and capital funding sought, what is driving this quantum and how this relates to the funding remaining in Budget allowances;
- where submissions have varied from what was invited;
- options to reduce pressure on allowances, and
- recommended key messages for Cabinet on Monday, 19 February (if you choose to provide an oral update).

This overview is based on the Treasury working as quickly as possible to review and aggregate the agency initiative submissions received on Friday ahead of the assessment process. It is provided to support your consideration of the draft Budget Ministers 1 material being sent on Tuesday 20 February for discussion at Budget Matters this week.

Further to this overview, we will be providing to you early this week advice on the capital allowance and a further breakdown of the capital-related initiatives submitted to support consideration of the draft Budget Ministers 1 material

The nature of the issues set out in this overview are typical of what we usually see at this stage of the budget process. However, Budget 2024 will require realising significant savings and making trade-offs on Government policy commitments and other spending decisions to stay within current allowances.

### ***Overview of submitted spending and savings initiatives***

The table below provides an overview of the aggregate quantum submitted and the total net quantum once savings have been accounted for. It is important to note that this is an initial data cut and the numbers in Table 1 at this early stage of the Budget process often represent the upper range for budget decisions.

The numbers will continue to move around for the following reasons:

- agencies usually submit the highest cost option with scaling and phasing presented in their submission templates
- the Treasury has not yet interrogated the costings, including potential flow-on impacts to OBEGAL and assessing the impact against the top-down adjustment,
- Ministers are still to make some policy choices that may reduce the funding required, and
- some savings proposals are yet to be submitted and it is possible further late initiatives will come into the process.

Table 1: Overview of aggregate submissions (including initiatives that were not invited)

Budget 2024 Allowances	Operating Allowance						Multi-Year Capital Allowance		
	\$millions   Savings / (Spending)	Average Per Annum	2023/24	2024/25	2025/26	2026/27	2027/28 and Outyears	Total Operating	Total Capital
<b>Budget 2024 Allowances</b>	<b>3,500</b>	-	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>	<b>14,000</b>	<b>2,900</b>	
Precommitments at HYEFU	(2,442)	(121)	(2,301)	(2,482)	(2,600)	(2,263)	(9,768)	120	
Mini Budget decisions	1,867	228	1,153	2,501	2,112	1,475	7,470	455	
Expected Pharmac precommitment	(445)	-	(445)	(445)	(445)	(445)	(1,782)	-	
<b>Remaining Unallocated Allowances</b>	<b>2,480</b>	<b>107</b>	<b>1,907</b>	<b>3,074</b>	<b>2,567</b>	<b>2,267</b>	<b>9,921</b>	<b>3,475</b>	
<b>Spending, Revenue and Savings against allowances (submissions both invited and not invited)</b>									
<b>Savings and Revenue</b>	<b>2,182</b>	<b>321</b>	<b>1,712</b>	<b>2,117</b>	<b>2,218</b>	<b>2,359</b>	<b>8,726</b>	<b>1,396</b>	
Baseline savings	1,358	172	1,211	1,288	1,317	1,443	5,432	647	
Targeted Policy savings and revenue	852	328	489	813	883	894	3,408	10	
Capital Pipeline Review	(28)	(179)	12	16	17	21	(113)	738	
<b>New Spending</b>	<b>(6,411)</b>	<b>(122)</b>	<b>(4,591)</b>	<b>(5,777)</b>	<b>(7,022)</b>	<b>(8,132)</b>	<b>(25,643)</b>	<b>(24,238)</b>	
Tax Package	(4,137)	(8)	(2,579)	(3,560)	(4,715)	(5,685)	(16,547)	(13)	
Government Policy Commitment	(1,649)	(112)	(1,798)	(1,859)	(1,417)	(1,409)	(6,596)	(17,316)	
Capital Investment	(625)	(1)	(213)	(357)	(891)	(1,038)	(2,501)	(6,909)	
<b>Cost Pressures and Capital Cost Escalations</b>	<b>(2,689)</b>	<b>(91)</b>	<b>(2,478)</b>	<b>(2,726)</b>	<b>(2,786)</b>	<b>(2,675)</b>	<b>(10,756)</b>	<b>(2,018)</b>	
Cost Pressures	(2,438)	(88)	(2,185)	(2,405)	(2,506)	(2,567)	(9,751)	(706)	
Capital - Cost Escalations	(251)	(2)	(294)	(321)	(280)	(108)	(1,005)	(1,312)	
<b>Total Budget Submissions</b>	<b>(6,918)</b>	<b>108</b>	<b>(5,357)</b>	<b>(6,386)</b>	<b>(7,591)</b>	<b>(8,448)</b>	<b>(27,673)</b>	<b>(24,860)</b>	
<b>Under / (Over) Budget Allowances</b>	<b>(4,438)</b>	<b>215</b>	<b>(3,450)</b>	<b>(3,312)</b>	<b>(5,024)</b>	<b>(6,181)</b>	<b>(17,752)</b>	<b>(21,385)</b>	

**Notes:**

- [33]
- The targeted policy savings include estimated savings from the policy changes to pay equity settlements.
- Ministers have agreed that funding remaining in the National Resilience Plan (NRP) will be returned to the centre. Table 1 does not reflect this decision, as such when funding is returned to the operating and capital allowances this will provide additional headroom.

## Overview of Submissions – some key observations

- **Baseline savings.** The initial quantum of baseline savings proposals submitted is in-line with what was indicated through the Assurance process and as noted in T2024/182, this includes savings proposals that are at high-risk of not being delivered. The Treasury is assessing these options for deliverability, any impact on frontline services and what the associated trade-offs are.
- **We are still awaiting on some savings, revenue and reprioritisation options to be submitted.** For example, Education are yet to submit reprioritisation options to fund 25% and 50% of their cost pressures. Also Inland Revenue has submitted a limited range of targeted revenue options to help offset the Tax Package.
- **Agencies have submitted the highest cost option,** particularly where policy decisions are still being made by Ministers. For example, the Personal Income Tax Threshold (PIT) changes initiative has been submitted at the upper range of \$13.7 billion operating over the forecast period. We expect a more realistic range for the PIT changes and independent earner tax credit changes is between \$8.85 - \$10.14 billion operating over the forecast period.
- **Higher numbers have been sought for cost pressures** (from the Treasury's pre-Election information gathering exercise). <sup>[33]</sup> and <sup>[38]</sup>

The Department of Corrections has sought \$1.3 billion operating over the forecast period for volume pressures, which is approximately double the amount of funding anticipated. Further, the New Zealand Defence Force (NZDF) has done the same for their remuneration pressures <sup>[33]</sup>

There are also likely to be some instances where agencies and Ministers have taken a broader interpretation of the scope of the original invite. The Treasury will provide advice on this as part of our draft Budget package.

- **Agencies and Ministers have submitted initiatives including cost pressures that were not invited,** totalling \$922 million operating and \$570 million capital over the forecast period. For example, NDZF has submitted cost pressures that you decided not to invite late initiatives [T2024/2024 refers] totalling <sup>[33]</sup> operating over the forecast period.
- **A significant amount of new capital investments, as well as capital cost pressures, have been submitted** (\$3.5 billion operating and \$8.2 billion capital over the forecast period), which seek a substantial quantum of associated operating funding and do not all meet the agreed criteria. <sup>[33]</sup>

. Invited agencies are seeking funding for cost escalations for capital investments in delivery totalling \$1.1 billion capital and \$966 million operating over the forecast period.

- **The invitation of late initiatives.** For example, the late initiative for additional social housing places is seeking \$690 million operating and \$4.9 billion capital over the forecast period.

## Key Areas of Focus for Budget Strategy

While we expected allowances to be further oversubscribed, and the key risks are in line with what we had outlined in the past week [T2024/260 refers], given the short timeframes you may wish to take some earlier decisions on the scope and direction of the Budget package to inform the Treasury’s package development and advice, which will be provided on 4 March. This can be discussed at Budget Ministers next week.

The table below outlines the options available to manage down costs and reduce pressure on allowances (this builds off the levers we outlined in T2024/260). These options will require significant and difficult trade-offs by either progressing a large number of savings through reducing back-office functions and defunding services and programmes, or funding only a limited number of cost pressures and Government policy commitments (which will still require agencies to reprioritise to maintain core public services). Further, you will also have options to scale and phase within your spending decisions. We anticipate that some of the initiatives (both capital and operating) will need further work to ensure that the initiatives represent good value for money and therefore could be considered for funding in subsequent Budgets rather than Budget 2024.

In most cases, we recommend that no immediate action is taken and instead the Treasury will provide advice as part of the draft Budget package on 4 March. However, in some limited circumstances you may wish to have a discussion with the relevant portfolio Minister or discuss the approach with Budget Ministers at your first meeting on 26 February. In either case, it is important to keep the pressure on to ensure that you can secure a final Budget package by mid-April, particularly as the Budget process is more compressed due to the timing of the election.

Table 2: Options to manage within allowances

Component	Options	Action
Savings and revenue	A number of savings and revenue options have not yet been submitted <sup>[33]</sup> and broader savings from welfare setting changes). These options if progressed will create additional headroom.	We will provide you with a reconciliation of savings against targets, however, you may wish to consider having discussions with certain portfolio Ministers to ensure these savings are on track to be submitted and seek clarification if they are not on track.
Government policy commitments	The Government will need to sequence its policy commitments over the term and decide which are a priority for funding in Budget 2024.  Key choices include to what extent you want to focus Budget 2024 on progressing tax changes vs other policy commitments, and how you sequence and phase implementation of tax changes.  If you wish to fund some non-tax policy commitments at Budget 2024, you also have options to scale, phase and sequence these which will reduce the funding required.	We recommend you discuss and confirm at Budget Ministers 1, what policy commitments you want to prioritise for Budget 2024.  The Treasury can then reflect this direction in our draft package advice.

Component	Options	Action
Capital investment	<p>There are particularly large calls for funding across the capital-intensive portfolios. Some of these have come through as specific Budget 2024 submissions, and other pressures have been signalled by agencies which you may wish to take into account when considering the Budget package.</p> <p>At a high level, you have choices about funding critical and urgent investments that need decisions at Budget 2024, against funding across large portfolios (e.g., transport, health, housing, defence and education) where agencies are developing longer-term investment strategies and plans, or reviews are under way, where the total funding requirement is not yet clear.</p>	<p>The Treasury will send you a breakdown of the capital-related initiatives this week with the draft Budget Ministers' material.</p> <p>We recommend you discuss with Minister Bishop ahead of Budget Ministers 1 your capital and infrastructure priorities for Budget 2024 specifically:</p> <ol style="list-style-type: none"> <li>1. Decisions needed at Budget 2024 to progress critical and urgent investments.</li> <li>2. Funding for new initiatives in areas where Cabinet is yet to consider the outcome of investment plans and reviews currently underway.</li> </ol>
Cost pressures	<p>You have options to scale cost pressures, such as the percent of cost adjustment provided to education providers.</p>	<p>No action required now. The Treasury will provide advice on these options as part of the draft Budget package.</p>
	<p>The reprioritisation options to partially fund Education, Health and Whaikaha cost pressures have not been reflected in the numbers in Table 1 above. If you choose to progress some of these options that will reduce the funding required from allowances.</p>	
	<p>As discussed further below, a number of agencies and Ministers have submitted cost pressures that were not invited into the Budget process. The funding associated with these initiatives is included in Table 1.</p>	<p>You may wish to have discussions (the week of 19 February) with Ministers who have submitted cost pressures that were not invited.</p>
	<p>In some cases, taking a more medium to longer term focus on capability and capacity requirements in certain sectors will be more appropriate, rather than providing additional funding in Budget 2024.</p>	<p>No action required now. The Treasury can provide further advice on this as part of your Budget bilateral briefings.</p>
Time limited funding	<p>You have indicated in previous advice that you do not intend to fully fund initiatives that are extending time limited funding.</p> <p>Agencies have been requested to provide scaling options, which will reduce the funding required.</p>	<p>No action required now. The Treasury will provide advice on these options as part of the draft Budget package on 4 March.</p>

## ***Overview of where submissions have varied from what was invited***

As part of setting the Budget 2024 strategy, Cabinet agreed which initiatives to invite into the Budget process and the savings each agency would be required to submit [CAB-23-MIN-0490 refers].

Subsequently, several Ministers have written to you seeking agreement to submit a late initiative and you have confirmed where this is permitted. However, the Treasury has found 23 initiatives have been submitted that you either decided not to invite or your agreement has not been sought for a late invitation (see Annex A). This may include initiatives that you have had discussions with portfolio Ministers on. A large number of these initiatives are in the Defence portfolio. We can discuss these with you at Budget Matters on Wednesday 21 February. While these initiatives are included in the aggregate quantum in Table 1, our current plan is to not assess these initiatives until there is Ministerial agreement and direction on whether they should be formally invited into the process. We note that we may identify additional uninvited initiatives as we work through the assessment process.

There are also Ministers and agencies who have not submitted any of the requested savings, only partially met the target they were set or require further time to develop additional savings options (see Annex B). We understand that in some cases these savings are subject to discussions with the Prime Minister or yourself (e.g. Vote Foreign Affairs) or you have commissioned additional work (e.g. Vote Social Development). It is unlikely these savings will be submitted in time for the Treasury's draft package advice on 4 March.

However, given the significant oversubscription of allowances, it will be important that these savings are considered at Budget Ministers 3 (scheduled for 25 March), where we propose that substantive package decisions are made.

Finally, there are a number of agencies that were invited to submit capital initiatives through the pipeline review that have not done so (see Annex C). For example, Health New Zealand has not submitted any capital initiatives for potential reprioritisation.

## ***Engagement with Budget Ministers and Cabinet***

Budget Ministers 1 (BM1) is scheduled for Monday 26 February and provides an opportunity to set the scene and give direction on the focus for Budget 2024, including the scope and parameters of the initial Budget package. It is the first chance for you to discuss what has been submitted at an aggregate level as well the updated economic and fiscal context based on preliminary forecasts.

We will provide you with draft material for this BM1 on Tuesday 20 February, and will discuss this with you at Budget Matters on Wednesday 21 February, including any specific information or messages you wish to provide Budget Ministers.

Ahead of BM1 next week, you may also wish to provide an oral update at Cabinet on Monday 19 February. We suggest you could highlight the following key messages:

- In December, Cabinet agreed that Budget 2024 would be focused on funding a limited number of critical and urgent cost pressures for core public services, and new spending initiatives to progress Government policy commitments.



- Following agency submissions, both operating and capital demands are significantly higher than the funding available. It is clear that ambition for new spending will not be achievable from both a fiscal and delivery perspective. The Government will need to balance its policy objectives with its fiscal objectives.
- To achieve the Government's fiscal strategy, we will likely need to take some early decisions on key trade-offs or narrowing of the scope of Budget 24 relative to future Budgets.
- The Treasury is undertaking assessments this week of nearly 400 initiatives and will be providing advice to Budget Ministers over the coming weeks on the relative value for money and costings of proposals, as well as implementation of savings.
- You have asked the Treasury to take a tough stance in assessing initiatives, in particular the ability of agencies to realise savings, and ensure that Budget Ministers are clear on the key trade-offs and risks associated with proposals.
- Portfolio Ministers should continue to push hard where they consider their agencies have not provided sufficient savings options, particularly with regards to stopping programmes or addressing back office and contractor and consultant growth. You will be having Budget bilaterals with select portfolio Ministers the week of 11 March to discuss their submissions.
- You will provide a further update at the Expenditure and Regulatory Review Committee (EXP) on 27 February and Cabinet in early-mid March on progress regarding the draft package.

Emily Fulford, Senior Analyst, Budget, <sup>[39]</sup>

Keiran Kennedy, Manager, Budget, <sup>[35]</sup>

**Annex A: Overview of submitted initiatives that were not invited** (either they do not meet the criteria for capital initiatives, you decided not to invite them into the process or Ministers have not sought your agreement to submit an initiative.)

ID	Vote	Initiative	Total Operating (\$m)	Total Capital (\$m)	Status
15537	[33]				
15559	[33]				You agreed to not invite this into the process in T2024/207.
15505					You agreed to not invite this into the process in T2024/207.
15539					You agreed to not invite this into the process in T2024/207.
15514					Do not meet invitation criteria.
15504					
15516					You agreed to not invite this into the process in T2024/207.
15550					You agreed to not invite these cost pressures into the process in T2024/204.
15549					
15552					
15551					
15553					
15439	Foreign Affairs	Pacific Property Strategy – Cost Pressure	[33]		This is defined as a cost pressure but is for new infrastructure. It does not meet invitation criteria for new capital initiatives.

ID	Vote	Initiative	Total Operating (\$m)	Total Capital (\$m)	Status
15822	[33]				
15820					
15821					
15818					
15815					
15775	[33]				
15689	Te Arawhiti	Crown Response to Wakatū Litigation and Related Proceedings	[33]	-	You agreed not to invite this initiative this initiative into the process in T2024/204.
15682	[33]				
15676					
		<b>Total</b>	<b>921.77</b>	<b>569.88</b>	

**Annex B: Agencies that have not submitted requested baseline reduction target or targeted policy savings**

<b>Vote</b>	<b>Initiative</b>	<b>Comments</b>
[33]		
Housing and Urban Development	Targeted policy savings: The wind-down of the First Home Grants Scheme	We understand this is not a Ministerial priority and therefore an initiative has not been submitted as expected.
Foreign Affairs	Baseline reduction target of \$99 million per annum	We understand you have received a letter from the Minister of Foreign Affairs outlining reasons as to why baseline savings target has not been submitted, and that there will be discussions with the Prime Ministers.
Parliamentary Services	Baseline reduction target of \$7 million per annum	The Speaker has not submitted any baseline savings options.
Parliamentary Counsel Office	Baseline reduction target was \$2 million per annum	The Attorney-General has not submitted any baseline savings options.
Te Arawhiti – Office for Māori Crown Relations	Baseline reduction target was \$5 million per annum	The Minister of Maori-Crown Relations: Te Arawhiti has not submitted any baseline savings options.
Housing and Urban Development	Targeted policy savings: Kainga Ora Review	The Kainga Ora Review is currently underway and we expect savings to be identified through the report in March.
N/A	Options to reduce the cost of pay equity settlements, including examining existing policy settlements	Treasury will include estimated costs to changes through package development.

**Annex C: Capital initiatives in the pipeline review that have not been submitted**

<b>Vote</b>	<b>Title</b>	<b>Total Operating (\$m)</b>	<b>Total Capital (\$m)</b>
Corrections	Waters Infrastructure Programme - Phase 2A	26.0	62.2
Corrections	PNDS - Phase 2 - Christchurch Men's Prison (CMP) - IBC	17.3	73.3
[37]			
Defence Force	NZDF Housing Programme B23 (Part 1, T1)	10.1	75.4
Defence Force	Ohakea infrastructure Programme Phase 2	16.1	74.6
Defence Force	Information Management Programme Tranche 0	4.2	-
Defence Force	Enterprise Productivity (Modern Desktop)	61.6	4.5
Health	Nelson Hospital Redevelopment	[33]	
Health	Whangarei Hospital Redevelopment		
Health	Wellington Regional Hospital - Copper Pipes (Tranche 2)		
Health	Wellington Regional Hospital - Generators, High Voltage Network, TEC Infrastructure Replacements and Upgrades		
Health	Bay of Plenty Seismic Strengthening		
Health	Waitematā District - Infrastructure Services Programme Tranche 1B		
Health	Mental Health Facility at Tauranga Hospital		
Health	Mental Health Unit		
Health	Tairāwhiti District - critical facilities and infrastructure upgrades		
Health	Whakatāne Mental Health Replacement		
Health	Health Finance, Procurement and Information Management System (FPIM)		
Parliamentary Service	Future Accommodation Strategy (FAS) for Parliament		
	<b>Total</b>	<b>196.7</b>	<b>1,811.4</b>