

The Treasury

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Cabinet Document Details

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Information Withheld

No information has been withheld.

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Cabinet

Minute of Decision

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Fiscal Strategy for the Budget Policy Statement 2022

Portfolio **Finance**

On 6 December 2021, Cabinet:

Economic and fiscal outlook

- 1 **noted** that the Budget Policy Statement 2022 (BPS) and the Half Year Economic and Fiscal Update (Half Year Update) are due to be released publicly on 15 December 2021;
- 2 **noted** that the economic outlook shows stronger economic activity than Treasury's Budget Economic and Fiscal Update 2021 (Budget Update) forecasts, but higher and more persistent inflation over the forecast period;
- 3 **noted** that:
 - 3.1 strong growth in tax revenue leads to a significantly improved fiscal outlook from the 2022/23 year compared to the Budget Update;
 - 3.2 an operating balance before gains and losses (OBEGAL) surplus is expected in the 2023/24 year, while net core Crown debt (including Funding for Lending assets) is expected to be close to 30 percent of GDP by 2025/26;

Budget allowances

- 4 **agreed** to announce operating allowances of \$6.0 billion at Budget 2022, \$4.0 billion at Budget 2023, and \$3.0 billion at Budgets 2024 and 2025 in the BPS;
- 5 **noted** that the \$6.0 billion operating allowance for Budget 2022 is a one-off, in recognition of the investment required for major government reform programmes, including the health reforms;
- 6 **noted** that excluding the investment in the reform programmes and the pre-commitments already made against Budget 2022, there will still need to be significant prioritisation decisions among the bids that have been invited;
- 7 **agreed** to increase the multi-year capital allowance by \$4.0 billion at Budget 2022;
- 8 **noted** that the allocation of the agreed operating and multi-year capital allowances will be agreed through the normal processes for Budget 2022;

Climate Emergency Response Fund

- 9 **noted** that in August 2021, as part of its decisions on the Budget 2022 Strategy, Cabinet agreed to establish a Climate Emergency Response Fund [CAB-21-MIN-0349];
- 10 **noted** that in November 2021, Cabinet agreed that the Climate Emergency Response Fund be established with cash proceeds from the Emissions Trading Scheme (ETS) [DEV-21-MIN-0237];
- 11 **noted** that the Treasury's Half Year Update Forecasts estimate that cash proceeds from the ETS will be \$4.5 billion over the forecast period from 2022/23 to 2025/26;
- 12 **noted** that the Treasury's Half Year Update Forecasts will be assuming the cash proceeds referred to above will be spent on climate-related initiatives;
- 13 **agreed** that the Climate Emergency Response Fund be established with \$4.5 billion of funding available over the forecast period (\$3.7 billion after the international climate finance commitment);
- 14 **noted** that the above decision will have a corresponding impact on net core Crown debt, although the impact on the operating balance is somewhat unknown as it will be dependent on the nature of the investments funded from the Climate Emergency Response Fund;
- 15 **agreed** that the Climate Emergency Response Fund be announced in the BPS;
- 16 **noted** the intention for the quantum of the Climate Emergency Response Fund to be at least the forecast ETS proceeds, and that the level of the Fund may exceed ETS proceeds as determined by Cabinet during the Budget 2022 process [DEV-21-MIN-0237];

Short-term intentions and long-term objectives

- 17 **noted** that short-term intentions and long-term objectives for fiscal policy will remain unchanged in the BPS;
- 18 **noted** that the BPS will state that the government is committed to setting new fiscal targets at Budget 2022, with the expectation that the global economic outlook and conditions will stabilise;

Fiscal implications

- 19 **noted** that the paper under CAB-21-SUB-0514 has no direct fiscal implications, but that the combined impact of increasing Budget allowances and establishing the Climate Emergency Response Fund will increase net core Crown debt and will have implications for OBEGAL.

Michael Webster
Secretary of the Cabinet