

# The Treasury

## Budget 2024 Information Release

### September 2024

This document has been proactively released and is available on:

- The Budget website from September 2024 to May 2025 only at: <https://budget.govt.nz/information-release/2024>, and on
- The Treasury website from later in 2024 at: <https://www.treasury.govt.nz/publications/information-release/budget-2024-information-release>

#### Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

## **Copyright and Licensing**

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

## **Accessibility**

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to [information@treasury.govt.nz](mailto:information@treasury.govt.nz).

## Treasury Report: Approach to Savings in Budget 2024 Early Decisions Cabinet Paper

---

<b>Date:</b>	9 March 2023	<b>Report No:</b>	T2024/602
		<b>File Number:</b>	BM-2-4-2024-3

### Action sought

---

	Action sought	Deadline
Hon Nicola Willis <b>Minister of Finance</b>	<b>Identify</b> which savings initiatives you would like to include in the early decisions Cabinet paper.	11 March 2024

### Contact for telephone discussion (if required)

---

Name	Position	Telephone	1st Contact
Katie Collier	Senior Analyst, Budget [39]	[35]	✓
Keiran Kennedy	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: Approach to Savings in Budget 2024 Early Decisions Cabinet Paper

## Purpose of Report

1. The purpose of this report is to confirm the list of savings initiatives you would like to seek early Cabinet decisions on as part of Budget 2024. Subject to your feedback, these initiatives would be included in the 'Early Decisions' Budget 2024 Cabinet paper you have agreed to present on Monday 18 March [T2024/45 refers].
2. Treasury has already provided you with separate reports on other content that would be included in this Cabinet paper, predominantly on key content (fiscal strategy, Budget allowances including the Multi-Year Capital Allowance, and overarching policy goals) for the Budget Policy Statement [T2023/2071, T2024/475 and T2024/501 refer].

## Including Savings in Early Decision-Making for Budget 2024

**Treasury generally recommends against early Budget decisions to minimise pre-commitments**

3. A core rule of the Fiscal Management Approach (the FMA) is that all decisions with financial implications should be traded off against each other at the same time to maximise value for money. This rule is implemented through the Budget process, where Budget Ministers trade-off between all new spending and savings proposals. This gives them the flexibility to decide on a Budget package that best reflects the Government's priorities.
4. As with any general rule there are exceptions. Factors relevant to whether an out-of-cycle spending or saving decision may be justified are both initiative specific (i.e. best considered on a proposal's merits), and cumulative across pre-commitments (i.e. best considered in the round).

*Table 1: Factors Treasury takes into account when advising on pre-commitments*

Factor	Description
Timing	A decision may be justified if waiting for the Budget process would undermine the initiative's expected value. Factors relevant to this judgement include how close Budget decisions are, how much of the initiative's value would be lost, and whether measures are available to mitigate this.
Opportunity cost	A decision may be justified if it will not affect Ministers' ability to construct the Budget package which best reflects the Government's priorities. Factors relevant to this judgement include the initiative's impact on allowances, the priority Cabinet accords the initiative, and the extent to which it represents high value for money.
Cumulative impact on allowances	Treasury will consider the extent to which allowances have already been pre-committed. The more allowances are committed, the fewer levers Budget Ministers have available to exercise as part of Budget formulation.
Cumulative impact on fiscal discipline	We consider the importance of maintaining a consistent and disciplined approach to out-of-cycle decisions. It can prove difficult to reassert discipline once it is loosened, as a new precedent is set, and agencies and Ministers adjust their behaviour in response.

5. The threshold for these considerations must be high. It would always be beneficial for agencies, non-government organisations and others to secure early decisions. Similarly, initiatives which may appear high priority when considered out-of-cycle can prove less attractive when compared to alternative proposals as part of the Budget. The Budget process is designed to enable such direct comparisons in a way that is otherwise difficult without rigorous cost-benefit and value for money analysis.
6. Savings initiatives are rarely proposed outside the Budget process. In principle, the same considerations apply to initiatives which have a positive impact on allowances as those with a negative impact.

***Approach taken to identify possible early Budget 2024 decisions***

7. In assessing savings submitted for Budget 2024 consideration, the Treasury has run an internal process to identify savings initiatives that may require early decisions in order to deliver their estimated savings.
8. You have previously agreed to consider bringing a set of early decisions to Cabinet in a paper on 18 March [T2024/45 refers]. This would allow decisions to be taken six weeks earlier than the main Budget Cabinet paper, which is due to be considered on 29 April.
9. Based on the factors outlined in Table 1 above, Treasury has worked with agencies to identify savings for consideration to be included in this paper, where:
  - a Early decisions may impact on the profile of savings in 2024/25, or
  - b There is a risk of the agency going unappropriated in 2023/24 if funding is not provided, and
  - c An early decision would not significantly constrain future budget package choices.

***There are a set of common drivers for agencies seeking early decisions***

10. A number of initiatives (24) in the draft package have been identified as potentially qualifying for an early decision based on a set of common drivers. We have included Treasury’s recommendation on how to manage each of these drivers in Table 1 below. Our comments on individual initiatives are attached in Annex One.

*Table 2: Drivers for potential early decision-making in Budget 2024*

Driver	Description	Treasury Recommendation
Change management processes	<p>Where change management is being undertaken, early decisions provide more time for staff consultation. There is a risk that savings may be delayed or reduced if redundancies are not implemented in the assumed timeframes.</p> <p>We are aware that some agencies have begun change management processes, though we do not have full sight on the nature or progress of these processes. Making a sub-set of early decisions could result in inconsistent treatment between agencies who have started their process and those seeking Cabinet approval.</p>	<p><b>We recommend pursuing early decisions on change management initiatives where you think it is unlikely to provide a constraint on Budget Ministers’ final decision-making.</b></p> <p>We have identified a sub-set of change management initiatives to consider for early decisions in our comments in Annex One. In doing so, we have considered what the make-up and scale of each change process entails.</p>
Commercial constraints	<p>Early decisions could prevent agencies entering into binding contracts or provide time for them to exit out of contracts and pay termination fees in 2023/24.</p>	<p>We suggest that any risk associated with entering into new binding contracts (or exiting existing contracts) between now and the end of April should be managed</p>

	Further information is required from agencies to understand the extent to which these put savings at risk, and the extent to which these can be mitigated by preventing long term contractual commitments while Budget decisions are outstanding.	by individual agencies. As such, <b>we do not recommend pursuing early decisions driven by commercial constraints.</b>
Policy choices e.g. raising levies and cost recovery	Agencies have identified that some savings are contingent on the commencement of policy or legislation, and that this could warrant early decision-making. Examples include <i>Increased Revenue from Changes to the Collection of Court Fines and Legal Aid Debt [Initiative 15613]</i> and <i>Increase in Sundry Courts and Tribunals Civil Fee Revenue [Initiative 15712]</i> in the Justice portfolio, and <i>Waste Levy Changes [Initiative 15595]</i> in the Environment portfolio.	Only a small number of initiatives fall into this category. Because the policy changes associated with them are significant in their own right, <b>we recommend that the lead Ministers submit separate Cabinet papers to seek decisions.</b>
Avoiding 2023/24 appropriation breaches	Whaikaha have indicated that they need certainty about cost pressure funding in 2023/24 to avoid breaching their appropriation.	An early decision would allow Whaikaha more time to either use agreed cost pressure funding to avoid unappropriated expenditure, or (if cost pressures are not agreed) activate levers to mitigate unappropriated expenditure. If some cost pressure funding is agreed on the standard timeframe, Whaikaha will not go unappropriated. We therefore consider there is a low overall risk of breaching the 2023/24 appropriation, provided Budget Ministers include Whaikaha cost pressure funding in the final Budget package. <b>We suggest you discuss this at your bilateral with Minister Simmonds.</b>

11. MBIE has also submitted two initiatives where the specific approach to savings is under development. They have requested early decisions in order to confirm their approach, but we consider that delay should not materially affect their ability to deliver savings.

### **Key considerations for proceeding with early savings decisions**

12. We recommend that you should consider the following when deciding whether to proceed with early savings decisions:
- a If you choose not to take early savings decisions, the six-week delay could affect the feasibility of delivering the expected savings profile in 2024/25, or could cause Whaikaha to take undesirable action to avoid unappropriated expenditure.
  - b However, we consider that the risk this delay could cause to your *overall* savings package is limited. Many of the key initiatives are themselves small savings options in the context of the total savings submissions in Budget 2024; the total 2024/25 draft package impact of initiatives in scope is \$227 million (not including the Whaikaha cost pressure). Not taking early decisions is only likely to delay a small portion of these savings.
  - c If you choose to take early savings decisions, you will need to manage the way that decisions are communicated both to agencies and to the public. This should be factored into your overall communication strategy for Budget 2024. You will also

need to manage the risk of inconsistency for agencies which have already begun change management processes without early decisions.

13. Overall, your choice to progress or not progress early savings will depend on how you weight the above considerations. A number of these initiatives would benefit from an early decision to give more certainty to delivering savings, or to avoid the risk of incurring unappropriated expenditure, but this should be balanced against the risk of constraining your future package choices.
14. Further, several initiatives proposed for early inclusion have been submitted by agencies that are subject to Independent Rapid Reviews (IRRs). Taking early decisions may disturb the IRR process by locking in savings ahead of reviewers presenting their findings. On this basis, we do not recommend progressing any early baseline savings options for agencies subject to an IRR.

***Overall, we recommend proceeding with a small set of early savings decisions***

15. On balance we recommend that you proceed with a sub-set of early savings decisions that enable change management. We have identified these in our Treasury comments in Annex One. We ask that you confirm the initiatives that you would like included in the Cabinet paper by circling your preferences in Annex One.
16. To mitigate risk, we propose to include recommendations in the Cabinet paper that would delegate the confirmation of financial implications for early savings decisions to joint Ministers. This will allow Treasury to confirm details with lead agencies, including ensuring that potential impacts to the front line can be mitigated, before final agreement.
17. Finally, we recommend that any early decisions taken should include a 'discount' to account for delivery risk. In the draft package for Budget 2024, we indicatively discounted the savings package by 20%. This figure will be refined for Budget Ministers 3, but for these early decisions we recommend incorporating it to provide a buffer for potential delivery issues.
  - a We will also continue to factor the risks associated with change management, commercial constraints, and the need for policy changes to achieve savings into our discount figure going forward.

## Next Steps

---

18. We will provide you with a first draft of the 18 March Cabinet paper on Tuesday 12 March. This will incorporate any relevant decisions taken at Budget Ministers 2 on Tuesday morning, and your direction on early savings decisions in this report.
19. Following your feedback on the draft Cabinet paper, we will submit a version for lodging on Friday 15 March. The paper will be considered at Cabinet the following Monday, on the 18<sup>th</sup> of March.
20. As outlined above in paragraph 12, there are risks either to proceeding or not proceeding with early savings options. Treasury will support your office to manage any communications implications arising from your decisions.

**Recommended Action**

---

We recommend that you:

- a **note** that on 12 March the Treasury will provide you with a draft paper to take early decisions on Budget 2024, for consideration at Cabinet on 18 March;
- b **identify** in Annex One which savings initiatives you would like to include in the early decisions Cabinet paper; and
- c subject to your decisions on (b), **direct** Treasury to include recommendations delegating decisions on the financial implications of early savings decisions to joint Ministers.

*Directed/not directed.*

Keiran Kennedy  
**Manager, Budget**

\_\_\_\_ / \_\_\_\_ / \_\_\_\_

Hon Nicola Willis  
**Minister of Finance**

\_\_\_\_ / \_\_\_\_ / \_\_\_\_