

The Treasury

Budget 2024 Information Release

September 2024

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- [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
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- [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

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Treasury Report: Budget 2024: Savings Options

Date:	19 March 2024	Report No:	T2024/705
		File Number:	

Action sought

	Action sought	Deadline
Hon Nicola Willis Minister of Finance	<p>Agree to the recommendations set out in Annex A, B and C.</p> <p>Agree that any drawdowns sought from tagged contingencies before the Budget moratorium (commencing 29 April 2024) must meet expectations outlined in recommendation g.</p>	20 March 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Amanda Wilson	Senior Analyst, Budget	[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: Budget 2024: Savings Options

Executive Summary

The package presented at Budget Ministers 2 was \$640 million operating over allowances on average per annum, with this number increasing to \$813 million in 2027/28 and outyears.

You have three key levers to bring the package back within allowances – scaling or deferring new spend; scaling or deferring cost pressures; and savings opportunities.

Agencies submitted baseline savings totalling ^[33] The Treasury removed or scaled a number of high delivery risk initiatives through Vote assessments. Baseline savings have been further refined (as noted in the table below) to account for the initiatives you noted were high-risk and additions that have come through since Budget Ministers 2.

In Budget Ministers 2, we included a 20% provision to the baseline and targeted savings in the draft package. This was to account for a number of delivery risks identified but not yet quantified. We have further refined this risk and have reduced the provision to 10% for baseline savings only.

We have identified additional savings as outlined below:

	BM2 package operating (\$m per annum)	Recommended BM3 package operating (\$m per annum)	Comment
Baseline savings	^[33]		From Ministerial engagements, ^[33] per annum has been removed from the package, and ^[33] added from new baseline saving options
Targeted Policy savings			We will make amendments to the BM3 package to include ^[33]
Additional targeted savings			
Tagged contingencies			For further detail, refer to the <i>Tagged Contingency</i> section of the report below.
Delivery risk 'provision'	(376)	(126)	At BM1.5, we 'discounted' the targeted and baseline savings by 20% to account for delivery risk. For BM3, we have reduced this to a 10% reduction, applying to baseline savings only.
Capital Pipeline Review	71	71	This represents operating savings associated with the capital pipeline review only.
Total savings and revenue options	^[33]		

In addition to the savings noted above, we are continuing to identify savings opportunities through scrutinising baseline savings line-by-line and bilateral meetings and supporting Independent Rapid Reviews. This includes considering additional savings options for a majority of agencies, with a focus on the 10 agencies Budget Ministers requested special focus on, ahead of Budget Ministers 4. The further savings advice will take into consideration

the initial savings decisions outlined in this paper, bilateral meeting discussions, and Budget Ministers 3 options for scaling or deferring cost pressures and new spend.

In this report, we seek your agreement on the targeted policy options, tagged contingency returns and initial baseline amendments to be reflected in the Budget Ministers 3 package. These decisions will be critical to support a package being presented that is inside allowances, but will not form final decisions. Final decisions will be sought at Budget Ministers 3.

Recommended Action

We recommend that you:

- a **note** that the package presented to Budget Ministers 2 was \$640 million operating over allowances on average per annum, and that you are looking to present a package within allowances for Budget Ministers 3;
- b **note** that you have received advice on opportunities to scale or defer new spending and cost pressures [T2024/691 refers] and that any decisions made here will support reducing the gap noted above;
- c **note** that Treasury has undertaken a review of targeted policy savings, tagged contingencies and baseline savings options and identified initial additional savings options totalling between ^[33] average operating per annum;
- d **agree** to the baseline savings amendments as outlined in Annex A, noting that these decisions will be reflected in the draft Budget Ministers 3 package;

Agree/disagree.

- e **agree** to the targeted savings recommendations you could like included as part of the Budget Ministers 3 package, as outlined in Annex B;

Agree/disagree

- f **agree** to the return of the tagged contingencies outlined in Annex C which have been recommended by the Treasury for return and will be reflected in the Budget Ministers 3 package;

Agree/disagree.

- g **agree** that any drawdowns sought from tagged contingencies before the Budget moratorium (commencing 29 April 2024) must meet the following expectations:

- The request must meet all the conditions for drawdown;
- The request must relate to urgent funding needs for 2023/24; and
- The request must be consistent with the Budget 2024 savings package.

Agree/disagree.

- h **note** that if you agree with recommendation g, we will include these expectations in the March Baseline Update response letters back to Ministers, which will be provided for your approval on 21 March 2024;

- i **note** that you have also received additional savings opportunities as part of the bilateral briefings totalling over ^[33] per annum and that we will reflect the outcome of these meetings in the either the Budget Ministers 3 or 4 materials (depending on the timing of receiving information);

- j **note** that the Treasury will present additional savings options for all agencies, with a focus on the 10 agencies Budget Ministers requested special focus on, ahead of Budget Ministers 4, taking account of bilateral decisions, opportunities identified to go further on baseline reductions and Budget Ministers 3 decisions;

Keiran Kennedy
Manager, Budget

Hon Nicola Willis
Minister of Finance

____/____/____

Treasury Report: Budget 2024: Savings Options

Purpose of Report

1. You have three key levers to balance the budget and bring the current package inside allowances. You have received advice on the first two levers (scaling or deferring new spend and cost pressures) already [T2024/691 refers].
2. This report provides you with an overview of the third lever – savings opportunities. We are seeking your initial indications on a number of savings options, to inform the Budget Minister 3 package.

Background

3. The package presented at Budget Ministers 2 was \$640 million operating over allowances on average per annum, with this number increasing to \$813 million in 2027/28 and outyears.
4. You have indicated that you wish to take a package to Budget Ministers 3 which is inside allowances. It is critical that we are able to lock down some decisions at Budget Ministers 3, to narrow the set of decisions we need to take at Budget Ministers 4 and ensure that there is sufficient time for the technical elements of the Budget process to be completed. We note that Budget Ministers 4 is two days before Budget Ministers 5 on 10 April, where the package will need to be confirmed ahead of Cabinet.
5. In order to present a package inside allowances at Budget Ministers 3, we are seeking your agreement on the targeted savings, tagged contingencies and baseline reduction adjustments to be reflected in the Budget Ministers 3 package.

Savings options to bring the package within allowances

6. You received advice on opportunities to scale cost pressures and new spend [T2024/691 refers]. Any initial indications you make here will support closing this gap for the Budget Ministers 3 package, which you have indicated you wish to be inside allowances.
7. There are currently multiple savings workstreams, including, baseline savings, targeted savings (as invited to B24), additional targeted savings (agreed by Budget Ministers at BM1.5) to support closing this gap. In addition, the Treasury has undertaken a review of tagged contingencies and worked with you and your office to identified opportunities to push harder on baseline savings.
8. As a result of some of the amendments to the baseline package, we have also revised our discount rate down from 20% to 10% and believe this should only now be applied to baseline savings and not targeted savings also. We have made this revision based on a number of high-risk options being removed. This has reduced the discount from \$376 million operating per annum to \$126 million operating per annum, increasing the size of the savings package by \$250 million operating per annum.
9. These initial savings levers alone, have the following impact on the package. Further information on each of these options is contained later in this report.

	BM2 package operating (\$m per annum)	Recommended BM3 package operating (\$m per annum)	Comment
Baseline savings	[33]		From Ministerial engagements, [33] per annum has been removed from the package, and [33] added from new baseline saving options
Targeted Policy savings			We will make amendments to the BM3 package to include [33]
Additional targeted savings			
Tagged contingencies			For further detail, refer to the <i>Tagged Contingency</i> section of the report below.
Delivery risk 'provision'	(376)	(126)	At BM1.5, we 'discounted' the targeted and baseline savings by 20% to account for delivery risk. For BM3, we have reduced this to a 10% reduction, applying to baseline savings only.
Capital Pipeline Review	[33]		This represents operating savings associated with the capital pipeline review only.
Total savings and revenue options			
Potential additional savings from bilateral			At least [33] per annum raised in bilateral reports. Note that this figure contains approximately [33] Any agreed savings through the bilateral process will be reflected in the Budget Ministers 3 package if possible.

Baseline savings

10. An overview of the amendments to the baseline savings work to date is outline below.

	Operating (\$m per annum)	Comments
Budget Ministers 2 package – gross baseline	[33]	Gross Baseline savings (ie. without discount provision)
<i>Less</i> removal of high-risk initiatives		As identified by yourself and your office and outlined in Annex A
<i>Plus, additional</i> new savings		These include items such as the additional savings agreed at the Transport bilateral meeting and are outlined in Annex A and appear credible.
<i>Budget Ministers 3 package – gross baseline</i>		Gross Baseline savings (before applying 10% discount)
<i>Difference in revised discount rate</i>	(126)	This is the difference as a result of reducing the original 20% discount on baseline savings.
Recommended Budget Ministers 3 package	[33]	

11. In addition, there are nine bilateral meetings this week with additional savings options totalling [33] on average per annum. [33]

Where there are clear decisions made at the bilateral meetings, we will endeavour to reflect these in the Budget Ministers 3 package. If decisions require further investigations, these will be incorporated into the Budget Ministers 4 package instead.

12. You have identified a number of opportunities to scale up baseline savings as part of your line-by-line exercise. The Treasury is also undertaking a line-by-line exercise and working with Vote Analysts on opportunities to go further. Some of these options will build on existing initiatives, whilst others may require further policy/Ministerial decisions.
13. We are aware of additional savings being presented by the Ministry of Housing and Urban Development and the Ministry of Social Development (Joint advice with Treasury due to you this week) and are currently working through the fiscal treatment of these, before inclusion in the package.
14. The Treasury will present additional savings options for majority of agencies, with a focus on the 10 Budget Ministers requested special focus on, ahead of Budget Ministers 4. These options will take into consideration the initial savings decisions outline in this paper, bilateral meetings and Budget Ministers 3 options for scaling/deferring cost pressures and new spend.
15. These options will be presented in advance of the Independent Rapid Review findings, due 4 April 2024.

Targeted Savings and revenue

16. The Treasury recommends the following amendments to targeted policy options for Budget Ministers 3. The full list of options is outlined in Annex B, with further detail provided in Annex C where there are multiple options to consider.

	(Operating \$m per annum)	Comments
Budget Ministers 2 package	[33]	This included the original targeted savings and revenue options and the [33]
<i>Minus</i> amendments to the Fees Free Programme		We will make amendments to the BM3 package to include the [33]
[33]		
<i>Plus</i> savings from the [33]	[33]	
<i>Plus</i> savings from changes to the <u>Waste Disposal Levy</u>		
<i>Plus</i> savings from changes to [33]		[33]
<i>Plus</i> savings from closing down the <u>First Home Grants Scheme</u>		
<i>Plus</i> savings from changes to [33]		[33]
<i>Adjustment</i> for revised discount rate	125	We have adjusted our discount, which now only applies to baseline savings, therefore, targeted savings and revenue options increase from the BM2 package.
Recommended Budget Ministers 3 package for targeted savings and revenue	[33]	Note this assumes the Treasury's recommended savings and revenue options are agreed.

17. Where options are unlikely to be realisable for Budget 2024, [33] we recommend that policy work is still continued (subject to Ministerial agreement) in this space to support future budgets and the ongoing fiscal sustainability programme. We note that for the [33]. An independent review of these schemes could assist with managing future costs. This could be incorporated into how you want to signal the next phase of your fiscal sustainability plan at Budget 2024.

18. Separate advice will be provided on [33] and the [33].

Tagged Contingencies

19. As part of the March Baseline Update, we requested information from departments on the tagged contingencies they manage. We recommend that a number of these be returned. Note that the figures in this table are the total across the forecast period as the funding profile is uneven.

	Operating (\$m total across forecast)	Capital (\$m total)	Comments
<i>Total tagged contingencies</i>	6,439	3,901	There are 75 tagged contingencies currently in place.
Budget Ministers 2 package	-	-	There was no tagged contingency saving track in Budget Ministers 2
Total Savings proposed from recommended returns of tagged contingencies	[33]		This includes closing 16 and reducing four tagged contingencies – see Annex C
Adjustment to allow for top-down adjustment and tagged contingencies in other savings tracks			The top-down adjustment is explained further below. Six of the tagged contingencies to be closed are already proposed as baseline or targeted savings options.
Recommended Budget Ministers 3 package for return of tagged contingencies			

20. Tagged contingencies set aside funding where further specific work is required before Cabinet (or joint Ministers, where Cabinet has provided delegation) will agree to appropriate the funding. They are also used in circumstances where a policy or project is commercially sensitive or negotiations have yet to take place, e.g. wage negotiations. Tagged contingencies are charged against allowances and included in the fiscal forecasts.
21. We have assessed each tagged contingency, and in our view, there are significant savings that can be obtained by closing tagged contingencies and returning funding to the centre to support Budget 2024. The following criteria has informed our assessment:
- The age of the tagged contingency (the rebuttable presumption is that tagged contingencies established before Budget 2023 should be returned).
 - Whether there are legal obligations to meet costs funded by the tagged contingency (e.g., pay equity claims).
 - The current stage of programmes or projects supported by tagged contingencies (programmes or projects that are well advanced and will likely require contingency funding have not been recommended for return).
 - Whether the Government has taken recent decisions to draw down funding for the tagged contingency (which indicates support for retaining the tagged contingency).

- Whether there is clear alignment of the tagged contingency with Government priorities.
22. There are several tagged contingencies we do not recommend are returned. For example, around ^[38]

On the capital side, around \$1.7 billion relates to project contingency funding required for projects in delivery, such as the New Zealand Upgrade Programme projects.

23. Annex C provides a list of all 75 tagged contingencies (as at 15 March 2024), current funding remaining, and Treasury’s recommendation for each tagged contingency (including where tagged contingencies are already proposed as baseline or targeted savings options). We are seeking your agreement to our proposed recommendations in Annex C in order to include these in the Budget Minister 3 package.
24. To reflect the best estimate of spending from the tagged contingencies in the fiscal forecasts, tagged contingencies are affected by the centrally determined top-down adjustment¹, particularly in the early years of the forecast period. This means that the fiscal forecasts already assume a lower spend on tagged contingencies than the allocated funding in the contingencies. After adjusting for the top-down and tagged contingencies already factored into savings in the Budget package, phasing of the operating savings across financial years is provided below.

Table 1: Phasing of operating savings across financial years from closing tagged contingencies

\$m	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Operating	^[33]					

25. While most operating tagged contingencies consist of ongoing (baseline) funding some do have time limited funding. The most significant of these is the ^[25] and ^[37]
26. While we consider most of the tagged contingencies straightforward to return, we highlight the following tagged contingencies that are higher risk:
- *Lower North Island Rail Integrated Mobility - Rolling stock* - ^[25] and ^[37]
This project, approved in Budget 2023, is currently included in the draft Government Policy Statement on land transport as a Crown funded project. The project is co-funded with Greater Wellington Regional Council and Horizons Regional Council, so returning funding would have relationship implications.
 - *Data and Digital Foundations and Innovation – Contingency and Data and Digital Infrastructure and Capability – Enabling Health System Transformation* - ^[33]
and \$50 million capital: Funding for these two contingencies was provided in Budgets 2021 and 2022 and while there has been some drawdown to manage cybersecurity risk, our view is that the remaining funding should be returned. There are several risks remaining in health data and digital, but our view is that this funding would be better provided in light of further advice to address these risks.
27. If you do not agree with returning these three tagged contingencies, this would significantly reduce the savings from tagged contingencies from ^[33] across the forecast period.

¹ The top-down adjustment is used in the fiscal forecasts to reduce the bias for forecast expenditure by departments to reflect maximum spending limits (e.g. the upper limit of appropriations and tagged contingencies) instead of mid-point estimates.

28. The information we received from departments has highlighted that many agencies plan to request drawdowns of tagged contingencies in the lead up to Budget moratorium on 29 April 2024. We have indicated likely drawdown requests in Annex C, most of which will need to be approved by you as a joint Minister. We recommend that a strong line is taken on any drawdowns before the Budget is finalised – this includes only allowing drawdowns where:
- The request meets all the conditions for drawdown;
 - relates to urgent funding needs for 2023/24; and
 - are consistent with the Budget 2024 savings package.
29. If you agree with this recommendation, we will include these expectations in the March Baseline Update response letters back to Ministers, which will be provided for your approval on 21 March 2024.

Additional savings options and next steps

30. As noted in this report, the additional savings identified to date (tagged contingencies, baseline and targeted savings) provide up to totalling between ^[33] average operating per annum.
31. These are not your only options and there are currently four additional streams of savings advice where work is underway:
- a. Some further savings options are provided in advice you received on 15 March 2024 for Budget bilateral meetings. Savings options raised through these reports total ^[33] on average per annum. Following the bilateral meetings, we will seek direction from yourself or your Office on further savings you wish to take to Budget Ministers.
 - b. Additional savings opportunities are being considered which have arisen either through your line-by-line exercise, or the Treasury's own work in this space. Some of these options will build on existing initiatives, whilst others may require further policy/Ministerial decisions. The Treasury will present additional savings options for all agencies, with a focus on the 10 Budget Ministers requested special focus on, ahead of Budget Ministers 4.
 - c. Independent Rapid Reviews are due to report by 4 April 2024 for the five selected agencies (MSD, MBIE, MoE, MfE, and Police head office), these findings will be incorporated into Budget Ministers 4 advice.
 - d. Longer-term options – the fiscal sustainability programme is wider than Budget 2024 and in order to continue to meet your goals and balance future budgets, savings will remain an important tool. Making further savings in later years, will require more substantial shifts in policy settings and likely require a longer-lead time for implementation. We are working to identify some of these options now and will outline these to you ahead of Budget Ministers 4.
32. There are a number of initiatives where we do not believe there will be additional savings opportunities. We will provide you with a list of these as part of the Budget Ministers 3 material, and seek Budget Ministers confirmation of these. By agreeing the savings initiatives unlikely to change, it allows work to progress on the technical aspects of the budget.