

# The Treasury

## Budget 2024 Information Release

### September 2024

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#### Cabinet Document Details

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## **Budget 2024 Package**

Office of the Minister of Finance

Chair, Cabinet

### **Proposal**

- 1 This paper seeks approval of the Budget 2024 package. This package includes our plan to deliver tax relief to hard-working New Zealanders while restoring law and order, improving frontline services in health and education, and putting the government's finances back on a sustainable track.

### **Executive Summary**

- 2 The Budget Policy Statement released on 27 March set out our fiscal strategy and strategic priorities for Budget 2024. Due to the fiscal challenges that we inherited from the previous Government and the deteriorating economic outlook, Budget 2024 is our next step (following the Mini Budget) towards bringing government spending back under control in order to deliver more effective, efficient and responsive public services and build a stronger, more productive economy.
- 3 Budget 2024 builds on our efforts in the December Mini Budget where we delivered a total of \$7.5 billion of operating savings and revenue. The Budget 2024 package centres on our priorities to:
  - 3.1 deliver meaningful tax reductions to provide cost of living relief to New Zealanders who have seen no adjustment of personal income tax rates and thresholds since 2010, despite consumer prices being 40 percent higher now than they were in 2010;
  - 3.2 identify enduring savings across government departments and agencies;
  - 3.3 improve public services by focusing new spending on priority areas including health, education and law and order;
  - 3.4 keep tight control of government spending while funding a limited number of high-priority government policy commitments and urgent cost pressures; and
  - 3.5 develop a long-term, sustainable pipeline of infrastructure investments.
- 4 Budget 2024 is only our first step towards longer term fiscal sustainability and closing the structural deficit, and this Budget will help us drive economic growth. Over our term we will continue to drive efficiency and value for money of public spending through Phase Two of our Fiscal Sustainability Programme. Ministers are expected to hold their agencies to account for delivering on our coalition priorities and the stated outcomes included in the Budget 2024 package.

### **Budget 2024 Package**

- 5 I am pleased to seek Cabinet's approval to the Budget 2024 package. This package will enable us to deliver more efficient and effective public services to New Zealanders. A summary of the package is provided in Table 1 below.

*Table 1: Summary of Budget 2024 Package as at 24 April 2024*

<b>\$millions   (Savings) / Spending</b>	<b>Operating Average (\$m)*</b>	<b>2023/24 (\$m)</b>	<b>2024/25 (\$m)</b>	<b>2025/26 (\$m)</b>	<b>2026/27 (\$m)</b>	<b>2027/28 and Outyears (\$m)</b>	<b>Operating Total (\$m)</b>	<b>Capital Total (\$m)</b>
<b>Budget allowance set by the previous Government</b>	3,500	-	3,500	3,500	3,500	3,500	14,000	2,900
<b>Multi-Year Capital Allowance top up announced in the Budget Policy Statement</b>	-	-	-	-	-	-	-	7,000
<b>Budget 2024 Package</b>								
Pre-commitments **	1,062	121	1,194	1,048	1,110	776	4,249	(120)
Cost Pressures and Cost Escalations	2,415	33	2,677	2,405	2,294	2,252	9,661	1,426
Government Commitments, including tax relief	4,637	103	3,906	5,077	4,762	4,700	18,547	5,304
Between-Budget Contingency	20	-	20	20	20	20	80	-
Emerging Priorities Contingency	10	-	10	10	10	10	40	-
Mini Budget Commitments	(1,867)	(228)	(1,153)	(2,501)	(2,112)	(1,475)	(7,470)	(455)
Savings and Revenue	(2,717)	(1,130)	(2,046)	(2,568)	(2,561)	(2,562)	(10,867)	(1,996)
Return of National Resilience Plan ***	(351)	-	(351)	(351)	(351)	(351)	(1,403)	(1,760)
<b>Total Budget 2024 Package</b>	<b>3,209</b>	<b>(1,101)</b>	<b>4,257</b>	<b>3,140</b>	<b>3,171</b>	<b>3,370</b>	<b>12,837</b>	<b>2,399</b>
<b>Remaining in the Multi-Year Capital Allowance</b>	-	-	-	-	-	-	-	<b>7,501****</b>

Notes:

Decisions taken after 24 April are not reflected in the table above or the Annex A (Baseline Savings and Targeted Policy Savings).

\* Pre-commitments are initiatives Cabinet has already agreed to and charged against the Budget 2024 allowance, for example, funding for the Police constabulary collective employment agreement.

\*\* Operating average per annum is the total impact in the current year and the next four years, averaged over a four-year period.

\*\*\*The operating component of the National Resilience Plan is \$1.4 billion and has been averaged across the four years, but is not ongoing beyond the forecast period.

\*\*\*\* This is the total amount remaining in the Multi-Year Capital Allowance following decisions at Budget 2024. The net amount of capital allocated since the Half Year Economic and Fiscal Update is \$2.4 billion total including the \$7.0 billion Multi-Year Capital Allowance top up.

- 6 We have already made significant progress on our Coalition Government priorities through delivering our 100-day plan. The package I am presenting to you today builds off these and delivers on the Budget 2024 priorities we committed to through the 2024 Budget Policy Statement. The package includes investments in infrastructure, educational achievement, and removing regulatory barriers, which will also help deliver on our Government's economic growth agenda to drive real, productive, and sustainable economic growth.

*Delivering meaningful tax reductions to provide cost of living relief to New Zealanders*

- 7 Budget 2024 fulfils our commitment to deliver meaningful and responsible tax relief to New Zealanders who have seen no reduction in personal income tax rates or increases to thresholds since 2010. We have ensured this is delivered in a way that is fiscally neutral and is fully funded through savings and new revenue measures, including those taken in the Mini Budget. This means funding our tax package will not add to net core Crown debt.

- 8 We have already agreed to the following:

8.1 **Restoring Interest Deductibility for Residential Rental Property (\$728.8 million average operating per annum):** We have legislated to restore interest deductibility as part of Budget 2024 (CAB-24-MIN-0054 refers). This progressively reintroduces the ability for residential property owners to claim full deductions for interest expenditure, which reflects the ACT-National Coalition Agreement and will make the income tax system more consistent and coherent.

8.2 **Commercial Depreciation Changes (\$577.8 million average operating revenue per annum):** As part of the Mini Budget, we agreed to change tax settings to deny depreciation deductions for commercial and industrial buildings (CAB-23-MIN-0490 refers).

8.3 **FamilyBoost (\$181.6 million average operating per annum):** We have agreed to introduce the FamilyBoost payment as part of Budget 2024 (CAB-24-MIN-0089 refers). This payment will enable eligible parents to get back up to 25 percent of their early childhood education fees (up to a cap of \$75 per week), providing support for hard-working families struggling with the rising costs of childcare.

8.4 **Adjustments to the Bright-line Test (\$45.0 million average operating per annum):** As part of the Mini Budget, we brought the bright-line test for residential property back to two years, effective from 1 July 2024 (CAB-23-MIN-0490 refers).

8.5 **Deferral of Petrol Tax Increases:** We have confirmed the commitment in our coalition agreements to not increase the Fuel Excise Duty, and the Road User Charge equivalent, during this term.

- 9 Personal income tax (PIT) changes are a key part of Budget 2024. New Zealanders have seen no adjustment of personal income tax rates or increases to thresholds since 2010. Increases to the current income tax thresholds will allow hard-working New Zealanders to keep more of what they earn, compensate in part for the impact of fiscal drag on average tax rates, and ensure there is a greater financial return from work.

- 10 In finalising the design of our tax package, Hon David Seymour and I have considered the concepts in ACT’s income tax policy as a pathway to delivering National’s promised tax relief, subject to no earner being worse off than they would be under National’s plan (as agreed in the ACT-National Coalition Agreement). Following substantive engagement on potential options, ultimately, Hon Seymour and I have agreed to pursue the National Tax Plan in order to ensure no New Zealander is worse off than they would be under National’s plan. The PIT changes are summarised below.

**Table 2: Overview of personal income tax changes**

	<b>Current threshold</b>	<b>Proposed threshold</b>
<b>10.5% rate</b>	\$14,000	\$15,600
<b>17.5% rate</b>	\$48,000	\$53,500
<b>30% rate</b>	\$70,000	\$78,100
<b>33% rate</b>	\$180,000	\$180,000
<b>39% rate</b>	No upper limit	No upper limit

- 11 There are a number of tax types that use rates and thresholds based on the PIT rates and thresholds. I propose to change the Resident Withholding Tax thresholds, effective from 31 July 2024 in line with the PIT changes.
- 12 In order to reduce compliance costs for businesses, I also propose to make the consequential changes to thresholds for Fringe Benefit Tax, Portfolio Investment Entity Tax, Employer Superannuation Contribution Tax, and Retirement Scheme Contribution Tax, effective from 1 April 2025.
- 13 To provide further support to middle- and low-income New Zealanders with children, Budget 2024 also increases the In-Work Tax Credit (IWTC) by \$50 per fortnight effective from 31 July 2024 (i.e., from \$145 to \$195 per fortnight). These changes are the same as those set out in the National Tax Plan.
- 14 In conjunction with adjusting income tax thresholds, I am also seeking agreement to increase the upper limit of eligibility of the Independent Earners Tax Credit (IETC), effective from 31 July 2024, so more middle and low-income New Zealanders without children are eligible. Currently, New Zealanders who earn between \$24,000 and \$48,000 and are not in receipt of other transfer payments are eligible (with abatement starting when a person’s income exceeds \$44,000). The upper limit of eligibility will be increased to \$70,000, with abatement starting at \$66,000 (as set out in the National Tax Plan). These changes align with the commitments set out in the coalition agreements.
- 15 Another consequential change arising from the tax package is that the Minimum Family Tax Credit (MFTC) threshold will be increased so that households that receive those payments will gain from the PIT and IWTC changes. The MFTC threshold will increase to \$35,316 (after tax) from 31 July 2024.
- 16 Overall, the package increases the take-home income of 83% of individuals. Individuals gain by \$32 per fortnight on average and up to a maximum of \$51 per fortnight (although there are a range of outcomes, with some individuals only receiving an increase of \$4.30 per fortnight).

- 17 Furthermore, 94% of households gain from the changes. For example, a household with two adults each earning the average income will gain by \$102 per fortnight, while the same household spending \$300 per week on early childhood education fees would stand to gain \$252 per fortnight. A couple receiving NZ Superannuation gain by \$26.48 per fortnight in the tax year ending 31 March 2027. Only a small proportion of New Zealanders will not see an increase in net income as a result of the tax changes (those earning below the current bottom threshold of \$14,000, or those in receipt of main benefits).
- 18 The PIT, IWTC, and IETC tax changes will be effective from 31 July 2024. I was advised by Inland Revenue that, without a pre-Budget announcement, payroll software providers, payroll service providers and employers would be unlikely to be able to make changes in time for a 1 July application date. This could result in large numbers of employees being paid incorrectly while the changes were implemented. Officials advised that in order to ensure these changes could be implemented without major delivery challenges, the implementation date would need to be delayed. The 31 July application date balances providing New Zealanders with relief as soon as possible, with allowing employers, payroll software providers, payroll service providers, and government organisations a reasonable amount of time to implement the changes.
- 19 I note that the Ministry of Social Development, the Accident Compensation Corporation (ACC), and Health New Zealand (HNZ) face specific payment challenges due to the special characteristics of the payments they make (benefits, allowances, pension systems, compensation systems, and nurses and doctors payroll systems). This means they would require a longer implementation period. I propose that these organisations are provided early information on the PIT changes. This would require a limited waiver of the Budget secrecy requirements. Of most concern is HNZ as it continues to run separate payrolls for each former district health board and use multiple payroll software providers. Giving these organisations earlier notice of the changes will help them to make the changes to their systems in time.
- 20 The following table outlines the breakdown of the cost of the tax package. In summary:
- 20.1 **\$2,372.9 million average operating per annum** for the Personal Income Tax changes, including flow-on impacts to New Zealand Superannuation, Veteran's Pension, Student Allowance and other supports.
  - 20.2 **\$193.8 million average operating per annum** for the Independent Earner Tax Credit.
  - 20.3 **\$155.0 million average operating per annum** for the In-Work Tax Credit changes (including Minimum Family Tax Credit flow-on).
  - 20.4 **\$3.9 million average operating per annum and \$1.4 million total capital** for implementation costs.

**Table 3: Summary of tax package changes across affected Votes as at 24 April 2024**

ID	Component	\$m – increase/(decrease)				
		2023/24	2024/25	2025/26	2026/27	2027/28 & outyears
<b>Vote Revenue – IRD Crown</b>						
15745	Personal Income Tax	-	1,607.1	2,337.5	2,335.9	2,229.9
15745	Independent Earner Tax Credit	-	152.8	216.2	207.7	198.4
15747	In-Work Tax Credit	-	150.0	162.0	155.0	152.0
15747	Minimum Family Tax Credit	-	0.2	0.2	0.2	0.2
<b>Vote Social Development</b>						
16209	Personal Income Tax – impacts on New Zealand Superannuation and Veteran’s Pension	-	94.8	220.1	326.9	339.8
16209	Personal Income Tax – impacts on Student Allowance	-	3.0	3.7	3.7	3.7
16209	Personal Income Tax – impacts on other supports	-	(1.7)	(2.6)	(3.6)	(3.8)
16209	Implementation costs	0.1	0.7	0.3	0.3	0.3
<b>Vote Housing and Urban Development</b>						
16208	Personal Income Tax – impacts on Public Housing	-	(0.2)	(0.6)	(1.1)	(1.1)
<b>Vote Revenue – IRD Department</b>						
15754	Implementation costs	-	9.5	4.2	-	-
<b>Total Operating</b>		<b>0.1</b>	<b>2,016.2</b>	<b>2,941.0</b>	<b>3,024.9</b>	<b>2,919.6</b>
<b>Vote Social Development</b>						
16209	Implementation costs	1.1	0.4	-	-	-
<b>Total Capital</b>		<b>1.1</b>	<b>0.4</b>	<b>-</b>	<b>-</b>	<b>-</b>

*Delivering on other tax commitments*

21 In addition to delivering tax relief to hard-working New Zealanders, we have delivered on our wider tax commitments in Budget 2024 by progressing the following:

21.1 **Investment in Tax Compliance Activities (\$146.5 million average operating revenue per annum):** As per the National-New Zealand First Coalition Agreement, we have provided \$29 million operating per annum additional funding to Inland Revenue to increase its tax compliance activities and increase activities in relation to student loan overseas-based borrowers returning to or visiting New Zealand. This is expected to increase tax revenue by \$175.5 million average operating per annum. This results in a net revenue increase of \$146.5 million average per annum.

21.2 **Online Casino Gambling Tax Changes (\$47.5 million average operating revenue per annum):** We have legislated to impose gaming duties of 12 percent on online casino gambling operators to ensure they pay their fair share of tax (CAB-24-MIN-0072 refers). This applies from 1 July 2024. We have also committed to developing a regulatory system to support tax collection, minimise harm, and provide consumer protections to New Zealanders.



- 21.3 **Implementing the OECD’s “Crypto-Asset Reporting Framework and Amendments to the Common Reporting Standard” (\$9.98 million average operating revenue per annum, \$6.7 million total capital):** This is a global minimum standard that all OECD jurisdictions are required to implement. The Crypto-Asset Reporting Framework provides for the collection and automatic exchange of information on crypto-assets to ensure tax administrations globally have sufficient information to enforce tax laws on taxpayers who derive income from trading crypto-assets. This initiative is expected to result in an additional \$50 million in tax revenue per annum, beginning in 2027/28.

*Identifying enduring savings across government departments and agencies*

- 22 Through the Budget 2024 strategy, we committed to delivering baseline savings as the first step in the Fiscal Sustainability Programme, and set savings targets for each agency. These targets were set based on agencies’ level of FTE growth since 2017, consistent with the ACT-National Coalition Agreement. Ministers have reviewed existing government spending to identify opportunities for savings, with a focus on back-office costs, contractor and consultant spend, and low value programmes.
- 23 Five independent rapid reviews were also commissioned to provide further assurance on some of the largest agencies’ savings plans, as well as more targeted line-by-line analysis of the largest growing agencies. These reviews confirmed that agencies largely did a good job in identifying savings and ending several low value programmes established by the previous Government which do not align with our priorities.
- 24 As a result, Budget 2024 includes \$10.8 billion in total operating savings and revenue. These savings include baseline reductions, targeted policy savings, and revenue options. Targeted policy savings were specific programmes or policies identified by Ministers which were no longer aligned to Government priorities and/or represented low value for money. Agencies with targeted policy savings were asked to submit these in addition to meeting their baseline savings target. In addition, as part of the Budget process, funding in tagged contingencies established by the last Government is being fully or partially returned to the centre (Annex B).
- 25 Agencies were set a target to find savings of 6.5 percent or 7.5 percent of their eligible operating expenditure baseline. Annex A sets out the target for each agency, and the final savings they provided. Some agencies were not able to find savings that would not have put frontline services at risk, while others were able to exceed their targets.
- 26 [37]

- 26.1 **Changing First-Year Fees Free to Final-Year Fees Free (\$219.9 million average operating savings per annum, \$2.2 million total capital):** This initiative stops first-year fees free for tertiary education from 2025, and replaces it with final-year fees free, consistent with our coalition agreements.

26.2 **Immigration Crown Savings – shifting Crown costs to third party users of the system and removing Crown Funding for visa subsidies (\$132.6 million average operating savings per annum):** Immigration costs will shift from the Crown to third-party users (via a fee and levy review) generating greater revenue to cover immigration services, English for speakers of other languages (ESOL) programmes, and policy advice savings. The second part returns the Crown funding provided to subsidise visitor visas and Skilled Migrant Category visas. This is consistent with National’s tax plan as agreed in our coalition agreements.

26.3 [38]

26.4 **Increasing the International Visitors Levy (\$65.5 million average operating savings per annum):** The Minister for Tourism and Hospitality is currently consulting on whether to increase the levy [33]

26.5 **Ending First Home Grants Scheme (\$61.3 million average operating savings per annum):** This initiative ends the First Home Grants Scheme, which provides deposit support for eligible first home buyers. Savings of \$35.0 million per annum has been reprioritised towards an additional 1,500 social housing places.

26.6 **Waste Disposal Levy and Waste Minimisation Fund Changes (\$57.4 million average operating savings per annum):** The Minister for the Environment has lodged a paper which we are considering today. The paper proposes expanding the scope of activities the levy revenue can be used for, meaning that levy funding can replace baseline funding for a range of environmental activities and the levy can be put to its best use. Cabinet agreement is also being sought to increase the rate of the levy (at a lower rate than in previous years).

26.7 **Reducing Funding for Developing an Agricultural Emissions Pricing System (\$41.1 million average operating savings per annum):** This initiative returns the majority of the funding allocated to develop an agricultural emissions pricing system, and leaves \$10 million to progress work on measuring agricultural emissions on farms by 2025.

26.8 **Including Boarders’ Contributions in the Calculation of Subsidies for Private and Social Housing (\$37.7 million average operating savings per annum, \$6.9 million total capital):** This initiative changes the way housing contributions from boarders are recognised when calculating peoples’ eligibility for the Accommodation Supplement, Temporary Additional Support, the Special Benefit, and the Income-Related Rent Subsidy.

26.9 **Reinstating the Prescription Co-Payment with Targeted Exemptions (\$29.0 million average operating savings per annum):** This initiative reinstates the \$5 prescription co-payment for those 14 years and over, with exemptions for people with a Community Services Card (CSC) and those aged 65 and over. This is consistent with National’s Fiscal Plan, as agreed in our coalition agreements.

These savings are lower than those set out in National's Fiscal Plan because we have had to find additional funding of \$38.4 million average operating per annum to support the provision of free prescriptions to CSC holders and superannuitants, and provide ongoing funding for the Pharmac component of this initiative. The Pharmac component was not funded by the previous Government. As such the \$67.4 million average operating savings per annum for reinstating the co-payment for all other New Zealanders is offset by the additional funding required by Pharmac, resulting in an overall net saving of \$29.0 million average operating per annum.

26.10<sup>[33]</sup>

26.11<sup>[33]</sup>

Instead, I propose that public transport busses are also eligible for the Clean Heavy Vehicle Grant Scheme.

- 27 As noted above, the Budget 2024 savings exercise also involved a review of all existing tagged contingencies established by the previous Government. Tagged contingencies are 'ring-fenced' funding set aside for a particular purpose but not yet appropriated into agencies' baselines (for example, because further work is needed on the initiative).
- 28 Many of these contingencies do not align with our priorities, and have not been drawn down as the programme/policy they have been set aside for is not yet ready for implementation. Holding this funding in contingency has a significant opportunity cost. \$226.9 million average operating savings per annum and \$725.4 million total capital is being returned as savings in the Budget 2024 package from existing tagged contingencies (Annex B), creating headroom to fund initiatives that are implementation ready, align with our priorities, and can deliver results.
- 29 At the Mini Budget, we agreed to allocate the \$1 billion remaining in the CERF to the Budget 2024 operating allowance (CAB-23-MIN-0490 refers). This was in line with our commitment that proceeds from the Emissions Trading Scheme (ETS) will be returned to the centre and used in part to support a 'climate dividend' of personal income tax adjustment not planned by the previous Government.
- 30 As part of the Budget 2024 savings process, I have looked to return any uncontracted funding allocated from the CERF where it is not high value and does not align with the Government's objectives. Savings in the Budget 2024 package from initiatives that previously received CERF funding are \$903.6 million total operating and \$210.0 million total capital.

- 31 Through this Budget, the capital investment pipeline has also been reviewed. This review analysed funded capital investments in planning and delivery to ensure they aligned with our Coalition Government's priorities, represented value for money and matched fiscal, agency, and market capacity. Capital investments which did not meet these requirements have been reprioritised to fund cost pressures or new investments that better aligned with our priorities.

*Improving public services by shifting spending to higher-value areas and focusing on results*

- 32 The workforce implications for Budget 2024 align with our coalition priority to improve the effectiveness, efficiency, and responsiveness of public services. The savings initiatives will result in an estimated reduction of <sup>[34]</sup>

mainly in frontline roles across Health, Corrections, Revenue, and Police.<sup>1</sup>

- 33 I have set a target of a reduction in contractor and consultant spending from the Public Service of \$400 million from the baseline of the 2022/23 financial year to be realised by the end of the 2024/25 fiscal year. <sup>[34]</sup>

While the baseline savings make further progress, I expect agencies and Ministers to continue to limit contractor and consultant spending to meet our targets.

*Funding a limited number of high-priority Government policy commitments and urgent cost pressures*

- 34 Budget 2024 provides funding for services facing significant cost pressures, while progressing our coalition commitments.

**Health**

- 35 Budget 2024 includes significant increases to health spending. The package includes \$5.7 billion of new health operating funding to support new policy commitments (such as providing ongoing funding to support Pharmac's purchase of new medicines) and critical cost pressures. The package also provides capital funding for the health portfolio (primarily to manage cost escalations for existing projects) through the reprioritisation of existing tagged contingencies that have yet to be allocated.

- 36 Key initiatives include:

36.1 **Health Cost Pressure Funding:** The multi-year funding package for HNZ is set out in Table 4 below. This package is consistent with National's Fiscal Plan and is intended to give HNZ certainty over the Health budget for the next three years to enable a multi-year planning mindset and maximise incentives for cost control. Funding will increase every year, enabling HNZ to maintain current health policy settings, covering core volume and price pressures for frontline health services after accounting for efficiencies and reprioritisation.

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<sup>1</sup> FTE figures are based on agency submissions. The Treasury and Public Service Commission will work together to provide updated figures for Budget Day.

*Table 4: Overview of Health multi-year funding for cost pressures*

Amount Charged Against Each Budget	Total Additional Operating Expenditure (\$m)		
	2024/2025	2025/2026	2026/2027
Budget 2024	1,430	1,430	1,430
Budget 2025	-	1,370	1,370
Budget 2026	-	-	1,370
<b>Total</b>	<b>1,430</b>	<b>2,800</b>	<b>4,170</b>

- 36.2 **Pharmac Combined Pharmaceutical Budget Funding (\$443.4 million average operating per annum):** We agreed to provide \$1,774 million total operating as a pre-commitment against Budget 2024 (CAB-24-MIN-0064). This funding addresses the previous Government’s time-limited Pharmac investments and will ensure that New Zealanders will have ongoing access to medicines that are currently funded.
- 36.3 **Delivering Timely Access to COVID-19 Vaccine and Therapeutics (\$58.0 million average operating per annum):** This funds HNZ’s ongoing administration of COVID-19 vaccines and therapeutics, to ensure cost-effective management of the virus through frontline health services.
- 36.4 **Continuing Free Prescriptions for Targeted Groups (\$38.4 million average operating per annum):** CSC holders and those aged 65 and over will continue to receive free prescriptions. When the previous Government introduced free prescriptions for all groups at Budget 2023, the cost to Pharmac of procuring additional medicines (a behavioural change from removal of co-payments) was not accounted for. Accordingly, while reducing the proportion of the population that receives free prescriptions results in a \$67.4 million average operating savings per annum, this is offset by the cost to Pharmac that was omitted by the previous Government (\$38.4 million average operating per annum). This results in a net saving of \$29.0 million average operating per annum.
- 36.5 **Emergency Department Security – Service Expansion (\$7.7 million average operating per annum):** This funding provides for 14 new 24/7 security guards (70 FTE) across our highest-risk HNZ emergency departments, to support safer care and psychological safety for HNZ staff and people visiting our hospitals and facilities.
- 36.6 **Breast Screening Extension of Eligibility to include 70-74-year-olds as part of the Free National Programme (\$6.0 million average operating per annum, \$7.2 million total capital):** This initiative will expand the services of the BreastScreen Aotearoa programme from the current screening age of 45-69 years. The expansion will begin in 2025 with a phased roll-out, capturing an additional age cohort each year. Full implementation is expected by 2030.
- 36.7 **Gumboot Friday (\$6.0 million average operating per annum):** This initiative provides funding to contract I Am Hope Charitable Trust/Gumboot Friday to deliver free mental health counselling services for youth between the ages of 5 and 25 years, consistent with the National-New Zealand First Coalition Agreement.

- 36.8 **Training 25 More Doctors (\$2.1 million average operating per annum, \$13.2 million total capital):** This initiative increases the medical school enrolment funding cap to support 25 additional places, starting from 2025. Funding is spread across Vote Tertiary Education, Vote Social Development, Vote Revenue, and Vote Health.

## Education

- 37 I have worked closely with the Minister of Education to develop an education package that meets the Government's priorities. Reprioritisation decisions have been made to ensure that resources previously concentrated in Ministry of Education funding (including consultants, lower value programmes, and departmental funding) are reprioritised towards frontline services. The education package totals [33] and [38] additional average operating per annum and \$678.1 million total additional capital. The Tertiary Education package totals [33] and [38]

Key

initiatives include:

- 37.1 **School Property Portfolio Growth (\$14.1 million average operating per annum, \$400.0 million total capital):** This initiative provides funding to address critical growth pressures within the school network by delivering additional student capacity in high growth areas. Funding will be allocated across priority new school projects, land acquisition, and adding additional capacity to existing schools.
- 37.2 **Ka Ora, Ka Ako | Healthy School Lunches Programme (\$119.1 million average operating per annum, \$476.4 million total operating with funding ending in 2026/27, \$1.2 million total capital):** This provides funding to continue the Healthy School Lunches programme until the end of the 2026 school year, which the previous Government did not provide ongoing funding for. However, we have agreed the programme will be targeted further for Year 7s and above. Some of the savings from targeting the programme in this way will be re-invested in a targeted Early Childhood Food Programme for two-to-five-year-olds who attend low equity, not for profit, community-based Early Childhood Education (ECE) centres (CAB-24-MIN-0131.01 refers).
- 37.3 **Funding to Support Frontline Services (\$95.0 million average operating per annum):** The package invests in frontline services, through providing additional funding for school operational grants, ECE, and tertiary education providers.
- 37.4 **Disestablishing Te Pūkenga New Zealand Institute of Skills and Technology** [25]
- We are setting aside funding to enable Te Pūkenga to be disestablished and return decision-making to regionally based entities.
- 37.5 **Partnership Schools (\$38.3 million average operating per annum and \$0.2 million total capital):** Budget 2024 provides for the establishment of 15 new charter schools and the conversion of 35 state schools into charter schools in 2025 and 2026, along with a departmental agency to support the charter school roll out.

- 37.6 **Structured Approaches to Literacy (\$16.8 million average operating per annum):** This initiative will fund teacher professional learning and development for structured approaches to literacy / Te Reo Matatini, including online courses and resources. A statistically significant improvement in literacy rates is anticipated through widening schools' use of this evidence-based approach.
- 37.7 **Continuing the Apprenticeship Boost Scheme (\$16.2 million average operating per annum):** We are continuing the Apprenticeship Boost Scheme (which the previous Government did not provide ongoing funding for), but targeting it to priority sectors and scaling support to first-year apprenticeships only.

## Law and Order

- 38 Restoring law and order is a priority. The package includes an increase in funding for Police and Corrections, in order to support our tough on crime approach and enable stronger prison sentences for serious offenders to ensure New Zealanders feel safe in their communities. It also introduces early intervention measures to respond to youth crime, providing more support for those at risk of offending, and strengthening the consequences of doing so. Key initiatives include:
- 38.1 **Responding to the Increasing Prisoner Population (\$235.4 million average operating per annum, \$689.6 million total capital):** We are funding an 810-bed expansion of Waikeria prison and other costs associated with a growing prisoner population, to ensure capacity, safety and security across the prison network and support our commitment to stronger sentencing. We will continue to monitor the changes in actual prisoner population to determine whether changes in funding will be required in future Budgets.
- 38.2 **Funding for Remuneration for Frontline Staff (\$151.6 million average operating per annum):** Police, Justice, and Corrections will see an increase in funding for frontline staff. Funding is required to retain critical staff, protect public safety, and ensure the ongoing functioning of the justice system.
- 38.3 **Funding for 500 New Police Officers (\$77.8 million average operating per annum, \$34.6 million total capital):** This initiative will help us meet our commitment of 500 new police officers over two years, as well as meeting critical cost pressures for Police for 2024/25 to enable them to deliver on this commitment.
- 38.4 **Addressing Serious Youth Offending (\$16.5 million average operating per annum, \$2.0 million total capital):** This provides funding for our coalition commitment to establish a pilot academy for young offenders and increase Court powers to respond to serious youth offending. Funding is also provided to continue the Fast Track programme and expand its scope to target young people (14-17-year-olds) in addition to children (10-13-year-olds). Fast Track is a joint programme between Police and Oranga Tamariki, which provides a rapid response pathway for children and young people with offending behaviour.

38.5 **Extending Rehabilitation Programmes to Remand Prisoners (\$12.0 million average operating per annum, \$30.0 million total capital):** Budget 2024 includes funding for our coalition commitment to expand the delivery of rehabilitative services to the remand population in order to reduce reoffending and enable prisoners on remand to access the support they need to turn their lives around.

38.6 [25]

## Social Services

39 Budget 2024 includes increased funding to support critical social services:

39.1 **Funding for Disability Services (\$275.0 million average operating per annum):** This initiative provides funding for the continued delivery of support to disabled people and their families. It includes the \$80 million we have already pre-committed against Budget 2024 to address the Ministry of Disabled People's (Whaikaha) urgent funding shortfall (CAB-24-MIN-0102 refers). Overall, this represents a 9.9% increase in funding over the previous year. While this is a significant financial commitment, we also agreed to an urgent review of the Ministry of Disabled People (Whaikaha) that is intended to help us get disability services on a more fiscally sustainable path.

39.2 **Support for Oranga Tamariki Frontline Workers (\$30.4 million average operating per annum):** Budget 2024 includes funding for increasing wages for frontline workers at Oranga Tamariki, and upgrading the case and care management system used by frontline workers.

39.3 **Support for High-Needs Children (\$24.9 million average operating per annum):** This initiative provides ongoing funding for caregiving responses for disabled children and young people with high support needs.

40 The Welfare that Works programme will be funded from within the Ministry of Social Development's existing baseline, by reprioritising funding currently allocated to less effective activities and programmes. The programme will support young jobseekers into employment and off the benefit using community providers, individual assessments and plans, and sanctions and incentives.

## Housing

41 We have announced our ambitious Going for Housing Growth policy, addressing the key drivers of housing unaffordability by freeing up land, incentivising growth, and better enabling infrastructure funding and financing.

42 In addition to the longer-term reform of the Resource Management system, we have taken steps to make it easier to become a landlord and tenant, to improve competition and lower costs in the building industry, and to ensure social housing better provides for those who need support.



- 43 We also commissioned an independent review into Kāinga Ora and are already taking actions in response to their final report that will result in improvements to Kāinga Ora's performance and its impact on Operating Balance Before Gains and Losses (OBEGAL) and net core Crown debt. Other than operating funding to enable Kāinga Ora to execute its non-social housing statutory functions and funding exclusively for the purpose of refinancing private debt (that will not impact on the overall debt level of Kāinga Ora), the Minister of Housing and I have judged that it would be unwise to provide an increase in funding to Kāinga Ora.
- 44 Further funding will not be provided ahead of the future steps needed to give us confidence that the entity is being run in a way that is fiscally sustainable, represents good value for money, and is delivering effectively for both those in need of housing support and the community that supports them.
- 45 The Minister of Housing and I have also decided not to increase the Kāinga Ora debt ceiling. We have concerns with the way Kāinga Ora is using the Crown's debt, and need to wait until we have confidence in the organisation before we invest more. Kāinga Ora already has the debt headroom to continue building new social housing places in 2023/24 and to continue renewing its older houses over the forecast period.
- 46 We have instead provided \$35.0 million average operating per annum for community housing providers, which will fund 1,500 new social housing places. The cost is offset with savings from winding down the First Home Grants Scheme.
- 47 Budget 2024 includes \$452.6 million average operating savings per annum, and \$285.0 million total capital housing savings. Of this, \$290.3 million average operating savings per annum are from Kāinga Ora. Kāinga Ora has committed to reducing asset maintenance and personnel costs, and returned funding from several large-scale projects which are no longer proceeding.
- 48 Going forward, we are committed to ensuring that our investment in housing represents value for money, and aligns with our Growing for Housing Growth policy objectives. A first step will be a value for money assessment of the funds and programmes across the housing portfolio.

#### *Developing a long-term sustainable pipeline of capital investments*

- 49 Significant levels of capital funding were allocated by the previous Government, which led to a capital investment pipeline larger than agencies and the market could deliver, as evidenced by significant cost escalations and delivery delays. However, the Infrastructure Commission has advised that the construction market is softening in large segments of the vertical and horizontal sectors, with firms reporting high levels of uncertainty in their forward works pipeline. This has arisen from softening demand in the residential and commercial sectors, as well as efforts to find savings across the government's portfolio.
- 50 To achieve our commitment to maintaining a sustainable investment pipeline, Budget 2024 included a Capital Pipeline Review. All medium and high-risk investments in planning or delivery were reviewed and their value for money considered, with a particular focus on deliverability. The review revealed that less than half of the funding allocated to these investments had been spent. Funding for projects which do not align with our Coalition Government's priorities has been reallocated towards higher-value investments or returned to the centre.

- 51 We have committed to building a more sustainable pipeline of investments which considers the market’s capacity to deliver and agencies’ capability to better manage cost increases and delivery delays. Given market signals, it is critical that we confirm that agencies can maintain delivery momentum with pre-construction activity, to communicate the strategy to stakeholders and the public, and ensure this work moves quickly to inform our Budget 2025 decisions.
- 52 Budget 2024 includes \$2.4 billion total in new capital funding, focused on our Government’s priorities and critical asset maintenance, renewal and upgrades. This additional funding is on top of the existing capital pipeline, including programmes already in delivery. As well as funding cost escalations across health, education, and law and order, the Budget package includes:
- 52.1 **\$3.7 billion total capital funding for Transport:** This includes funding to implement the new Government Policy Statement on Land Transport and to repair infrastructure damaged by Cyclone Gabrielle and the Auckland Anniversary weekend floods. The package also includes funding for the Rail Network Investment Programme. This investment will enable KiwiRail to operate efficient and effective network services for all rail users.
- 52.2 **\$1.2 billion total funding to establish a Regional Infrastructure Fund (\$900.0 million total capital, \$300.0 million total operating ending in 2026/27):** This delivers on the commitment made in the National-New Zealand First Coalition Agreement, and will help to address New Zealand’s infrastructure deficit. The Fund will invest in infrastructure to improve resilience while increasing productivity and growing regional economies.
- 52.3 **\$895.3 million total capital funding for Corrections, Justice, and Police:** This includes funding an 810-bed expansion of Waikeria prison to respond to growing prisoner numbers, <sup>[25]</sup> and capital costs associated with delivering 500 new police officers over the next two years.
- 52.4 **\$678.1 million total capital funding for Education:** This includes funding to increase student capacity in high growth areas, complete the final stages of the Christchurch Schools’ Rebuild Programme, and maintain existing ICT infrastructure and services in schools.
- 52.5 <sup>[25]</sup> **for the New Zealand Defence Force:** This will enable the purchase of new Military Operational Vehicles, and the upgrade of the Regional Supply Facility and Logistics Model at Linton Military Camp.
- 53 Achieving a sustainable investment pipeline will not happen through Budget 2024 alone. Funding a small number of high-quality investments now, particularly focused on critical asset maintenance, renewals, and upgrades, will reset expectations with agencies that strong investment plans are needed before funding is allocated. This aligns with our disciplined approach to spending decisions across operating and capital. I anticipate that the prudent decisions we make now will allow market capacity to recover, enabling us to fund more of our coalition commitments in future Budgets.

## **Economic and Fiscal Outlook**

- 54 Fiscal consolidation is required over time to bring revenue and expenses back into balance, and delivering a fiscally responsible Budget 2024 package is the first step towards this. On the basis of current economic and fiscal forecasts, the Budget package, together with the fiscal strategy outlined below, will enable us to achieve a steadily improving outlook and a small OBEGAL surplus (i.e., the difference between government revenue and government spending) in 2027/28 in the Budget Economic and Fiscal Update (BEFU) forecasts.

### *Current Economic and Fiscal Outlook*

- 55 The economic outlook has deteriorated since the Half Year Economic and Fiscal Update (HYEFU). This weaker outlook is expected to result in lower tax revenue and have a negative effect on the government's fiscal position. The Treasury expects tax revenue (excluding policy changes) to be around \$4.0 billion lower in the final two years of the forecast period compared to HYEFU forecasts.
- 56 OBEGAL has been in deficit since 2019/20, largely due to the drastic increase in core Crown expenses under the previous Government. Although some of these increases were temporary responses to shocks (such as the COVID-19 pandemic), there has been a structural increase in spending.

### *Fiscal Strategy: Setting our operating allowances and timeframe for returning to surplus*

- 57 At the Budget Policy Statement, as part of our short-term fiscal intentions, we committed to putting net core Crown debt as a percentage of Gross Domestic Product (GDP) on a downward trajectory towards 40 percent, reducing core Crown expenses as a percentage of GDP, and returning to surplus via a steadily improving OBEGAL trajectory.
- 58 A key tool in controlling expenditure growth and supporting an improving fiscal position is setting tight but realistic operating allowances and keeping to them. The Budget 2024 operating package presented above is \$3.2 billion on average per annum, which is less than the maximum allowance of \$3.5 billion we set at the Budget Policy Statement.
- 59 I propose we set allowances for Budgets 2025-2027 at \$2.4 billion per annum to further constrain new spending and ensure we reprioritise existing funding. Overall, the lower allowances for Budgets 2024-2027 reflect a cumulative total reduction in expenditure of approximately \$5.5 billion across the forecast period compared to the allowances set by the previous Government (assuming the previous Government would have set a \$3.0 billion Budget 2027 allowance also).
- 60 The table below shows the indicative impact reducing the Budget 2024-2027 operating allowances will have on the Operating Balance Before Gains and Losses, net core Crown debt and core Crown expenses as a percentage of GDP, which are based on the indicative fiscal forecasts. Please note that the final numbers in the Budget document will vary from these, as forecasts are still being updated.

**Table 5: Impact of reducing the Budget 2024-2027 operating allowances on key fiscal indicators (based on indicative fiscal forecasts)**

<b>Budget</b>		<b>Budget 2024</b>	<b>Budget 2025</b>	<b>Budget 2026</b>	<b>Budget 2027</b>
Operating Allowances (\$b per annum)		3.2	2.4	2.4	2.4
<b>Financial year</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
Operating Balance Before Gains and Losses (\$b)	(11.4)	(14.5)	(8.5)	(2.7)	1.0
Net core Crown debt (% of GDP)	43.2	43.9	43.5	43.7	42.5
Core Crown expenses (% of GDP)	33.5	33.7	32.5	31.6	31.4

- 61 Allowances at this level will be significantly lower than those set in recent years and will require ongoing attention to efficiency and reprioritisation. These allowances should be seen as an upper limit on net new spending. Further consolidation than that signalled by these allowances will advance our goal of reducing governance spending as a proportion of GDP. In addition, policy choices to grow the economy will support our fiscal objective to reduce the size of government relative to the economy as a whole.
- 62 In the Fiscal Strategy Report, I propose that the Governance announces its intention to return to surplus in 2027/28. However, I do not intend to chase a surplus in a particular year at all costs, especially if doing so would impact critical frontline services. I therefore propose our commitment to the 2027/28 surplus be subject to reconsideration in the following circumstances:
- 62.1 a significant decline in revenue due to factors outside of the direct control of the government, such as a large change to the economic forecasts;
  - 62.2 revisions to the economic outlook which imply a material likelihood of constraints on the ability of monetary policy to stabilise the economy; or
  - 62.3 a significant economic shock, such as a natural disaster, which results in a temporary increase in government expenditure.

#### *Fiscal Sustainability Programme*

- 63 Managing within proposed lower allowances, as well as continuing progress towards our fiscal objectives, will require us to continue to reprioritise existing funding to its best use, ensure value for money in all areas of expenditure, and right-size the government's footprint. This will not be achieved in a single Budget; it requires a multi-year programme of work. As such, in December we established the Fiscal Sustainability Programme (CAB-23-MIN-0490 refers).

- 64 Phase One of this Programme has begun a shift in the public sector towards fiscal discipline through the Mini Budget, our baseline savings exercise, and our targeted savings initiatives. Budget 2024 has included scaling and deferring priorities and cost pressures, and reprioritising funding.
- 65 I am now seeking Cabinet’s agreement to begin Phase Two of this Programme, including the proposed plan for delivering savings and revenue options which supports us to manage within reduced operating allowances over the term. The proposed plan covers both the activities focused on delivering headroom for Budget 2025 and those which will support our objectives beyond Budget 2025. I will return to Cabinet with further details on the scope and proposed workplan for Phase Two shortly.
- 66 I recommend two activities that focus on delivering further savings and revenue options ahead of Budget 2025:

**66.1 Commission agencies to undertake additional targeted savings or revenue initiatives** <sup>[33]</sup>

**66.2 Commission Treasury to undertake deep dive reviews,** <sup>[33]</sup>

- 67 In addition, we have several policy reviews underway across government (e.g., Kāinga Ora and School Property) and planned (e.g., the Ministry of Disabled People (Whaikaha) and Housing Supports). I recommend these reviews have fiscal sustainability as a core part of their objectives wherever possible.
- 68 We agreed in December (CAB-23-MIN-0490 refers) to include performance plans as part of Phase Two of the Fiscal Sustainability Programme. These will focus Ministers and agencies on operating within baselines, highlighting choices to manage cost pressures through reprioritisation, and mitigating fiscal risks. As part of this, the plans will give visibility of progress towards delivering Budget 2024 savings.
- 69 I recommend progressing the following programmes as part of Phase Two of the Fiscal Sustainability Programme;
- 69.1 **Better planned spending over the medium-term**, requiring agencies to prepare the performance plans outlined above and the Treasury to develop expenditure and balance sheet strategies.
- 69.2 **Change policy settings to secure savings and improve performance**, initially by progressing the savings and revenue initiatives and deep dives outlined above, but with an increasing focus on driving performance as work to improve value for money information progresses).
- 69.3 **System reform to increase fiscal discipline**, including by amending the Public Finance Act 1989.

- 70 Our fiscal sustainability approach will need to be sustained through future Budgets. It is critical that any new spending initiatives reflect our coalition commitments to be targeted, effective and drive better outcomes. I also expect that cost pressures, wherever possible, will be met within existing baselines through reprioritisation. [33]

### **Monitoring and Reporting**

- 71 Monitoring of our commitments will continue to be an essential part of managing our Fiscal Sustainability Programme. The Treasury, following consultation with other central agencies, will provide me with advice after the Budget on options for existing and future monitoring of major spending areas such as public housing, baseline savings, and progress towards our fiscal sustainability targets. I will report to the Cabinet Expenditure and Regulatory Review Committee on this.
- 72 The previous Government agreed in Budget 2023 that four significant initiatives would be subject to additional monitoring and reporting requirements. We have discontinued funding for two of these significant initiatives (Removing Prescription Co-Payments; and Improving ECE Affordability for Parents by Enhancing and Extending the 20 Hours ECE Scheme). I propose that the existing additional monitoring and reporting requirements are removed for these discontinued initiatives.

### **Between Budget Spending**

- 73 The Budget 2024 package includes a contingency for between-Budget operating spending of \$20 million average operating per annum. This provides a buffer for any urgent matters that arise through 2024/25 that cannot wait until Budget 2025. I also propose we roll forward any unspent funding from the current Between-Budget Contingency.
- 74 Ministers should only seek funding from the BBC for urgent issues that cannot be deferred, could not have been foreseen, and cannot be funded through the reprioritisation of lower-value activities. Spending proposals will be held to the same standards and requirements as initiatives submitted through the standard Budget process. Ministers will be expected to demonstrate that they have exhausted their search for opportunities to fund the initiative through reprioritisation of lower-value activities.
- 75 Budget 2024 also includes a contingency for the Prime Minister's emerging priorities totalling \$10 million average operating per annum. As with the Between-Budget Contingency, the bar to seeking and drawing-down funding from this contingency is high. Funding can be drawn down from this contingency with the approval of the Prime Minister, the Minister of Finance, and the relevant portfolio Minister, for initiatives they consider sufficiently important and aligned to Government priorities to warrant funding.
- 76 Spending in excess of the above contingencies requires a pre-commitment against future Budgets. It is important that we keep pre-commitments to a minimum so that we can trade-off spending decisions through a single process.

## **Moratorium on Papers with Financial Implications**

- 77 Once Cabinet has agreed to this Budget 2024 package, production of the Budget documents must be completed. In order to ensure that the documentation tabled in the House of Representatives on Budget Day is accurate, Ministers cannot submit papers that have fiscal and/or appropriation implications for agreement by Cabinet Committees, Cabinet, or Joint Ministers between now and 30 May.

## **Cost-of-living Implications**

- 78 Tax relief through Budget 2024 will alleviate cost-of-living pressures on New Zealanders. In addition, tighter fiscal policy – as reflected in our choice to commit to lower operating allowances – will support monetary policy to bring inflation back to within the target band and, all else being equal, allow room for an earlier lowering of interest rates. Treasury modelling indicates that tax relief financed through reduced government consumption reduces inflationary pressure and nominal interest rates. This is mainly because there is generally a lower multiplier on tax relief than for general government consumption. This means that our decision to fund tax relief in this Budget will not add to inflation, as it is achieved in a way that is fiscally neutral.
- 79 The FamilyBoost payment, which will enable eligible parents to get back up to 25 percent of their early childhood education fees (up to a cap of \$75 per week), will support families with young children, who have struggled to keep up with rapidly rising housing, food, and childcare costs.
- 80 At the Mini Budget, we agreed to index main benefits to inflation rather than wage growth, ensuring that benefits increase every year to keep up with the rising cost of living (CAB-23-MIN-0490 refers).
- 81 Superannuitants will benefit from our tax package, both through direct reduction in the tax they pay and because there is a flow-on benefit from increases to the net average wage. From 1 April 2025, rates will increase further as a result of the tax package, as they are set with reference to the net average wage.
- 82 We have decided to defer the planned increase in petrol tax until 2027. New Zealanders are already struggling with the rising cost of living, and imposing a tax increase now would be contradictory to our Budget priorities. I am confident that our Government will deliver the transport infrastructure that New Zealanders need without increasing petrol tax in our first term.

## **Legislative Implications**

- 83 The Appropriation (2024/25 Estimates) Bill, the Appropriation (2023/24 Supplementary Estimates) Bill, the Imprest Supply (First for 2024/25) Bill, and the Imprest Supply (Second for 2024/25) Bill will give legislative effect to Budget 2024.
- 84 The Leader of the House and I are currently considering which legislation to progress under urgency on Budget Day as Budget night legislation. Only those that we agree will be progressed as Budget night legislation.

## **Impact Analysis**

### **Regulatory Impact Statement**

85 The Treasury’s Regulatory Impact Analysis team has determined that the direct legislative changes in the Budget 2024 package are exempt from the requirement to provide a Regulatory Impact Statement (RIS) on the grounds that they are solely requests to authorise spending in Appropriation Bills and Imprest Supply Bills. Where individual Budget initiatives have regulatory implications, agencies have provided a RIS to the relevant portfolio Minister, for referral to the Minister of Finance and the Minister for Regulation. These RISs will be published at the time legislation is introduced to the House, in line with normal processes.

### **Climate Implications of Policy Assessment (CIPA)**

86 The Climate Change Interdepartmental Executive Board (CCIEB) Secretariat maintains analysis on New Zealand’s progress towards achieving our emissions budgets and the actions within emissions reduction plans. I have received an assessment prepared by the CCIEB, in collaboration with the Treasury, on the climate implications of a subset of 32 proposals in the Budget 2024 package. Based on information provided by agencies, the estimated emissions implications are not significant enough trigger a requirement for a CIPA under Cabinet Office Circular CO (20) 3: Climate Implications of Policy Assessment Requirements. I have therefore not included the assessment in this paper, but will provide a copy to the Minister of Climate Change.

### **Population Implications**

87 Budget 2024 benefits a broad cross-section of New Zealanders, especially through our significant initiatives and investments in frontline services in health, education, and law and order. Benefits will sometimes be greater for disadvantaged population groups – for example, we are implementing a higher school grant increase for lower decile and rural schools. Easing inflationary pressure through delivering a fiscally responsible package will benefit all New Zealanders, especially economically disadvantaged groups which high inflation has hurt the most.

### **Human Rights**

88 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

### **Consultation**

89 This paper was prepared by the Treasury on behalf of the Minister of Finance. The Budget 2024 package has been developed in line with the strategy agreed by Cabinet in December 2023, submissions by Ministers, and a series of meetings among Ministers.

### **Communications**

90 I propose to continue with a Budget Day of 30 May.



91 The Office of the Minister of Finance will coordinate all communications relating to Budget 2024, including requests for early announcements. Written approval of the Prime Minister and the Minister of Finance is strictly required for any early announcements.

### Proactive Release

92 Every year following Budget Day, the Treasury coordinates a proactive release of Budget documents. The aim of this release is to improve transparency of the Budget decision-making process.

93 The 2024 release of documents will include this paper, along with other Budget Cabinet Papers, such as the Budget Strategy Paper. Budget Ministers briefings will also be released. I will consult with you during the process on the proposed release.

### Recommendations

The Minister of Finance recommends that Cabinet:

#### *Budget 2024 Significant Initiatives Package*

1 **agree** to the following final operating and capital packages, as set out in the detailed financial recommendations accompanying this paper:

1.1. net operating package of \$3.2 billion average operating per annum;

1.2. net capital investment of \$2.4 billion total capital (with \$7.5 billion remaining in the Multi-Year Capital Allowance), following a \$7 billion top-up announced in the Budget Policy Statement;

#### *Multi-Year Health Funding*

2 **agree** to a three-year multi-year funding approach for health costs to enable a multi-year planning mindset and maximise incentives for cost control;

3 **agree** to pre-commit \$1,370.0 million per annum for health cost pressures against the Budget 2025 operating allowance;

4 **agree** to pre-commit \$1,370.0 million per annum for health cost pressures against the Budget 2026 operating allowance;

#### *Personal Income Tax changes*

5 **agree** that the following rates of personal income tax should be applied for each of dollar of income:

Rate	Lower threshold limit	Upper threshold limit
10.5%	-	\$15,600
17.5%	\$15,601	\$53,500
30%	\$53,501	\$78,100
33%	\$78,101	\$180,000
39%	\$180,001	No upper limit

- 6 **agree** that all personal income tax threshold changes should be effective from 31 July 2024;
- 7 **note** that as the thresholds in recommendation 5 above do not apply for the full 2024/25 tax year, a transitional calculation will be required for the 2024/25 tax year to recognise the changes to thresholds apply from 31 July 2024;
- 8 **agree** that the Resident Withholding Tax, Fringe Benefit Tax, Portfolio Investment Entity Tax, Employer Superannuation Contribution Tax, and Retirement Scheme Contribution Tax thresholds will be changed to reflect the personal income tax threshold changes;
- 9 **agree** that the Resident Withholding Tax changes should take effect from 31 July 2024;
- 10 **agree** that the Fringe Benefit Tax, Portfolio Investment Entity Tax, Employer Superannuation Contribution Tax and Retirement Scheme Contribution Tax changes should take effect on 1 April 2025;
- 11 **note** that the changes agreed to in recommendations 5 to 10 above will require legislative amendments to the Income Tax Act 2007 and Tax Administration Act 1994;
- 12 **agree** to a limited waiver of Budget secrecy requirements to allow Inland Revenue officials to provide early information on the personal income tax changes to the Ministry of Social Development, the Accident Compensation Corporation, and Health New Zealand on a confidential basis;

#### *Flow-on Impacts*

- 13 **note** that the net rates of the Student Allowance will increase automatically meaning recipients of these payments will gain from the personal income tax changes, with a consequential increase in expenses;
- 14 **note** Cabinet agreed that Student Allowance payments for those under 24 years of age have a net (after tax) abatement rate of 25 percent for each dollar of gross parental income over the parental income threshold (CAB Min (04) 11/9 refers);
- 15 **note** that the abatement rate calculation in the Student Allowance Regulations 1998 must be amended when personal income tax thresholds are changed to maintain a 25 percent net abatement rate;
- 16 **invite** the Minister for Social Development and Employment to issue drafting instructions to the Parliamentary Counsel Office to draft amendments to the Student Allowance Regulations 1998 that maintain the policy settings in recommendation 14 above;
- 17 **note** that the net rates of New Zealand Superannuation and Veteran's Pension will increase automatically meaning recipients of these payments will gain from the personal income tax changes, with a consequential increase in expenses;
- 18 **note** that main benefits will not increase automatically as these are set net of tax in legislation;

### *Independent Earners Tax Credit*

- 19 **agree** that the upper limit of eligibility for the Independent Earners Tax Credit should be \$70,000;
- 20 **agree** that abatement will start when a person's income exceeds \$66,000 at a rate of 0.13 cents for every dollar earned over this amount, meaning that there is no remaining entitlement when a person has income of \$70,000;
- 21 **agree** that all Independent Earners Tax Credit changes should take effect on 31 July 2024;
- 22 **note** that the changes agreed to in recommendations 19 to 21 above will require legislative amendments to the Income Tax Act 2007 and Tax Administration Act 1994;

### *In-Work Tax Credit and Minimum Family Tax Credit*

- 23 **agree** to increase the In-Work Tax Credit rate by \$25 per week from 31 July 2024;
- 24 **agree** to set the full year rate of the In-Work Tax Credit at:
- 24.1. \$3,770 from 1 April 2024 to 30 July 2024; and
- 24.2. \$5,070 from 31 July 2024.
- 25 **agree** to increase the Minimum Family Tax Credit threshold from 31 July 2024 to \$35,316 (after tax) to ensure that recipients will gain from the tax package, with a consequential increase in expenses;
- 26 **note** that the changes agreed to in recommendations 23 to 25 above will require legislative amendments to the Income Tax Act 2007;

### *Implementing the Crypto-Asset Reporting Framework*

- 27 **agree** to implement the OECD's "Crypto-Asset Reporting Framework and Amendments to the Common Reporting Standard" as part of Budget 2024;

### *Budget 2024 Savings*

- 28 **agree** to the full or partial return of funding held in the tagged contingencies in Annex B;
- 29 **note** that delivering the baseline savings as set out in Annex A requires significant organisation change across the public sector as well as changes to programmes which may take longer-than anticipated to implement and/or may not eventuate;

### *Budget 2024 Technical Initiatives Package*

- 30 **agree** to the technical Budget initiatives for Budget 2024 as set out in the financial recommendations accompanying this paper (Annex C);
- 31 **authorise** the Minister of Finance and relevant appropriation Ministers to approve changes to technical initiatives and appropriations where this proves necessary to finalise the 2024 Budget package;

*Fiscal Strategy and Future Operating Allowances*

- 32 **note** that the fiscal outlook has deteriorated since Half Year Economic and Fiscal Update (HYEFU), with the return to surplus further delayed from the 2026/27 forecast at HYEFU and that without policy action a surplus will not be shown in the forecast period (out to 2027/28) in the Budget Economic and Fiscal Update (BEFU);
- 33 **agree** to set the Budget operating allowances for Budget 2025, 2026 and 2027 at \$2.4 billion per annum;
- 34 **note** that we agreed to increase the Multi-Year Capital Allowance by up to \$7.0 billion at the Budget Policy Statement;
- 35 **agree** to target a return to OBEGAL surplus no later than 2027/28 subject to the following circumstances:
- 35.1. a significant decline in revenue due to factors outside of the direct control of the government, such as a large change to the economic forecasts;
  - 35.2. revisions to the economic outlook which imply a material likelihood of constraints on the ability of monetary policy to stabilise the economy; or
  - 35.3. a significant economic shock, such as a natural disaster, which results in a temporary increase in government expenditure.
- 36 **note** that the date for returning to surplus and future Budget operating allowances will be communicated in the Fiscal Strategy Report 2024, alongside the Government's revenue strategy;

*Phase 2 of the Fiscal Sustainability Programme*

- 37 **note** that further fiscal headroom is required at Budget 2025 and beyond to operate within lower operating allowances;
- 38 **agree** to progress work on targeted savings and revenue initiatives deferred from Budget 2024 to secure savings and revenue for Budget 2025, noting that this will include opportunities to consider targeted saving and revenue options as part of wider sector reviews [33]
- 39 [33]
- 40 [33]
- 41 **agree** to progress the following activities as part of Phase Two of the Fiscal Sustainability Programme:
- 41.1. plan spending better over the medium-term, requiring agencies to prepare the performance plans agreed in December 2023 (CAB-23-MIN-0490 refers) and the Treasury to develop expenditure and balance sheet strategies;

- 41.2. change policy settings to secure savings and improve performance, initially by progressing the targeted savings and revenue initiatives and deep dive reviews outlined above in recommendations 38 to 40 above, but with an increasing focus on driving performance as work to improve value for money information progresses; and
- 41.3. system reform to increase fiscal discipline, including by amending the Public Finance Act 1989;
- 42 **note** that I will return to Cabinet in July 2024 to provide further detail on the activities comprising Phase Two of the Fiscal Sustainability Programme and measures to mitigate risks associated with baseline savings noted in recommendation 29 above;

### *Monitoring and Reporting*

- 43 **agree** to remove existing additional reporting requirements established by the previous Government for the following Budget 2023 significant initiatives:
- 43.1. Removing prescription co-payments;
- 43.2. Improving Early Childhood Education (ECE) Affordability for Parents by Enhancing and Extending the 20 Hours ECE Scheme;
- 44 **invite** the Minister of Finance to report to the Cabinet Expenditure and Regulatory Review Committee following Budget 2024 on options for existing and future monitoring of major spending, baseline savings, and progress towards our fiscal sustainability targets;

### *Appropriation Matters*

- 45 **agree** that, unless indicated otherwise in detailed financial recommendations accompanying this paper (Annexes C and D), initiatives are managed against the Budget 2024 operating allowance and the Multi-Year Capital Allowance;
- 46 **approve** changes to appropriations and/or the capital injections to the administering department (where applicable) to implement the initiatives included in the detailed financial recommendations accompanying this paper (Annexes C and D);
- 47 **agree** to establish new appropriations where required to implement Budget 2024 initiatives;
- 48 **agree** to establish new tagged contingencies outlined in the detailed financial recommendations accompanying this paper (Annexes C and D);
- 49 **agree** to the changes to appropriations (including establishment of new appropriations if necessary) and/or capital injections for 2023/24 to be included in the 2023/24 Supplementary Estimates and that, in the interim, the increases are met from Imprest Supply;
- 50 **agree** that expenses or capital expenditure incurred against appropriations, and capital injection authorisations, set out in the 2024/25 Estimates and being sought in the Appropriation (2024/25 Estimates) Bill be met from Imprest Supply until that Bill is enacted;

- 51 **authorise** the Minister of Finance and relevant Appropriation Ministers to approve jointly any technical adjustments to baselines necessary to remove any errors or inconsistencies identified while finalising the 2023/24 Supplementary Estimates, the 2024/25 Estimates and the fiscal forecasts;
- 52 **authorise** Joint Ministers (Prime Minister, Minister of Finance, and the relevant Appropriation Minister) to take decisions to finalise outstanding matters in the Budget package in the week following Cabinet (including changes to appropriations);

*Moratorium on Papers with Financial Implications*

- 53 **agree** that no papers with fiscal and/or appropriation implications be submitted for agreement by Cabinet, Cabinet Committees or joint Ministers between 29 April and Budget Day, 30 May, so that Budget 2024 documentation is accurate;

*Between-Budget Operating Contingency*

- 54 **agree** to establish a Between-Budget Operating Contingency as set out below:

<b>\$m - increase/(decrease)</b>					
<b>Item</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28 &amp; Outyears</b>
Between-Budget Operating Contingency	-	20.000	20.000	20.000	20.000

- 55 **agree** that:

- 55.1. any remaining funding from the Between-Budget Contingency established as part of Budget 2023 transfers to the new Between-Budget Contingency established as part of Budget 2024;
- 55.2. proposals for funding from the Between-Budget Contingency must be for urgent issues that cannot be deferred to Budget 2025 and could not have been foreseen; and
- 55.3. Ministers will be expected to demonstrate that they have exhausted their search for opportunities to fund the initiative through reprioritisation of lower-value activities;

*Emerging Priorities Operating Contingency*

- 56 **agree** to increase the Prime Minister's Emerging Priorities Contingency by \$40 million total operating, as set out below:

<b>\$m - increase/(decrease)</b>					
<b>Item</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28 &amp; Outyears</b>
Emerging Priorities Operating Contingency	-	10.000	10.000	10.000	10.000

### *Communications*

- 57 **note** that all communications relating to Budget 2024 are coordinated by a Budget communications committee, and that any requests for early announcement will need to have both the written approval of the Minister of Finance and sign-off from the Prime Minister's office;
- 58 **authorise** the chief executives of departments that monitor Crown entities directly affected by Budget decisions taken by Cabinet to inform the chair and/or chief executive of a Crown entity, on a Budget-in-confidence-until-Budget-Day basis, of decisions that directly affect that Crown entity for the purpose of planning and preparation of their Statement of Intent and/or Statement of Performance Expectations;

### *Legislative Implications*

- 59 **invite** the Minister of Finance to introduce the Appropriation (2024/25 Estimates) Bill, the Appropriation (2023/24 Supplementary Estimates) Bill, the Imprest Supply (First for 2024/25) Bill and the Imprest Supply (Second for 2024/25) Bill to give effect to Budget 2024;
- 60 **note** that the Minister of Revenue will seek Cabinet's approval to introduce a Taxation (Budget Measures) Bill giving effect to the measures referred to in recommendations (5 to 25 above), and that the Bill should pass through all stages under urgency on Budget Day;
- 61 **note** that officials will report to the Minister of Revenue on changes required to the Tax Administration Act 1994 to give effect to the decision in recommendation 27 above as part of the upcoming omnibus tax bill;
- 62 **authorise** the Minister of Finance and the Leader of the House to agree which legislation will progress under urgency on Budget Day as Budget night legislation; and

### *Regulatory Impact Statements*

- 63 **note** that, where appropriate, agencies have provided Regulatory Impact Statements for individual Budget initiatives to the relevant portfolio Minister (and for referral to the Ministers of Finance and Regulation), and that these will be published online when legislation is introduced in Parliament.

Hon Nicola Willis  
Minister of Finance