

The Treasury

Budget 2021 Information Release

August 2021

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Where this is the case, the relevant sections of the Act that would apply have been identified.

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Key to sections of the Act under which information has been withheld:

- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Not in scope
- [42] 18(d) - information is already publicly available or will be publicly available soon.

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

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Cover Note: Preliminary version of the Budget 2021 Fiscal Strategy Model

Background

The Fiscal Strategy Model (FSM) produces ten-year projections of key fiscal variables starting from the end of the forecast period. The model uses the latest fiscal and economic update as the forecast base and is published alongside these forecasts. The latest published version of the FSM is the Budget Policy Statement (BPS) 2021 model, which can be found [here](#).

Upon request we are sharing the attached version of the FSM. This uses the Budget 2021 preliminary economic and fiscal updates. As such, **the FSM will be revised ahead of Budget and these forecasts/projections should be used for a sense of scale of the impact of changing allowances rather than for absolute values**. The finalisation of the economic forecasts and policy decisions both have the potential to impact both net core Crown debt and operating balance before gains and losses (OBEGAL) tracks by several per cent of GDP.

Assumptions and Inputs

There are five key policy assumptions that can be changed in the FSM:

1. **Forecast period operating allowance:** reflecting yearly growth in ongoing operating expenditure for Budgets 2021 to 2024. The preliminary BEFU 2021 FSM assumes operating allowances of \$3.0 billion across the forecast period, as agreed at Budget Ministers 2.
2. **Multi-year capital allowance (MYCA):** reflecting a four-year funding envelope for capital, rather than a single-year allowance. The preliminary BEFU 2021 FSM assumes a MYCA of \$12.0 billion, as agreed at Budget Ministers 2. Based on the preliminary fiscal update, \$8.2 billion of new capital spending is forecast over the forecast period.
 - a. \$8.2 billion of new capital spending over the forecast period is based on when capital expenditure is expected to occur, and when this expenditure will impact the fiscal metrics.
 - b. \$12.0 billion capital spending is allocated over the next four Budgets.
 - c. The difference between these figures is calculated based on assumptions of the allocation and phasing of spending.
 - d. Any further top up to the MYCA is assumed to be allocated equally across the four future forecast years (25% each to Budget 2021 to 2024) but spent only gradually over the years following that allocation (5%, 35%, 35%, 20% and 5% for years 0 to 5 respectively). This is an approximation of how further increases to the MYCA would be treated in the fiscal forecasts.

3. **Projection period operating allowances:** reflecting yearly growth in ongoing operating expenditure in 2025/26. The preliminary BEFU 2021 FSM assumes spending of \$2.8 billion from 2025/26, as indicated at Budget Matters 2.
4. **Projection period capital allowances:** reflecting one-off yearly expenditure of capital from 2025/26. The BPS 2021 FSM assumed capital spending of \$4.0 billion, consistent with Labour's pre-election 'Fiscal Plan' document.
5. **Growth rate of allowances over the projection period:** reflecting the yearly growth rate in the size of operating and capital allowances. The preliminary BEFU 2021 assumes allowances grow in line with inflation at 2% per annum from 2025/26, consistent with the 'Fiscal Plan'.

Operating allowances and capital allowances have different fiscal impacts. An increase in operating allowances is assumed to have an on-going impact across the forecast period and into the projection period. An increase in capital allowances is assumed to be one-off in nature and therefore generally has a smaller impact on key fiscal indicators. As an example, a \$1 billion increase in the Budget 2021 operating allowances would result in an on-going reduction in OBEGAL of \$1 billion and an increase in net core Crown debt of \$14 billion by 2034/35. In contrast, an increase of \$1 billion in the capital allowances would not impact OBEGAL and increase net core Crown debt by \$1 billion by 2034/35.

Instructions on using the model

- Refer to sheet 'Allowance Scenario' of the attached preliminary BEFU 2021 FSM.

Outputs

- Refer to the attached TR2021/657 for the preliminary BEFU 2021 FSM results.