The Treasury

Budget 2021 Information Release

August 2021

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[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.

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Confirming the Fiscal Strategy for Budget 2021

Date:	26 March 2021	**Report No:**	T2021/657
		File Number:	MC-1-5-2

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	Consider recommendations and discuss at Budget Ministers 3	To be discussed at Budget Ministers 3 on 29 March 2021

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Hannah Waine	Analyst, Macroeconomic and Fiscal Policy	[39]	N/A (mob)	✓
Angus Hawkins	Team Leader, Macroeconomic and Fiscal Policy		n/a (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Confirming the Fiscal Strategy for Budget 2021

Executive Summary

This report updates our preliminary fiscal strategy advice for Budget 2021 (T2021/316) with the preliminary Budget Economic and Fiscal Update (BEFU) 2021 fiscal forecasts. These forecasts have not altered the substance of our fiscal strategy advice but do provide an updated view of the fiscal outlook under different allowance settings.

You last set the Government's short-term intentions and long-term objectives (fiscal targets) in the Budget Policy Statement (BPS) 2021. The BPS updated the operating balance intention and the operating balance and debt objectives to centre around 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)".*

We recommend maintaining your current fiscal targets as set out in the BPS. The economic and fiscal outlook has not changed substantially since the current fiscal targets were agreed in December 2020, and therefore the fiscal strategy advice that informed the fiscal targets has not substantially changed. The updated fiscal outlook remains consistent with your fiscal strategy as presented in the fiscal targets.

We understand that at Budget Ministers 2 on 16 March, Budget Ministers agreed to increase the operating allowance to $3.0 billion per year for Budget 2021 and across the forecast period. You also agreed to increase the multi-year capital allowance (MYCA) to $12 billion. These decisions align with the recommendations in our previous fiscal strategy advice for Budget 2021 (T2021/316). At Budget Matters 2 on 9 March you also indicated a preference for operating allowances in the projection period (2025/26 to 2034/35) of around $2.8 billion per year, consistent with stabilising net core Crown debt at around 40% of GDP.

We support these increases to allowance levels, so that allowances can realistically meet critical cost pressures and still act as a restraint on new spending.

However, principle (b) of section 26G(1) of the Public Finance Act 1989 (PFA) requires that, on average, total operating expenses do not exceed total operating revenues over a reasonable period of time. Operating allowances of $3.0 billion per year in the forecast period and $2.8 billion per year in the projection period result in persistent deficits across the forecast and projection periods. [36]

Cabinet agreed in November 2017 to a funding profile for contributions to the New Zealand Superannuation Fund (NZSF) (CAB-17-MIN-0506). **Budget 2021 is the final year of this funding profile, with an annual NZSF contribution of $2.42 billion** and a contribution to the venture capital fund (Elevate NZ Venture Fund) (DEV-19-MIN-0221) of $80 million for 2021/22.[1]

[1] These total an annual contribution of $2.5 billion for 2021/22, as agreed in the referred Cabinet Minute.

From Budget 2022 onwards, Cabinet has not yet agreed NZSF contributions. We recommend that you revert to the contribution profile as assigned by the legislated formula for Budget 2022 onwards.

Recommended Action

We recommend that you:

a **note** that this report builds on our previous advice (*Fiscal Strategy for Budget 2021)* sent on 4 March (T2021/316).

Fiscal targets

b **note** that your fiscal strategy, as presented in the short-term intentions and long-term objectives (fiscal targets) in the Budget Policy Statement (BPS) 2021, remains consistent with the updated outlook based on preliminary Budget Economic and Fiscal Updates (BEFU) 2021 forecasts and the draft Budget 2021 package.

c **agree** to maintain your fiscal targets as stated in the BPS 2021 for the Fiscal Strategy Report (FSR) 2021.

Agree/disagree.

Allowances

d **note** that operating allowances for Budgets 2021 to 2024 of $3.0 billion per year were agreed at Budget Ministers 2 on 16 March.

e **note** that the operating package for Budget 2021 is $3.9 billion, subject to agreement of the final Budget package.

f **note** that a multi-year capital allowance (MYCA) of $12.0 billion for Budget 2021 was agreed at Budget Ministers 2.

g **agree** to set the allowance assumptions in the Fiscal Strategy Model (FSM) as follows:

i. operating allowance of $2.8 billion for Budget 2025/26 growing at 2% per year.

ii. capital allowance of $4 billion for Budget 2025/26 growing at 2% per year.

Agree/disagree.

Legal implications

h **note** that principle (b) of the principles of responsible fiscal management in section 26G(1) of the Public Finance Act 1989 (PFA) states that: *"once prudent levels of total debt have been achieved, maintaining those levels by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues."*

i [36]

[36]

NZSF contributions

l **note** that Cabinet agreed in November 2017 to an funding profile for contributions to the New Zealand Superannuation Fund (NZSF), which included NZSF contributions of $2.5 billion for 2021/22 (CAB-17-MIN-0506). Of this $80 million will now go to the venture capital fund (Elevate NZ Venture Fund) (DEV-19-MIN-0221), leaving $2.42 to be contributed to the NZSF.

m **indicate** if you would like to contribute different amounts to the NZSF or venture capital fund for 2021/22 than those already agreed by Cabinet, as stated in recommendation l.

n **note** that this alternative NZSF funding profile ends at the end of 2021/22, and a Cabinet decision on NZSF contributions for 2022/23 is needed prior to Budget 2022.

o **note** the legislated formula states the required annual NZSF contribution is—

a ÷ 100 × that year's GDP − b

where—

a is the percentage of that year's GDP that, if the same percentage of the GDP that is projected for each of the next 40 years were contributed each year for the next 40 years, would be just sufficient, taking into account the Fund balance at the start of that year and projected Fund investment income over the next 40 years, to enable the Fund to meet the expected net cost of the New Zealand superannuation entitlements payable out of the Fund over the next 40 years

GDP is the projected annual gross domestic product of New Zealand

b is the expected net cost of the New Zealand superannuation entitlements payable out of the Fund in the year p **agree** to revert to the legislated formula above to set NZSF contributions for Budget 2022 onwards.

Agree/disagree.

Angus Hawkins
Team Leader, Macroeconomic and Fiscal Policy

Hon Grant Robertson
Minister of Finance

Treasury Report: Confirming the Fiscal Strategy for Budget 2021

Purpose of Report

1. **This report updates our preliminary fiscal strategy advice for Budget 2021** (T2021/316) with the preliminary Budget Economic and Fiscal Update (BEFU) 2021 fiscal forecasts. Within the context of the updated fiscal forecasts, this report also:

   - seeks your agreement to the Government's short-term intentions and long-term objectives (fiscal targets),
   - seeks your agreement on operating and capital allowances and growth rate assumptions across the projection period, and
   - advises on New Zealand Superannuation Fund (NZSF) contributions for Budget 2021 and future Budgets.

2. The advice and scenarios in this report are based on preliminary BEFU 2021 economic, tax, and fiscal forecasts.

Economic and Fiscal Outlook

3. **Our view on the overall economic outlook has not changed since our previous fiscal strategy advice.** The economic and tax forecasts have not been updated since you received the Treasury Report presenting the preliminary BEFU economic and tax forecasts (T2021/327) on 26 February.

4. These preliminary forecasts have recently been examined by an external panel. The panellists broadly agreed with the direction and magnitude of change compared to the Half-Year Economic and Fiscal Update (HYEFU) 2020, though acknowledged that uncertainty levels remain heightened and that there is downside risk for tourism-related sectors. You are set to receive a Treasury Report on the final BEFU economic forecasts on 8 April, followed by the final tax forecasts on 13 April.

5. **Since the preliminary BEFU economic and tax forecasts were finalised, GDP data for the December quarter 2020 was released.** This showed real production GDP fell 1.0% in the December quarter, taking it below its pre-pandemic level and resulting in an average annual change of -2.9%. The quarterly data showed a fall larger than forecast at HYEFU. However, production GDP data for the September quarter 2020 surprised on the upside, meaning that GDP data for the September and December quarters combined was roughly in line with HYEFU forecasts. Nominal expenditure GDP declined by 1.6% in the December quarter, roughly in line with our recent estimates, but still better than the HYEFU forecasts.

6. **The latest GDP data release does not change our previous fiscal strategy advice.** The quarterly fall in real GDP followed a larger-than-expected rebound of 13.9% in the September quarter, and reflects that uncertainty levels and volatility in data remain larger than usual. We expect that data will remain volatile but, provided there are no significant COVID-19 shocks, we continue to anticipate

modest growth over 2021 as a whole. Your current fiscal strategy settings provide flexibility for the non-linear nature of the recovery.

7. The preliminary BEFU fiscal forecasts were finalised 23 March. Compared to the HYEFU, the fiscal outlook has improved. This improvement is largely driven by stronger economic activity than previously forecast which has improved the outlook for tax revenue across the forecast period. The preliminary fiscal forecasts do not change the substance of our recent fiscal strategy advice (T2021/316). You are set to receive a Treasury Report outlining these and the underlying assumptions on 26 March (T2021/726). These preliminary forecasts incorporate decisions on allowances for the forecast period taken at Budget Ministers 2 on 16 March.

Fiscal Targets

8. **You set the Government's short-term intentions and long-term objectives (fiscal targets) in the Budget Policy Statement (BPS) 2021.** The BPS updated the operating balance intention and the operating balance and debt objectives to centre around 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)".* The full list of current fiscal targets as set in the BPS 2021 can be found in Annex 1.

9. The updates to these targets reflected a decrease in uncertainty, relative to when the preceding fiscal targets had been set in the Fiscal Strategy Report (FSR) 2020, and therefore provide greater clarity on how and when debt will be stabilised, while still maintaining flexibility to respond to the ongoing COVID-19 situation.

10. **We recommend maintaining your current fiscal targets, as set out in the BPS 2021.** The economic and fiscal outlook has not changed substantially since the current fiscal targets were agreed in December 2020, and therefore the fiscal strategy advice that informed the fiscal targets has not substantially changed.

11. Furthermore, the current fiscal targets were only announced last month and there is value in maintaining these for continuity and confidence. The threshold for changing fiscal strategy between a BPS and a Budget should be high: in our view the costs of incremental changes outweigh the benefits.

12. **The updated fiscal outlook remains consistent with your fiscal strategy** when incorporating the preliminary BEFU forecasts and increases to allowances across the forecast and projection periods (as discussed later in this report). Namely, Figure 1 (see paragraph 20) shows net core Crown debt stabilising by the mid-2020s and then reducing. Figure 2 (see paragraph 24) shows operating balance before gains and losses (OBEGAL) deficits decreasing over the forecast period – consistent with the operating balance intention.[2] This is the case for scenarios of operating allowances of either $3.0 billion or $3.9 billion for Budget 2021 (and $3.0 billion per year for the remainder of the forecast period). **Therefore, no change in policy settings is required to meet your fiscal targets based on these preliminary forecasts.**

[2] The current operating balance intention is to "*use fiscal policy to secure the economic recovery for New Zealand and reduce deficits over the forecast period as economic conditions allow*."

13. **We continue to recommend against setting hard targets for returning to surplus or to a specific debt level at this time.** You should place a high weight on retaining flexibility to provide further support if needed and minimising the risk of becoming locked into a fiscal target that subsequently drives perverse policy choices. Although the recovery and resilience of the New Zealand economy to COVID-19 has surprised on the upside, this could easily reverse in the event of further outbreaks or a slower than expected recovery.

14. **We recommend continuing your iterative 'wait and see' approach to fiscal strategy**. Should the economic or fiscal outlook materially deteriorate or improve between now and HYEFU, we can provide further advice.

Fiscal Impact of Allowance Settings

Allowance settings

15. **We understand that at Budget Ministers 2 on 16 March, Budget Ministers agreed to increase the operating allowance to $3.0 billion per year for Budget 2021 and across the forecast period.** You also agreed to increase the multi-year capital allowance (MYCA) to $12 billion. These decisions align with the recommendations in our previous fiscal strategy advice for Budget 2021 (T2021/316).

16. At Budget Matters 2 on 9 March you also indicated a preference to increase the operating allowances assumed in the projection period (2025/26 to 2034/35) to $2.8 billion per year. This was intended to set a realistic allowance level while resulting in net core Crown debt stabilising at around 40% of GDP by the end of the projection period.

17. **We support these increases to allowance levels,** so that allowances can realistically act as a restraint on new spending to balance fiscal sustainability but still meet critical cost pressures. This support is based on the assumption that additional spending is on deliverable and 'high value' initiatives that are welfare improving or address critical cost pressures.

18. The Fiscal Strategy Model (FSM) has been updated with the preliminary BEFU fiscal forecasts since we presented the allowance scenarios and their impact on the headline fiscal indicators in our last fiscal strategy advice (T2021/316). We recommend that the FSM for BEFU 2021 assumes:

    - operating allowances of $2.8 billion per year from 2025/26, as indicated at Budget Matters 2,
    - capital allowances of $4.0 billion per year from 2025/26, unchanged from the BPS 2021, and
    - a 2% growth rate of allowances (indexed to inflation) in the projection period, unchanged from the BPS 2021.

19. **Figure 1 and Figure 2 below show the impact on the headline fiscal indicators of four operating allowance scenarios in the updated FSM.** Note that all four of the scenarios described in table 1 below assume a MYCA of $12.0 billion for the forecast period and capital allowances of $4.0 billion per year over the projection period.

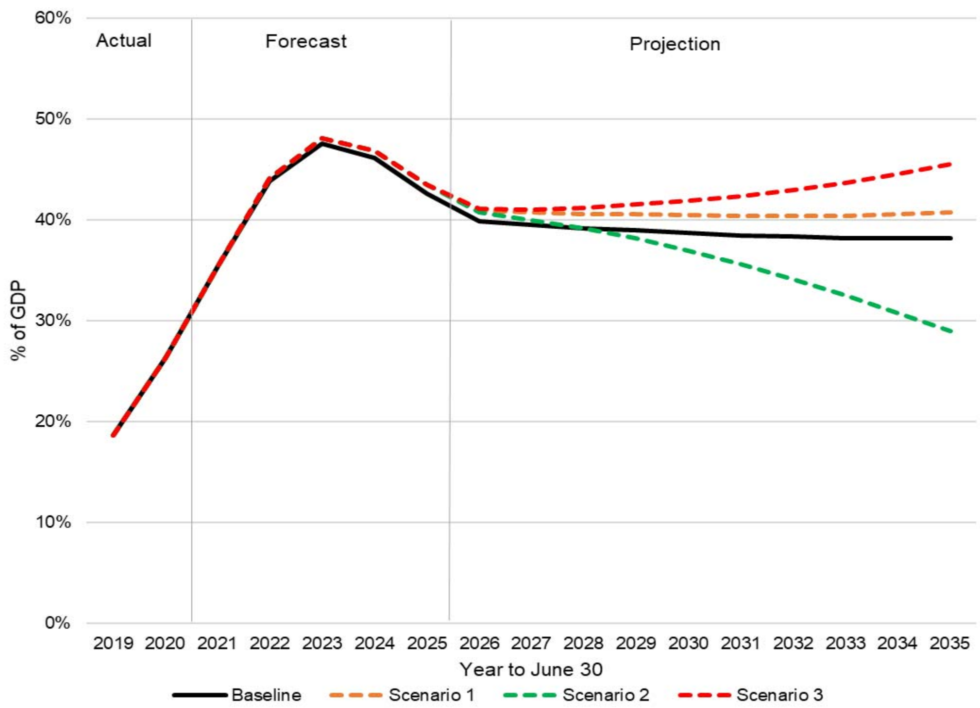
Table 1: Operating allowance scenarios

	Operating allowances (per year)	What this scenario reflects
Baseline scenario	B21-24: $3.0 billion Projection period: $2.8 billion	The baseline scenario is what has been assumed in the preliminary BEFU fiscal forecasts, and reflects decisions taken at Budget Ministers 2. We have made assumptions for the allowances in the projection period based on current FSM settings and feedback from your office regarding increases to operating allowances.
Scenario 1	B21: $3.9 billion B22-24: $3.0 billion Projection period: $2.8 billion	Scenario 1 updates the baseline scenario with the current Budget 2021 operating package. This is what we understand to be the most likely allowance settings for the forecast period.
Scenario 2	B21: $3.9 billion B22-24: $3.0 billion Projection period: $1.7 billion	Scenario 2 adjusts operating allowances assumed in the projection period to their maximum possible level while maintaining an OBEGAL surplus over the projection period. We understand that this objective was discussed at Budget Ministers 2, so this scenario reflects the operating allowance settings required in the projection period to achieve this.
Scenario 3	B21: $3.9 billion B22-24: $3.0 billion Projection period: $3.25 billion	Scenario 3 reflects allowance settings proxied to align with the long-term fiscal model, produced from a bottom-up version of the updated FSM.[3] This approximates the required level of future allowances if spending grows in line with historical trends.

[3] Instead of growing operating spending in line with allowances (as assumed in the FSM), spending growth is projected based on historic trends. In short, the model assumes health and education spending grows in line with demographic trends, wage growth and an exogenous growth term based on historical trends (1.0% and 0.7% respectively). Other spending categories, which are usually inside allowances, grow in line with nominal GDP. A full explanation of the Long-Term Fiscal Model (LTFM) can be found here.

Impact on net debt

20. *Figure 1: Net core Crown debt*



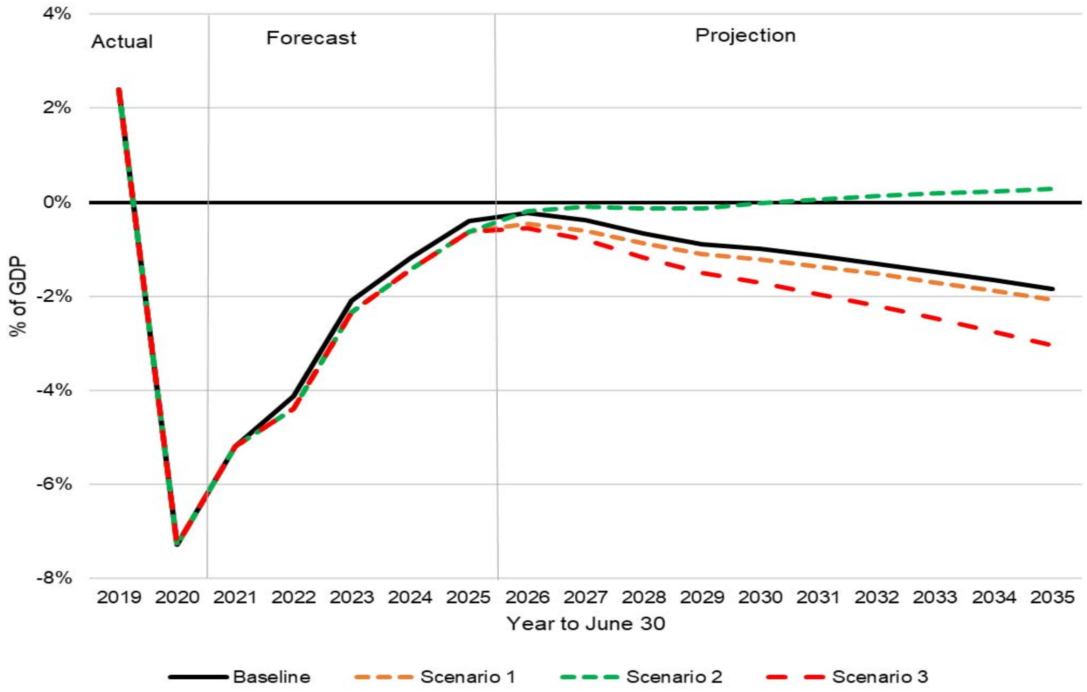
21. **Figure 1 shows that net core Crown debt stabilises at around 40% of GDP at the end of the forecast period under the baseline scenario and scenario 1.** It is our understanding that your agreement to increase operating allowances assumed in the projection period to $2.8 billion per year was dependent on this. Therefore, the projections for these scenarios support this decision.

22. Figure 1 also shows net core Crown debt under scenario 2 sharply declining over the projection period to around 29% of GDP by 2034/35. However, this projection requires operating allowance assumptions in the projection period that are unlikely to be feasible and would be a significant shift in levels of spending. Under scenario 3 net core Crown debt rises over the projection period to over 45% of GDP by 2034/35. This scenario reflects fiscal strategy settings that result in an unsustainable debt track.

23. Note that the rapid reduction in net core Crown debt from 2023/24 under all the scenarios is principally driven by withdrawal of the Funding for Lending (FLP) scheme, and the unwinding of its impact on the fiscal indicators. Looking through the impact of FLP, net core Crown debt peaks at around 40% of GDP in 2023/24 and remains stable for the remainder of the forecast period.

Impact on OBEGAL

24. *Figure 2: Operating balance before gains and losses (OBEGAL)*



25. **Figure 2 shows OBEGAL in deficit across the projection period** under the scenarios with feasible operating allowances assumed in the projection period. The baseline scenario and scenario 1 both result in OBEGAL peaking in 2025/26 at a deficit of 0.2% and 0.4% of GDP respectively, then reducing over the projection period to deficits of around 2% of GDP in 2034/35.

26. **Figure 2 shows OBEGAL returning to surplus in 2030/31 under scenario 2** and gradually increasing over the remainder of the projection period to 0.3% of GDP in 2034/35. However, in order to achieve this, scenario 2 assumes operating allowances of $1.7 billion per year across the projection period. As our previous advice stated, we expect this level of operating allowances to be infeasible, given the level of expected future cost pressures (T2021/316).

27. **Returning to surplus within the projection period requires tighter operating allowances than assumed in the 2021 BPS FSM** ($2.3bn). This largely reflects changes in the forecast period, including higher forecast operating allowances and increased New Zealand Superannuation expenses. In the projection period higher interest rates increase interest expenses. Further, revenue from the Emission Trading Scheme has been reduced, following advice from MBIE and the Ministry for the Environment on likely trends in coming years.

28. **From a fiscal sustainability perspective, the projected OBEGAL deficits in the baseline scenario and scenario 1 remain consistent with your objectives to stabilise debt.** As previously advised (TR2021/15), we view that stabilising debt without returning to surplus is a justifiable fiscal strategy under

current low interest rate conditions. However, this strategy exposes New Zealand to greater fiscal risk than a return to surplus. These fiscal risks need to be traded off against the costs of the structural consolidation that would be required to return to surplus.

29. **We recommend you agree to increase operating allowances assumed in the projection period to $2.8 billion per year.** We do not view that the projected OBEGAL deficits under the baseline scenario or scenario 1 should change your decision to increase operating allowance assumptions in the projection period, as indicated at Budget Matters 2.

30. Figure 2 shows that the long-term impact on OBEGAL of increasing operating allowances to $3.9 billion for Budget 2021 is small, relative to the baseline scenario. While a substantial one-off increase to the operating allowance for Budget 2021 does not itself pose fiscal sustainability risks based on the preliminary central forecast, it risks being unsustainable if the outlook worsens. It will also increase expectations of large allowance increases in future years, particularly in a context of significant expenditure pressures. **As we have previously advised, repeated increases would put debt on an unsustainable trajectory and reduce the credibility of allowances as a fiscal management tool.**

31. Under scenario 3, figure 2 shows OBEGAL peaking at a deficit of 0.6% of GDP at the start of the projection period before falling to a 3.0% deficit in 2034/35. This is materially higher than the projections under the baseline scenario and could present risks to fiscal sustainability if current revenue settings are not changed.

32. **Low operating allowance assumptions risk a divergence between projections** as presented in Budget 2021 and the combined long-term fiscal statement and long-term insights briefing (the Statement). Scenario 3 above will roughly correspond to the first 10 years of one of the main fiscal scenarios presented in the Statement later this year. Selecting the assumptions in scenario 2 in particular will expose a large divergence between the Government's long-term fiscal plans, and the fiscal path resulting from growing expenditure at historic rates. This may attract public comment and undermine the credibility of the projections presented in the Budget.

33. Based on these projections, **returning OBEGAL to surplus by the end of the projection period depends upon operating allowances that would require hard choices and reprioritisation**. The updated FSM shows that returning to surplus would require core Crown expenses to fall from 29.5% of GDP at the end of the forecast period to 27.7% of GDP by the end of the projection period. Returning OBEGAL to surplus can either be achieved by constraining spending or increasing revenue. It is therefore prudent to prepare revenue raising options for future use. This can support a fiscally sustainable OBEGAL track.

34. Note these projections remain subject to change further with the finalisation of economic and fiscal forecasts and could still alter substantially. We will advise you through the drafting of the Budget documents if this requires any changes to the assumptions recommended here.

[36]

Implications

35. [36] (a) of section 26G(1) of the Public Finance Act 1989 (PFA) states that debt must be at prudent levels. As previously advised and stated in the BPS 2021, debt remains at prudent levels throughout the forecast and projection periods given the nature of COVID-19 global economic shock and the need to support the economy.

36. Given debt is at prudent levels, principle (b) of section 26G(1) of the PFA applies. Principle (b) states that "once prudent levels of total debt have been achieved, maintaining those levels by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues."

37. [36]

[36]

39. [36]

40. [36]

[36]

New Zealand Superannuation Fund Contributions

43. Cabinet previously agreed to a funding profile for contributions to the New Zealand Superannuation Fund (NZSF) (CAB-17-MIN-0506). This profile is now above the contributions prescribed by the legislated formula. **Budget 2021 is the final year of this funding profile, with an annual NZSF contribution of $2.42 billion** and a contribution to the venture capital fund (Elevate NZ Venture Fund) (DEV-19-MIN-0221) of $80 million for 2021/22.[4] Unless you indicate you wish to diverge from these contributions, no further action is needed for Budget 2021.

44. **The Government has publicly communicated that they would stick to this NZSF contribution profile for Budget 2021 in the Labour Party Manifesto for the 2020 General Election.** Sticking to this profile supports clear and consistent communication for the Guardians of the NZSF (the Guardians), which can assist their planning for investment of the Fund, as well as ensuring a good working relationship between the Crown and the Guardians. The downside of retaining this funding profile is that it undermines the contribution formula as set out in legislation.

45. **You have the option of reverting back to the NZSF contribution assigned by the legislated formula at Budget 2021**, which is $1.28 billion for the 2021/22 year ($1.14 billion lower than the currently agreed contribution). From a fiscal strategy and sustainability perspective there is no obvious reason to do this, as currently forecasted levels of net core Crown debt and OBEGAL do not present a case for fiscal consolidation at this time. Should you wish to revert to the NZSF contribution prescribed by the legislated formula for Budget 2021, this will need Cabinet approval ideally prior to or as part of Budget 2021.

46. **From Budget 2022 onwards, Cabinet has not yet agreed NZSF contributions.** Regardless of your decision for Budget 2021, a decision on NZSF contributions for 2022/23 will be required prior to Budget 2022. This decision requires Cabinet approval.

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[4] These total an annual contribution of $2.5 billion for 2021/22, as agreed in the referred Cabinet Minute.

47. **We recommend that you revert to the contribution profile as assigned by the legislated formula for Budget 2022 onwards.** Implementing this option is relatively straight forward from both practical and policy perspectives and could be agreed by Cabinet as part of the standard process for Budget 2022.

48. If you wish to contribute more or less than the legislated formula on an ongoing basis, we recommend considering this as part of a wider review of New Zealand Superannuation (NZS) settings and the role of the NZSF. This would require substantial work which the Treasury would need to consider how to resource alongside your other priorities.

Next Steps

49. Discuss the advice in this report at Budget Ministers 3 on 29 March.

50. We provided separate advice to you earlier this month on our review of the headline fiscal indicators, and options to change OBEGAL and net core Crown debt (T2021/501 refers). We understand that you have decided to not change these indicators at Budget 2021, but that you are still interested in progressing this work over a longer timeframe. The fiscal indicators at Budget 2021 will take a similar approach to the presentation in HYEFU 2020. The draft BEFU will include explanatory content for your approval that will signal further work on this review. We intend to meet with you after Budget to discuss our policy recommendations and a revised timeline for implementing your preferred changes.

Annex 1: Short-term intentions and long-term objectives (as set in the BPS 2021)

	SHORT-TERM INTENTION	LONG-TERM OBJECTIVE
DEBT	Our intention is to allow the level of net core Crown debt to rise in the short term to fight COVID-19, cushion its impact and position New Zealand for recovery.	The Government will 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).
OPERATING BALANCE	The Government will use fiscal policy to secure the economic recovery for New Zealand and reduce deficits over the forecast period as economic conditions allow.	The Government will run an operating balance consistent with meeting the long-term debt objective.
EXPENSES	Our intention is to ensure expenses are consistent with the operating balance objective.	The Government will ensure operating expenses support a responsible and proportionate role for the Government in maintaining a productive, sustainable and inclusive economy, consistent with the debt and operating balance objectives.
REVENUE	Our intention is to ensure revenue is consistent with the operating balance objective.	The Government will ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy, consistent with the debt and operating balance objectives.
NET WORTH	Our intention is to use the Crown's net worth to fight COVID-19, cushion its impact and position New Zealand for recovery. Significant risks will be transferred onto the Crown's balance sheet through the response period.	The Government will use the Crown's net worth to maintain a productive, sustainable and inclusive economy, consistent with the debt and operating balance objectives.