

# The Treasury

## Budget 2024 Information Release

### September 2024

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## Treasury Report: Budget 2024: Additional savings options

<b>Date:</b>	31 March 2024	<b>Report No:</b>	T2024/853
		<b>File Number:</b>	BM-2-4-2024-6

### Action sought

	Action sought	Deadline
Hon Nicola Willis <b>Minister of Finance</b>	<p><b>Note</b> the additional savings opportunities identified by the Treasury's further investigations.</p> <p><b>Indicate</b> which of the additional savings opportunities outlined in Annex A, you would like to include in the BM4 package for consideration by Budget Ministers.</p> <p><b>Agree</b> to discuss the recommendations for additional savings from Vote Transport as outlined in Annex A with the Minister of Transport ahead of BM4 and discuss any additional savings included in BM4 with the relevant Portfolio Minister(s).</p>	3 April 2024
Hon David Seymour <b>Associate Minister of Finance</b>	<p><b>Note</b> the additional savings opportunities identified by the Treasury's further investigations.</p> <p><b>Indicate</b> which of the additional savings opportunities you support, noting that the Minister of Finance will agree which options to reflect in the BM4 package.</p> <p><b>indicate</b> whether you would like to meet with the Treasury to discuss the findings of this report.</p>	3 April 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: Additional savings options

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## Executive Summary

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At Budget Ministers 1.5, the Treasury was directed to undertake further analysis of nine entities, with a focus on the high growth agencies. These nine entities are The Treasury, the Ministry of Transport, the Public Service Commission, the Department of Internal Affairs, the Ministry of Culture and Heritage, Land Information New Zealand, Department of Conservation, the Ministry for Primary Industries and Inland Revenue.

The Treasury has undertaken further analysis to test and challenge agencies savings submissions and to identify additional savings for these agencies. This has included Vote team assessments, system team test and challenges and a review against benchmarking of key back-office statistics.

This process has identified <sup>[33]</sup> per annum in additional savings from the expansion of existing initiatives and <sup>[33]</sup> per annum from new savings opportunities. This brings the total additional savings options of <sup>[33]</sup> per annum (noting some of the savings are from time-limited funding).

A large chunk of the new savings options comes from the Ministry of Transport who have identified additional savings options through the Budget Technical process which is would like to reprioritise into new spend areas and additional cost pressures. We recommend that these savings are instead returned to the centre and cost pressures and new spending considered through the main budget process. This is to ensure that one-off savings being used for reprioritisation does not create fiscal cliffs in out years for projects with ongoing funding requirements.

In general, the majority of the 'low hanging savings' will have been extracted through Mini-Budget and Budget 2024. Significant further baseline reductions for Budget 2024 would need to be managed against the risk of creating future cost pressures or an undesired reduction in service levels. Savings will continue to be a significant part of your Fiscal Sustainability Programme and securing additional savings for Budget 2025 and beyond, will likely require longer lead times and more significant policy choices. We believe that there are significantly more savings opportunities post-Budget 2024.

The Treasury is working to provide you with more comprehensive advice on a review programme for post-Budget 2024, to assist with achieving further savings for Budget 2025. This will draw from learnings and analysis undertaken as part of Budget 2024. You may wish to announce some of these focus areas for Budget 2025, at Budget 2024.

To support consideration of these additional savings opportunities, we have provided you with an overview of each agency in Annex A. We are seeking your indications on which additional savings to support (Minister Seymour) and include in the Budget Ministers 4 package (BM4) (Minister Willis). We note that discussions will be required with portfolio Ministers prior to finalisation of these options but does not need to occur prior to BM4.

## Recommended Action

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We recommend that you:

- a **note** that the Treasury has undertaken further analysis of nine agencies (The Treasury, the Ministry of Transport, the Public Service Commission, the Department of Internal Affairs, the Ministry of Culture and Heritage, Land Information New Zealand, Department of Conservation, the Ministry for Primary Industries and Inland Revenue), as directed by Budget Ministers;
- b **note** that the additional savings opportunities identified by this process total approximately <sup>[33]</sup> per annum;
- c **note** that Annex B provides data analysis on the nine agencies and three other high growth agencies as requested;

We recommend that the Minister of Finance:

- d **indicate** which of the additional savings outlined in Annex A you would like included in the package for discussion at BM4;

*Agree / Disagree*

*Minister of Finance*

- e **agree** to discuss the recommendations for additional savings from Vote Transport as outlined in Annex A with the Minister of Transport ahead of BM4 and discuss any additional savings included in BM4 with the relevant Portfolio Minister(s);

*Agree / Disagree*

*Minister of Finance*

We recommend that the Associate Minister of Finance:

- f **indicate** which of the additional savings outlined in Annex A you would support, noting that the Minister of Finance will make decisions on what to include in the BM4 package; and

*Agree / Disagree*

*Associate Minister of Finance*

- g **indicate** whether you would like to meet with the Treasury to discuss the findings of this report.

*Agree / Disagree*

*Minister of Finance*

*Agree / Disagree*

*Associate Minister of Finance*

Keiran Kennedy  
**Manager, Budget**

Hon Nicola Willis  
**Minister of Finance**

Hon David Seymour  
**Associate Minister of Finance**

# Treasury Report: Budget 2024: Additional savings options

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## Purpose of Report

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1. This report provides you with:
  - a additional savings options for Budget 2024, as a result of the Treasury's further review into nine agencies;
  - b review options for post Budget 2024 to support phase two of the Fiscal Sustainability Programme; and
  - c growth data on three of the fastest growing agencies.

## Background

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2. In December 2023, Cabinet agreed to an ongoing Fiscal Sustainability Programme to embed a culture of responsible spending across Government. The first step in this programme was the Initial Baseline Exercise.
3. From a fiscal strategy perspective, it is important both to improve the fiscal position, and to do so in a way that will be sustainable. Savings secured through the Initial Baseline Exercise need to be enduring – avoiding temporary solutions that create cost pressures or fiscal risks in future years. As such, the Fiscal Sustainability Programme is long-term and Budget 2024 represents the first opportunity to cement a change in culture, with further opportunities to improve the fiscal position post-Budget 2024
4. From January to February 2024, the Treasury stood up an Assurance Panel to provide advice on whether or not agencies were on track to present credible and sufficient savings options for Budget 2024. A number of agencies were deemed to be at risk of meeting their target, this has eventuated in a number of cases.
5. At Budget Ministers 1.5, it was agreed that five agencies required more intensive and independent review to provide assurance over the baseline reduction process. You will receive advice on the outcome of this process in the week of 1 April 2024.
6. In addition, the Treasury was asked to look into a further set of agencies, with a focus on high growth areas. The Treasury has worked with the Minister of Finance's office and Minister Seymour to determine that these agencies are:
  - a The Ministry of Transport
  - b The Ministry for Primary Industries
  - c The Department of Internal Affairs
  - d The Department of Conservation
  - e The Ministry of Culture and Heritage
  - f Land Information New Zealand
  - g Inland Revenue
  - h The New Zealand Treasury
  - i The Public Service Commission

7. This list was determined based on consideration of highest FTE and expenditure growth, opportunities for Budget 2024 savings and whether the agency was already subject to another review and/or process (e.g. the Ministry of Housing and Urban Development was discounted).
8. <sup>[33]</sup>

## Additional savings opportunities for B24

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9. Below is an overview of the additional savings options identified. Further information can be found in Annex A.

### Expansion of existing initiatives

Agency	Additional savings Operating per annum (\$m)	Comments
Ministry of Transport	[33]	
Ministry for Primary Industries		
Department of Internal Affairs		
Department of Conservation		
Ministry of Culture and Heritage	[33]	
Land Information New Zealand	[33]	
Treasury	1.0	
Public Service Commission	0.2	
<b>Total expansion of existing initiatives</b>	[33]	

### New B24 savings opportunities

Agency	Additional savings Operating per annum (\$m)	Comments
Ministry of Transport	67.1	See paragraph 11 for more details.
Department of Internal Affairs	[33]	
Department of Conservation	5.3	
Ministry of Culture and Heritage	0.9	This involves the Integrity in Sport body and we understand that Minister Bishop had explicitly ruled this out previously.

Inland Revenue	20	Note that Inland Revenue advise that this would result in revenue decreases of \$98 million per annum and therefore, the Treasury do not recommend this savings option.
Treasury	5.5	Note that this includes a one-off saving of \$20m from taking a less conservative position on credit provisions for expected losses in the Business Finance Guarantee Scheme and NIWE Scheme
Public Service Commission	0.3	
<b>Total new</b>	[33]	
<b>Total additional savings opportunities</b>		<b>Note that the Treasury does not recommend all of these options and our advice is outlined in Annex A.</b>

10. In addition to the above, there are potential additional savings for the Ministry for Primary Industry outlined in Annex A. However, without engagement from the agency, we have not been able to confirm these figures.
11. Included in the Ministry of Transport's potential additional savings are some initiatives that it submitted via the Budget Technical process. This process is designed to support technical changes which are fiscally-neutral and give effect to minor policy decisions. Transport's submission included additional savings of approximately \$268 million which it intended to reprioritise to fund new activities and additional cost pressures. We do not consider these changes are minor and have concerns that using one-off savings (e.g. from 2023/24 underspends) to fund new activities could create fiscal cliffs in outyears as those new activities require ongoing funding. We recommend that these savings be returned to the centre and any new funding or cost pressures be considered through the main Budget 2024 process. Further detail on this matter can be found in the Transport overview in Annex A. We recommend that the Minister of Finance has a discussion with the Minister of Transport about our recommendations. We note that no other agency submitted significant additional savings through this process. We are also currently reviewing the fiscal treatment of these technical initiatives.
12. We have included all potential savings options that have been identified. However, we appreciate that some of these Ministers (either yourselves or portfolio Ministers) have indicated some discomfort with in the past. <sup>[33]</sup>  
. The Treasury believes that these would have minimal impacts on the services provided, however, we also appreciate the challenging landscape in this space. The trade-offs associated with individual initiatives can be found in Annex A to support your decision making processes.
13. The Treasury recommends that the Associate Minister of Finance provides an indication of his support for the additional savings options in Annex A, to assist with the Minister of Finance's decisions on whether to include these in the BM4 Package for consideration by Budget Ministers.

## Continuing the Fiscal Sustainability Programme post-Budget 2024

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14. In general, the majority of the 'low hanging savings' will have been extracted through Mini-Budget and Budget 2024. Significant further baseline reductions for Budget 2024 would need to be managed against the risk of creating future cost pressures or an undesired reduction in service levels.
15. In addition, fulsome reviews of agencies activities are recommended to determine alignment to government priorities and core functions before further restructures and FTE reductions are considered. We note that a number of agencies have submitted FTE reductions to be managed via holding vacancies, or without a clear plan of where those reductions will come from. Some of this is as a result of requiring more Ministerial direction on priorities for the next three years. You may wish to ask all Ministers to work



with their agencies over the next year to understand how work programmes and FTEs map to government priorities. We can advise on this.

16. Savings will continue to be a significant part of your Fiscal Sustainability Programme and securing additional savings for Budget 2025 and beyond will likely require longer lead times and more significant policy choices. We believe that there are significantly more savings opportunities post-Budget 2024.
17. As part of our review of baseline savings submissions, we identified where there may be areas that need policy decisions to reconsider savings opportunities. <sup>[33]</sup>
18. For the nine agencies we have provided further analysis on in this report, we have outlined in each of the agency summaries (Annex B refers) potential agency specific focus areas post-Budget 2024.
19. As mentioned earlier, these nine agencies are not necessarily the highest growth agencies. The Ministry for Pacific Peoples and Te Puni Kōkiri are amongst some of the highest growth agencies by FTE. The rationale for their exclusion from this exercise was that there is limited opportunity for savings without consideration of institutional form or service reductions. You may wish to consider sectors and/or agency groups for further review as part of phase two of the Fiscal Sustainability Programme.
20. The Treasury is working to provide you with more fulsome advice on a review programme to assist with achieving further savings for Budget 2025. This will draw from learnings and analysis undertaken as part of Budget 2024. You may wish to announce some of the Budget 2025 focus areas at Budget 2024.

## Approach to additional savings analysis

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21. The Treasury has undertaken further analysis to test and challenge agencies savings submissions and identification of additional savings for the nine agencies. This has included Vote team assessments, system team test and challenges and review against benchmarking of key back-office statistics.
22. This has included analysis of:
  - a workforce growth (FTE and salaries) with a particular focus on manager roles (especially Tier 2 and 3, policy staff, clerical staff, comms staff, property costs (\$ per FTE) and benchmarks of administration and support services drawing on 2017 data (the most recent year that cross-agency comparable data was collected).
23. The Treasury has worked with agencies to determine the recommendations in this report, with the exception of the Ministry for Primary Industries whose Minister instructed them not to engage on this process.
24. In most cases, the additional savings identified in this report **have not been discussed with portfolio Ministers**. If the Minister of Finance wishes to take any of these forward, we recommend discussion with relevant Ministers and we can provide material to support those discussions. These discussions do not need to occur ahead of BM4, but will be required prior to bilateralisation.
25. To assist with your review of these agencies and potential additional savings opportunities, we have provided some background information on the agencies

baseline and growth. [33]

26. In Annex B, we have modelled an illustrative impact of proposed Budget 2024 initiatives (operating and capital to 2027/28 combined) on agency baselines to contextualise their impact. It is not possible to accurately determine the appropriation impact any given initiative will have until after the financial recommendations are completed. This is because some initiatives may not impact on appropriations, appropriation changes may be split across several votes or the actual phasing may be different to the final Budget package.
27. In a number of cases agency baseline's are significantly larger than its 'eligible base' for the purposes of the baseline reduction process. The eligible base used to calculate baseline savings targets excluded a range of spending areas that were considered non-discretionary or not suitable for savings (for example, third party revenue). The extent of exclusions varies significantly across agencies. It was calculated at a high level and is an imperfect measure which will contain areas of spend that could reasonably be considered as non-discretionary or unsuitable (but were not initially excluded). The eligible base was calculated based on average operating spend across the forecast period using the October (2023) Baseline Update data. Whilst the eligible base was used to support identification of a target, agencies were not precluded from finding savings from outside of these areas.
28. Full-time Equivalent (FTE) data is drawn from Public Service Commission annual reporting. Further information on the FTE impact of the Budget package will be presented at the BM4 meeting.

## Next Steps

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29. On Tuesday 2 April 2024, the Minister of Finance will receive a draft BM4 Package and an overview of remaining CERF funding, which may result in additional savings opportunities. The Minister of Finance will also receive a number of topic specific reports next week which are outlined in T2024/823 provided on Friday 29 March 2024.
30. The Independent Rapid Review reports will be provided to you on Wednesday 3 March 2024, with a covering report from Treasury provided on Thursday 4 March 2024.
31. BM4 materials are due to be finalised and circulated to Budget Ministers on 5 April 2024, ahead of the BM4 meeting on 8 April 2024.
32. BM4 is a critical decision-making meeting building on the decisions taken at BM3 and is the opportunity to lock down as much of the Budget package as possible as there is limited time between BM4 and BM5 (10 April 2024) for further changes.