

# The Treasury

## Budget 2024 Information Release

### September 2024

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- [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
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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
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## Treasury Report: Budget Ministers 3

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<b>Date:</b>	18 March 2024	<b>Report No:</b>	T2024/655
		<b>File Number:</b>	BM-2-4-2024

### Action sought

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	Action sought	Deadline
Hon Nicola Willis <b>Minister of Finance</b>	<p><b>Provide</b> feedback on the draft slides at Budget Matters on 21 March 2024</p> <p><b>Indicate</b> next steps on “Kainga Ora Crown-funded programmes and statutory obligations” time-limited funding initiative</p>	21 March 2024

### Contact for telephone discussion (if required)

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Name	Position	Telephone	1st Contact
Chris Brunt	Senior Analyst, Budget	[39]	[35] ✓
Keiran Kennedy	Manager, Budget		

### Minister’s Office actions (if required)

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<p><b>Return</b> the signed report to Treasury.</p> <p><b>Refer</b> this report to the Prime Minister and Associate Ministers of Finance Hon Chris Bishop, Hon David Seymour and Hon Shane Jones</p>
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Note any feedback on the quality of the report

**Enclosure:**  Yes (attached)

# Treasury Report: Budget Ministers 3

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## Background

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1. The purpose of the Budget Ministers 3 (BM3) meeting on 25 March is to finalise as much of the substantive Budget 2024 package as possible, to narrow the decisions you need to take at Budget Ministers 4 (BM4) on 8 April. Draft slides for your feedback are **attached** to this report.
2. At Budget Ministers 2 (BM2) on 12 March, Budget Ministers agreed to present a package within allowances. To help to achieve this, we provided you with two reports:
  - a. **T2024/691: Relative priorities for new spending at Budget 2024.** This focused on levers on the new spending side of your Budget strategy (e.g., on Government commitments and cost pressures) to bring the package back within allowances.
  - b. **T2024/705: Budget 2024 savings options.** This focused on levers on the savings side of your Budget strategy (e.g., tagged contingencies, additional targeted savings) to bring the package back within allowances. You received the latter concurrently with this report and draft slides.
3. You have provided feedback on T2024/691, and we are seeking further clarification (see rec c below) on one initiative as to whether to retain this as is or remove from the package.
4. Additionally at your education bilateral with Minister Stanford today, you indicated you were supportive of Ministers Stanford and Simmonds working with their officials and the Treasury to make changes within the education package that do not exceed the current funding envelope allocated for education. The Treasury will work with education officials to ensure any changes are considered ahead of BM4.
5. Changes to the BM2 package (both existing and further potential) are set out in Table 1 below.

Table 1 - Changes (made and potential) to the BM2 package for BM3

Change	Status	Operating average per annum (\$m)
<b>Amount that the package exceeded the \$3.5 billion operating allowance at BM2</b>		<b>640</b>
Changes agreed with portfolio Ministers at your bilateral meetings.	In the package for Transport, Revenue and Health decisions. Further changes to reflect other bilateral meetings (e.g., to education cost pressures post your meeting with Hon Stanford on the evening of 19 March) can be made before finalisation of materials on Friday 22 March.	(28)
Reduction in the 20% discount applied to all existing baseline and targeted savings options at BM2 to 10% for BM3, post further scrutiny by the Treasury.	In the package.	(240)
Late savings submissions into the process, including relating to: <ul style="list-style-type: none"> <li>MBIE savings from [33] and decommissioning the Tui oil field project.</li> </ul> 6. Recently submitted savings from the Parliamentary service.	In the package.	(46)
Changes to the fees free initiative, to reflect: <ul style="list-style-type: none"> <li>[33]</li> <li>Does not include any fiscal treatment of student loans.</li> </ul> Note in T2024/705, the variance was \$91.5 million, this was incorrectly calculated across five years and the figure has been corrected in this report.	In the package.	66
Other changes to reflect revisions to Cabinet papers (e.g., FamilyBoost).	In the package.	(28)
<b>Amount that the current package exceeds the \$3.5 billion operating allowance</b>		<b>364</b>
Closure of tagged contingencies.	Not currently included in the package, but placeholder line included “below the line” in summary table. Can be added in before finalisation of materials on Friday 22 March, pending your decisions on T2024/705.	(204)
Ministerial directed changes to baseline savings		38
Additional targeted savings commissioned at BM1.5.		(318) – (446)
Removal of new spending or time limited funding initiatives from the Budget 2024 package, including: <ul style="list-style-type: none"> <li>New funding for “NZQA IT system”.</li> <li>New funding for “NZQA HR system”.</li> <li>Ongoing funding for “Essential digital services – internet in schools, equipment and cyber security” (previously time limited).</li> </ul>	We note your indicative steers in T2024/691 regarding being potentially willing to remove these initiatives from the package. Based on your feedback that you would rather use savings to provide additional headroom than further scale your new spending package, we <u>have not</u> flowed through any of the changes to your package. But we can do so before the package is finalised on Friday 22 March if useful. We can also provide further advice on each of these options, if useful.	[33]
		[38]
11. Ongoing funding for funding for “Kainga Ora Crown-funded programmes and statutory obligations” (previously time limited).		(12)
<b>Potential package size if all decisions above are taken</b>		<b>\$3.21 – \$3.34 billion</b>

12. Table 1 provides options for a path back to within the \$3.5 billion allowance – and to present options to achieve close to a \$3.2 billion package – at BM3. However, we note for completeness that:

- a. There remain risks that the new spending in the package increases, given the potential for late spending initiatives <sup>[33]</sup> and for commitments currently scaled at to a minimum viable quantum to be increased as the package is finalised (e.g., Regional Infrastructure Fund, partnership schools).
  - b. You are separately receiving a oral briefing on Treasury’s preliminary fiscal forecasts at Budget Matters on Thursday 21 March, and a full report on Friday 22 March. As you have already requested (i.e., via your ask for the BM3 materials to show the trade-offs involved in achieving at \$3.2 billion Budget 2024 allowance), Budget Ministers may wish to consider further how the Budget 2024 package responds to this deteriorating outlook.
13. More savings to offset a potential uplift in the new spending package (at least partially) and/or respond to the forecasted fiscal deterioration may be identified by the Independent Rapid Reviewers and Treasury-identified process. But the quantum of savings that these processes will realise is currently uncertain. We will provide you with advice on additional savings options for a majority of agencies, with a focus on the 10 agencies Budget Ministers requested special focus on next week. This will take into account decisions made at bilateral meetings and BM3.

## Broader package implications

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As part of Treasury’s assessment process, we analyse each submission’s **value** (i.e., costs and benefits), **deliverability** and **alignment** to the Government’s priorities, as well as any **distributional** implications that arise from it. This analysis is summarised in the RAG ratings provided on the right-hand-side of the package annex provided to Budget Ministers, as well as in the Treasury comment.

14. Alongside this initiative-by-initiative assessment, we look across the package in its entirety, to capture any broader implications not apparent in individual assessments. This work primarily informs Treasury’s recommended package (T2024/501 refers). In T2024/501, it was noted that we would provide you further analysis on broader package implications ahead of BM3, this report briefly canvasses these implications also – refer to Annex 1 and further expanded in Annex 2.

## Recommended Action

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We recommend that you:

- a **provide feedback** on the draft slides at Budget Matters on 21 March 2024;
- b **note** we will incorporate your decisions on tagged contingencies and additional targeted savings (in T2024/705) into the BM package post your feedback at Budget Matters on 21 March 2024;

- c **indicate** (using the tick boxes in the two right-hand-side columns) the next steps on this initiative that you indicated in T2024/691 you may be willing to consider removing from the Budget 2024 package;

	Minister of Finance Decision – indicate with ✓	
	Remove from BM3 package	Leave in BM3 package – no further action
Ongoing funding for funding for “Kainga Ora Crown-funded programmes and statutory obligations” (time limited funding - \$12.2 million operating per annum).		

- d **note** that at the education bilateral on 19 March, you indicated support for Ministers Stanford and Simmonds to consider changes to the education package within the existing funding envelope and that Treasury will work with the relevant officials to ensure any changes to the education package are considered ahead of BM 4 on 8 April;
- e **note** that Annex 1 provides further analysis on broader package implications including climate impacts which are further explained in Annex 2; and
- f **refer** this report to Budget Ministers.

*Refer/not referred.*

Keiran Kennedy  
**Manager, Budget**

Hon Nicola Willis  
**Minister of Finance**

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## Annex 1: Broader package implications

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1. This section considers the alignment of the draft package to your overarching goals (as soon-to-be articulated in the Budget Policy Statement), the impacts on particular population groups, and potential Treaty of Waitangi and climate implications.

### ***Alignment of the draft package to your overarching goals***

2. Cabinet agreed the following overarching goals<sup>1</sup> (CAB-24-MIN-0080 refers):
  - a. Building a **stronger economy** that lifts incomes and increases opportunities for New Zealanders.
  - b. Delivering more efficient, effective, and responsible **public services** to all who need and use them.
  - c. Getting the government's books back in order and restoring **discipline to public spending**.
3. The current draft package is focused on priorities (b) and (c). There is comparatively less in the draft package focused on (a). We do not, however, recommend additional funding for economic policy initiatives at Budget 2024, given that:
  - a. Fiscal consolidation to support monetary policy to bring inflation back to target is vital to long term economic performance. This will strengthen confidence in the business environment and provide firms with the conditions for greater activity.
  - b. The package's focuses on a sustainable pipeline of capital projects will advance the Government's economic growth objectives.
  - c. Concurrent to Budget preparation, the Government is also progressing significant reform of regulatory levers to enable private enterprise. This includes:
    - i resource management reform,
    - ii improving the quality of regulation via a new Ministry,
    - iii reforms to improve labour market flexibility, and
    - iv reforms to New Zealand's science, innovation, and technology regulations.
4. We also note your plans to establish an Economic Ministers Group to oversee and assure delivery of the key government initiatives that are most likely to lift economic growth and productivity.

### ***Distributional impacts of the package***

5. The key focuses of the package will have a broad, positive impact across population groups. For example:
  - a. An enduring focus on fiscal sustainability will support macroeconomic stability and lift public sector productivity. This all contributes to a growing and resilient economy, thereby enhancing New Zealanders' living standards.
  - b. Personal income tax changes will have a positive impact on 90% of households, while Family Boost and In-Work Tax Credit changes are specifically designed to support families. You are receiving further advice on the distributional impacts of the tax package later this week.

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<sup>1</sup> These are identical to your statutorily-required wellbeing objectives.  
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- c. Funding critical frontline services in health, education and justice sectors benefits New Zealanders that use these services.
6. The cost of the package is offset by baseline savings initiatives. The invitation process required that come from back-office functions (including contractor and consultant spend) and low-value programmes not aligned with the Government's priorities. Savings that met this criteria are likely to have limited (if any) distributional impacts.
  7. There are, however, a select number of savings that are likely to have impacts on certain population groups. A number of these were discussed with you and your office during the line-by-line analysis of the savings package last week. Additionally you have indicated several proposals that you do not support in the wider package. <sup>[33]</sup>
  8. You are having further bilateral meetings with several portfolio Ministers this week – your briefing materials provide specific advice on distributional impacts where relevant. Further your office has also indicated to us that they are considering whether a further conversation with the Minister of Māori Development and Crown-Māori relations regarding baseline savings could be useful. We can provide advice to support you or your office with this discussion.
  9. More generally, we recommend that you set a clear expectation with all portfolio Ministers that, in the implementation of baseline savings initiatives, Ministers and agencies are mindful of – and take steps to mitigate – disproportionate impacts on particular population groups. One potential forum to deliver this message could be the Cabinet Expenditure and Regulatory Review Committee (EXP) meeting on 8 April where you are intending to provide a Budget 2024 update.

#### ***Treaty of Waitangi implications of the package***

10. Compliance with Treaty of Waitangi obligations is the responsibility of portfolio Ministers and their agencies. We do not have full visibility of whether agencies have complied with their Treaty obligations during Budget submission preparation, including whether they have worked in partnership with Māori during their development.
11. As above, we recommend that you set clear expectations for your portfolio Ministers regarding meeting their Treaty of Waitangi obligations. This could involve:
  - a. Where Budget 2024 policy decisions are taken through an alternative decision process such as a separate Cabinet paper, (for example: disestablishing the Māori Health Authority, etc), consideration of Treaty of Waitangi obligations would be considered via these other processes.
  - b. Where Budget 2024 is the primary decision-making forum (e.g., on baseline savings), Ministers and agencies having a robust plan to comply with Treaty principles if their submissions are included the final package. This may involve:
    - i stakeholder management on and around Budget day,
    - ii an implementation plan for successful initiatives which takes the Crown's obligations into account, and/or
    - iii post-implementation monitoring and reporting of initiatives' impact on Māori.
12. This could also occur via the EXP meeting on 8 April noted above.

#### ***Climate implications of the package***

13. To meet its obligations under the Climate Change Response Act, Cabinet must consider the emissions implications of policy decisions. This occurs through a Climate

Implications of Policy Assessment (CIPA), which is annexed to affected Cabinet papers.

14. Most Budget 2024 initiatives will have little-to-no impact on New Zealand's emissions. We have identified seven submissions where the emissions impacts are potentially material (e.g., increased investment in Police vehicles, <sup>[33]</sup> the return of the tagged contingency for agricultural emissions pricing which was due to be implemented from late 2025 (see paragraph 16).
15. However, the initial view of the Climate Change Interdepartmental Executive Board (CCIEB) – the public sector leads on emissions budgeting – is that **Budget 2024 initiatives are not expected to materially impact New Zealand's ability to meet the first emissions Budget.** They do create additional uncertainty regarding whether New Zealand can meet the second (EB2) and third (EB3) emissions budgets, but this can be resolved through the preparation of EB2 later this year. The full CCIEB analysis is provided in Annex 2.
16. <sup>[33]</sup>

Policy decisions on the government's preferred approach to agricultural emissions reduction (including pricing) will be taken separately to Budget (we understand that the Ministers of Agriculture and Climate Change will bring a paper to Cabinet shortly). The Budget 2024 CIPA will cross reference these decisions.

## Annex 2: Climate Analysis from the Climate Change Interdepartmental Executive Board

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1. The Climate Change CEs Board Unit have made an initial review of the impacts of Budget 24 initiatives on our emissions budgets, noting the package remains in draft and further information is expected from agencies. Impacts are hard to quantify as agencies have generally not provided abatement figures.
2. Based on current information, *the initiatives are not expected to materially impact our ability to meet the first emissions budget*. However, there are some initiatives that will increase the existing uncertainty over whether we can meet the second and third emissions budgets. Decisions on additional abatement actions to take through the second Emissions Reduction Plan this year will be critical to addressing any impacts and ensuring we meet EB2 and EB3, and bridge the gap to achieving our first Nationally Determined Contribution by 2030.
3. The draft package currently includes the return of a tagged contingency set up in Budget 23 to deliver the previous government's approach to agricultural emissions pricing. We understand policy decisions on the government's preferred approach to agricultural emissions reduction, including pricing, will be taken separately. This will include a CIPA on the specific impacts, reflecting Ministerial choices about the new design of this initiative. This change will not impact EB1, but the emissions projections published in December 2023 assumed the lost abatement potential of delaying this policy to be around 1.9Mt in the second budget period (2026-2030) (note this assumes supporting technologies will available.) We will cross reference this in the Budget 24 CIPA.
4. Alongside this a number of initiatives indicate a marginal increase to operational emissions from new construction and fleet vehicles:
  - a. <sup>[33]</sup>

While the return of uncommitted funding will reduce the abatement potential of the programme as a whole this is considered to be minimal. The Low Emission Transport Freight Decarbonisation programme had not commenced, and was forecast to deliver a small abatement impact.

- b. Other policies included as savings are not anticipated to provide significant abatement impacts.