

# The Treasury

## Budget 2024 Information Release

### September 2024

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Reference: T2024/502

Date: 29 February 2024

To: Minister of Finance (Hon Nicola Willis)

Deadline: None  
(if any)

## **Aide Memoire T2024/502: Briefing for bilateral with Hon Potaka (5 March)**

1. You are meeting with Minister Potaka on Tuesday 5 March. The agenda is:
  - a Te Puni Kōkiri Budget 2024 savings, Te Puni Kōkiri head office accommodation design, and Māori housing.
  - b Department of Conservation – Budget 2024.
2. Briefings for these issues are set out in Annex 1 and Annex 2 respectively. Recommendations (including on fiscal impacts) are based on Vote team assessments.
3. Alongside these briefings on specific issues, you may want to use the below standard talking points on Budget 2024 in your meeting with Minister Potaka:
  - a Following agency submissions for Budget 2024, both operating and capital demands are significantly higher than the funding available.
  - b 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.
  - c In doing so, we need to acknowledge that we have three Budgets across this term - and therefore think carefully about what we do now versus what we do in future Budgets.
  - d We also need all Ministers continue to push hard where they consider their agencies have not provided sufficient savings options or there are further savings available, particularly with regards to stopping funds and programmes not aligned with our priorities, or addressing back office and contractor and consultant growth.
  - e As we exit the 100-day period, I am also taking a stricter approach to out-of-cycle requests for funding ahead of Budget 2024. This will help ensure that we can assess the relative benefits of proposals across the full Budget package.

4. Questions that we recommend you ask Minister Potaka are bolded. We are available to discuss these briefings further with you as useful.

## Annex 1: Te Puni Kōkiri and Māori Housing

### Proposed agenda

1. Te Puni Kōkiri Budget 2024 Savings Package
2. Te Puni Kōkiri Head Office Accommodation Decision
3. Māori Housing

### Recommended key talking points

#### ***Vote Māori Development Budget 2024 Package***

- Thank-you for your Vote Māori Development Budget 2024 savings package which the Treasury have advised me meets the required savings target and conditions of Budget 2024.
- [33]
  - **Are you confident that these will not impact frontline services?**
- [33]
  - **If additional saving were required to be made, what are the risks of finding savings in these areas?**

[33]

#### ***Māori Housing Talking Points***

- I am deferring our discussion on Māori housing until the Housing bilateral. This will be a more appropriate meeting to coordinate any funding changes across the housing and Māori development portfolios with you and Minister Bishop.
- **[in case discussed further]** MHUD did not reach the baseline reduction target in outyears and reducing funding for Māori Housing is one of the options to achieve this target. Treasury has recommended that savings in other areas of the portfolio should be explored, alongside looking to Māori housing for savings in outyears.

## **Further information on Te Puni Kōkiri Budget 2024 Savings Package**

### ***Nature of the overall package***

1. We do not consider that the Māori Development savings package will pose critical service delivery risk. Savings will come from back-office functions, discretionary operational spend of Crown entities, programmes that do not align with Government priorities, or programmes that duplicate existing services across government. Savings will also come from contestable funding that can be redistributed in a way that supports fulfilment of Government commitments and priorities.
2. Reductions in departmental expenditure may require careful prioritisation of Te Puni Kōkiri work programmes to ensure Te Puni Kōkiri can continue to deliver on its core functions. Te Puni Kōkiri has consistently maintained a low proportion of departmental expenditure despite often being required to deliver functions outside of its core responsibilities, particularly in response to crisis.
3. The savings package returns funding that supports whenua Māori, <sup>[33]</sup>  
There may be risk that this is perceived as the Crown not adequately supporting its obligations under Te Tiriti o Waitangi. <sup>[33]</sup>

### ***Additional savings***

4. <sup>[33]</sup>

- 5.

[25] and [33]

### **Further information on Māori Housing**

15. Funding for Māori housing is administered by both the Ministry of Housing and Urban Development (MHUD) through Vote Housing and Urban Development and Te Puni Kōkiri (TPK) through Vote Māori Development. Most funding sits within Vote Housing and Urban Development as TPK is focused on smaller scale developments for whānau or hapu, while MHUD is focused on partnering with larger Māori entities, like iwi.
16. We recommend that you defer discussion on Māori housing to the Housing bilateral, given the split of funding responsibilities across MHUD and TPK. This will better support you to coordinate any funding changes with Minister Bishop and Minister Potaka.
17. MHUD's submission on the 16<sup>th</sup> of February did not reach the baseline reduction target as it included Tagged Contingencies that were not eligible, and submissions were mostly time-limited. MHUD are briefing their Minister on further savings initiatives to meet the baseline reduction target. Early indications are that these will not come from Māori Housing initiatives, but until the initiative(s) is submitted the Treasury is not be able to assess the credibility of the proposals.
18. Outyears savings submitted were short by \$54m per financial year. Māori housing is one of the few areas in Vote Housing and Urban Development with ongoing funding that could be a source of further savings. The largest Māori housing fund is Whai Kāinga Whai Oranga, with an original funding split in 2021 of \$138.6m to Vote Māori Development and \$591.4m to Vote Housing and Urban Development.



19. However, significant savings in this area will reduce provision of services and correspondingly risks increasing demand on other areas of the system. We recommend exploring alternative options to find savings in the Housing portfolio.

## Annex 2: Department of Conservation – Budget 2024

### Proposed agenda

We recommend focussing your discussion on the following points:

- **Item 1:** Budget 2024
- **Item 2:** International Visitor Levy
- **Item 3:** Management of cost pressures and Financial Sustainability Review

Other funding matters the Minister of Conservation may raise with you:

- Ruapehu Alpine Lifts
- Chateau Tongariro

We recommend, given time constraints, that the discussion focuses on the three proposed agenda items above. We have provided additional notes on these ancillary matters if they are raised by Minister Potaka.

### Recommended key talking points

#### ***Budget 2024 submission***

- Thank you for DOC's baseline savings 2024 submission, which is generally credible and aligns with Government priorities.
- I am still considering Treasury advice on DOC's Budget 2024 initiatives, but I understand that Treasury has concerns about savings from critical asset management services in the Enabling Functions initiative.
  - **If additional or alternative saving were required to be made outside of these areas, what are the risks?**

#### ***International Visitor Levy [15798]***

- [33]
- 
- I would like you and the Minister for Tourism and Hospitality report back to Cabinet before July 2024 on all relevant matters with the IVL, <sup>[33]</sup>  
This should outline the trade-offs, legal risks, consultation, and legislative change requirements for each option.
  - **If savings were required to be made now, what are the risks of finding savings in these areas?**

## **Management of cost pressures and Financial Sustainability Review**

- [33]

A reduction to

the target is not possible given the fiscal environment.
- I understand that as DOC is an operational agency, you may need to make trade-offs which impact frontline services, but I appreciate your efforts to limit frontline impacts across the baseline reduction exercise.
  - **Are there other areas which might be considered for savings to reduce the impact on frontline services?**
- I am supportive of DOC's Financial Sustainability Review (FSR) to understand costs and to provide options for a pathway to put the department on a sustainable financial footing. I look forward to seeing the Phase Two report completed by Budget 2025 to inform strategic decisions for Conservation management.
  - **What is the status of work towards increasing cost recovery?**
  - **What is the status of work to strengthen DOC's asset management, and current thinking around divestment?**

### **Further information on specific DOC initiatives**

*15626 – Enabling Functions for Conservation: Savings towards Initial Baseline Exercise - [33]*

*– TSY recommended total opex - -\$45.028*

*million*

- This initiative includes a number of low value and low priority programmes, however, it also includes frontline enabling roles and functions. Reducing enabling functions may have unintended consequences through shifting the administrative burden, planning, and management of conservation activities onto frontline staff, reducing the available time for core conservation activities.
- [33]
  
- There are transition costs with this initiative with the proposed reduction of 51 FTE estimated to cost \$2.805 million in 2023/24.

[33]

[33]

- [33] and [36]
- The IVL is due for a rate review by July 2024. We understand the Minister for Tourism is currently considering options on rates for public consultation.

[33] and [38]

## **Portfolio background**

### ***Vote Conservation***

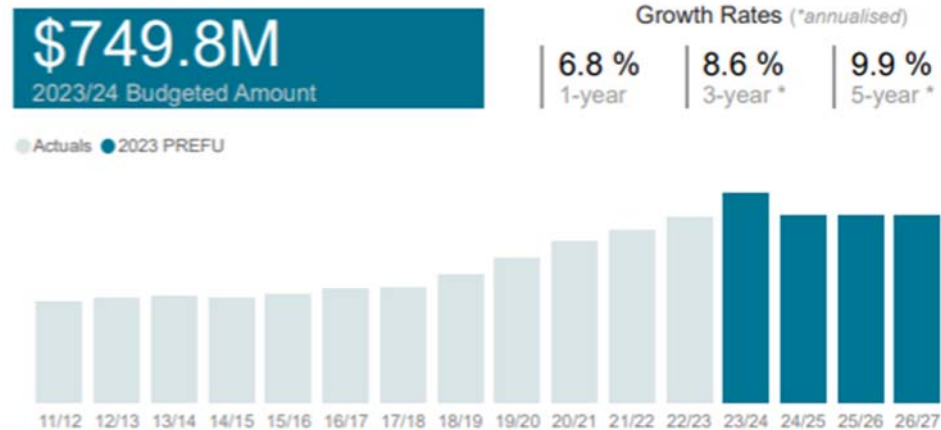
- DOC has multifaceted operational, regulatory and policy responsibilities that extend well beyond biodiversity protection on land, rivers and oceans.
- The range of functions, responsibilities and expectations have been growing without a comprehensive review of funding, priorities, and operational capability.
- On its current trajectory, it does not appear likely that DOC can deliver all its present responsibilities, let alone improve outputs and outcomes. In light of this, DOC is progressing the Financial Sustainability Review (FSR) to understand costs, responsibilities, and priorities.

- Phase One of the FSR was completed in 2023; the report was shared with your predecessor. Phase Two of the FSR will be completed prior to Budget 2025 and intends to inform strategic decisions and trade-offs for the department.

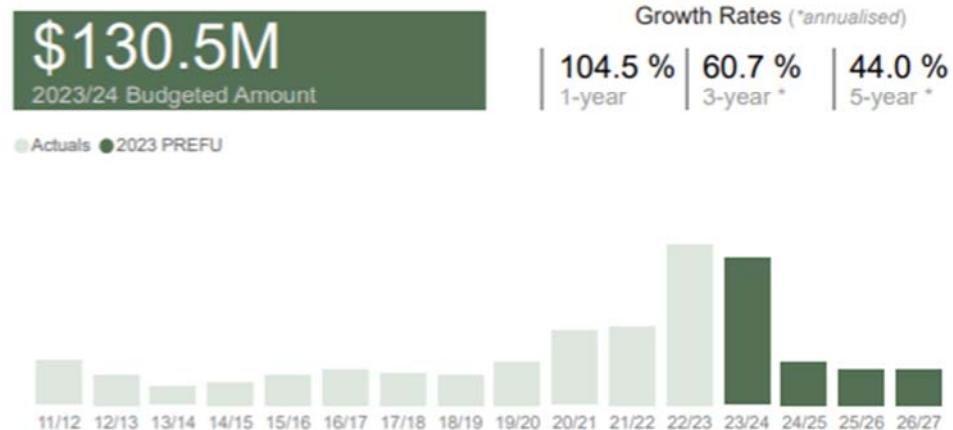
**Baseline profile and financial sustainability issues**

- Following an increase in its baseline over the past seven years, this drops off steeply in 2024/25 (as time-limited Jobs for Nature funding comes to an end) reaching a steady state of around \$701 million from 2025/26.
- As an operational agency, DOC’s baseline funding is largely departmental output expenses.
- DOC is a Natural Resources Cluster agency. It received a significant baseline uplift at Budget 2022 for cost pressures, expanding and maintaining conservation programmes, and asset management. DOC has been reprioritising some of its Budget 2022 funding to fund unforeseen cost pressures and new ministerial priorities.

**DEPARTMENTAL FUNDING (CAPEX + OPEX)**



**NON-DEPARTMENTAL & BORE FUNDING (CAPEX + OPEX)**



- [33]

DOC was only partly funded for Public Service Pay Adjustment at Budget 2023 due to DOC being a Natural Resources Cluster agency and therefore having limited avenues to seeking new funding until Budget 2025.

- [33]

- [33], [37] and [38]

- DOC's workforce grew by 22% (540 FTE) from 2016 to 2022 – mostly consisting of frontline staff and technical roles that enable the frontline staff.
- DOC's third-party funding has declined since 2016/17, with a significant \$28 million baseline reduction in 2021 due to the drop in tourism numbers from COVID-19, though this is anticipated to increase as the international tourism sector rebounds.
- There is approximately \$300 million in deferred maintenance. DOC is reviewing its charging, cost recovery, and asset management priorities in light of increasing asset costs.

### **Back pocket notes:**

#### Ruapehu Alpine Lifts (RAL)

- The Minister for Regional Economic Development is taking a paper to Cabinet on 11 March seeking decisions on the future of the two RAL ski fields, currently in liquidation and receivership. As the ski fields are part of the Tongariro National Park, DOC is responsible for the management of activities in the Park.
- Where a new operator for the ski fields cannot be found, there are direct financial and management implications for DOC. DOC would become responsible for managing the mountain and running the essential services (electricity, volcanic warning, sewage).
- We will provide separate advice on a "make good" liability (to remediate the mountain) alongside the Minister of Conservation's Out of Cycle funding request. This is a technical accounting matter and we do not recommend discussing this during the Budget 2024 bilateral as we will provide advice in due course.
- Separate to the make good work, redundant infrastructure left by RAL must be removed from the mountain. There is a tagged contingency of \$8.5 million for the removal of redundant infrastructure, with the drawdown subject to the provision of detailed costings to you and the Minister of Conservation. We understand that DOC will seek the drawdown of this tagged contingency in the next week or so and will provide advice in due course.

## Chateau Tongariro

- Minister Potaka is considering a range of options for decommissioning and managing the Chateau Tongariro. The building is deteriorating, requires significant earthquake strengthening and a new roof, among other problems. As the building is on Conservation Land, the responsibility of managing the building falls to DOC.
- DOC has been funding basic maintenance costs, around \$2.5 million per annum, from existing baselines, requiring trade-offs with other conservation priorities.

- <sup>[33]</sup>

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