

The Treasury

Budget 2024 Information Release

September 2024

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- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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Treasury Report: Relative priorities for new spending at Budget 2024

Date:	15 March 2024	Report No:	T2024/691
		File Number:	15 March 2024

Action sought

	Action sought	Deadline
Hon Nicola Willis Minister of Finance	Provide an indicative steer regarding which spending initiatives you would consider scaling further or removing from the Budget 2024 package, to help get the package back within or below operating allowances	15 March 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Emily Fulford	Senior Analyst, Budget	[39]	[35] ✓
Chris Brunt	Senior Analyst, Budget		
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: No

Treasury Report: Relative priorities for new spending at Budget 2024

Executive Summary

The package presented at Budget Ministers 2 was ^[33]

At Budget Ministers 2, you agreed to present a package within the current Budget 2024 operating allowance (i.e. \$3.5 billion per annum) at Budget Ministers 3 on 25 March. You also indicated at Budget Matters on 14 March that you would like to additionally present a package below \$3.2 billion operating per annum at Budget Ministers 3, setting out the associated trade-offs.

We anticipate that the additional savings options identified at Budget Ministers 1.5 will be key ^[33] There is already significant work underway on this, and you will receive further advice on savings on Monday 18 March. ^[33]

. This report focuses on the spending aspects of the Budget package.

The Treasury has undertaken analysis on potential options to scale or defer funding, including:

- Reduce the fiscal impact of your tax package
- Further scaling cost pressures
- Further scaling Government policy commitments
- Providing time-limited funding
- Partial deferring Government policy commitments
- Phasing or scaling capital cost escalations
- Initiatives that have already been scaled to the minimum viable so would need to be removed from the package.

We are seeking an indicative steer on which initiatives you would consider scaling further or deferring, which you want to retain as per the current package, and which you would like further advice on. This direction does not represent final decisions on new spending, but can help us tailor the draft package as we prepare for Budget Ministers 3 on 25 March.

Recommended Action

We recommend that you:

- a **note** you agreed at Budget Ministers 2 on 12 March to provide a revised package at Budget Ministers 3 on 25 March within the current Budget 2024 operating allowance of \$3.5 billion per annum;
- b **note** at Budget Matters on 14 March you indicated that you also want to present a package below \$3.2 billion operating per annum at Budget Ministers 3;

- c **note** you will receive separate advice on the additional savings work underway for Budget 2024 on 18 March;
- d [33]
- e **note** the Treasury has undertaken work on potential options to reduce spending in the Budget 2024 package through either further scaling or removing initiatives, and these options will have trade-offs;
- f **provide** an indicative steer regarding the scaling or deferral options outlined in this paper (using the tick-boxes in the three right hand columns), which we will then use to help tailor the draft BM3 package on the week of 18 March; and

Scaling / deferral option Cost/(Saving)	\$ operating per annum saving	Minister of Finance steer – Indicate with ✓		
		Scale or defer	Retain in package as is	Receive further advice
Tax package				
Personal Income Tax – 1 October implementation	(124.0)			
Independent Earner Tax Credit – expand to \$53,500 instead of \$70,000	(129.3)			
In Work Tax Credit – set at \$15 rather than \$25	(63.3)			
Further scaling Government policy commitments				
Operating funding for Kānoa – reduce to 2023/24 funding	(3)			
[33]				
Providing time limited funding				
Historic claims of abuse in care	(12.3)			
Structured approaches to literacy	(8.4)			
Continued teacher supply supports	(2.9)			
Deferring (in full or in part) Government policy commitments				
Te Pūkenga	[38]			
Independent inquiry into COVID-19 pandemic response	(3.5)			
Phasing or scaling capital cost escalations				
Phasing or scaling capital cost escalations – Request further advice only	N/A			
Removing initiatives from package that have already been scaled to minimum-viable				
Apprenticeship Boost	18.2			
NZQA IT system	[33]			
NZQA HR system				
Essential digital services - internet in schools, equipment replacement and cyber security	[38]			
Timely access to COVID-19 vaccines and therapeutics	58.0			
Gumboot Friday	4.5			

¹ The remaining operating funding in the National Resilience Plan is \$1.4 billion and has been averaged across the four years. This funding is not ongoing beyond the forecast period.

Breast screening extension of eligibility	5.8		
Emergency department security	7.7		
Training more doctors	2.5		
Taking a tougher approach to sentencing	0.8		
Responding to gang harm	2.2		
Fast Track Youth Offending programme	7.7		
Addressing youth offending	8.8		
Corrections rehabilitation programmes	12.0		
Investing in core policing	[33]		
Implementing local water done well	8.5		
Resource Management Reforms replacement	23.1		
National Infrastructure Agency Establishment	1.3		
Civil Aviation Authority liquidity funding	[33]		
[33]			
GeoNet and the National Seismic Hazard Model	17		
Kāinga Ora Crown-funded programmes and statutory obligations	12.2		
Te Matatini	21.8		

- g **provide** an indicative steer regarding whether to add these education cost pressure initiatives back into the package (using the tick-boxes in the two right hand columns), which we will then use to help tailor the draft BM3 package on the week of 18 March.

Scaling / deferral option	\$ operating per annum saving (if <u>not</u> added to package)	Minister of Finance steer – Indicate with ✓	
		Add into package	Leave as is
[33]			
Creatives in Schools	3.2		
Laptops in Schools	0.5		
[33]			
[33]			
Increase early childhood education subsidies by 2% instead of 1.5%	25.0		
[33]			

Keiran Kennedy
Manager, Budget

Hon Nicola Willis
Minister of Finance

_____/_____/_____

Treasury Report: Relative priorities for new spending at Budget 2024

Purpose of Report

1. This report seeks an indicative steer from you regarding which initiatives you would consider scaling or deferring, which you want to retain as per the current package, and which you would like further advice on.
2. This direction does not represent final decisions on new spending. But we will use any indicative steers that you provide on the options in this paper – combined with your decisions on savings options that we will seek in advice you will receive on Monday 18 March – to help form a draft package within or below the \$3.5 billion operating allowance for Budget Ministers 3 on 25 March.

Background

3. ^[33]
4. At Budget Ministers 2, you agreed to present a package within the current Budget 2024 operating allowance (i.e. \$3.5 billion per annum) at Budget Ministers 3 on 25 March. You also indicated at Budget Matters on 14 March that you would like to additionally present a package below \$3.2 billion operating per annum at Budget Ministers 3, setting out the associated trade-offs.
5. ^[33]

There is already significant work underway on this, and you will receive further advice on savings on Monday 18 March.
6. However, as discussed at Budget Matters on 14 March, ^[33]
7. We are seeking your steer on which initiatives you would consider scaling or deferring, which you want to maintain as per the current package, and which you would like further advice on. This direction will be used to prepare the revised package for Budget Ministers 3 the week of 18 March.

Status of the package post initial Budget bilaterals

8. You have had four Budget bilaterals with portfolio Ministers over the past week, including the Minister of Health, Minister of Transport, Minister of Revenue and Minister for Children. ^[33]

² We have also updated the FamilyBoost initiative to reflect the administration costs in the 18 March Cabinet paper and the removed double counting of the Education capital cost escalations.

9. We have not made adjustments to the package to reflect your feedback on baseline reduction savings. We will reflect this the week of 18 Monday in the Budget Ministers 3 material.

Table 1: Changes to the package since Budget Ministers 2

Vote	Title	Budget Ministers 2	Budget Ministers 3
Health	Breast screening extension of eligibility to include 70–74-year-olds	\$5.6 million operating \$7.2 million total capital	\$5.8 million operating \$7.2 million total capital
Health	Gumboot Friday	\$5 million operating	\$4.5 million operating
Health	Training 50 more doctors	-	\$2.5 million operating \$13.0 million total capital
Health	Increasing access to medicines including cancer treatments	\$29 million operating	Removed from the package
[33]			
Transport	Ministry of Transport (Policy and Back-office) – Efficiency Return	(\$2.7 million) operating	(\$3.5 million) operating
Transport	Hopper Wagon Reprioritisation	(\$30.3 million) total capital	(\$38 million) total capital

Table 2: Summary of Budget package as at 15 March

Budget 2024 - Budget Package	Budget Ministers 3 package - as at 15 March							
	Operating Allowances						MYCA	
\$millions Savings / (Spending)	2023/24	2024/25	2025/26	2026/27	2027/28 and Total Operating Outyears	Average Per Annum	Total Capital	
Budget 2024 Allowances	-	3,500	3,500	3,500	3,500	14,000	3,500	2,900
Precommitments agreed by Cabinet	(121)	(871)	(923)	(1,077)	(740)	(3,733)	(933)	120
Mini Budget decisions	228	1,153	2,501	2,112	1,475	7,470	1,867	455
Expected Pre-commitments	-	(345)	(72)	11	11	(395)	(99)	-
Return of National Resilience Plan*	-	352	352	352	352	1,406	352	1,700
Multi-Year Capital Allowance Top up	-	-	-	-	-	-	-	7,000
Between Budget Contingency	-	(40)	(40)	(40)	(40)	(160)	(40)	-
Remaining Unallocated Allowances	107	3,749	5,317	4,858	4,558	18,588	4,647	12,175
Spending, Revenue and Savings against allowances								
Savings and Revenue	599	1,300	1,344	1,451	1,492	6,187	1,539	1,272
Baseline savings	145	888	921	950	987	3,892	973	526
Additional Savings from Kāinga Ora savings	14	28	35	41	41	160	32	-
Targeted Policy savings and revenue	257	362	361	432	437	1,849	462	8
Capital Pipeline Review	182	22	27	28	28	286	71	737
New Spending	(88)	(3,337)	(4,481)	(4,008)	(4,116)	(16,026)	(4,007)	(3,286)
Government Policy Commitment	(81)	(697)	(777)	(371)	(505)	(2,430)	(608)	(2,893)
Tax Package	(6)	(2,627)	(3,674)	(3,597)	(3,562)	(13,464)	(3,366)	-
Capital Investment	(0)	(14)	(30)	(40)	(49)	(132)	(33)	(393)
Cost Pressures and Capital Cost Escalations	(98)	(2,878)	(2,796)	(2,655)	(2,611)	(11,037)	(2,759)	(714)
Cost Pressures	(96)	(2,614)	(2,636)	(2,593)	(2,574)	(10,513)	(2,628)	(137)
Health Cost Pressures	-	(1,430)	(1,430)	(1,430)	(1,430)	(5,720)	(1,430)	-
[33] and [38]								
Whaikaha Cost Pressures	(70)	(230)	(230)	(230)	(237)	(998)	(249)	-
Other Cost Pressures	(26)	(443)	(465)	(422)	(396)	(1,752)	(438)	(680)
Capital - Cost Escalations	(2)	(264)	(159)	(62)	(37)	(523)	(131)	(577)
Total Budget Submissions	[33] and [38]							
Remaining within / (Over) Budget Allowances								

Options to reduce spending

10. You have several options to reduce the quantum of spending in the Budget 2024 package, which are outlined below for your consideration. It is important to note that all options have associated trade-offs – some of which are more significant than others.

Options to reduce the fiscal impact of your tax package

11. You have potential scaling options for your tax package:
- a **Personal Income Tax**: We understand from Budget Matters on 14 March that you are considering seeking Budget Ministers' agreement to a Personal Income Tax implementation date of 1 October 2024 at BM3. This will decrease the fiscal impact of your tax package by approximately \$496 million total operating (\$124 million average per annum).
 - b **Independent Earner Tax Credit (IETC)**: If you expand the IETC to \$53,500 instead of \$70,000, there are \$517 million savings over the forecast period (\$129 million average per annum) (T2024/419 refers).
 - c **In Work Tax Credit (IWTC)**: Setting the IWTC increase at \$15 (rather than \$25) would reduce the cost of your tax package by \$253 million over the forecast period (\$63 million average per annum) (IR2024/032 refers).

Further scaling cost pressures

Health

12. At your meeting with Minister Reti on 11 March, and subsequently at Budget Matters on 14 March, you indicated your intention not to scale health cost pressures below the \$1.4 billion included in National's Fiscal Plan and the 2023 Pre-election Fiscal and Economic Update. We have accordingly not included any further such scaling options for this.

Education

13. The recommended Treasury package for education cost pressures was ^[33], based on our assessment of the minimum viable level of funding required by the sector. You requested that the BM2 package increase the education cost pressure portion to 75% of what was sought by the Ministry of Education (MoE) ^[33]. This was a net increase of approximately ^[33] from Treasury's recommended quantum.
14. Giving effect to this top-down adjustment at an individual initiative-level presents you with several choices regarding what to add back into the package. These are set out in Table 3 below. If you opt to take none or only some of these choices, this will decrease the size of your package.
15. These options are set out in Table 3 in order of relative priority. The options in "Set 1" relate to higher value programmes that were proposed to be used for reprioritisation in Treasury's draft package. ^[38]
While the remaining items in "Set 2" and "Set 3" have value, they are comparatively more discretionary, and you have options regarding whether to include them in your draft package. **Our view is that the options below (particularly those in "Set 2" and "Set 3") are some of your best levers to bring the package back within allowances**, and preferable to the other options relating to your education new spending elsewhere in this report (see paragraph 25-26 below).

Table 3: Education cost pressures

Option set	Initiatives	(\$m operating per annum) Cost (Saving)			Treasury advice
		Treasury recommended quantum	Potential BM3 package if initiatives added to package	Net saving if <u>not</u> added into package	
Option Set 1: Potential high-risk reprioritisation options included in Treasury's draft package.	[33]				<ul style="list-style-type: none"> These initiatives are high-uptake programmes and/or show evidence of positive impacts. Reprioritising these programmes has frontline educational impacts.
	Creatives in Schools	(3.2)	-	3.2	
	Laptops in Schools	(0.5)	-	0.5	
	[33]				
Option Set 2: Additional funding for educational services (above the Treasury-recommended quantum)	[38]				<ul style="list-style-type: none"> [38] There is already cost adjustments for schools, ECE and tertiary institutions in the draft package. Cost adjustments have previously been provided at a rate below CPI (e.g. schools adjustments have increased at an AAGR of 2.14% compared to CPI of 3.55% over the last 6 years).^[38] <p>The Early Childhood adjustment is lower as they retained the 4.6% 20 Hours ECE subsidy increase from Budget 2023 despite the 20 Hours ECE extension policy rollback at Mini Budget.</p>
	Increase tertiary subsidies by 3.5% instead of 2.5%	66.6	93.2	26.6	
	Increase schools' operational grants by 3.5% instead of 2.5%	44.7	62.5	17.8	
	Increase early childhood education subsidies by 2% instead of 1.5%	37.5	62.5	25.0	
Option Set 3: Additional funding for school property maintenance	[38]				[38]

Whaikaha, Oranga Tamariki and Defence

16. We do not recommend further scaling of cost pressures for Whaikaha, Oranga Tamariki or the Defence Force, given the Treasury recommended package (which you included in the draft BM2 package) represented what we judged to be the minimum viable level of cost pressure funding for frontline services in these sectors.

Further scaling Government policy commitments

17. There are several Government policy commitments that you could scale further while still providing some funding through Budget 2024. We note you are having discussions with the portfolio Ministers on the Regional Infrastructure Fund, Partnership Schools and Ministry for Regulation establishment initiatives and therefore, we have not included further scaling options for these.

Operating funding for Kānoa

18. The Regional Development Unit (Kānoa) does not have operating funding beyond 30 June 2024 to manage existing investments. We recommended providing scaled funding in the Treasury's draft Budget package (\$22 million operating average per annum), however, you could further scale this initiative to the 2023/24 funding requested in Budget 2022. This option would decrease the funding by \$3 million operating per annum to \$19 million operating per annum.

North Island weather events road response, recovery and rebuild

19. Funding is required to respond, recover and rebuild parts of the national transport network that were impacted by the North Island weather events in early 2023. ^[33]

Treasury recommended \$82.5 million average operating per annum and \$609.3 million total capital in the draft package.

20. You could decide to fund the Funding Assistance Rates (FAR)³ at the base amount only rather than the current recommended option that uses the emergency rate of base FAR plus 20%. This option would reduce the operating costs by \$26.8 million average operating per annum.

Providing time-limited funding

21. There are several initiatives Cabinet invited into the Budget 2024 process for programmes that have time limited funding expiring over the forecast period. You could decide to continue time limited funding for some of these initiatives and consider additional funding in future Budgets subject to evaluation or policy decisions.
22. As noted in previous advice, we will provide further advice on how you can be transparent on the time limited funding decisions you make in the Budget 2024 communications material (T2024/501 refers).

Historic claims of abuse in care

23. The Minister for Social Development and Employment has sought two years of funding of \$26.5 million operating per annum to process 2,000 claims relating to historical abuse in state care. The Royal Commission is scheduled to deliver its final report in March 2024. Following this Ministerial decisions will be sought on the scope and direction of the Crown response, including improving redress.

³ Funding assistance rates (FARs) are the funding contribution, represented as a percentage, that the Government makes to councils and other approved organisations for eligible projects and activities.

24. The Treasury has supported scaled funding of \$20.5 million operating per annum operating for two years in the draft package, ^[33]

You could decide to provide one-year total operating funding of \$8.2 million operating per annum (reducing total costs by \$12.3 million average operating per annum) and consider additional funding as part of the Crown response.

Structured approaches to literacy

25. The draft package provides scaled funding for the structured approach to literacy programme. You could instead opt to provide 1.5 school years of time limited funding for this programme at Budget 2024, with ongoing funding and/or reprioritisation (from within MoE's \$140 million per annum baseline funding for Professional Learning Development (PLD)) considered as part a broader review of PLD settings. We note that the Minister of Education has identified this initiative as her number one priority for Budget 2024. This would decrease the Budget 2024 package by \$33.5 million total operating (\$8.4 million average per annum).

Continued teacher supply supports

26. The Treasury has recommended a scaled option for this initiative, as well as a review of baseline funding on teacher supply and the development of a more comprehensive education workforce strategy. There is an option to provide 1.5 school years of time limited funding for this programme at Budget 2024, subject to the outcome of those reviews. This would decrease the Budget 2024 package by \$11.5 million total operating (\$2.9 million average per annum).

Partial deferring Government policy commitments

Te Pūkenga – Disestablishment and Transition

27. There are options to reduce costs associated with the Te Pūkenga reform at Budget 2024 (and in future Budgets), depending on whether options to lengthen the timeframe for implementation (the current aim is for new entities to be in place of 1 January 2025) or lessening the extent to which the reforms shift the system away from its current state are acceptable to Ministers (T2024/301 and T2024/641 refers). ^[33]

Independent inquiry into COVID-19 pandemic response

28. The public is currently being consulted on the expansion of the independent inquiry into the COVID-19 pandemic response. The draft package includes \$14 million total funding to be held in a tagged contingency to fund the inquiry. The scope of the inquiry and the timing for its commencement are uncertain, and so there are options to defer this initiative until next steps and timing are clearer.

Phasing or scaling capital cost escalations

29. The capital package includes several cost escalations that are seeking a significant amount of associated operating funding. These include responding to increasing prisoner numbers (\$235.4 million operating average per annum and \$680 total capital), Auckland's Rail Network Rebuild ^[25] and Metropolitan Rail Backlogs and network management plans cost pressures (\$92.0 million operating average per annum).
30. Further work needs to be undertaken by the Treasury on the impacts of potential phasing or scaling these initiatives. We can provide you further advice if you would like to explore this further.

Initiatives that have already been scaled to the minimum viable so would need to be removed from the package

31. Many of the Government’s policy commitments and cost pressures have been scaled to what we consider the minimum viable amount – unless further policy decisions are taken on the size and scope of the initiative. ^[33]
32. Directing agencies to fund any or all of these initiatives through reprioritisation will put further pressure on baselines and require trade-offs, particularly those that are already reducing due to baseline savings and/or meeting uninvited cost pressures.

Table 4 – Initiatives scaled to minimum viable amount

Area	Initiatives	Average operating per annum (\$m)	
		Funding sought	Funding in current package
Education	Apprenticeship Boost	51.8	18.2
	NZQA IT system	[33]	
	NZQA HR system		
	Essential digital services - internet in schools, equipment replacement and cyber security	[38]	
Health	Timely access to COVID-19 vaccines and therapeutics	[33]	58.0
	Gumboot Friday	6.0	4.5
	Breast screening extension of eligibility	7.0	5.8
	Emergency department security	[33]	7.7
	Training more doctors	5.1	2.5
Law and Order	Taking a tougher approach to sentencing	1.0	0.8
	Responding to gang harm	2.3	2.2
	Fast Track Youth Offending programme	11.1	7.7
	Addressing youth offending	19.8	8.8
	Corrections rehabilitation programmes	15.0	12.0
	Investing in core policing	294.8	62.0
Infrastructure	Implementing local water done well	12.0	8.5
	Resource Management Reforms replacement	30.2	23.1
	National Infrastructure Agency Establishment	[33]	1.3
	Civil Aviation Authority liquidity funding	[33]	
	Continued recovery from the North Island weather events	[33]	13.3
Other	GeoNet and the National Seismic Hazard Model	[33]	
	Te Matatini	13.1	12.2
	Kāinga Ora Crown-funded programmes and statutory obligations	12.5	21.8