

The Treasury

Budget 2024 Information Release

September 2024

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Reference: T2024/440

Date: 23 February 2024

To: Minister of Finance (Hon Nicola Willis)

Deadline: Monday 26 February
(if any)

Aide Memoire: Draft Agenda and Talking Points for BM1 (26 February), Talking Points for EXP (27 February)

1. This Aide Memoire provides you with:
 - a. **Annex 1:** A draft agenda for Budget Ministers 1 (BM1), as discussed at Budget Matters on 26 February 2024. Please let us know if you have any comments on this by Monday 26 February, and your office will then distribute it in advance to the office of other Budget Ministers.
 - b. **Annex 2:** Draft talking points to support your engagement with colleagues at BM1.
 - c. **Annex 3:** Draft talking points for your update to the Cabinet Expenditure and Regulatory Review Committee (EXP) on 27 February 2024.
2. You also have a choice about what material (if any) you opt to table at EXP on 27 February 2024. In particular, you could opt to table the summary table of funding sought (Slide 10, BM1 slides) and/or the table of government priorities (Slide 11, BM1 slides).
 - a. Providing transparency to other EXP Ministers regarding the Budget 2024 process, and
 - b. Maintaining Budget secrecy to ensure that Budget Ministers retain its position as the primary decision-making body for iterating the Budget package.
3. On balance we do not recommend tabling either, and instead recommend providing a solely oral update. But we can discuss approach with you further on Monday 26 February as is useful.

Chris Brunt, Senior Analyst, Budget, ^[39]
Keiran Kennedy, Manager, Budget, ^[35]

Annex 1: Draft agenda for Budget Ministers 1 (7.30pm Monday 26 March)

Agenda item	Purpose	Slide pack cross reference	Recommendations
1. Economic and Fiscal Context	Context on the overall economic and fiscal context that the Budget 2024 package sits within, based on the latest available data.	Slides 6-8	<p>Note that the economic outlook has deteriorated since HYEYU, and that annual tax revenue will be adjusted down from HYEYU in the magnitude of low billions (rather than millions).</p> <p>Note that this downward revision to Crown revenue means that – to achieve OBEGAL surplus in 2026/27 – further fiscal consolidation will likely be required.</p>
2. Oversubscription of allowances	Summary of the over-subscription of allowances based on agency Budget 2024 submissions.	Slide 10	<p>Note that agency submissions exceed the operating allowance by \$4.0 billion (average per annum), and the multi-year capital allowance by \$20.8 billion total (not including a \$7 billion increase I intend to seek Cabinet agreement to).</p> <p>Note that these numbers are based on what agencies have submitted and the Treasury is currently assessing over 400 submissions to provide advice before BM2 on 11 March on scaling, phasing and deferral options for these submissions.</p> <p>Note that these figures are also based on full realisation of baseline and targeted savings proposals, which is unlikely to be feasible.</p>
3. Priorities and Trade-offs	Discussion regarding what policy areas, objectives and/or initiatives are a priority for Budget 2024.	Slides 11-13	<p>Discuss the priority policy areas and/or initiatives for Budget 2024.</p> <p>Identify which policy commitments the Government could defer to future Budgets altogether, or fund a small amount of at Budget 2024 (with future funding sought in future Budgets).</p> <p>Discuss the relative priority of our tax- and non-tax policies at Budget 2024.</p>

Agenda item	Purpose	Slide pack cross reference	Recommendations
			<p>Discuss the balance between new spending on Government policy commitments and urgent & critical cost pressures.</p>
4. Savings	Discussion regarding the status of agencies' progress towards the savings target, and the targeted savings options submitted by agencies.	Slides 14-16	<p>Note that not all agencies have met their targets or submitted viable savings options.</p> <p>Note that I have commissioned further advice from Treasury on potential <u>alternative</u> savings from those agencies that have not met their target with proposals that are acceptable to Budget Ministers. I will present this at BM2.</p> <p>Discuss the targeted savings options raised by portfolio Ministers, and whether others could be commissioned.</p> <p>Note that I have commissioned further advice on further targeted savings (e.g., contestable funds), although the quantum of savings this will realise is uncertain.</p>
5. Capital investment	Discussion regarding our approach to capital investment at Budget 2024.	Slides 17-18	<p>Agree to taking the following strategic direction for the capital elements of the Budget 2024 package:</p> <ul style="list-style-type: none"> • Prioritise critical cost pressures and funding for critical assets that need funding at Budget 2024 to stop them from failing. • Select a small number (i.e., one to two) of Government priority areas for investment at Budget 2024. • Enforce strict expectations regarding the participation of major departments (e.g., Health) in the Capital Pipeline Review. • Defer decisions on new funding sought by the capital-intensive departments currently conducting reviews or planning of their capital investment, until these plans have been agreed and Cabinet can consider individual submissions in a fulsome context.

Annex 2: Draft talking points for Budget Ministers 1 (7.30pm Monday 26 March)

Agenda Item 1: Economic and Fiscal Context

- Budget 2024 will be delivered in a worsening economic and fiscal environment, even relative to HYEFU in December 2023.
- The Treasury's preliminary economic and tax forecasts (provided to me on Thursday – T2024/341 refers) set out that, while forecasts are highly uncertain and subject to final decisions taken by the coalition Government on tax policies:
 - Nominal GDP is \$40 billion lower (over forecast) than at HYEFU.
 - Tax revenue is cumulatively \$12.7 billion lower in the five years to 2027/28 and \$3.5 billion lower in 2027/28, compared to the HYEFU forecast.
- This means that there is little-to-no prospect of being able to increase our Budget 2024 allowance and still maintain our return-to-surplus commitment. In fact, further fiscal consolidation may be required (either at this Budget and/or future Budgets) to hit surplus in 2026/27.
- We will need to closely examine what will be feasible at Budget 2024, and – noting that there are three Budgets across our term – we will need to consider what we do *now* versus what we do in *future Budgets*.

Agenda Item 2: Oversubscription of allowances

- Agency submission paint a stark picture of the task ahead of us at Budget 2024.
- This is only an early cut. There are submissions that represent poor value-for-money or should clearly met through reprioritisation. Treasury's initiative-by-initiative advice before BM2 will assist us in making these decisions.
- My expectation is that this advice will show a significantly lower package in line the Budget 2024 allowances for us to consider at BM 2.
- These high-level figures also “bank” the baseline and targeted savings submitted. Many of these may not be feasible or acceptable to us. We can discuss this further under agenda item 4.
- I am advised that, while it is not usual to have a significant delta between funding sought and funding available at this early point of the Budget process, we will have to make difficult compromises across our coalition commitments to fit within our allowances.

Agenda Item 3: Priorities and Trade-offs

- It is clear we can't do everything at Budget 2024.
- The new funding sought for key coalition initiatives that we invited into the process are set out on slide 11. This includes significant items of time-limited funding, such as for the Healthy School Lunches programme.
- Fitting the Budget within allowances is going to require us to compromise and, pick our priority initiatives from this table to fund at Budget 2024.
- The consequence of this will be:
 - Ministers making difficult calls not to pursue some of the policies in this table as quickly as intended, or

- Ministers forcing agencies to ruthlessly reprioritise to achieve these objectives. A lack of funding from the centre at Budget 2024 does not have to mean no progress at all for the next 12 months.
- The tax package is clearly one of those priority areas – one of our three Budget priorities is Delivering tax relief. But we do have to be clear-eyed about the size of that overall package relative to the cost of other priorities, and think carefully about the additional fiscal headroom that phasing or scaling our tax commitments (particularly PIT) would have.
- We will also be trading off new spending against urgent and critical cost pressures facing frontline services. I have asked Treasury to closely scrutinise these bids, to identify where there are genuine risks to frontline services from not funding them, versus where options to force tough reprioritisation decisions towards the frontline are available.
- Any steers we can provide now can flow into the draft package that is prepared for BM2.

Agenda Item 4: Savings

Baseline savings

- As you are aware, I have been tracking the preparation of savings options via the Assurance Process. It is clear to me from that exercise that, while several agencies have participated fulsomely in the process, others have not.
- While the Assurance Process has now formally been integrated into the Budget 2024, I do still intend to revisit some of the options presented to us, rather than taking the submitted proposals as the final word on all savings available at Budget 2024.
- I have kicked this process off already (^[34])
- I intend to bring my full savings plan to BM2, once I've seen Treasury's assessment on the current list of proposals.
- I have also asked Treasury to provide further advice on whether agencies have taken a consistent approach to reducing (i) back-office expenditure, and (ii) contractor and consultant spending.
- The further savings to be realised from revisiting the baseline reduction proposals are likely to be in the tens of millions – this effort is not likely to 'make or break' our Budget 2024. But it is important that we hold the line on this, particularly in light of our objective to improve public service efficiency.

Targeted savings

- I've also received targeted savings and revenue options from agencies – these are listed in slide 16. I would be interested in Budget Ministers' feedback on these, and whether there are others that we could bring into the process.
- I have also sought further advice around the potential to yield savings from (i) tagged contingencies, ^[33], (c) FTEs attached to recent government policy programmes, and (d) changes to levers in the social development space. This will happen between now and BM3, although the savings that these will realise is uncertain.

- Depending on how effectively we can scale our commitments, and the changing economic and fiscal context, we may have to make difficult calls to bring other targeted savings into the process. In addition to those already invited, the Treasury’s list of major (i.e., >\$100m) savings or revenue that we could realise quickly are set out below. None of these choices are easy, but delivering a Budget 2024 within allowances may ultimately require us to consider one or two of these at least.

Savings or revenue option	Indicative saving / revenue – Total operating (over forecast)
[33]	
Winding back the previous Government’s Budget 2024 expansion to the Warmer Kiwi Homes programme	Up to \$156 million
[33]	
[33]	\$397 million
Wind down of First Home Grant Scheme	\$280 million
[33]	

Agenda Item 5: Capital Investment

- The capital pipeline is also over-subscribed, exceeding the current multi-year capital allowance (MYCA) by \$20.8 billion over the forecast period.
 - Even taking into account my proposed top-up to the MYCA of \$7 billion, we won’t be able to fund all of the requested initiatives.
- This isn’t just a MYCA problem (as capital initiatives nearly always have operating expenditure implications – e.g., depreciation), or even a fiscal problem (given current capacity constraints in the economy mean that if we spend too much, we risk making inflation worse).
- Some of the pressure on the MYCA will come from specific commitments in our coalition agreements (e.g., the Regional Infrastructure Fund (\$1.2 billion capital) and our new GPS for land transport ^[33]
- A significant portion of budget submissions are from agencies seeking funding as part of their long-running capital pipeline plans. There is not much useful we can discuss about the individual initiatives submitted currently – we can wait until BM2 for this.
- I have asked Minister Bishop to help us work together on our capital package for Budget 2024.
- We also need to think about how we approach Budget 2024 decisions for the five capital-intensive agencies that have significant reviews of their capital pipelines currently underway:
 - Transport: Finalisation of the GPS for Land Transport (due pre-Budget).

- Housing: Independent review of Kāinga Ora (due March).
- Education: Review of school property (due May).
- Defence: Defence Capability Plan (due June).
- ^[33]
- My recommendation is that we defer decisions until these reviews are complete. That way, we have a clear view of what we need to fund now versus what is coming later, and what the costs of deferral or phasing are.
- Aside from that, I recommend that we prioritise:
 - Projects in danger of failing if we do not fund them at Budget 2024,
 - A discrete, small number of priority areas for infrastructure investment.
- Working with Treasury to ensure that agencies have taken seriously our request to look at their capital pipeline as a whole and consider what projects should be reprioritised to relieve overall pressure (on the MYCA and on the economy to deliver these projects).

Annex 3: Draft speaking points for EXP (27 February)

Overview

- I am providing an overview of the Budget 2024 submissions received by Treasury on Friday 16 February.
- The short story is that we have a big task ahead of us to agree the Budget 2024 package.
- The key numbers are:
 - The net fiscal impact of Budget 2024 submissions (including baseline and targeted savings – some of which will not be realisable) exceeds the remaining budget operating allowance by \$4.0 billion per annum.
 - Capital funding sought exceeds the current multi-year capital allowance (MYCA) by \$20.8 billion over the forecast period.¹
- This is comprised of the following building blocks:
 - **Savings and revenue:** This comprises the baseline savings and targeted savings options proposed. I don't expect all of these will be realisable.
 - **New spending:** This comprises tax and non-tax policy objectives, across health, education, law and order, infrastructure, tax and other areas.
 - **Cost pressures and escalations:** In a high-inflation environment, frontline and existing services are facing significant cost pressures which we have to consider additional funding for.

Back-pocket summary table

Budget 2024 Department Submissions		Operating Allowance					Multi-Year Capital Allowance		
Millions	Savings / (Spending)	Per Annum	2023/24	2024/25	2025/26	2026/27	2027/28 and Outyears Total Operating	Total Operating	Total Capital
Budget 2024 Allowances		3,500	-	3,500	3,500	3,500	3,500	14,000	2,900
Precommitments at HYEPU		(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)	-
Remaining Unallocated Allowances		2,480	107	1,907	3,074	2,567	2,267	9,921	3,475
Spending, Revenue and Savings against allowances as at 22 February 2024									
Savings and Revenue		2,195	321	1,726	2,130	2,231	2,372	8,781	1,396
New Spending <i>(includes tax package)</i>		(6,394)	(122)	(4,547)	(5,773)	(7,015)	(8,118)	(25,575)	(23,754)
Cost Pressures and Capital Cost Escalations		(2,278)	(51)	(2,143)	(2,324)	(2,353)	(2,241)	(9,113)	(1,961)
Total Budget Submissions		(6,477)	148	(4,964)	(5,968)	(7,136)	(7,986)	(25,907)	(24,320)
Under / (Over) Budget Allowances		(3,996)	254	(3,057)	(2,894)	(4,570)	(5,720)	(15,986)	(20,845)

What does this mean?

- I am working with Treasury who have assessed over 400 submissions. I am advised there will be scaling options for most of them, and so I expect the delta between submissions and allowances to come down.

¹ This does not include your proposed \$7 billion increase to the MYCA.

- That said, to ensure the coalition Government hits our fiscal objectives in a challenging economic environment, **difficult compromises and trade-offs** across each element of our package will be required.
- There are initiatives that have sought funding through Budget 2024 that we instead have to:
 - choose to defer to future Budgets or progress at a slower pace, or
 - meet through difficult reprioritisation decisions within portfolios, rather than new money from the centre.

The process from here

- Budget Ministers are meeting fortnightly between now and the Budget package being considered by Cabinet.
- I will come back to this committee to provide regular updates about that process.
- I have bilateral meetings with Ministers in charge of major Votes on the weekend of 11 February, to discuss your elements of the Budget package.
- It is also likely that I will be coming back to certain Ministers asking them to identify alternative savings options in their portfolios, where they haven't met their targets or have otherwise proposed savings likely to be unacceptable to Cabinet. I'm not able to do this yet – it will likely be early-mid March.
- ^[34]
 - A reminder that my office has distributed 'prompt questions' to each of your offices to help you scrutinise your agency's approach to fiscal sustainability.
 - Where your agency has not met their targets or made proposals likely unacceptable to Budget Ministers, I am also asking the Treasury to provide second-opinion advice on alternative savings.

What I need from Cabinet colleagues

Minimise pre-commitments

- The Treasury has advised a marked up-tick in the number of prospective papers coming to Cabinet in the next few weeks that are proposing pre-commitments against the Budget 2024 allowance.
- I understand Ministers' desire to push ahead quickly with implementing our coalition agreements and other priorities.
- But the number and scale of pre-commitments poses a material risk to our Budget 2024 strategy.
- A reminder that Cabinet has already agreed that Ministers are required to write to meet seeking my approval to bring out-of-cycle requests to Cabinet.
- But I am asking colleagues to avoid seeking pre-commitments wherever possible, and to fund immediate work through reprioritisation.

Avoid seeking late or uninvited initiatives into Budget 2024

- I note that there were 23 uninvited initiatives submitted into the Budget 2024 process.

- I have instructed Treasury not to assess these, and will be writing to the affected portfolio Ministers to advise them that these initiatives will not be assessed at Budget 2024.
- Our allowances are sufficiently over-subscribed – there simply won't be space for additional invitations.

Keep fiscal sustainability at the forefront of your engagements with departments

- My encouragement to you would be to keep driving for your departments to demonstrate fiscal discipline and sustainability.
- This means:
 - Where departments are seeking new funding, pushing them hard on whether there are non-fiscal levers that could be used or reprioritisation opportunities to fund the initiative.
 - Emphasising the need for agencies to keep a focus on fiscal sustainability. This savings exercise is not a one-and-done exercise, this is a term-wide effort.

