

# The Treasury

## Budget 2021 Information Release

### August 2021

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- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
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- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Not in scope
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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# Budget Ministers 2

## Supplementary Material

**16 March 2021**

# Purpose

## This supplementary material:

1. Provides **additional fiscal and economic context** to help inform our Budget 2021 decision making
2. Provides an overview of the **system-level analysis** that I have commissioned for Budget 2021
3. Outlines the **wellbeing impacts** of our options for allocating funding across Budget 2021 priority areas

# Economic and Fiscal Context



# Economic Outlook

- The New Zealand economy has proved to be relatively resilient to the COVID-19 pandemic. **GDP is already back to pre-pandemic levels**, although the **unemployment rate remains higher** than it was before.
- The swift recovery from the downturn and the cushioning effect of policy support means that the degree of scarring is likely to be lower than previously assumed.
- **Economic growth is forecast to continue over the course of 2021**, albeit at a slower pace as border restrictions remain in place, before picking up from 2022 onwards.
- The **improved outlook**, on top of sizable upward revisions to historical data, results in **nominal expenditure GDP being \$100 billion higher by the end of the forecast period**, of which up to \$55 billion is owing to data revisions.
- These forecasts are **dependent on some key assumptions**, including that there will be no further increases in alert levels.
- **Uncertainty levels remain heightened.** There are considerable measurement challenges in capturing the true state of the economy, and there are risks with regard to the global economic outlook and the effectiveness of vaccines.
- This means that there are **likely to be larger-than-normal revisions to the fiscal outlook** over the coming years as the economic forecasts are updated.

# Tax Outlook

- Core Crown tax revenue for the seven months to January 2021 was \$1.8 billion (3.4%) above the 2020 HYEPU forecast.
- For BEPU 2021, **core Crown tax revenue forecasts have been increased by nearly \$25 billion over 2020 to 2025** compared to HYEPU 2020. However, this is still \$16 billion below pre-pandemic (HYEPU 2019) levels.

|  | 2020 | 2021 | 2022 | 2023  | 2024  | 2025  | Total |
|--|------|------|------|-------|-------|-------|-------|
| BEPU21                                 | 85.1 | 92.7 | 93.9 | 102.0 | 107.5 | 114.0 |       |
| HYEPU20                                | 85.1 | 88.3 | 89.1 | 96.9  | 102.5 | 108.8 |       |
| Change                                 | 0.0  | 4.4  | 4.8  | 5.1   | 5.0   | 5.2   | 24.5  |
| Change since pre-covid-19 (HYEPU 2019) |      |      |      |       |       |       | -16.3 |

- Increases in the nominal GDP (and its components) **forecasts added on average \$2.5 billion to the tax revenue forecasts each year**. However, this increase does not fully correlate with the strong tax outturns up to the end of January 2021, with five months still remaining in the 2020/21 fiscal year.
- As a result, **additional amounts were added to the forecasts for several of the major tax types**. These include: GST (around \$1 billion per year), corporate tax, (about \$0.65 billion per year) and other persons tax (ranging between \$0.1 and \$0.5 billion per year).
- Some downward adjustments were included for resident withholding tax (RWT) on interest, and tobacco excise duty forecasts. The reasons for this include the large increase in the 90-day rate in 2024/25, and the current year-to-date reduction on tobacco excise revenue.

# System Views

# Capital Initiatives

The **Capital Panel** brings together important system-level perspectives to enrich initiative assessments, analysis and advice to support decision-making. This is the second year that the Panel has convened to provide advice on the attractiveness and achievability of the largest and riskiest capital investments, ahead of affordability.

The Panel considers that underpinning information on planning, resourcing and sequencing is not robust – leading to concerns around achievability for a number of initiatives.

## **The Panel observes:**

[34]

## **Budget 2021 provides an opportunity for us to manage over-subscription and capacity constraints by:**

- Deferring all capital investments that are not ready now (until they are investment ready), and
- Declining to fund investments where agencies are not well placed to plan or manage investments (unless we can increase confidence of success through increased resourcing or leveraging system expertise).

# Data, Digital and ICT Initiatives

- Budget 2021 is the third year that the **Government Chief Digital Officer (GCDO)** has provided assessments as part of the Budget process. Overall insights from this year's initiatives include:  
[34]
  - There are many assumptions being made around the available capacity/capability of the digital workforce and market to support these initiatives.
- Overall, the GCDO has assessed 17 initiatives as **green**, 8 as **amber** and 2 as **red**. The GCDO has not supported the [33] and [34] initiatives.
- The **Government Chief Data Steward (GCDS)** also provided assessments of the data-related initiatives submitted for Budget 2021 funding:
  - The vast majority of initiatives that had a significant data component were endorsed by the Government Chief Data Steward (GCDS), based on the value they aim to provide to the system.
  - The GCDS continues to work alongside other system stakeholders to develop a Data Investment Plan ahead of Budget 2022. This work sets out a 10-year plan for investment in data – setting out a long-term view of what is needed, when it is needed, and an indication of what it might cost.

\*Unless certain criteria are met.

# Wage and Workforce Constraints

- The COVID-19 pandemic and associated health and economic response saw **agencies cope with a significant amount of additional work during 2020.**
- In some cases, they have delivered on initiatives funded through 2020 and are now re-focussing on pre-COVID-19 priority work streams that may have been set aside last year. For others, they are **still in the process of implementing their CRRF-funded work** programmes.
- When considering priority manifesto commitments, **we need to be aware of the potential impact of new deliverables on existing agency work programmes** and priorities.
- In addition, **general labour market conditions appear tighter than we expected.** This may impact on our ability to source the capability that we need.
- **Demand for Te Ao Māori capability is growing.** This reflects our desire to grow the capability and capacity of departments to be better Treaty partners. However, we **need to be conscious of the available pool of capability** and ensure that what we have is optimally utilised.
- **My officials have scanned wage-related initiatives for system-level impacts,** particularly in relation to precedent-setting in wage bargaining and sequencing of manifesto commitments.
- At this stage, we have the most discretion to influence wage costs for outstanding policy decisions on manifesto commitments, and the least discretion to influence the costs of near-final collective bargaining settlements.
- The **“high” package makes progress toward our commitments to extend a living wage to certain government contracts, and to establish Fair Pay Agreements (FPA),** [33,34]

# Wellbeing Analysis



# Wellbeing Analysis – Approach

- There are three elements to the wellbeing analysis for the emerging Budget 2021 Package: **impact analysis, wellbeing considerations, and distributional analysis.**
- For the impact analysis, the Treasury has assessed initiatives and provided ratings based on: (1) **contribution to Budget priorities**, (2) **value for money**, and (3) **implementation readiness**. This is used alongside other **wellbeing considerations**, such as the Government's wellbeing objectives and wellbeing domains.
- Using available information for the distributional analysis, the Treasury has identified initiatives within the package that may either: directly target Māori or Pacific Peoples, significantly impact Māori or Pacific Peoples, or have no notable impacts for Māori or Pacific Peoples.
- The **following slides illustrate this wellbeing analysis** with respect to our various funding options for this Budget.

# Wellbeing Analysis – Diagrams

The Treasury assessment of Budget initiatives considered:

**1. Contribution to Budget priorities** – weak (1), medium (2), strong (3)

Budget 2021 priorities are:

- Meeting critical cost pressures
- Funding time-sensitive and high priority manifesto commitments

**2. Value for money** – weak (1), medium (2), strong (3)

- This is a qualitative assessment comprising information provided on cost benefit analysis and wellbeing alignment

**3. Implementation readiness** – qualitative analysis of the likelihood of the delivery of benefits using a **red, amber, green** rating

# Wellbeing Analysis – Domains and Objectives

## 12 Domains of Wellbeing



Civic engagement and governance



Cultural identity



Environment



Health



Housing



Income and consumption



Jobs and earnings



Knowledge and skills



Time use



Safety and security



Social connections



Subjective wellbeing

## LSF Wellbeing Domains:

The 12 domains of current wellbeing reflect our understanding of what contributes to how New Zealanders experience wellbeing. For each initiative, up to three domains were identified. They are not weighted, and represent a qualitative assessment of the initiative's contribution to overall wellbeing.

## Wellbeing Objectives:

The five wellbeing objectives set by the Government are:

- **Just Transition** – Supporting the transition to a climate-resilient, sustainable and low-emissions economy while building back from COVID-19.
- **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.
- **Māori and Pacific** – Lifting Māori and Pacific incomes, skills and opportunities, and combatting the impacts of COVID-19.
- **Child Wellbeing** – Reducing child poverty and improving child wellbeing.
- **Physical and Mental Wellbeing** – Supporting improved health outcomes for all New Zealanders and keeping COVID-19 out of our communities.

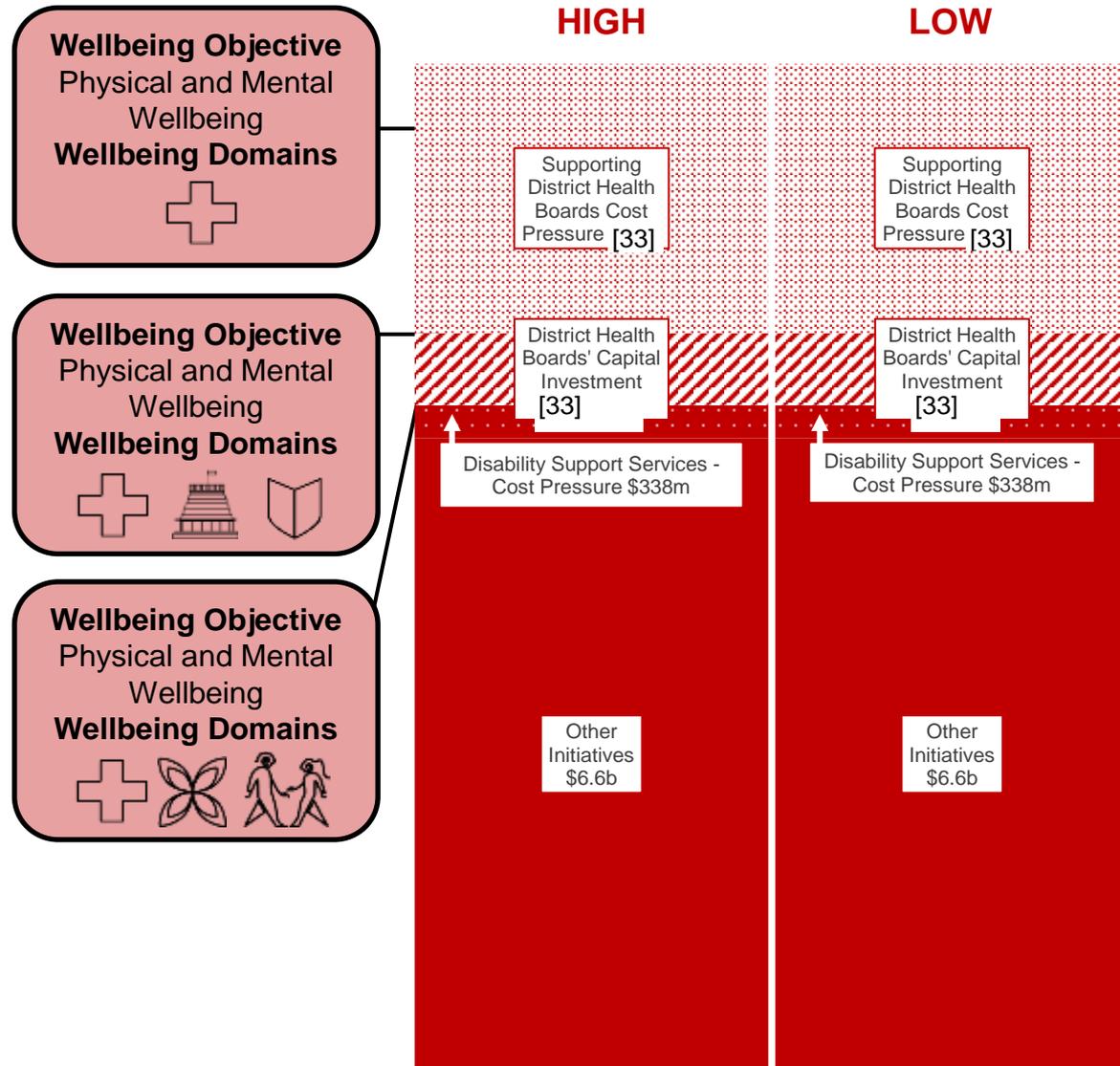
# Cost Pressures





# Wellbeing Domains and Objectives – Cost Pressures

- The largest initiatives in the cost pressure option are significant DHB investments.
- This is reflected with the three largest initiatives (totalling 37% of total cost pressure package) identifying Physical and Mental Wellbeing as the primary Wellbeing Objective, and Health as the common Wellbeing Domain across these initiatives.



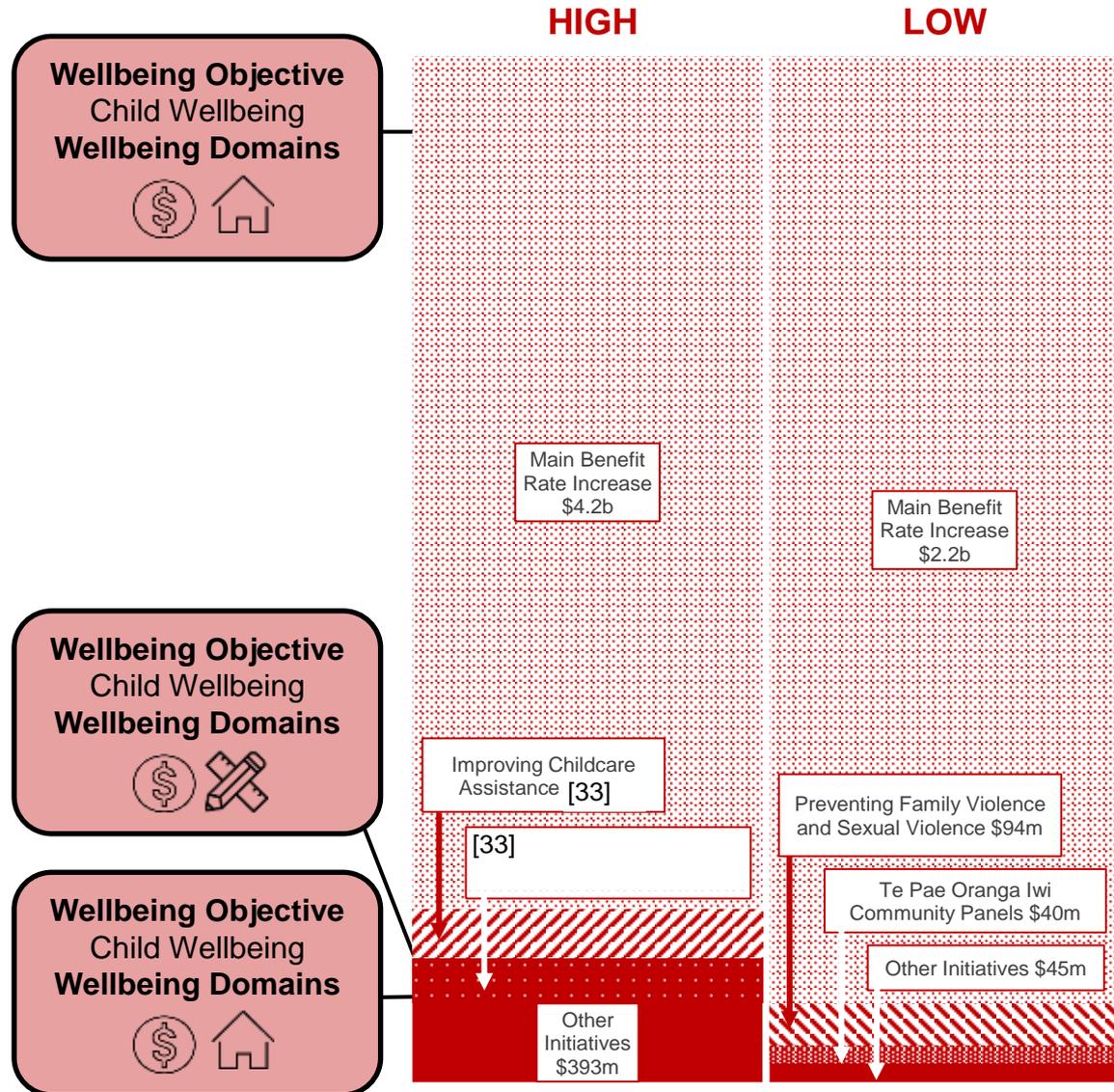
# Child Wellbeing





# Wellbeing Domains and Objectives – Child Wellbeing

- The central Wellbeing Domain across the three largest initiatives is Income and Consumption.
- This is related to the income support initiatives which provide direct financial support to low income New Zealanders.



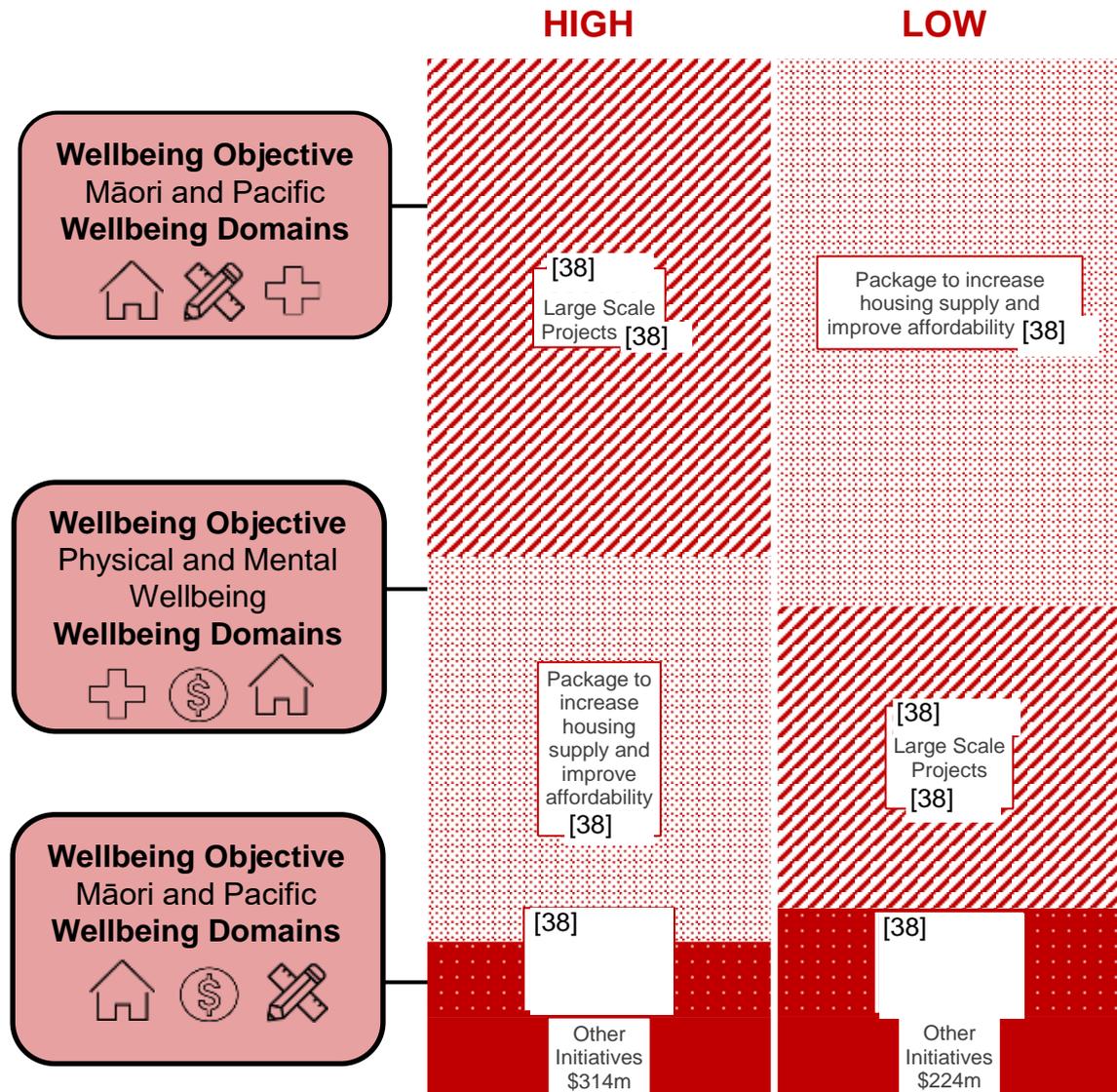
Housing



# Wellbeing Domains and Objectives – Housing

- Māori and Pacific is identified as the primary Wellbeing Objective in the package, largely driven by the investment in [38] *LSPs* and the [38]

- Housing is the most common Wellbeing Domain across the largest three initiatives.



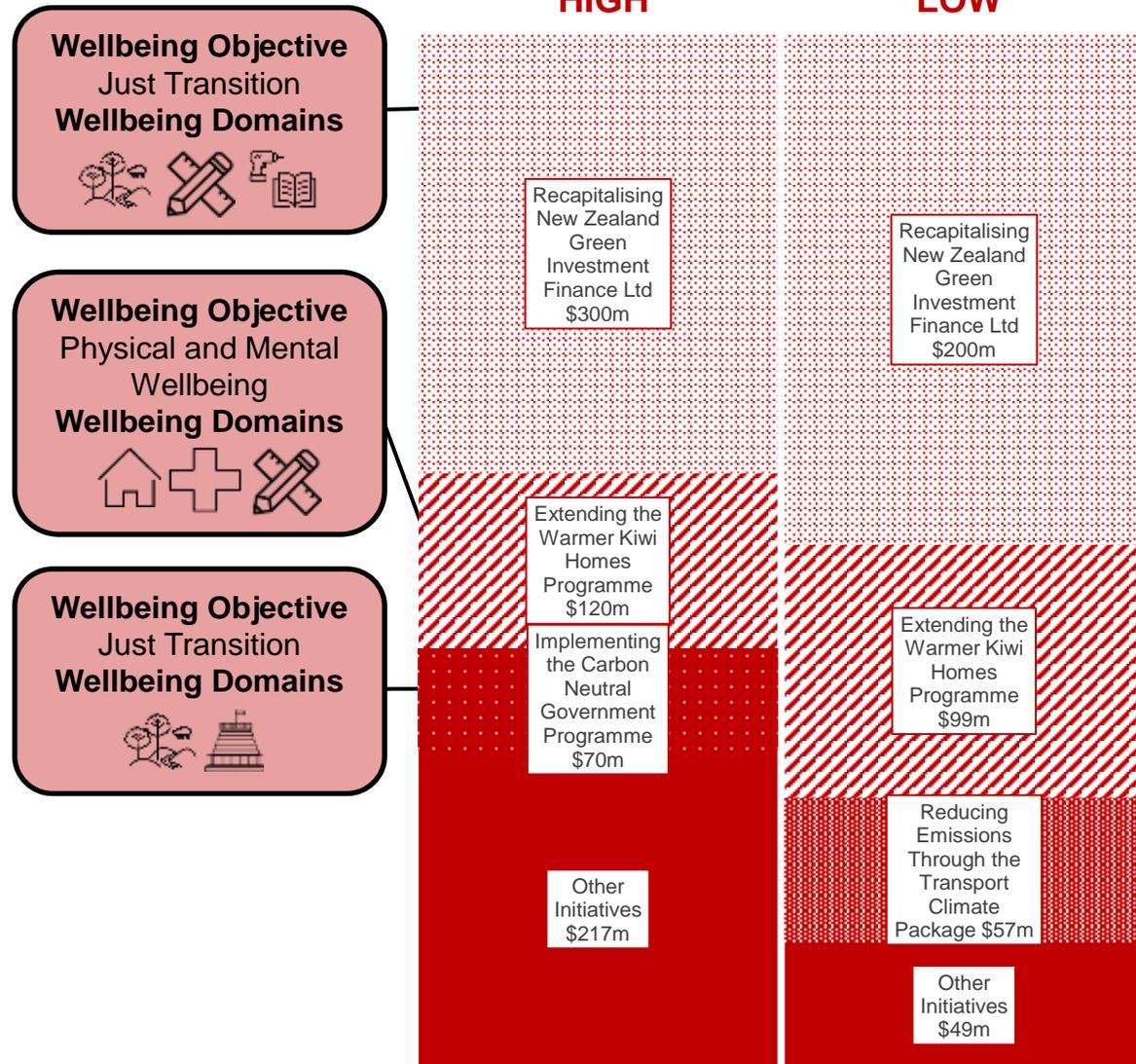
# Climate Change





# Wellbeing Domains and Objectives – Climate

- Just Transition is the most common Wellbeing Objective identified in the Climate package, with the exception of the *Extending the Warmer Kiwi Homes Programme*. This identified the Physical and Mental Wellbeing objective.
- The Knowledge and Skills and Jobs and Earnings Wellbeing Domains are driven by capital investments across the *Green Investment Fund Ltd* and *Carbon Neutral Government Programme*.



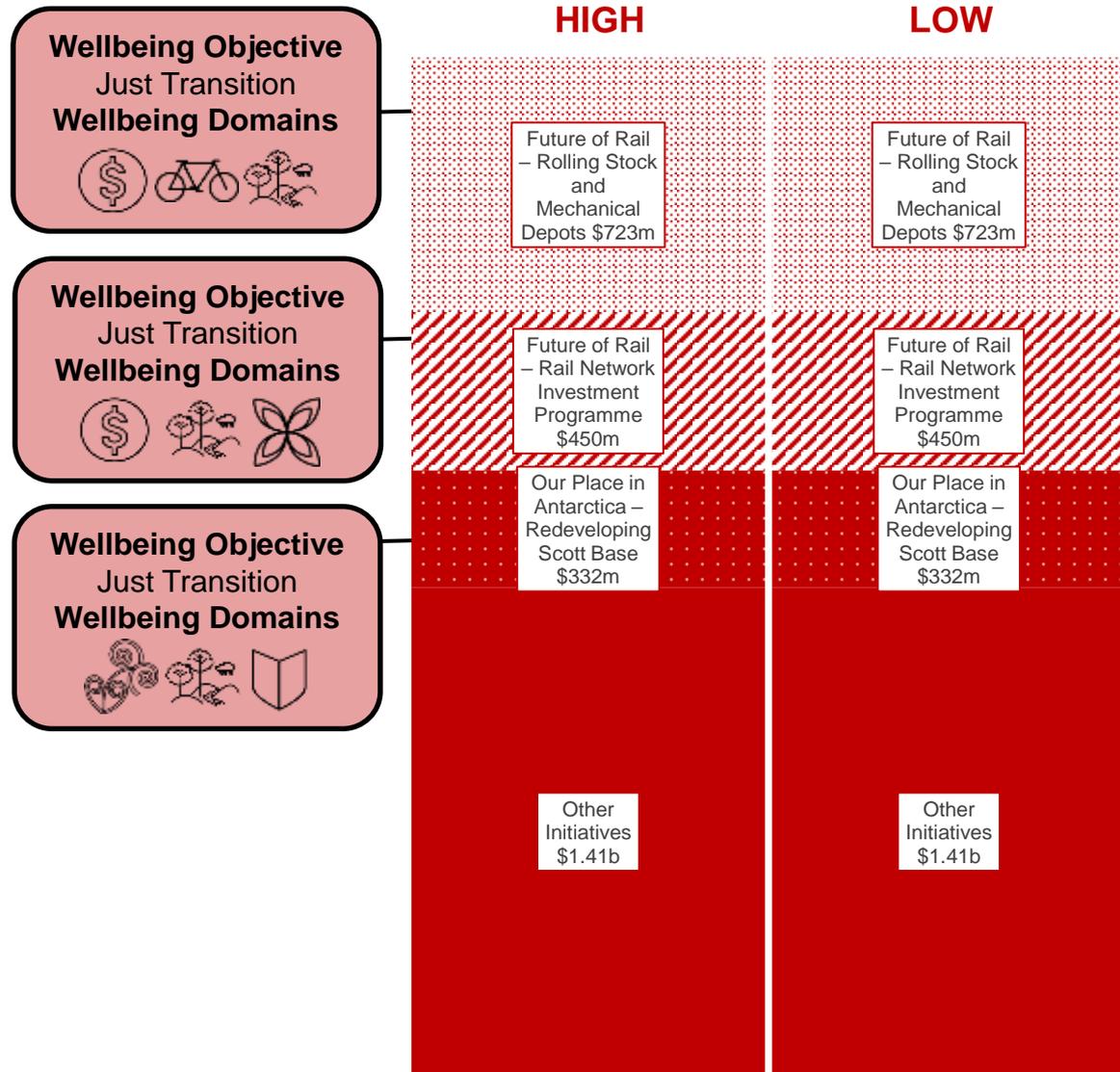
Manifesto – Other





# Wellbeing Domains and Objectives – Manifesto Other

- Just Transition and Environment are the most common Wellbeing Objective and Wellbeing Domain across the largest three initiatives (comprising 52% of the Manifesto – Other package).
- This is largely driven by investments in the *Future of Rail*, which has a strong focus on mode shift and reducing emissions.



# Distributional Analysis





