

The Treasury

Budget 2021 Information Release

August 2021

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Budget Ministers 3

Budget 2021: Final Package

29 March 2021

Purpose

The key objective for this meeting is to seek your agreement to a final package for Budget 2021. Agreeing this today is critical for us to be able to take the final package to Cabinet for agreement on 12 April, and subsequently present the Budget on 20 May.

To achieve this, I would like to:

1. Provide you with the updated economic and fiscal outlook
2. Agree to a Budget 2021 package that I will take to Cabinet
3. Note the wellbeing implications and distributional impacts of the overall package, which are discussed in the attached material:
 - A supplementary slide pack
 - An annex of all initiatives in the Budget package
 - Child Poverty Report material
4. Discuss the next steps in the Budget process, including resolving outstanding issues to finalise the package.

Economic and Fiscal Outlook

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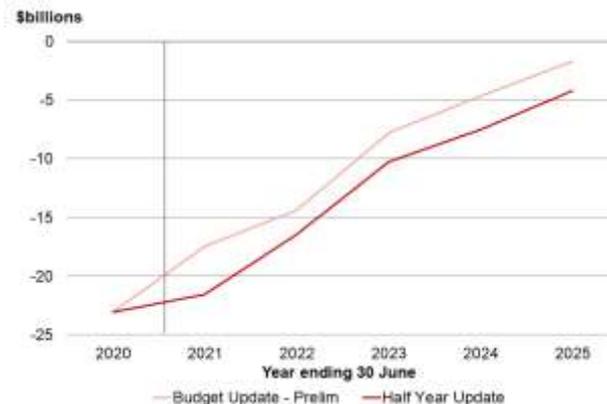
Economic and Tax Outlook

- The Treasury's preliminary economic forecasts, finalised in mid-February indicated an **improved outlook** and sizable upward revisions to historical data. This resulted in **nominal GDP being cumulatively \$100 billion higher by the end of the forecast period**, of which around \$55 billion reflects the stronger underlying economy (and the remainder reflects revisions to historical data).
- This improved outlook informed preliminary core Crown tax **revenue forecasts which increased by nearly \$23 billion over 2020 to 2025** compared to HYEPU 2020. However, this is still \$16 billion below pre-pandemic (HYEPU 2019) levels.
- Since then, real GDP data for Q4 2020 came in weaker than expected at -1%. Nominal GDP growth – which is more important for tax revenue – was relatively close to the preliminary forecast (at -1.6% compared to the -1.3% expected).
- The Treasury's final economic and tax forecasts will take on board Budget policy decisions, on the 1st and 9th of April respectively.
- These forecasts are **dependent on some key assumptions**, including that there will be no further increases in alert levels for an extended period.
- **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 and takeup of vaccines.
- This uncertainty means that there are **likely to be larger-than-normal revisions to the outlook** over the coming years.

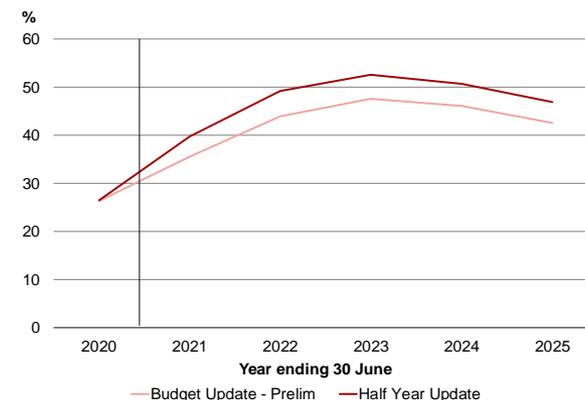
Updated Fiscal Outlook

- The Treasury's preliminary fiscal forecasts show a **significant improvement in the Government's fiscal outlook since the last update**, on the back of improved economic conditions. These revised forecasts show us continuing to meet our fiscal objectives, even with an increase in allowances.
- As mentioned, the forecast for tax revenue has been revised up in all years. After reflecting an increase in Budget allowances, the operating balance before gains and losses (OBEGAL) deficits are expected to be on average around \$3 billion lower than expected at the Half Year Update.
- As the majority of our COVID-19 fiscal support measures unwind, OBEGAL deficits are expected to reduce in each year of the forecast period, narrowing to a \$1.7 billion deficit by 2024/25.
- Net core Crown debt as a percentage of GDP initially rises, peaking at just under 48% in 2022/23, before declining. The net core Crown debt track is lower compared to the Half Year Update, largely driven by improved economic conditions.
- If we looked through the impact of the Reserve Bank's Funding for Lending Programme, net core Crown debt would peak at 40% of GDP.
- I want to highlight that **this fiscal outlook assumes a \$3 billion operating allowance for Budget 2021, and a \$12 billion multi-year capital allowance (MYCA).**

OBEGAL compared to the Half Year Update



Net core Crown debt compared to the Half Year Update

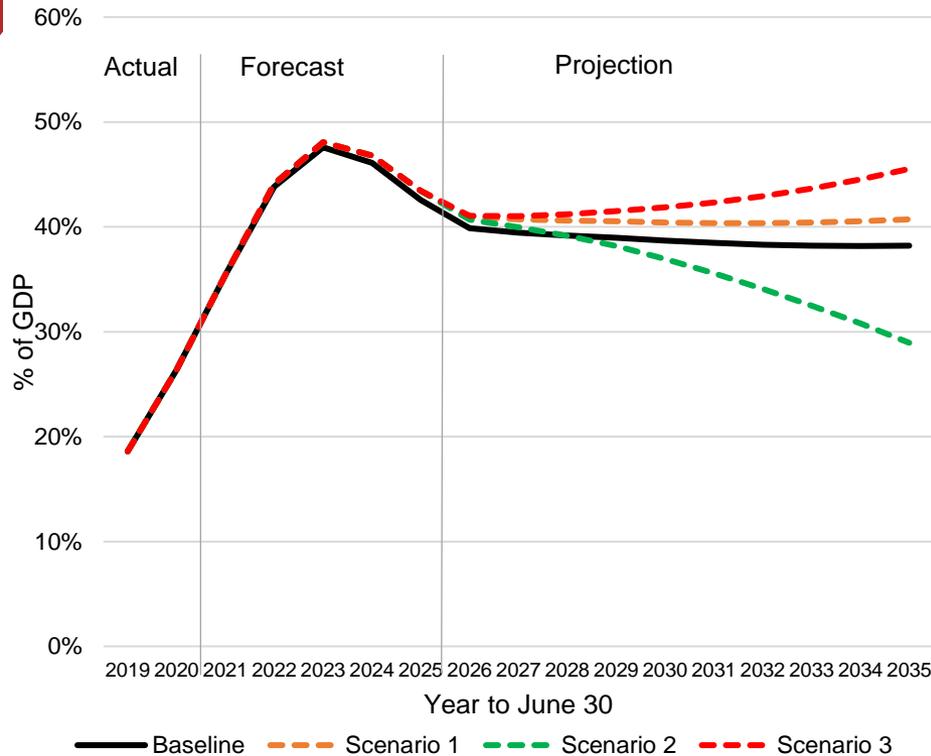


Key Assumptions

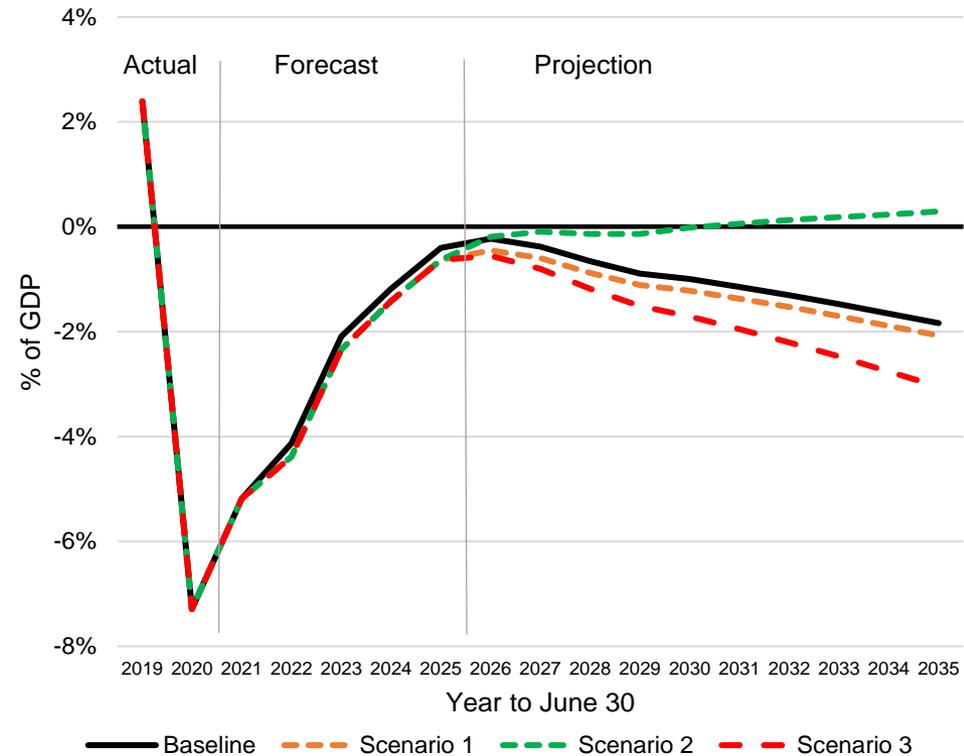
\$billions	Total Forecast
Operating Allowance (B21 - B24)	3.0
Capital Allowance (B21 - B24)	12.0
Unallocated CRRF	6.0
Housing Acceleration Fund	3.8

Updated Fiscal Outlook

Scenarios for net core Crown debt



Scenarios for OBEGAL



The **Baseline** includes a \$3 billion operating allowance in the forecast period, a \$2.8 billion operating allowance across the projection period, and MYCA of \$12 billion.
Scenario 1 is the baseline with the current Budget package as the operating allowance for Budget 2021.
Scenario 2 is the Budget package with \$1.7 billion operating allowance across the projection period.
Scenario 3 is the Budget package with \$3.25 billion operating allowance across the projection period.

- If we take different assumptions about this Budget's operating allowance, scenarios look different for OBEGAL and net core Crown det.
- **Our current Budget package, which is larger than at our last meeting, is shown in the orange 'Scenario 1' line.**
- This shows these two critical indicators stabilising over the forecast period even where we spend more to address cost pressures and achieve our manifesto commitments.

Final Budget Package

Final Package – Headline Figures

- The **final Budget 2021 package** totals **\$4.0 billion average operating** per annum over the forecast period (2020/21 to 2024/25) and **\$3.6 billion capital total** over 10 years. Please note that unless otherwise stated, all operating figures in these slides refers to the forecast period (2020/21 – 2024/25) and capital refers to spending over 10 years.
- This package **exceeds the \$3 billion annual operating allowance** that we agreed at our last meeting by \$0.9 billion. I therefore seek your agreement to a higher allowance of \$3.9 billion for Budget 2021, and note that this will adversely impact the fiscal outlook we discussed earlier.
- In spite of the size of the package, we have made some very difficult trade offs to **only fund critical cost pressures and a limited number of key manifesto commitments outside priority areas**. I am also proposing to ease pressure on allowances by funding time-limited, COVID-19 related costs through the CRRF.

Breakdown of final packages...

\$ million	Operating p.a.	Total capital
Precommitments	216	11
Cost Pressures	1,870*	1,412
Manifesto – Child Wellbeing	645	1
Manifesto – Climate Change	94	336
Manifesto – Housing	145	0
Manifesto – Other	534	1,036
Education Package	450	762
Between-Budget Contingency	40	0
Emerging Priorities Contingency	5	0
Non-CRRF Savings Initiative	-14	0
Budget 2021	3,985	3,558

Note: All data used in slides is accurate as at Wednesday 24 March 2021.

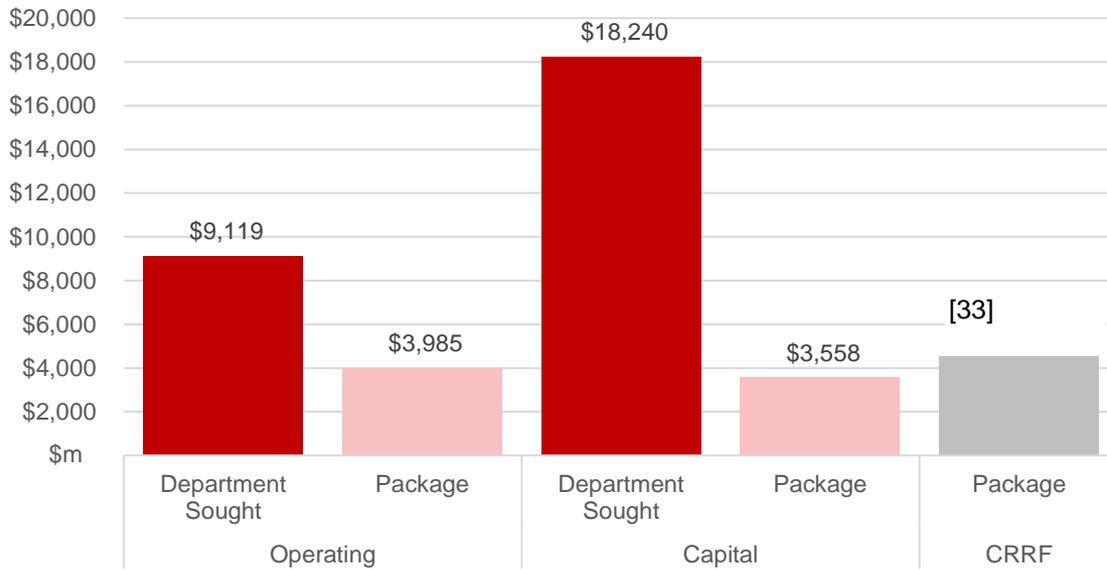
**This figure does not include Education cost pressures; these are included in the Education Package line.*

Overall...

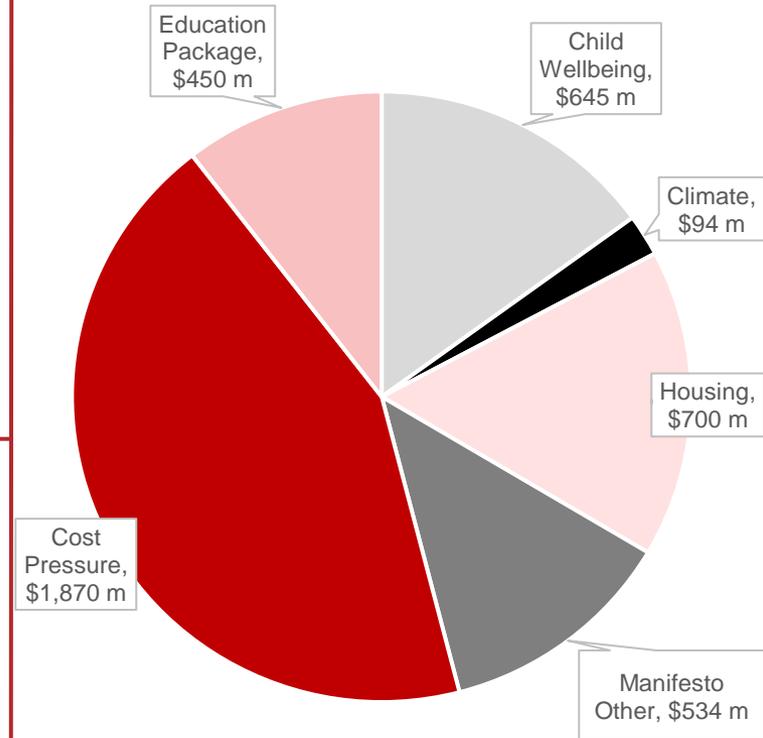
\$ billions	Operating per annum	Total multi-year capital
Total Submitted	9.1	18.2
CRRF Initiatives (incl. Housing)	4.5 of operating and capital	
Budget 2021 allowances communicated in the BPS (after precommitments)	2.4	7.8*
Budget 2021 allowances agreed at our last meeting	3.0	12.0
Final Package	4.0	3.6

Final Package – Headline Figures

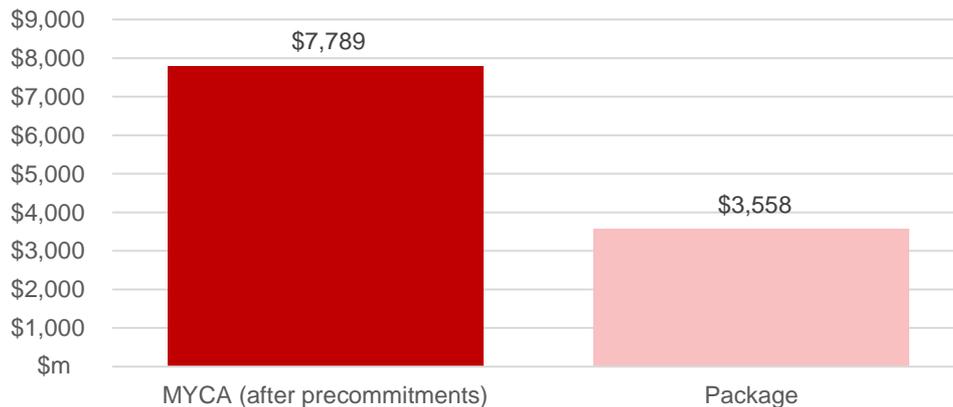
Funding Sought vs Recommended



Package (Opex Average)



Multi-Year Capital Allowance



Priority Area – Child Wellbeing

- Addressing child poverty and **improving child wellbeing** is a priority area for Budget 2021. **Income support is a key lever** to make progress towards our child poverty targets. The final sub-package that I have developed incorporates a number of **manifesto commitments** as well as **five relevant cost pressure initiatives**.
- The **cornerstone of this sub-package is our commitment to increase main benefits**. This reflects a two-stage \$50 per week per adult increase in main benefits (\$25 per week from 1 July 2021 and a further \$25 per week from 1 April 2022) charged against the Budget 2021 and 2022 operating allowances respectively, alongside a \$25 per week increase in student support as part of stage two.
- This increase to main benefits will also have an impact on child poverty, and be reflected in the **Child Poverty Report**. Further information about the Report for Budget 2021 is appended to this slide pack.

Significant manifesto – Child Wellbeing initiatives

Portfolio	Title	Opex avg (\$m)	Capex total (\$m)
Social Development	Main Benefit Rate Increase and Complementary Changes – 1 July 2021 increase; <i>Budget 2021 operating allowance charge</i>	536	-
Social Development	Main Benefit Rate Increase and Complementary Changes – 1 April 2022 increase – includes \$25 per week increase in student allowances (operating) and student loans (capital); <i>Budget 2022 operating allowance precommitment</i>	607	455*
[33]			
Oranga Tamariki	Improving the Maori-Crown relationship to enhance the wellbeing of tamariki and whanau in greatest need**	[33]	-
Police	Te Pae Oranga iwi community panels: alternative to court for low-level offending	18	-
Justice	Safeguarding child wellbeing and building a strong foundation for change in the family justice system	4	-
Social Development	Improving Childcare Assistance for low and middle-income families	3	-
Other	<i>10 child wellbeing initiatives not listed above</i>	37	1
Total package (not including Budget 2022 pre-commitments)		[33]	

Do you agree to take this child wellbeing package to Cabinet?

Agree

Disagree

*Reflects additional student loan support, so fiscally neutral over time and not charged against allowances.

Priority Area – Housing

- Housing is a key determinant of wellbeing, and improving the affordability of housing will be necessary to achieve our objectives in areas like child poverty. Government investment alone will be insufficient to improve housing affordability at scale. To achieve this, **spending should be paired with short and long-term regulatory levers and reforms**, including through our reform of the resource management system.
- As part of a suite of measures designed to address housing affordability, we **recently announced the formation of a \$3.8 billion Housing Acceleration Fund** focused on accelerating supply in the short to medium term. As we have previously agreed, this investment will be funded from the COVID-19 Response and Recovery Fund.

Significant manifesto – Housing initiatives

Portfolio	Title	Opex avg (\$m)	Capex total (\$m)
Housing	Housing Acceleration Fund (funded from the CRRF)	700	1000
Housing	Joint HUD-TPK Māori Housing Initiative	95	-
Housing	Kāinga Ora Land Acquisition Fund	46	-
Housing	Ensuring compliance with the Healthy Homes Standards	4	-
Total package		895	1,000

Do you agree to take this housing package to Cabinet?

Agree

Disagree

Priority Area – Climate Change

- The Climate Change Commission draft report has confirmed that we are **not on track to meet our emissions targets**. I have created a sub-package that will start making progress towards these targets, but will not be sufficient in and of itself.
- **I am only recommending targeted investment in those initiatives that are implementation-ready**, representing the highest value-for-money.
- I anticipate **we will need to invest significantly more in this priority in Budget 2022**. We may wish to signal this early to support development of an improved package for Budget 2022. This may include proposals related to hypothecation of revenue from the Emissions Trading Scheme, which I recommend deferring consideration of.
- In some cases, I have scaled initiatives to fund further policy development ahead of Budget 2022. As with the child wellbeing sub-package, this sub-package includes **four relevant cost pressure initiatives**.*

Significant manifesto – Climate Change initiatives

Portfolio	Title	Opex avg (\$m)	Capex total (\$m)
Climate Change	Recapitalising New Zealand Green Investment Finance Ltd	-	300
Transport	Reducing Emissions through the Transport Climate Package	13	16
Energy and Resources	Extending the Warmer Kiwi Homes Programme	30	-
Climate Change	Implementing the Carbon Neutral Government Programme	12	20
Energy and Resources	Expanding The Scope And Size Of Funding For Low Emission Transport Technologies And Fuels	10	-
Agriculture, Biosecurity, Fisheries and Food Safety	Accelerating the delivery of a national integrated farm planning system to New Zealand's farmers and growers	9	-
Other	<i>6 climate change initiatives not listed above</i>	20	-
Total package		94	336

Do you agree to take this climate change package to Cabinet?

Agree

Disagree

*The Treasury considers that these cost pressures are more appropriately considered in the context of this priority area.

Manifesto – Other

- As our **manifesto commitments will be sequenced across three Budgets**, the Manifesto – Other sub-package limits funding to only the **most time-sensitive commitments** that are not encompassed by our priority areas. I recommend that initiatives that are not time-sensitive are instead reconsidered as part of a future Budget.
- Future of Rail commitments** represent around one quarter of the operating component of these options and two thirds of the capital component.

Do you agree to take this manifesto package to Cabinet?

Agree

Disagree

Significant manifesto – other initiatives

Portfolio	Title	Opex avg (\$m)	Opex total (\$m)	Capex total (\$m)
Transport	Future of Rail – Rail Network Investment Programme	112	450	-
Prime Minister and Cabinet	Health and Disability System Review – System Operating Model	[33]		1
Internal Affairs	Transforming three waters service delivery for New Zealanders	74	296	-
Health	Health and Disability System Review – Locality Health and Wellbeing Networks and Hauora Maori	43	173	-
Environment	Designing, delivering and implementing comprehensive and sustainable reform of the Resource Management system	33	132	-
Transport	Future of Rail – Rolling Stock and Mechanical Depots	-	-	723
Foreign Affairs	Our Place in Antarctica - Redevelop Scott Base to maintain a safe presence in Antarctica to conduct high quality science	6	23	309
Other	23 manifesto – other initiatives not listed above	188	752	8
Total		[33]		1,041

Key manifesto initiatives excluded from package

Portfolio	Assess.	Title	Opex avg sought (\$m)	Opex total sought (\$m)	Capex total sought (\$m)
[33]					
Oranga Tamariki	Defer	Improving Māori-Crown relationship to enhance wellbeing of tamariki and whānau	[33]		

[33]

*\$1m has been included in the Climate Change package for policy development.

Enabling Māori Aspirations

- Our government has made a commitment to **work in partnership** with Māori toward improving intergenerational wellbeing and reducing disparities between Māori and non-Māori.
- **Across the Budget 2021 package there are a range of initiatives targeted at achieving better outcomes for Māori** in key areas such as Health, Housing and the Justice sector.

Māori package initiatives

Portfolio	Title	Opex avg (\$m)	Opex total* (\$m)
Housing and Māori Development	Joint initiative for Māori housing solutions	95	380
Health	Health and Disability System Review – Locality Health and Wellbeing Networks and Hauora Māori	43	173
Oranga Tamariki	Improving the Māori-Crown relationship to enhance the wellbeing of tamariki and whānau in greatest need	[33]	
Police	Te Pae Oranga iwi community panels: tikanga Māori and Whānau Ora-based alternative to court for low-level offending	18	70
Prime Minister and Cabinet	Enabling the National Emergency Management Agency to build safe and resilient communities	11	46
Māori Development	Maihi Karauna - Implementation of the Māori Language Strategy	4	15
Statistics	Iwi-led data collection for 2023 Census	4	14
Courts	Whakaoranga te mana tangata – uplifting the mana of offenders, victims and whānau	3	14
Corrections	Māori Pathways – Kaupapa Māori services for wāhine	2	9
Other	8 other Māori-targeted initiatives not included above	12	47
Total		[33]	

A separate decision is NOT required on this package, as the initiatives are distributed among the substantive sub-packages.

Cost Pressures

- As in previous years, **cost pressures make up the majority of the Budget 2021 package**. This reflects a number of drivers, including legislative changes we have made, price and volume increases, and the fact that funding for cost pressures in recent Budgets has been time-limited or scaled, which increases cost pressures in future years.
- The final cost pressure package focuses on maintaining services with minimum viable funding allocations. Funding is predominantly focused on the **Health and Education portfolios**.
- Overall, **we are facing very large operating cost pressures across a number of portfolios**, with limited discretion to scale these back.

Significant operating cost pressure initiatives

Portfolio	Title	Opex avg (\$m)	Opex total* (\$m)
Health	Supporting District Health Boards Cost Pressure	[33]	
Health	Disability Support Services – Cost Pressure	100	399
[37,38]			
Education	Holidays Act Remediation for School and Ministry Payroll	68	270
Justice	Continued Legal Aid funding: maintaining legal representation for participants who cannot afford legal services	59	235
Social Development	Remuneration Increases for MSD Staff as a Result of Collective Bargaining	[33]	
[33]			
Economic and Regional Development	New Zealand Screen Production Grant – International	50	199
Housing	Extension of Short-term housing and associated programmes	50	199
Health	Planned Care Initiative – Cost Pressure	49	194
Other	108 operating cost pressure initiatives not listed above, excluding priority area cost pressures	899	3,605
Total		2,152	8,609

Do you agree to take this operating cost pressures package to Cabinet?

Agree

Disagree

Cost Pressures

- The Government is facing very large unavoidable capital cost pressures across a number of portfolios. **Health, Education and Transport capital cost pressures make up a considerable part of the capital package.**
- Capital initiatives** in the Budget 2021 package **total \$3.6 billion (including both manifesto initiatives and cost pressures)** over 10 years.
- At our last meeting we agreed to increase the MYCA to \$12.0 billion.** This means that the remaining MYCA after Budget 2021 will be \$8.4 billion.

Do you agree to take this capital cost pressures package to Cabinet?
Agree **Disagree**

Significant capital cost pressure initiatives

Portfolio	Title	Capex total* (\$m)
Health	District Health Boards' Capital Investment	700
Education	Meeting Cost Increases in Legacy Redevelopment Projects	150
Transport	Capital to fund Cabinet-agreed investment in Aviation Security Infrastructure and Regulatory Systems	113
Health	Hira programme (previously referred to as the national Health Information Platform)	[33]
Transport	Future of Rail – Core Asset Management	87
Education	Purchasing Land for New Schools	85
Health	Investment in foundational data and digital infrastructure and capability to enable Health System transformation	[33]
Other	28 capital cost pressure initiatives not listed above, excluding priority area cost pressures	474
Total		1,779

Cost pressures excluded from package

I would also like to highlight the cost pressures, both operating and capital, that have **not been included in the package**. In total, 34 submitted cost pressure initiatives have either not been supported or have been recommended for deferral.

Portfolio	Assessment	Title	Opex avg sought (\$m)	Opex total sought (\$m)	Capex total sought (\$m)
[33]					
Education	Defer	Funding the Next Phase of the National Education Growth Plan	[33]		
[33]					
Education	Defer	Improving the Property at State-Integrated Schools	13	53	-
Other	-	30 other cost pressure initiatives not in package	90	358	15

*Excluding initiatives to be funded through the CRRF.

**Includes CRRF initiatives.

CRRF Funding and Reprioritisation

CRRF Reprioritisation

- In total, over the forecast period, I have identified potential **CRRF reprioritisation options of [33]** This figure comprises the reprioritisation and scaling of some initiatives as well as underspends identified in the 2020/21 financial year.
- Our most important decision concerns what we do with this funding. **At our last meeting we agreed that this funding would return to the CRRF to be reallocated for similar time-limited, COVID-19 related initiatives.**
- One savings initiative in Corrections has also been submitted which is returning funding to the centre (rather than the CRRF).

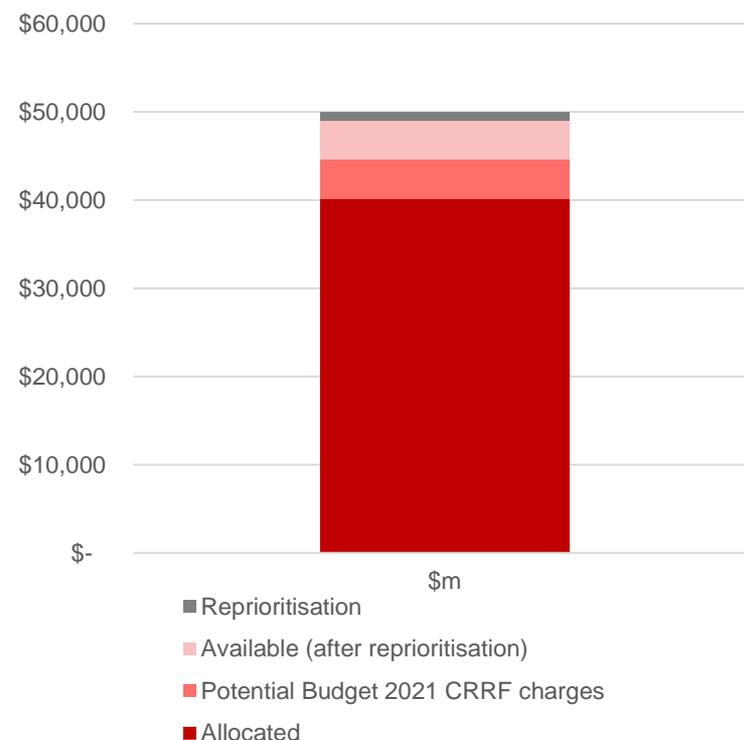
Do you agree to take this reprioritisation package to Cabinet?

Agree

Disagree

Significant CRRF initiatives for reprioritisation

Portfolio	Title	Total repri. opex (\$m)	Total repri. capex (\$m)
Health	SuperGold card health and eye check	260	-
Transport	Supporting NTLF revenue shortfall and meeting COVID costs	250	-
Education	Sustaining the Early Learning Network	172	-
Education	Critical Funding to Address Supplier Contractual Obligations	5	51
Transport	Impacts for Waka Kotahi NZTA Regulatory Memorandum Accounts	47	-
Business, Science and Innovation	Tourism Sector Recovery Fund (STAPP Loans and ITO STAPP Loans)	33	-
Finance	Cancellation of TVNZ uncalled capital facility	-	30
Health	Savings from COVID-19 initiative Combined Pharmaceutical Budget - Continuity of Supply of Medicines and Medical Devices	29	-
Other	10 initiatives not listed above	48	-
Total		[33]	



Note: reprioritisation options largely relate to one-off, rather than ongoing, initiatives.

COVID-19 Response and Recovery Fund

- A number of initiatives submitted for Budget 2021 have been identified as candidates for CRRF funding (\$3.2 billion total operating and \$1.3 billion total capital). **These initiatives are excluded from draft Budget package aggregates.** Funding time-limited COVID-19 response and recovery initiatives from the CRRF will help ease pressure on Budget 2021 allowances.
- These initiatives reflect our earlier decisions to **fund the Housing Acceleration Fund** (\$2.8 billion total operating and \$1.0 billion total capital) and fund **the reinstatement of the Training Incentive Allowance** (\$137 million total operating).
- After these Budget decisions, the **unallocated balance of the COVID-19 Response and Recovery Fund (CRRF) will be [33]** (assuming reprioritisation of [33]).
- [33]

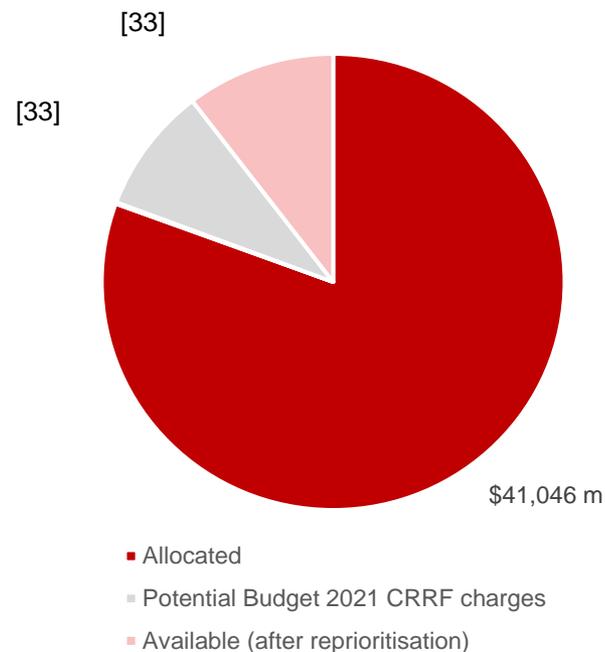
Candidates for CRRF funding

Portfolio	Title	Opex total (\$m)	Capex total (\$m)
Housing	Housing Acceleration Fund	2800	1000
Social Development and Employment	Reinstatement of the Training Incentive Allowance for Main Benefit Recipients	137	-
Social Development and Employment	Meeting demand for employment services and products in response to labour market impacts of COVID-19	100	-
Social Development and Employment	Supporting MSD COVID-19 Response by Providing Staff to Respond to New Zealanders Income, Employment and Housing Needs	86	-
Pacific Peoples	Expanding Tupu Aotearoa to Support Pacific Peoples	30	-

[33]

Immigration	Financial Sustainability: Third Party Revenue Replacement Funding	-	173
Customs	Financial Sustainability: Third Party Revenue Replacement Funding	-	[33]
Other	9 initiatives not listed above	60	56
Total for CRRF		[33]	

Note: Totals may appear not to sum due to rounding.



Note: Allocated balance is net, inclusive of \$1 billion return agreed through Budget Strategy Cabinet Paper. Unallocated balance includes [33] of reprioritised funding to be returned to CRRF.

Next Steps



Budget 2021 Outstanding Issues

A number of **issues still need to be resolved** before we present this Budget to our Cabinet colleagues on Monday 12 April.

Transport: Clean car discount

- The Minister of Transport has put forward three options for consideration. **Please indicate which option you wish to progress.**
 - (1) Clean car discount** (\$36.6 million total capital): Crown loan to Waka Kotahi for a fiscally-neutral “feebate” scheme on new and used imported vehicles.
 - (2) Enhanced clean car discount** (\$265 million total operating and \$36.6 million total capital): to be implemented in addition to the clean car discount by temporarily increasing the available rebates until the operating funding is exhausted. This operating funding is not to be recovered, so is not fiscally neutral.
 - (3) Alternative proposal for the clean car discount** (\$301.6 million total capital): Crown loan to Waka Kotahi to implement the rebate aspect of the clean car discount from 1 July 2021 with the introduction of the fee aspect to follow once legislation is passed. Intended to be fiscally neutral, but the scheme would run at a loss for the first three financial years (at least).
 - (4) Alternatively, we may wish to exclude the clean car discount from the draft package.**

[33]

- [33]

- [33]

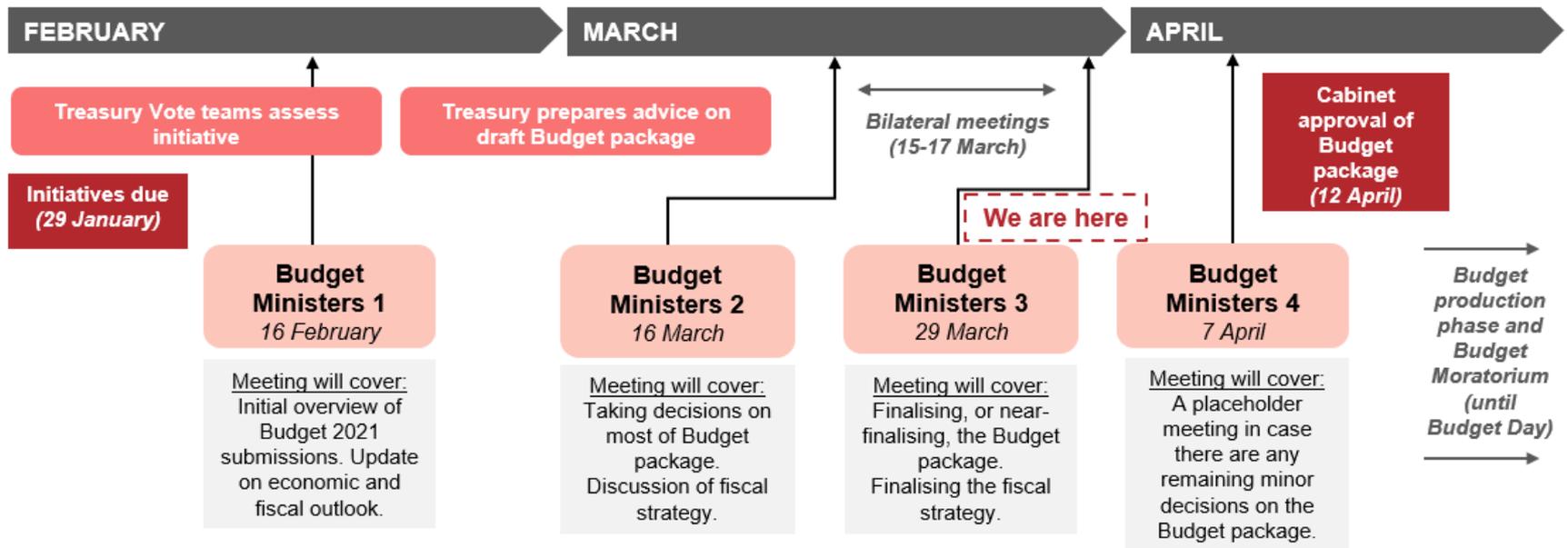
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[33]

Budget 2021 Outstanding Issues

[33]

Next Steps



- In order for us to present the final package to Cabinet on 12 April, **we need to agree to the final package today.**
- If we do not agree to the final package today, there is a risk that we are not able to agree the final package on 12 April – which would **impact our ability to present the Budget on 20 May.**
- Following today’s meeting, the Treasury will communicate our decisions to agencies. This will allow them to begin preparing the Budget Cabinet paper.
- **We have a meeting scheduled for 8.45am on 7 April.** The intention for this meeting is to make only very minor changes around the margins of the final Budget package.