

The Treasury

Budget 2024 Information Release

September 2024

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From: Tim Hampton [TSY]
Sent: Tuesday, 5 March 2024 12:24 pm
To: Luke Came [TSY]; Ben Gaukrodger [TSY]; Sam Thornton [TSY]; Alexis Belton [TSY]; Peter Gardiner [TSY]; Jacinta Gould [TSY]; Jayne Winfield [TSY]
Subject: RE: Proposed approach to update forecasts for the BPS and testing engagement approach for the next draft

Good point Luke and something that I had in mind. Talking to Grant, he said he was keen to set allowances that deliver a surplus (not sure how big). Consistent with the scenario language, we could show a scenario that has HYEPU operating allowance and then an allowance that delivers a surplus – mainly to demonstrate the extent to which allowances impact OBEGAL, rather than lock in the allowance.

A bit tricky if we use the new MYCA in both scenarios.

From: Luke Came [TSY] <Luke.Came@treasury.govt.nz>
Sent: Tuesday, March 5, 2024 12:16 PM
To: Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Alexis Belton [TSY] <Alexis.Belton@treasury.govt.nz>; Peter Gardiner [TSY] <Peter.Gardiner@treasury.govt.nz>; Tim Hampton [TSY] <Tim.Hampton@treasury.govt.nz>; Jacinta Gould [TSY] <Jacinta.Gould@treasury.govt.nz>; Jayne Winfield [TSY] <Jayne.Winfield@treasury.govt.nz>
Subject: RE: Proposed approach to update forecasts for the BPS and testing engagement approach for the next draft

Afternoon all,

I just had a couple of thoughts on this scenario plan as I think it comes with some risks that are probably more on the comms side but we should definitely try to expose with MOF potentially at Budget Matters tomorrow.

My big concern is about the scenario and setting outyear operating allowances at BPS to deliver a surplus track based on a scenario that we know isn't "real" for lack of a better word i.e. it doesn't have policy decisions in. Obviously between BPS and B24 we are more likely to reduce allowances than raise them but I think there is credibility and consistency risk of setting them and then 2 months later changing them. This is probably more on the political side but its something we should ensure MOF is aware of. For context some of the early feedback we've had from advisors on the draft BM slides suggest they want to set outyear allowances at BPS.

I think this could be managed for example if the scenario as it's a clean scenario just carried over the allowances from HYEPU adjusting for B24 and the MYCA uplift and using it as a communication tool to say that's the context in which MOF is making her Budget decisions, everything has got a lot worse etc. and even if it doesn't show a surplus that can be managed by saying going through the Budget process to in which decisions being made will be consistent with the fiscal strat announced at BPS including any return to surplus targets. However, I'm not sure this is where the office/advisors are at.

Welcome thoughts, I maybe worrying over nothing as I said this is more of a political call but there are implications for our work and policy impacts.

Cheers,

Luke

From: Simon McLoughlin <Simon.McLoughlin@parliament.govt.nz>

Sent: Tuesday, March 5, 2024 11:45 AM

To: Alexis Belton [TSY] <Alexis.Belton@treasury.govt.nz>

Cc: ^Parliament: Lachlan Stark <lachlan.stark@parliament.govt.nz>; Peter Gardiner [TSY] <Peter.Gardiner@treasury.govt.nz>; Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Luke Came [TSY] <Luke.Came@treasury.govt.nz>; Jacinta Gould [TSY] <Jacinta.Gould@treasury.govt.nz>; Udayan Mukherjee [TSY] <Udayan.Mukherjee@treasury.govt.nz>; Alex Masters [TSY] <Alex.Masters@treasury.govt.nz>; Geraldine Bruin [TSY] <Geraldine.Bruin@cass.govt.nz>; Carolyn Cole [TSY] <Carolyn.Cole@cass.govt.nz>; Julie Scobie [TSY] <Julie.Scobie@treasury.govt.nz>; Tim Hampton [TSY] <Tim.Hampton@treasury.govt.nz>; Jayne Winfield [TSY] <Jayne.Winfield@treasury.govt.nz>

Subject: RE: Proposed approach to update forecasts for the BPS and testing engagement approach for the next draft

Thanks Alexis, appreciate the quick email and linking everyone up on your side.

The Office is keen to progress the proposed approach re a BPS scenario as this is needed to tell the Budget and fiscal strategy story in the BPS. These are some additional points to work through:

- For the BPS scenario, the Office will also want the FSM projections beyond the forecast period, which may take some working through so happy to discuss this.
- As you allude to below, there will need to be flexibility on the exact allowances used in the BPS scenario. This will have the MYCA top-up and new operating allowances beyond Budget 2024 but may take some iteration, though we're also ready to discuss what to use here to land this quickly.
- The key indicators we need will be real GDP growth, CPI inflation, nominal GDP level, the unemployment rate, core Crown revenue, core Crown expenses, total Crown OBEGAL and measures of net debt (current measure including and excluding NZSF and core Crown excluding NZSF).
- At some point we'll need to discuss and understand how this relates to the upcoming preliminary fiscal forecasts.

No need for the policy table and we'll send you a new BPS draft soon – the one thing we would like you to write is a box explaining the MYCA. The quicker we can have this and the above scenario the quicker we can get you the next BPS draft.

Any questions let me know,

Cheers

Simon



Simon McLoughlin
Private Secretary - Finance
Office of Hon Nicola Willis

Minister of Finance

Level 7.2 Executive Wing, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand

M: [35]

E: simon.mcloughlin@parliament.govt.nz

From: Alexis Belton [TSY] <Alexis.Belton@treasury.govt.nz>

Sent: Tuesday, March 5, 2024 8:36 AM

To: Simon McLoughlin <Simon.McLoughlin@parliament.govt.nz>

Cc: Lachy Stark <Lachlan.Stark@parliament.govt.nz>; Peter Gardiner [TSY]

<Peter.Gardiner@treasury.govt.nz>; Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Luke

Came [TSY] <Luke.Came@treasury.govt.nz>; Jacinta Gould [TSY] <Jacinta.Gould@treasury.govt.nz>;

Udayan Mukherjee [TSY] <Udayan.Mukherjee@treasury.govt.nz>; Alex Masters [TSY]

<Alex.Masters@treasury.govt.nz>; Geraldine Bruin [TSY] <Geraldine.Bruin@cass.govt.nz>; Carolyn Cole

[TSY] <Carolyn.Cole@cass.govt.nz>; Julie Scobie [TSY] <Julie.Scobie@treasury.govt.nz>; Tim Hampton

[TSY] <Tim.Hampton@treasury.govt.nz>; Jayne Winfield [TSY] <Jayne.Winfield@treasury.govt.nz>

Subject: Proposed approach to update forecasts for the BPS and testing engagement approach for the next draft

Good morning Simon,

Following on from the email I sent yesterday afternoon, please see below for our recommended approach to updating the forecasts for the BPS. I under Tim Hampton canvassed this with Grant yesterday and he was happy with the approach so this is now really just a confirmation.

I'm also keen to test whether we share the next draft of the BPS with the Minister or continue to work directly to Grant. See below for details.

Proposed approach to updating HYEUFU for the BPS

We've tested a few options internally for providing an updated economic and fiscal forecast for the BPS following the conversation you and Grant had with Peter Gardiner last week. We recommend we develop a "BPS scenario" which would consist of the following:

- Updated economic forecasts
- Tax forecasts that reflect the economic forecasts
- HYEUFU-based expenditure forecasts
- New allowance settings, including for the MYCA (if the office wishes)

This would provide an up-to-date picture of the worsening economic outlook and the flow on impact on expected tax receipts. It would not reflect the fiscal impacts of any policy changes the Government has taken to date, as we think doing so would pose significant communications challenges and credibility risks. Could you please confirm that the office is happy with this approach so we can push go on updating the forecasts and the BPS accordingly?

Alongside the 'clean' economic and tax forecast, we could also produce policy table that outlines the fiscal implications of government decisions announced to date. It would be good to know ASAP if this is something the office would like.

Next steps for the developing the BPS

We are also keen to test with the office how it would like to approach the next steps for developing the Budget Policy Statement. We will be providing you with a complete draft (and by that I mean with all sections now complete) on Monday or Tuesday next week (the 11th or 12th).

Would you mind testing with Grant whether this draft should go to the Minister as well as to him, or whether he would prefer to manage the process of getting the Minister across it himself? Note that the next week is the last week we can make changes to the document as the Minister will need to sign off on the finalised document by Wednesday, 20 March in order to make the 27 March release date.

Cheers,
Alexis



Alexis Belton (he / him) | Kaitātari Mātāmua – Senior Analyst, Economic Policy | Te Tai Ōhanga – The Treasury

Email/IM: alexis.belton@treasury.govt.nz

Please note that I work reduced hours across 5 days. My hours are generally 8.30 or 9am to 3.30 or 4pm.

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