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Office of the Minister of Finance

Chair, Cabinet

BUDGET 2021 PACKAGE

Proposal

1 This paper seeks approval of the Budget 2021 package.

Relation to government priorities

2 Our Government's goals for the next three years are:

- a continuing to keep New Zealand safe from COVID-19,
- b accelerating the recovery and rebuild from the impacts of COVID-19, and
- c laying the foundations for the future, including addressing key issues such as our climate change response, housing affordability and child poverty.

3 Budget 2021 is an important vehicle for delivering on these goals. The package of investments that I am proposing continues to invest in the recovery from COVID-19 and also address long-term challenges New Zealand faces.

Executive Summary

4 As the first Budget following the 2020 General Election, Budget 2021 provides a key opportunity to build on the Government's strong response to COVID-19, while continuing to make progress on New Zealand's long-standing challenges and improve the wellbeing of New Zealanders.

5 New Zealand's economy has been resilient during the global COVID-19 pandemic. Following the large contraction in the June 2020 quarter, New Zealand's real Gross Domestic Product (GDP) bounced back to broadly pre-pandemic levels by the end of 2020. The improved outlook, on top of sizable upward revisions to historical data, has resulted in forecasts for nominal GDP that are almost a cumulative \$100 billion higher over the five years to 2024/25 compared to the Half Year Economic and Fiscal Update 2020 (HYEFU).

6 This has flowed through to significant improvements in the fiscal position compared to HYEFU. However, operating balance deficits and increases in net core Crown debt are still forecast as the Government continues to invest to cushion the blow of COVID-19. Our balanced fiscal strategy is projected to continue to allow us to return the books to an operating balance excluding gains and losses (OBEGAL) surplus within the same timeframe as after the Global Financial Crisis.

- 7 I recommend that the operating allowance for Budget 2021 be set at \$3.8 billion per year, and the operating allowance for Budgets 2022-2024 be set at \$2.7 billion per year. I also recommend that the Multi-Year Capital Allowance for Budgets 2021 to 2024 be increased from \$7.8 billion to \$12 billion.
- 8 The increase to the Budget 2021 operating allowance is significant compared to the \$2.625 billion per year that was publicly announced as part of the Budget Policy Statement (BPS) 2021. We are able to do this because the stronger economy puts us in a better position to make significant investments through Budget 2021 while maintaining a responsible fiscal position, to continue our focus on responding to and setting up for the recovery from COVID-19.
- 9 However, we are still operating in an environment of significant uncertainty. There will need to be careful, balanced spending in future Budgets in order to ensure that the Crown's long-term fiscal position is sustainable. As a result, the proposed increase to the operating allowances for future Budgets is more modest than this year. This is still very much a "COVID-19" Budget which includes ongoing investment to stimulate the economy. The need for the Government to make stimulatory investments to support the New Zealand economy will reduce as the global recovery from the COVID-19 pandemic takes hold, allowing for smaller operating allowances in the future.
- 10 This is our third Wellbeing Budget. Investment decisions for Budget 2021 deliver on the immediate priorities that we set for this year in November 2020, and contribute to our longer-term wellbeing objectives that I released as part of the BPS 2021. We are continually evolving our wellbeing approach and our understanding of what wellbeing means to New Zealanders. For Budget 2021, we have built on work from previous Budgets by incorporating wellbeing analysis into value for money assessments and introducing a te ao Māori view of wellbeing through the He Ara Waiora framework (see Appendix Two).
- 11 The package of investments that I am proposing for Budget 2021 will support the long-term wellbeing of New Zealanders by making significant progress towards our goals in the areas of child wellbeing, housing, and climate change. It also progresses a number of key Labour Party manifesto commitments and addresses critical cost pressures across the public sector.
- 12 Key flagship initiatives include:
 - a Commitment to increase main benefits to levels recommended by the Welfare Expert Advisory Group in 2019, by 1 April next year.
 - b \$3.8 billion Housing Acceleration Fund to increase housing supply.
 - c \$300 million to recapitalise New Zealand Green Investment Finance.
 - d Over \$1 billion in total operating and capital funding for initiatives specifically aimed at increasing economic and social opportunities for Māori and Pacific peoples.

13 The table below provides a summary of the Budget 2021 package:

Table 1: Budget 2021 Package

Budget 2021 Package Breakdown	Operating (\$m, average per annum)	Operating (\$m, total forecast period)	Capital (\$m, total over ten years)
Budget 2021 Pre-Commitments**	216	862	11
Between-Budget Contingency	40	160	-
Emerging Priorities Contingency	5	20	-
Cost Pressures	2,152	8,607	2,150
Manifesto: Child Wellbeing***	502	2,007	1
Manifesto: Climate	94	374	638
Manifesto: Housing	145	580	-
Manifesto: Other	672	2,688	1,097
Savings	(28)	(112)	-
Fiscally-Neutral Adjustments	1	2	-
Budget 2021 Total:	3,797	15,188	3,898
Budget 2022 Pre-Commitments***	643	2,571	-
Budget 2022 Total:	643	2,571	-
Provincial Growth Fund	17	66	-
Funding Outside Allowances	78	313	-

*Numbers may appear not to sum due to rounding.

**Pre-commitments submitted as Budget 2021 initiatives are reflected in the Budget 2021 package funding amounts, rather than as pre-commitments.

***Subject to further adjustment following confirmation of approach to the main benefit increase.

14 During the development of Budget 2021, I have also identified a number of initiatives which support our response and recovery from COVID-19. I have developed a sub-package of initiatives to be funded from the COVID-19 Response and Recovery Fund (CRRF) totalling \$2.6 billion total operating and \$2.0 billion capital. I am proposing to reprioritise underspent or low value funding previously allocated from the CRRF totalling \$812 million operating and \$113 million capital and return it back to the CRRF. This will bring the balance remaining in the CRRF to just over \$5 billion, leaving us with sufficient funding to respond to any future alert-level changes or changes to the global COVID-19 situation.

Table 2: COVID-19 Response and Recovery Fund

	Total funding (\$m)
Housing Acceleration Fund	3,800
Other CRRF Initiatives	740
Reprioritisation CRRF Savings	(925)
CRRF Total:	3,615
Current CRRF Balance*	8,954
Remaining CRRF once charges are agreed	5,339

*As at Thursday, 1 April 2021. This figure does not reflect CRRF charges which have been agreed since 1 April 2021, or any pending charges outside the Budget 2021 process.

Economic outlook

- 15 New Zealand's economy has been resilient during the COVID-19 pandemic. Following the large contraction in the June 2020 quarter, New Zealand's real GDP bounced back to broadly pre-pandemic levels by the end of 2020. As a result, we are in a significantly better position compared to many of our international counterparts.
- 16 The Treasury's forecasts predict fairly flat activity over the first half of 2021 as a result of continued border restrictions, which are in place to keep New Zealanders safe from the global COVID-19 pandemic. Activity is expected to gradually accelerate over the second half of year as our investments and arrangements such as a trans-Tasman travel bubble support the economy.
- 17 Our investments to protect jobs and support businesses through COVID-19 have meant the labour market has held up well, with employment growing and a fall in the unemployment rate in the December quarter to 4.9% from 5.3% in September. The Treasury's forecasts are for employment to continue growing, but at a relatively muted pace in the short term, as a result of the continued effects of COVID-19 on the economy. The Treasury forecasts further slight increases in the unemployment rate in the near term and expects it to peak below 5.5%. This is substantially lower than the near-10% forecast at Budget 2020, and below the recent peak of 6.7% in 2012 following the Global Financial Crisis.
- 18 The improved outlook, on top of sizable upward revisions to historical data, has resulted in forecasts for nominal GDP that are almost a cumulative \$100 billion higher over the five years to 2024/25 compared to the HYEPU. Around \$50 billion to \$60 billion of this reflects the stronger underlying economy, and the remainder reflects revisions to historical data. This is a major driver of the nearly \$23 billion increase in core Crown tax revenue forecasts over the five years to 2024/25.

Fiscal outlook

- 19 On the back of these improved economic conditions, the Treasury's preliminary fiscal forecasts show a significant improvement in the Government's fiscal outlook since the HYEFU. In addition, the Treasury have developed a scenario based the changes to allowances outlined in this paper.
- 20 This scenario shows that compared with the HYEFU, tax revenue has been revised up in all years owing to the improved economic conditions. After reflecting an increase in Budget allowances, OBEGAL deficits are expected to be on average around \$3 billion lower than expected at the HYEFU.
- 21 As the majority of COVID-19 fiscal support measures unwind, OBEGAL deficits are expected to reduce in each year of the forecast period, narrowing to a \$0.8 billion deficit by 2024/25, representing only 0.2% of GDP.
- 22 Net core Crown debt as a percentage of GDP rises during the first half of the forecast period as the Government continues to support the recovery and invest in infrastructure. The forecast peak at 47.5% in 2022/23 is lower than the 52.6% forecast at the HYEFU, due to improved economic conditions and careful management of the Government's books.

Fiscal strategy

- 23 I recommend that:
 - a the operating allowance for Budget 2021 be set at \$3.8 billion per annum,
 - b the operating allowance for Budgets 2022-2024 be set at \$2.7 billion per annum, and
 - c the Multi-Year Capital Allowance for Budgets 2021 to 2024 be increased from \$7.8 billion to \$12 billion.
- 24 While the increase to the Budget 2021 operating allowance is significant compared to the \$2.625 billion per annum that was publicly announced as part of the BPS 2021, it reflects the fact that Budget 2021 continues our focus on responding to and setting up for the recovery from COVID-19. The stronger economy also puts us in a better position to make significant investments through Budget 2021, while maintaining a responsible fiscal position.
- 25 However, we are still operating in an environment of significant uncertainty. There will need to be careful, balanced spending in future Budgets in order to ensure that the Crown's long-term fiscal position is sustainable. As a result, the proposed increase to the operating allowances for future Budgets is more modest.
- 26 BPS 2021 also updated our fiscal strategy short-term intentions and long-term objectives (intentions and objectives). The current fiscal intentions and objectives focus on the commitment to "stabilise net core Crown debt as a percentage of GDP by the mid-2020s and then reduce it as conditions permit (subject to any significant shocks)". I recommend the current fiscal intentions and objectives are retained for Budget 2021. The current fiscal intentions and objectives remain consistent with the updated fiscal outlook and changes to allowance settings detailed above.

Revenue strategy

- 27 As part of the fiscal strategy report that will be published as part of Budget 2021, I also propose to release the Government's revenue strategy as required under the Public Finance Act 1989. The revenue strategy communicates the Government's objectives for the tax system, and sets the strategic direction for the development of tax policy.
- 28 Together with the Minister of Revenue, I have developed an updated revenue strategy for your noting (attached as Appendix One). It highlights that our key policy objective is to raise sufficient revenue in a fair and efficient manner, and that revenue needs to be sufficient to ensure a sustainable fiscal outlook. Our fairness objectives for the tax system are focused on progressivity, reducing inequality and horizontal equity.

Budget 2021 strategy and approach

- 29 This is our third Wellbeing Budget. Wellbeing means giving people the capabilities to live lives of purpose, balance and meaning to them. The Wellbeing Approach is designed to lead to investments to improve New Zealanders' living standards by tackling long-term challenges as well as addressing pressures immediately in front of us. Recent changes to the Public Finance Act 1989 highlight the enduring need to focus on wellbeing, looking beyond GDP to measures our success as a country across environmental, social, human and financial outcomes.
- 30 In February 2021 I released the BPS 2021, which outlined the Government's current wellbeing objectives:
- a **Just Transition** – Supporting the transition to a climate-resilient, sustainable and low-emissions economy, while building back from COVID-19.
 - b **Future of Work** – Enabling all New Zealanders and New Zealand businesses to benefit from new technologies and lift productivity and wages through innovation, and support into employment those most affected by COVID-19, including women and young people.
 - c **Māori and Pacific** – Lifting Māori and Pacific incomes, skills and opportunities, and combatting the impacts of COVID-19.
 - d **Child Wellbeing** – Reducing child poverty and improving child wellbeing.
 - e **Physical and Mental Wellbeing** – Supporting improved health outcomes for all New Zealanders and keeping COVID-19 out of our communities.
- 31 These wellbeing objectives continue to focus on areas our Government identified through extensive wellbeing analysis during 2019 and 2020. This work took a collaborative and evidence-based approach, using the Treasury's Living Standards Framework and incorporating advice from sector experts and the Government's Chief Science Advisors to identify the broad areas where the Government and experts see the greatest opportunities to make a difference to New Zealanders' wellbeing.
- 32 COVID-19 has exacerbated existing challenges and added new ones for us to tackle. It has also provided momentum for change and new ways of operating. The pandemic's impacts have fallen both on groups who were already disadvantaged and those whose lives have been relatively more secure in the past.

- 33 Accordingly, when considering the strategy for Budget 2021, Cabinet agreed that the priorities for this year's Budget are [CAB-20-MIN-483 refers]:
- a continuing the COVID-19 response,
 - b delivering priority and time-sensitive manifesto commitments,
 - c supporting core public services through managing critical cost pressures and manifesto commitments, and
 - d continuing to deliver on our existing investments.
- 34 Our immediate priorities are targeted to where we can make the most important contributions through Budget 2021, particularly given the context of COVID-19, to support our enduring wellbeing objectives. Our wellbeing objectives are longer-term goals: they recognise that sustained investment across multiple Budgets is needed to tackle long-term problems, such as infrastructure and social deficits.
- 35 The assessment process for individual Budget 2021 initiatives took into account value-for-money analysis, alongside contribution to Budget priorities, and implementation readiness. For Budget 2021, we expanded value for money analysis to move from just a sole focus on monetary evaluation of costs and benefits. We also considered how an initiative contributes to improving wellbeing through alignment with the Living Standard Framework wellbeing domains, and the wellbeing objectives.
- 36 We are continually evolving our wellbeing approach and our understanding of what wellbeing means to New Zealanders. For Budget 2021 we have built on work from previous Wellbeing Budgets by incorporating wellbeing analysis into value for money assessments and introducing a te ao Māori perspective of wellbeing through the He Ara Waiora framework (see Appendix Two).
- 37 He Ara Waiora is a tikanga-based wellbeing framework, initially developed for the Tax Working group by expert Māori thought leaders. It can be used alongside the Living Standards Framework to explore wellbeing from different cultural perspectives, values, and knowledge systems. While the principles of He Ara Waiora are derived from mātauranga Māori, many of its elements are relevant to lifting the intergenerational wellbeing of all New Zealanders.
- 38 He Ara Waiora is new to the public sector. Building understanding of the framework and embedding it into policy analysis is still in the early stages. Recognising that we are in a journey to weave in te ao Māori concepts of wellbeing into our investment decisions we have taken an indicative approach to applying He Ara Waiora this Budget, with a view to developing a more comprehensive application in future Budgets. Alignment to the He Ara Waiora concepts and principles were considered, not just for initiatives that are focused on Māori, but across the whole Budget package.

Budget 2021 package

Overview

- 39 I am pleased to seek Cabinet's approval of the Budget 2021 package. These investments will support the long-term wellbeing of New Zealanders by making significant progress towards our goals in the areas of child wellbeing, housing and climate change, while keeping New Zealanders safe from COVID-19 and accelerating the economic recovery. It also progresses a number of key Labour Party manifesto commitments and addresses critical cost-pressures across the public sector. The table below provides a summary of the funding that we are investing through Budget 2021:

Table 3: Budget 2021 Package

Budget 2021 Package Breakdown	Operating (\$m, average per annum)	Operating (\$m, total forecast period)	Capital (\$m, total over ten years)
Budget 2021 Pre-Commitments**	216	862	11
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Child wellbeing

- 40 Investing in a good start in life for our children is one of the most important ways we can support the long-term wellbeing of New Zealanders. As a Government, we have made reducing child poverty and improving child wellbeing one of our key priorities, as well as a wellbeing objective guiding Budget investment.
- 41 For Budget 2021, I propose a child wellbeing priority sub-package of \$2.0 billion total operating which provides support directly to families alongside funding for key support services.

- 42 Income support is a key lever to make progress towards our child poverty targets, and to help families meet their basic material needs. The Welfare Expert Advisory Group (WEAG) provided analysis that showed many individuals and families receiving a main benefit are unlikely to have enough income to meet essential costs, and some low-income working families are unlikely to have enough income for a modest level of participation in NZ society. Increasing the support provided to low income households also helps to stimulate and strengthen the recovery by directly increasing the amount of spending in the economy.
- 43 The centrepiece of the Budget 2021 child wellbeing sub-package is our commitment to increase main benefits to at least the levels recommended by the WEAG in 2019. Rates will be increased by \$20 per adult from 1 July this year, and there will be a further increase to main benefits on 1 April 2022. This second increase will essentially raise benefit levels to those recommended by WEAG in 2019, but with an additional \$15 per adult parent for families with children. The additional support for families with children will direct an extra \$90 million per year towards reducing child poverty and support progress towards meeting our targets. We will retain youth benefit rates, but recipients will receive a similar dollar increase to those on the equivalent adult rates of main benefits.
- 44 I seek Cabinet's agreement to charge the fiscal impacts of this two-stage increase against the Budget 2021 and Budget 2022 operating allowances respectively. Alongside stage two of the main benefit increase, the package also progresses a \$25 per student per week increase in student support (loans and allowances) as a charge against the Budget 2022 operating allowance, to ensure those rates incentivise participation in education and training.
- 45 Other key initiatives in this sub-package include:
- a **Increasing financial assistance for caregivers** (\$57 million total operating). Improving support for caregivers of children both inside and outside of the state care system.
 - b **Safeguarding child wellbeing and building a strong foundation for change in the family justice system** (\$15 million total operating). Enabling faster resolution of disputes to reduce the time children will spend in the family justice system.
 - c **Continuing to maintain SmartStart and Life Events** (\$10 million total operating). Providing a central location for parents and caregivers to access information and support related to pregnancy and early stages of childhood development.
- 46 The child wellbeing sub-package includes measures which will make a significant difference to the lives of New Zealanders, especially women and Māori. For example, the child wellbeing package includes initiatives to prevent family and sexual violence, which will particularly impact women, as 1 in 3 New Zealand women have experienced physical and/or sexual intimate partner violence. The increases to main benefits will see some of the lowest income New Zealanders gain, including many Māori households and whanau.

Housing

- 47 Housing is a key determinant of New Zealanders' wellbeing. Improving the affordability of housing is essential to drive improved wellbeing outcomes. It will also support achieving our objectives in other areas such as child poverty and education by supporting more families into affordable and sound housing, and improving housing access for Māori and Pacific communities.

- 48 As a Government, we are already taking decisive actions to remedy the current housing crisis and ensure that every New Zealander has a safe, warm, dry and affordable home. In March 2021, we announced a package of measures designed to increase housing supply in the short to medium term and remove incentives for speculators in order to back first home buyers and deliver a more sustainable housing market. The housing crisis has been decades in the making and there are no silver bullets, but these measures will make a difference.
- 49 One of these measures is the \$3.8 billion Housing Acceleration Fund, for which I am seeking confirmation of funding from the CRRF as part of this paper. [38]

These Projects will particularly benefit Māori and Pacific households as they will deliver a range of new housing and urban regeneration in communities where many Māori and Pacific households reside. The Fund will be available for iwi developments and also have the ability to fund infrastructure for building on papakāinga and whenua Māori land.

- 50 Budget 2021 builds on this package by committing \$580 million total operating funding towards housing. Alongside the Housing Acceleration Fund, other key initiatives include:
- a **Māori Housing (\$380 million total operating).** Delivering a range of Māori housing initiatives, including new builds in areas with high rates of Māori housing deprivation, repairs for existing Māori housing, and capacity and capability support for iwi, hapu and Māori housing providers.
 - b **Kāinga Ora Land Acquisition Fund (\$184 million total operating).** Funding to support land acquisition that enables new housing.
- 51 Government investment alone will be insufficient to improve housing affordability at scale. To achieve this, spending will be paired with short and long-term regulatory levers and reforms, including through our reform of the resource management system.

Climate change

- 52 Tackling climate change is one of the greatest challenges New Zealand faces. The long-term wellbeing of New Zealanders relies on our economy and way of life being climate-resilient, sustainable and low-emissions. Climate change will affect our country's long-term prosperity and wellbeing, and is increasingly impacting New Zealanders' current wellbeing. We also need to be mindful of the intergenerational impacts of the issue, and how future generations' wellbeing will be affected by the decisions we make now.
- 53 While we have already made substantial investments over the last term focused on reducing emissions, the Climate Change Commission's interim report has highlighted that we need to go further in order to meet New Zealand's emissions-reductions targets. This requires sustained investment across multiple Budgets, and also depends on decisions that we will take later this year on our Government's Emissions Reduction Plan.
- 54 For Budget 2021, I propose a climate sub-package totalling \$374 million operating and \$638 million capital which focuses on foundational investment to ensure that we have the capability and resources required to meet our targets, while making progress in key priority areas such as transport.

- 55 Key initiatives within this sub-package include:
- a **Re-capitalisation of New Zealand Green Investment Finance** (\$300 million total capital). Additional capital is being provided to ensure that the NZGIF can continue to invest in support of climate change mitigation. This investment will be targeted, with a likely focus on three streams: decarbonisation of public transport, plastics and waste.
 - b **Transport climate package** (\$47 million total operating and \$318 million total capital). This package of measures will support the decarbonisation of the light vehicle passenger fleet by accelerating uptake of low emissions vehicles through a clean car discount.
 - c **Carbon Neutral Government Programme** (\$48 million total operating and \$20 million total capital). Delivering a co-ordinated programme and support for agencies to reduce emissions, with the aim of making a number of government organisations carbon neutral by 2025.
- 56 This sub-package focuses on abatement of emissions in hard-to-abate sectors like Transport, to ensure that we are not leaving the burdens of abatement to future generations. It invests in support for farming communities, assisting them to in their transition to lower emissions processes. I also want to draw attention to our investment in Warmer Kiwi Homes: this initiative delivers heating and insulation retrofits to low-income homeowners. It reduces electricity consumption and costs, and improves health and wellbeing outcomes.
- 57 As part of Budget 2021 announcements, I also intend to signal how we will ensure sufficient funding is available to support climate change investment in Budgets 2022 and beyond. This includes potential hypothecation of Emissions Trading Scheme revenue or ring-fencing of funding specifically for climate change mitigation.
- 58 Funding and financing of climate-change mitigation is only a small part of the challenge we will face in addressing this issue, and we also need to consider how to incentivise private sector investment. However, by signalling a direction of travel, we can demonstrate our commitment and provide a clear steer to the market.

Improving outcomes for Māori and Pacific Peoples

- 59 Budget 2021 invests over \$1 billion in operating and capital funding aimed at raising living standards for Māori and Pacific peoples. These initiatives recognise the particular challenges that these populations face, and the opportunities for the Government to work together with Māori and Pacific people to find solutions and improve outcomes.
- 60 Key areas of funding include:
- a **Māori Housing** (\$380 million total operating). As noted above, Māori housing initiatives form a cornerstone of the overall Housing sub-package. This investment will target rural Māori at the acute end of the housing affordability crisis, working in partnership to realise Māori housing aspirations.
 - b **Māori Health** (\$243 million total operating). Transforming the primary health system to better comply with the principles of Te Tiriti o Waitangi and deliver better outcomes by establishing a new Māori Health Authority, boosting the capability and capacity of kaupapa Māori health providers, and establishing a Māori health innovation fund to test new commissioning arrangements and models of care.

- c **Te Pae Oranga iwi community panels** (*\$70 million total operating*). Maintaining and expanding the tikanga Māori alternative to courts for low-level offending, which aims to address the underlying causes of offending and reduce harm from re-offending through a restorative whānau-centered process.
- d **Iwi-led data collection for 2023 Census** (*\$14 million total operating*). Supporting iwi to co-design a collection process for the 2023 Census and laying a foundation for future Māori-Crown collaboration in the data space.
- e **Establishing the Pacific Wellbeing Strategy** (*\$7 million total operating*). Establishing a cross-government strategy to improve wellbeing outcomes for Pacific peoples in all domains and support their aspirations, particularly in areas where Pacific peoples experience long-standing inequitable outcomes.
- f **Expanding Tupu Aotearoa to support Pacific peoples into employment, training and education opportunities** (*\$30 million total operating*). Providing additional support to meet community demand volume for employment services for Pacific peoples affected by the economic impacts of COVID-19.
- g **Implementing Ola Manuia: Pacific Health and Wellbeing Action Plan 2020-2025** (*\$16 million total operating*). Helping to fulfil Pacific health and wellbeing aspirations by supporting Pacific healthcare providers, investing in Pacific models of care, and developing Pacific community hubs.

Investing in core public services

- 61 Alongside investment in our key priorities, we also need to ensure that existing public services which support the wellbeing of New Zealanders are sufficiently funded. While we have made significant progress in addressing cost pressures across the last term of government, pressures across the system are still significant and growing.
- 62 Addressing cost pressures across the public sector supports our goal of giving all New Zealanders the same quality of and access to education, health and other services which are key enablers of Māori and Pacific wellbeing.
- 63 Budget 2021 represents another substantial investment in core public services. I am proposing a substantial cost pressure sub-package of \$8.6 billion total operating and \$2.2 billion capital.
- 64 This focus of this sub-package is in the Health and Education sectors, given the key role they play in supporting and enhancing the wellbeing of New Zealanders. Key investments in these sectors include:
 - a **Maintaining health service provision for New Zealanders**
 - i. Supporting District Health Boards to continue delivering essential health and disability services throughout New Zealand (*\$2.7 billion total operating*).
 - ii. Continuing access to low-cost primary health care for priority populations by providing additional support to general practitioners (*\$187 million total operating*).

- iii. Investment in disability support services, by ensuring essential services are provided to people with long-term physical, intellectual and/or sensory impairment (*\$400 million total operating*) and providing funding to transform the cross-government disability support system (*\$73 million total operating*).

b Maintaining crucial infrastructure and core Education services

- i. Cost adjustments to enable early learning, schools and tertiary providers to continue funding quality education in line with current funding levels (*\$301 million total operating*).
- ii. Investigating and negotiating pay equity claims, with the aim of removing gender-based undervaluation in the Education system (*\$29 million total operating*).

65 Other key cost pressures that we are funding through Budget 2021 include:

a Substantial investments in the Justice sector

- i. Providing funding for critical infrastructure to complete the operationalisation of the Waikeria Prison Development (*\$155 million total operating and \$79 million capital*).
- ii. Promoting access to justice by providing additional funding for legal aid and representation for people who cannot otherwise afford a lawyer (*\$235 million total operating*).

b Investment in several large, one-off cost pressures

- i. [37,38]
- ii. Ensuring our primary industries are protected from disruption by continuing to fund the Mycoplasma bovis eradication programme (*\$66 million total operating*).

Meeting our other manifesto commitments

66 Alongside the priority areas outlined above, our Government has committed to deliver other vital policies that will contribute to improved wellbeing outcomes for New Zealanders.

67 Budget 2021 is our first major opportunity to begin delivering on these commitments, but it is not the only one. The manifesto is written for the whole term, not just the first Budget. As a result, the manifesto sub-package I have developed totalling *\$2.7 billion operating and \$1.1 billion capital* focuses on the highest-priority and time-sensitive manifesto commitments across a range of portfolios.

68 Key areas of funding include:

- a **Continuing investing in the Future of Rail** (*\$450 million total operating, \$810 million total capital*). The package provides funding to continue investment in ongoing infrastructure requirements to restore a resilient and reliable rail transport network and associated assets.

- b **Health and Disability System Reform** (*\$485 million total operating*). Budget 2021 provides the first tranche of funding for reform to reduce fragmentation, strengthen leadership and accountability, address persistent system inequities, and support the delivery of a financially-sustainable health system.
- c **Designing, delivering and implementing reform of the resource management system** (*\$132 million total operating*). This initiative will enable work to progress on repealing and replacing the Resource Management Act 1991.
- d **Transforming Three Waters Service Delivery for New Zealanders** [33,38]
Budget 2021 makes significant investments in Three Waters reforms, including \$296 million for transition costs [33,38]

69 We will fund other manifesto commitments across this term of government. Commitments that have not received funding in this Budget will be considered as part of Budgets 2022 and 2023.

COVID-19 Response and Recovery Fund

New funding

- 70 During the development of Budget 2021, I have also identified a number of initiatives which support our response and recovery from COVID-19. I have developed a sub-package of initiatives to be funded from the CRRF totalling \$2.6 billion operating and \$2.0 billion capital.
- 71 This sub-package also provides continued support for sectors that continue to be affected by COVID-19, including:
- a **Housing Acceleration Fund** (*\$2.1 billion total operating and \$1.7 billion capital*), aimed at increasing the supply of affordable homes. This investment will play a major part in supporting medium-to-longer term recovery from COVID-19.
 - b **Maintaining our essential border operations** (*\$21 million total operating and \$269 million capital*). This includes funding to support biosecurity, customs and passport issuance functions.
 - c **Continuing to support a vibrant arts sector** (*\$6 million total operating*). This includes funding for the New Zealand Symphony Orchestra and Royal New Zealand Ballet, to support their operations in the face of COVID-19.
 - d **Investing in initiatives to stimulate growth and productivity**. This includes funding to retain regional science capability (*\$10 million total operating*) and boosting employment and training by boosting the Minister of Social Development's employment services (*\$100 million total operating*) and reinstating the training incentive allowance (*\$137 million total operating and \$37 million capital*).

Reprioritisation

72 Alongside allocating new funding, we are ensuring that existing spending is high value for money, aligned with our Government's priorities, and delivering on the outcomes sought.

- 73 Through the CRRF we have allocated substantial amounts of funding to support New Zealand's response and recovery from COVID-19. While the majority of this funding has played a vital part in supporting New Zealanders through the economic impacts of the pandemic, decisions were often made under extremely tight timeframes and with limited information as the global COVID-19 pandemic intensified through 2020. It is important to consider whether this spending is still needed at the level it was originally set at, or if it still represents value for money.
- 74 In January 2021 I requested information from all Ministers on progress in the delivery of their CRRF-funded initiatives. Through this exercise, a number of initiatives were identified that were underspent, not delivering the outcomes sought, or not well aligned with our priorities. These amounted to \$812 million total operating and \$113 million total capital.
- 75 I am proposing to reprioritise this funding and return it to the CRRF. Combined with the new spending package, this will bring the balance remaining in the CRRF to over \$5 billion, which leaves us sufficient funding to respond to any future alert-level changes or changes to the global COVID-19 situation.

Table 4: COVID-19 Response and Recovery Fund

	Total funding (\$m)
Housing Acceleration Fund	3,800
Other CRRF Initiatives	740
Reprioritisation CRRF Savings	(925)
CRRF Total:	3,615
Current CRRF Balance	8,954
Remaining CRRF once charges are agreed	5,339

*As at Thursday, 1 April 2021. This figure does not reflect CRRF charges which have been agreed since 1 April 2021, or any pending charges outside the Budget 2021 process.

Between-Budget spending

- 76 The Budget 2021 package includes a contingency for between-Budget operating spending of \$160 million operating across the forecast period. This provides a buffer for any urgent matters that arise through the next financial year that cannot wait until Budget 2022.
- 77 Ministers should only seek funding from the between-Budget contingency 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.

Moratorium on Papers with Financial Implications

- 78 Once the Budget 2021 package has been agreed by Cabinet, 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 Thursday 20 May 2021.

Legislative Implications

79 The Appropriation (2021/22 Estimates) Bill, the Appropriation (2020/21 Supplementary Estimates) Bill, the Imprest Supply (First for 2021/22) Bill and the Imprest Supply (Second for 2021/22) Bill will give legislative effect to Budget 2021.

Impact Analysis

Regulatory Impact Statement

80 There are no regulatory implications arising from this paper.

Climate Implications of Policy Assessment

81 As part of the formation of the 2021 Budget package, the Ministry for Environment received Climate Implications of Policy Assessments (CIPAs) for a number of initiatives.

82 CIPAs were predominantly provided with initiatives in the climate manifesto sub-package. They were considered as part of the development of the climate sub-package, given the focus on greatest short-term emissions reductions at least fiscal and economic cost.

83 Five initiatives provided quantitative CIPAs. These are summarised in Table 5.

Table 5: Quantitative summary – estimated emissions impact:

Initiative	Changes in greenhouse gas emissions in kilotonnes of carbon dioxide equivalent (kt CO ₂ -e)						
	2021–25	2026–30	2031–35	2036–40	2041–45	2046–50	Cumulative impact
Biofuels mandate							
Central estimate	-1,300	-7,200	-12,100	NE ¹	NE ¹	NE ¹	-20,600
Cleaner cars							
Low	-144	-1,284	-1,420	-632	-162	-76	-3,718
High	-1,135	-5,128	-5,218	-2,412	-777	-385	-15,055
Decarbonisation of the public transport bus fleet (funded through NZGIF)							
Low	-40	-60	-60	-20	0	0	-180
Medium	-40	-60	-60	-40	-10	0	-210
High	-40	-60	-60	-60	-20	0	-240
Scaling up EECA's energy and decarbonisation support for business							
Single estimate	-226	-694	NE ²	NE ²	NE ²	NE ²	-919
Future of Rail							

Initiative	Changes in greenhouse gas emissions in kilotonnes of carbon dioxide equivalent (kt CO ₂ -e)						
	2021–25	2026–30	2031–35	2036–40	2041–45	2046–50	Cumulative impact
Single estimate	-330	-1,267	-1,367	-1,398	-1,432	-1,470	-7,264
Sum of quantified initiatives							
Low	-2,040	-10,504	-14,947	-2,050	-1,594	-1,546	-32,681
High	-3,031	-13,655	-18,745	-3,870	-2,229	-1,855	-43,384

NE¹: Not estimated - impact only assessed to 2035

NE²: Not estimated - impact only assessed to 2030

- 84 Based on this analysis, the total emissions impact of initiatives in the Budget 2021 package is estimated to be a reduction between 2 and 3 kt CO₂-e in the first budget period (2022-2025), and between 27 and 35 kt CO₂-e across the first three emissions budget periods (2022-2035). This estimate is the total of five quantitatively assessed initiatives that were reviewed by the CIPA team. The uncertainty of these emissions reduction estimates is high, and further decisions on policy design will be critical to ensure that the estimated emission reductions are delivered on.
- 85 The quantified emissions reductions are nearly all in the Transport sector and will have a major contribution to the achievement of the required abatement in the Transport sector, as well as contribute to meeting the overall emissions budgets. The Transport related initiatives overall are well aligned with the Climate Change Commission's draft advice.
- 86 Other initiatives are being progressed on timeframes beyond Budget 2021 and will be delivered as part of New Zealand's emissions reduction plan and beyond in order to enable New Zealand to achieve its future emissions budgets.
- 87 In addition to the quantified initiatives, there is a diverse range of complementary and enabling initiatives across key emissions sectors that will be critical to support further abatement but will not result in directly measurable emissions reductions. These initiatives will be essential in enabling and supporting the delivery of future emissions reductions.

Population Implications

- 88 Budget 2021 will affect a broad cross-section of New Zealanders, while also including funding which supports particular population groups, including but not limited to Māori (as individuals, iwi, hapū, and whānau), children, seniors, disabled people, women, Pacific peoples, rural communities and ethnic communities.

Human Rights

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

Consultation

- 90 This paper was prepared by the Treasury on behalf of the Minister of Finance. The Budget 2021 package has been developed in line with the strategy agreed by Cabinet in November 2020, submissions by Ministers, and a series of meetings among Ministers.

91 The Department of the Prime Minister and Cabinet was informed.

Communications

92 Budget Day is Thursday 20 May 2021. The Office of the Minister of Finance coordinates all communications relating to Budget 2021, including requests for early announcements. Written approval from the Prime Minister and the Minister of Finance is required for any early announcements.

Proactive Release

93 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.

94 The 2021 release of documents will include this paper, along with the Budget 2021 strategy paper. Briefings to Budget Ministers and related advice from the Treasury will also be released. I will consult with you during the process on the proposed release.

Recommendations

I recommend that Cabinet:

Economic and Fiscal Outlook

- 1 **note** that the Treasury's preliminary economic forecasts show a robust recovery in the economic outlook, with nominal GDP and tax revenue over the five-year forecast period expected to be significantly higher than forecast at the Half Year Economic and Fiscal Update (HYEFU) 2020;
- 2 **note** that the Treasury's preliminary fiscal forecasts show a significant improvement over the forecast period in the Government's fiscal position since HYEFU 2020, but that operating balance before gains and losses deficits and increases in the level of net core Crown debt are still expected;
- 3 **note** that the Treasury's final fiscal forecasts for the 2021 Budget Economic and Fiscal Update will be completed by 30 April 2021;

Fiscal strategy

- 4 **agree** to increase the operating allowance for Budget 2021 to \$3.8 billion per annum;
- 5 **agree** to increase the operating allowances for Budget 2022 to Budget 2024 inclusive from \$2.625 billion per annum to \$2.7 billion per annum;
- 6 **agree** to increase the Multi-Year Capital Allowance from \$7.8 billion to \$12 billion;
- 7 **note** that while the increase to the Budget 2021 operating allowance in recommendation 4 is significant, the strong economy puts the Government in a good position to make significant investments through Budget 2021;
- 8 **note** that the increase to future operating allowances in recommendation 5 is modest and reflects the need for careful, balanced spending in future Budgets in order to ensure that the Crown's long-term fiscal position is sustainable;
- 9 **authorise** the Minister of Finance to finalise the fiscal strategy as set out in the Budget Policy Statement 2021, including any further changes to future allowances for inclusion in the 2021 Fiscal Strategy Report;

Revenue strategy

- 10 **note** that the Public Finance Act 1989 requires the government to present its revenue strategy, outlining its objectives for the tax system and tax policy in light of its economic and fiscal strategies, as part of its annual Fiscal Strategy Report;
- 11 **note** that the Minister of Finance and Minister of Revenue have approved an updated revenue strategy, attached to this paper as Appendix One;
- 12 **note** that the revenue strategy informs the Government's tax policy work programme being undertaken by Inland Revenue and the Treasury;
- 13 **note** that the new revenue strategy will be released as part of the Fiscal Strategy Report published at Budget 2021;

Budget 2021 strategy and approach

- 14 **note** that Budget 2021 provides a key opportunity to build on the Government's strong response to COVID-19, while continuing to make progress on New Zealand's long-standing challenges and improve the wellbeing of New Zealanders;
- 15 **note** that in February 2021, the Minister of Finance released the Budget Policy Statement 2021, which outlined the Government's current wellbeing objectives:
- a **Just Transition** – Supporting the transition to a climate-resilient, sustainable and low-emissions economy, while building back from COVID-19;
 - b **Future of Work** – Enabling all New Zealanders and New Zealand businesses to benefit from new technologies and lift productivity and wages through innovation, and support into employment those most affected by COVID-19, including women and young people;
 - c **Māori and Pacific** – Lifting Māori and Pacific incomes, skills and opportunities, and combatting the impacts of COVID-19;
 - d **Child Wellbeing** – Reducing child poverty and improving child wellbeing;
 - e **Physical and Mental Wellbeing** – Supporting improved health outcomes for all New Zealanders and keeping COVID-19 out of our communities;
- 16 **note** that Cabinet previously agreed [CAB-20-MIN-483 refers] that the priorities for this year's Budget are:
- a continuing the COVID-19 response;
 - b delivering priority and time-sensitive manifesto commitments;
 - c supporting core public services through managing critical cost pressures and manifesto commitments; and
 - d continuing to deliver on our existing investments;
- 17 **note** that the immediate Budget 2021 priorities are designed to support fulfilling the Government's longer-term wellbeing objectives as set out in the Budget Policy Statement 2021;

Budget 2021 Package

- 18 **note** that the Budget 2021 package supports the long-term wellbeing of New Zealanders by making significant progress towards the Government's goals in the areas of child wellbeing, climate change and housing;
- 19 **note** that the Budget 2021 package also ensures that the Government is delivering on the commitments, as well as addressing critical cost-pressures across the public sector;
- 20 **agree** to the following packages being charged against Budget 2021 allowances as detailed in the financial recommendations accompanying this paper:
- a a net operating package of \$3.8 billion per annum (\$15.2 billion total over the forecast period); and

- b A net capital package of \$3.9 billion over ten years;
- 21 **agree** to an operating package of \$0.64 billion per annum (\$2.57 billion total over forecast period) being charged as a precommitment against the Budget 2022 operating allowance as detailed in the financial recommendations accompanying this paper;

COVID-19 Response and Recovery Fund

- 22 **note** that the Minister of Finance has also identified a number of spending initiatives which support the response and recovery from COVID-19;
- 23 **agree** to the following packages being charged against the COVID-19 Response and Recovery Fund (CRRF) as detailed in the financial recommendations accompanying this paper:
 - a An operating package of \$2.6 billion total; and
 - b A capital package of \$2.0 billion total;
- 24 **agree** to the following operating and capital reprioritisation packages with associated funding to be returned to the CRRF, as set out in the financial recommendations accompanying this paper:
 - a An operating savings package of \$812 million total; and
 - b A capital savings package of \$113 million total;
- 25 **note** that following these new spending and reprioritisation packages, the remaining balance in the CRRF is just over \$5 billion;

Appropriation matters

- 26 **agree** to the detailed financial recommendations accompanying this paper;
- 27 **agree** that except as otherwise explicitly indicated in a particular initiative document, all initiatives be charged against the Budget 2021 operating allowance and the Multi-Year Capital Allowance;
- 28 **authorise** the Minister of Finance and relevant Appropriation Ministers to approve changes to initiatives, appropriations and capital injection authorisations where this proves necessary to finalise the Budget 2021 Package;
- 29 **agree** that expenses or capital expenditure against appropriations and capital injection authorisations set out in the 2021/22 Estimates and being sought in the Appropriation (2021/22 Estimates) Bill may be met from Imprest Supply until that Bill is enacted;

Between-Budget Operating Contingency

- 30 **agree** to establish a between-Budget operating contingency totalling \$160 million, as set out below:

	\$m - increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Between-Budget operating contingency	-	40.000	40.000	40.000	40.000

- 31 **agree** that:

- a proposals for funding from the between-Budget contingency must be for urgent issues that cannot be deferred to Budget 2022; and
- b before accessing the between-Budget contingency, 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

- 32 **agree** to increase the Emerging Priorities operating contingency by \$20 million, as set out below:

	\$m - increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Emerging Priorities operating contingency	-	5.000	5.000	5.000	5.000

Legislative implications

- 33 **invite** the Minister of Finance to introduce the Appropriation (2021/22 Estimates) Bill, the Appropriation (2020/21 Supplementary Estimates) Bill (both on Budget Day), the Imprest Supply (First for 2021/22) Bill and the Imprest Supply (Second for 2021/22) Bill to give effect to Budget 2021;
- 34 **agree** that any further legislation will be progressed on Budget Day only as agreed by the Minister of Finance and the Leader of the House;

Other matters

- 35 **note** that the Office of the Minister of Finance coordinates all communications relating to Budget 2021, and that any requests for early announcement will need to have the written approval of both the Minister of Finance and the Prime Minister's Office; and

- 36 **agree** that no papers with fiscal and/or appropriation implications for agreement by Cabinet, Cabinet Committees or joint Ministers be submitted between 12 April 2021 and 20 May 2021 so that Budget documentation accurately reflects decisions already taken.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Appendix One: Revenue strategy

Economic and fiscal strategy

Public finances, including government revenue, are important for wellbeing. Public policy supports New Zealanders' wellbeing when the social benefits of government expenditure outweigh the social costs of raising revenue.

The Government's overarching policy goals for the next three years are:

- Continuing to keep New Zealand safe from COVID-19;
- Accelerating the recovery and rebuild from the impacts of COVID-19; and
- Laying the foundations for the future, including addressing key issues such as our climate change response, housing affordability and child poverty.

Government revenue underpins many of these outcomes by funding the social expenditure needed to meet these challenges. In some cases, revenue policy has a more direct role in contributing to these goals. This includes policies that support the economic recovery, promote housing affordability and mitigate climate change.

Government revenue needs to be sufficient to ensure a sustainable fiscal outlook. The level of revenue will be maintained to be consistent with reducing operating deficits and stabilising net core Crown debt as a percentage of GDP by the mid-2020s and then reducing it as conditions permit (subject to any significant shocks).

A sustainable revenue base is critical for managing fiscal pressures over the long term. These pressures relate to the ageing population, health care costs, infrastructure demand and the need for resilience to climate change and other shocks. There is also rising global concern with inequality and many countries, including New Zealand, face the challenge of fostering inclusive growth.

Revenue objectives

The Government's revenue policy objective is to raise sufficient revenue in a fair and efficient manner. This will assist in fostering inclusive growth.

The Government's fairness objectives for the tax system are:

- *Progressivity*: individuals with a higher income, and therefore ability to pay, should pay a greater proportion of their income in tax.
- *Reducing inequality*: the tax system should help in limiting excessive wealth inequality over the longer term.
- *Horizontal equity*: the principle that people that are in the same position should pay the same amount of tax.

The efficiency objective is to minimise the economic costs of raising revenue, subject to the Government's revenue and fairness objectives.

Continued public trust and confidence in the tax system and its administration is important. This supports voluntary compliance and broader social capital.

Framework

The Government has a strong focus on the fairness of the tax system. This means that the income tax system should be progressive and, in combination with transfers, reduces income inequality. The Government has increased the progressivity of the personal income tax system with a new top tax rate.

The tax framework is based on the principles of broad base-low rate and neutrality. This generally applies, although taxation of capital is not as broad based as income. Income and consumption tax bases are broad in the sense that there are few specific concessions for particular economic activities, goods or services. This enables tax rates to be set lower than otherwise. Neutrality in the tax treatment of different investments promotes economic efficiency and productivity.

In some cases, revenue policy will be used to influence behaviour. This is appropriate only where there is clear evidence of net social benefits, tax policy is the most appropriate instrument, and fiscal risks can be managed. As an example, the research and development tax incentive promotes business innovation.

People and businesses must pay their fair share of tax, including multinational companies. The international tax framework needs to adapt to shifts in the global economy, including increased cross-border activity and digitalisation. New Zealand is continuing to work with the OECD to find a multilateral solution to the challenges that the digital economy poses for international taxation.

Tax settings will continue to be broadly stable and predictable. This supports efficiency and macroeconomic stability.

The Government expects Inland Revenue to maintain public confidence by administering the tax system in a fair and efficient manner. The tax system has been modernised and simplified through Inland Revenue's Business Transformation programme.

The tax system must remain fit for purpose in a changing world. Ongoing work will focus on implementing Government policy, maintaining the integrity of existing revenue bases and monitoring the sustainability and fairness of the tax system. The Generic Tax Policy Process shall be used to develop and consult on tax policy where practicable.

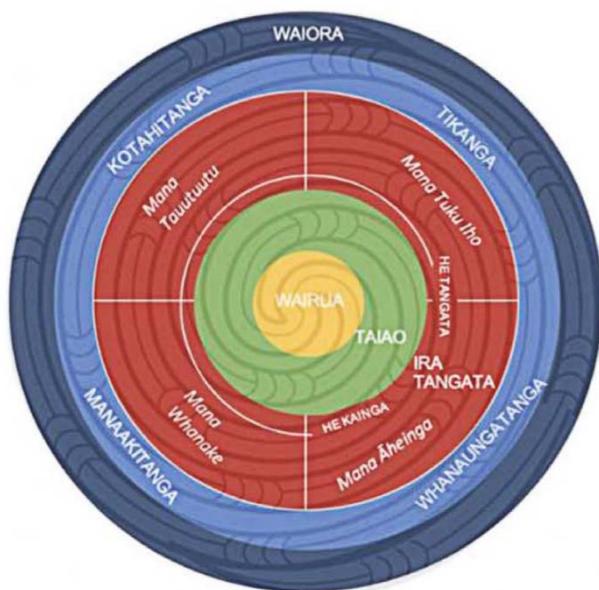
Appendix Two: He Ara Waiora

He Ara Waiora is a tikanga-based wellbeing framework which we are using for the first time in Budget 2021. The principles of He Ara Waiora are derived from mātauranga Māori and many of its elements are relevant to the wellbeing of all New Zealanders. He Ara Waiora and the Living Standards Framework can be used alongside each other to explore wellbeing from different cultural perspectives, values, and knowledge systems.

He Ara Waiora is centred on a te ao Māori view of wellbeing. It was initially developed for the Tax Working Group by expert Māori thought leaders to understand how tikanga Māori could inform a future-focused tax system. The process of developing He Ara Waiora began with a kōrero with iwi and Māori thought leaders, academics and business leaders. It involved wider engagement across the country for more than a year. A number of expert Māori thought leaders have remain engaged and work continues to further evolve He Ara Waiora.

Figure 1 below illustrates the key concepts making up He Ara Waiora. The takarangi (connecting spiral pattern) overlaid on the framework demonstrates the inter-relationship between elements of waiora (wellbeing). The principles or the ‘means’ of He Ara Waiora guide how to achieve wellbeing outcomes (the ‘ends’).

Figure 1: He Ara Waiora



Principle	Definition
Kotahitanga	Working in an aligned, co-ordinated way
Tikanga	Making decisions in accordance with the right values and processes, including in partnership with the Treaty partner

Whanaungatanga	Fostering strong relationships through kinship and/or shared experience that provide a shared sense of belonging
Manaakitanga	Enhancing the mana of others through a process of showing proper care and respect
Tiakitanga	Guardianship, stewardship (e.g. of the environment, particular taonga, or other important processes and systems)

An example of a Budget 2021 initiative that aligns well with He Ara Waiora is 'Protecting and preserving kauri, New Zealand's iconic taonga.' This initiative has an impact on the survival of Kauri, a taonga species to Māori, particularly the iwi of Te Tai Tokerau. In that respect it impacts on the He Ara Waiora domains of Wairua (spirituality) and Te Taiao (the natural world).

Māori were heavily involved in the development of this initiative and will be involved in its implementation and the management of kauri forests. This aligns with the following principles of He Ara Waiora:

- **Tikanga** – The early involvement of Māori and continued inclusion in the process recognises the importance of the Māori-Crown relationship. It builds on a long-standing partnership between government agencies, local government, Te Roroa (tangata whenua for Waipoua Forest) and other Iwi groups. The proposed initiative and operations plan are an opportunity for a partnership with Māori in which the management agency and iwi have a positive duty to act in good faith. This is intended as a Treaty partnership is a shared responsibility for the protection of kauri, which gives due autonomy to hapū and iwi and provides for substantive expression of rangatiratanga. It is also grounded in a positive duty to protect Māori property interests in taonga.
- **Whanaungatanga** – This initiative recognises the need for a community effort, with all people playing their part. Recognition of mana whenua and protection of whakapapa are explicitly part of the proposal.
- **Manaakitanga** – The respect for and protection of mātauranga Māori and its intellectual property is evident in this initiative, with the intent to utilise biosecurity measures that are informed by Te Ao Māori.
- **Kotahitanga** – The inclusion of iwi and hapū in a joint effort is consistent with the principle of kotahitanga.
- **Tiakitanga** – This recognises the role of iwi as kaitiaki over their whenua and taonga species. It also recognises the joint responsibility of Iwi and the Crown to ensure that kauri survives for future generations.