The Treasury

Budget 2021 Information Release

August 2021

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Key to sections of the Act under which information has been withheld:

[1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government

[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

[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.

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Budget Economic and Fiscal Update 2021 - Final Fiscal Forecasts

Date:	5 May 2021	**Report No:**	T2021/1071
		File Number:	BM-1-2-3-2021-1

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Note** the recommendations in this report	None

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Hannah Singleton	Senior Government Reporting Accountant, Fiscal Reporting	[39]	N/A (mob)	✓
Jayne Winfield	Manager, Fiscal Reporting		[35]	

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: Budget Economic and Fiscal Update 2021 - Final Fiscal Forecasts

Executive Summary

The fiscal forecasts for the 2021 *Budget Economic and Fiscal* Update (*Budget Update*) were completed on 30 April 2021.

The forecasts have been updated to capture the Treasury's final economic forecasts, Government decisions up to 12 April (including the impact of final Budget decisions) and other significant information that has become available since completing our preliminary fiscal forecasts. The exceptions to this are the recent announcements relating to health reforms and interest deductibility, which due to limited information being available any impacts have not been included in these fiscal forecasts but will be disclosed as a specific fiscal risk. The key assumptions underpinning the final fiscal forecasts have been included in Annex One of this report.

We have also included a draft of our specific disclosures to be included within the fiscal outlook chapter on future Budget allowances and pre-commitments against the Budget 2022 allowance in Annex Two.

Overview of results

The Government's year to date financial performance has continued to outperform expectations. This is largely driven by strong economic growth, which has lifted the tax take in the current year to date. The fiscal outlook continues to show recovery with operating balance before gains and losses (OBEGAL) deficits expected to narrow to $2.3 billion by 2024/25, while net core Crown debt as a percentage of GDP starts to fall from 2022/23. Table 1 provides a summary of the key fiscal indicators.

Table 1 – Summary of the key fiscal indicators

Year ended 30 June	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
$ billion						
Core Crown tax revenue	85.1	91.5	93.2	101.7	107.1	113.2
Core Crown revenue	91.9	97.9	99.8	108.9	114.9	121.3
Core Crown expenses	108.8	110.7	114.7	115.4	117.8	121.1
Total Crown OBEGAL	(23.1)	(15.1)	(18.4)	(9.5)	(5.7)	(2.3)
Core Crown residual cash	(23.7)	(25.3)	(39.2)	(25.7)	(6.0)	3.3
Net core Crown debt	83.4	113.7	153.3	178.5	184.2	180.8
Total borrowings	152.7	173.2	215.2	245.2	254.5	255.1
Total Crown operating balance	(30.0)	1.3	(15.6)	(5.2)	(0.9)	3.0
Net worth attributable to the Crown	110.3	112.0	96.6	91.5	90.8	94.0
% of GDP						
Core Crown tax revenue	26.9%	27.4%	26.6%	27.4%	27.3%	27.3%
Core Crown expenses	34.4%	33.1%	32.8%	31.1%	30.0%	29.2%
Total Crown OBEGAL	(7.3%)	(4.5%)	(5.3%)	(2.6%)	(1.4%)	(0.6%)
Core Crown residual cash	(7.5%)	(7.6%)	(11.2%)	(6.9%)	(1.5%)	0.8%
Net core Crown debt	26.3%	34.0%	43.8%	48.0%	46.9%	43.6%
Total borrowings	48.2%	51.8%	61.5%	66.0%	64.8%	61.6%
Total Crown operating balance	(9.5%)	0.4%	(4.5%)	(1.4%)	(0.2%)	0.7%
Net worth attributable to the Crown	34.9%	33.5%	27.6%	24.6%	23.1%	22.7%

The OBEGAL deficit is forecast to reduce in the current fiscal year to $15.1 billion, from $23.1 billion in 2019/20. The OBEGAL deficit is then forecast to increase and peak at $18.4 billion in 2021/22 before reducing across the remaining forecast period, narrowing to a $2.3 billion deficit by 2024/25.

Whilst core Crown tax revenue is forecast to increase nominally each year, as a percentage of GDP tax revenue fluctuates particularly in the near term. In the current fiscal year, core Crown tax revenue increases to 27.4% of GDP, before falling to 26.6% of GDP in 2021/22 and rises again in 2022/23, where it remains fairly static for the remaining forecast period.

Core Crown expenses are forecast to increase in nominal terms across the forecast period, whilst as a percentage of GDP falls each year to reach 29.2% of GDP by 2024/25. The nominal increase is largely attributable to final Budget decisions and new spending set aside for future Budgets as well as increases in core Crown finance costs across the forecast period.

Operating cash flows broadly reflect the OBEGAL movements discussed above and capital cash flows are also forecast to be in deficit until 2023/24. As a result, residual cash deficits are forecast for these years, before returning to a residual cash surplus of $3.3 billion in the final year of the forecast. The surplus by the end of the forecast period is largely attributable to the cash impact of the Funding for Lending Programme (FLP), as these advances are expected to be repaid in the latter years of the forecast.

To fund the residual cash deficits, net core Crown debt is forecast to increase in nominal terms until 2023/24, then reduce in the final year of the forecast when residual cash returns to surplus. As a percentage of GDP, net core Crown debt peaks at 48.0% of GDP a year earlier in 2022/23, before reducing to 43.6% of GDP by the end of the forecast period.

Compared to the 2020 *Half Year Update*

The majority of changes since the *Half Year Update* relate to the inclusion of the 2021 Budget package, revised economic assumptions as well as changes to budget allowances.

OBEGAL has improved in the current fiscal year but is forecast to be weaker in the 2021/22 year, largely owing to rephasing of expenditure into the next fiscal year from the current year. The OBEGAL deficit then improves again for the remaining years of the forecast. Overall, the OBEGAL deficits are $9.0 billion lower across the forecast period when compared to the *Half Year Update*.

Core Crown residual cash deficits are cumulatively $8.9 billion lower than the *Half Year Update*. This results in a decrease to net core Crown debt, which is expected to be around $9.2 billion lower than previously forecast by 2024/25. Increases to both the operating and capital allowances for future budgets, as well as the Budget 2021 decisions and rephasing of entity forecasts have contributed to this increase. Tax receipts have increased since the *Half Year Update* and at the same finance costs have also increased. These increases are largely consistent with the OBEGAL movements although with slightly different cash profiles, reflecting the timing difference of when cash is received and when payments are made.

Compared to the preliminary fiscal forecasts

Overall, apart from the current fiscal year, most key fiscal indicators have weakened since the preliminary fiscal forecasts. This is largely driven by Budget 2021 decisions totalling more than the allowances included in the preliminary fiscal forecasts (which particularly impacts the near term) and an increase in finance costs due to an increase in forecast interest rates.

Core Crown tax revenue has weakened owing to the revised economic outlook and benefits expenses (excluding the new welfare package) have also reduced, driven by lower recipient numbers on Jobseeker Support and Accommodation Assistance. In addition, there has been rephasing of expenditure out of the current year into the remaining years of the forecast, predominantly 2021/22, which is why the 2021/22 year forecast deteriorates from the preliminary fiscal forecasts.

OBEGAL deficits are forecast to increase by a total of $4.9 billion across the forecast period compared to the preliminary fiscal forecasts, despite a reduction in the deficit of $2.4 billion in the first year of the forecast.

Residual cash deficits are forecast to increase by $4.1 billion over the five years compared to the preliminary fiscal forecasts. By 2024/25, net core Crown debt is $4.0 billion higher than the preliminary fiscal forecast at $180.8 billion (43.6% of GDP). Net debt is forecast to peak in the same year (2023/24) in nominal terms but at a higher level of $184.2 billion.

Recommended Action

We recommend that you:

a **note** that the Treasury's final fiscal forecasts for the *2021 Budget Economic and Fiscal Update* (*Budget Update*) were finalised on Friday 30 April 2021.

b **note** that the final fiscal forecasts include the Treasury's final economic forecasts, Government decisions up to 12 April (including the impact of final Budget decisions) and other material information. Recent announcements relating to health reforms and interest deductibility are not included in these fiscal forecasts.

c **note** that the fiscal outlook continues to show recovery with OBEGAL deficits expected to narrow to $2.3 billion by 2024/25, while net core Crown debt as a percentage of GDP starts to fall from 2022/23.

d **note** that the fiscal outlook has improved in the current fiscal year since the 2020 *Half Year Update,* with both OBEGAL deficits and net core Crown debt now expected to be lower. However, the 2021/22 year is expected to be weaker than the *Half Year Update.*

e **note** that apart from the current fiscal year, most key fiscal indicators have weakened since the preliminary fiscal forecasts.

Jayne Winfield
Manager, Fiscal Reporting

Hon Grant Robertson
Minister of Finance

Treasury Report: Budget Economic and Fiscal Update 2021 - Final Fiscal Forecasts

Purpose of Report

1. The final fiscal forecasts for the 2021 *Budget Economic and Fiscal Update* (Budget Update) were completed on 30 April 2021.

2. They have been updated to capture the Treasury's final economic forecasts, Government decisions up to 12 April (including the impact of final Budget decisions), and other significant information that has become available since completing the preliminary fiscal forecasts. The exceptions to this are the recent announcements relating to health reforms and interest deductibility due to the limited information available, have not been included in these fiscal forecasts, however this is disclosed as a specific fiscal risk.

3. The purpose of this report is to outline the forecasts for the key fiscal indicators and discuss changes since the 2020 *Half Year Update* and the preliminary fiscal forecasts. The key assumptions underpinning the final fiscal forecasts has been included in Annex One for your reference.

4. We have also included in Annex Two a draft of our box on future Budget allowances and pre-commitments against the Budget 2022 allowance to be included within the fiscal outlook chapter of the *Budget Update* document.

Budget 2021 Final Fiscal Forecasts

The Government's financial performance for the 2020/21 year has improved

5. The Government's year to date outturns have continued to outperform expectations. This is largely driven by strong economic growth, which has lifted the tax take in the current year to date.

6. In addition, improved market conditions and increases to interest rates have both had a positive impact on the Government's financial performance.

7. Core Crown expenditure is also forecast to be lower than previously expected in the 2020/21 year. This is largely owing to rephasing of baselines which has resulted in expenditure moving out of the current year and into the remaining years of the forecast (mainly 2021/22).

8. As a result, the forecast OBEGAL deficit for 2020/21 is expected to reduce from last year's actual deficit. In 2020/21 the OBEGAL deficit is forecast to be $15.1 billion, representing an $8.0 billion improvement from the 2019/20 deficit.

9. When gains and losses are included, the total operating balance is forecast to be in surplus in the 2020/21 year, at $1.3 billion. The significant improvement in the operating balance compared to the previous year's results has been driven by an improvement in market conditions and an increase to interest rates mentioned above. The overall improvement in the 2020/21 year has led to an increase to net worth, to $112.0 billion from $110.3 billion last year.

10. The stronger starting point and improved economic outlook leads to a continued recovery across the remaining forecast period.

Table 2 – Summary of the key fiscal indicators

Year ended 30 June	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
$ billion						
Core Crown tax revenue	85.1	91.5	93.2	101.7	107.1	113.2
Core Crown revenue	91.9	97.9	99.8	108.9	114.9	121.3
Core Crown expenses	108.8	110.7	114.7	115.4	117.8	121.1
Total Crown OBEGAL	(23.1)	(15.1)	(18.4)	(9.5)	(5.7)	(2.3)
Core Crown residual cash	(23.7)	(25.3)	(39.2)	(25.7)	(6.0)	3.3
Net core Crown debt	83.4	113.7	153.3	178.5	184.2	180.8
Total borrowings	152.7	173.2	215.2	245.2	254.5	255.1
Total Crown operating balance	(30.0)	1.3	(15.6)	(5.2)	(0.9)	3.0
Net worth attributable to the Crown	110.3	112.0	96.6	91.5	90.8	94.0
% of GDP						
Core Crown tax revenue	26.9%	27.4%	26.6%	27.4%	27.3%	27.3%
Core Crown expenses	34.4%	33.1%	32.8%	31.1%	30.0%	29.2%
Total Crown OBEGAL	(7.3%)	(4.5%)	(5.3%)	(2.6%)	(1.4%)	(0.6%)
Core Crown residual cash	(7.5%)	(7.6%)	(11.2%)	(6.9%)	(1.5%)	0.8%
Net core Crown debt	26.3%	34.0%	43.8%	48.0%	46.9%	43.6%
Total borrowings	48.2%	51.8%	61.5%	66.0%	64.8%	61.6%
Total Crown operating balance	(9.5%)	0.4%	(4.5%)	(1.4%)	(0.2%)	0.7%
Net worth attributable to the Crown	34.9%	33.5%	27.6%	24.6%	23.1%	22.7%

11. Operating deficits are forecast to reduce each year after 2021/22 and core Crown residual cash is expected to return to surplus in the final year of the forecast period.

12. As a percentage of GDP, core Crown tax revenue increases to 27.4% of GDP in the current fiscal year, before falling to 26.6% of GDP in 2021/22 and then rising again in 2022/23, where it remains fairly static at around 27.4% of GDP for the remaining years of the forecast. The initial growth is mainly due to a higher starting point based on tax outturns in the year to date. The drop in 2021/22 is driven by weaker forecasts for the income measure of nominal GDP impacting income tax forecasts. For the remaining years, tax revenue trends broadly in line with GDP growth.

13. Whilst core Crown expenses are forecast to increase nominally each year, as a percentage of GDP they decline gradually across the forecast, reaching 29.2% of GDP by 2024/25. By the end of the forecast period core Crown expenses are expected to be $121.1 billion, an increase of $12.3 billion from the actual 2019/20 results. The nominal growth is largely attributable to decisions from Budget 2021 which are expected to add $3.8 billion while forecast future expenditure adds $10.6 billion.

14. Core Crown finance costs are forecast to be $2.8 billion by 2024/25, $0.9 billion higher than the forecast for the current fiscal year, largely driven by higher forecast interest and inflation rates across the forecast.

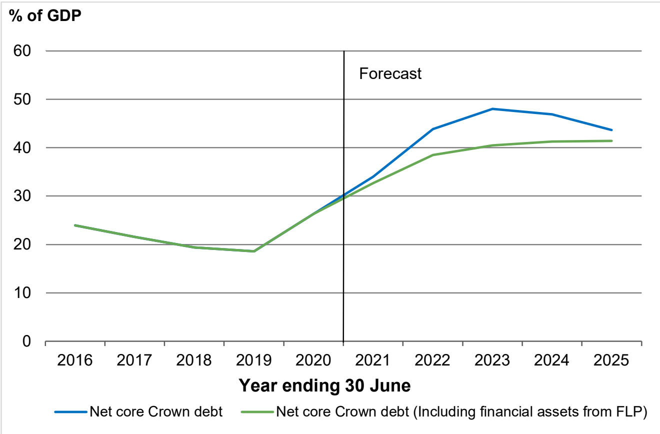
15. Following the revenue and expenses movements, the operating balance before gains and losses (OBEGAL) is forecast to be in deficit across the forecast. The deficit increases between 2020/21 and 2021/22 before reducing to 2024/25. An OBEGAL deficit of $2.3 billion is forecast by the end of the forecast period.

16. Residual cash deficits are forecast until 2023/24 before returning to a cash surplus of $3.3 billion in the final year of the forecast. The operating cash deficits to 2023/24 broadly reflect the trend in OBEGAL mentioned previously, driven largely by Budget 2021 decisions. The surplus in 2024/25 is largely attributable to the cash impact of the Funding for Lending Programme (FLP), as advances are expected to be repaid in the latter years of the forecast. The overall cash shortfall across the forecast is largely funded through additional borrowing.

17. In nominal terms, net core Crown debt is expected to increase in each year to 2023/24 and peak at $184.2 billion, mainly driven by the need to fund the residual cash deficits expected to 2023/24. As a percentage of GDP, net core Crown debt is expected to peak at 48.0% of GDP a year earlier in 2022/23. Core Crown residual cash returns to surplus to 2024/25 and net debt in both nominal and GDP terms also reduces, standing at $180.8 billion (43.6% of GDP) by 2024/25.

18. When removing the impacts of the FLP, the level of net core Crown debt is lower across the forecast period and is expected to peak in the final year of the forecast at $171.5 billion (41.4% of GDP).

Figure 1 – Impact of FLP on net core Crown debt indicator



19. The total operating balance, inclusive of gains and losses, is forecast to be a surplus of $1.3 billion in the current year before declining sharply to a deficit of $15.6 billion in the 2021/22 year. The surplus in the current year is in part driven by significant valuation gains ($9.5 billion) being recorded on the Crown's ACC outstanding claims liability owing to movements in discount rates used to calculate this long-term liability. As future actuarial gains or losses are not forecast, they do not impact the operating balance beyond 2020/21, leading to a decline in the operating balance in the following year. The operating balance then recovers over the remaining forecast period reaching a surplus of $3.0 billion in the final year of the forecast.

20. Net worth attributable to the Crown is forecast to decline to 2023/24, before increasing in the final year of the forecast to reach $94.0 billion (22.7% of GDP). The movements in net worth attributable to the Crown across the forecast are largely the result of the trend in the total operating balance as discussed above.

21. The fiscal forecasts are based on assumptions and judgements developed from the best information available at the time they were prepared. Actual events are likely to differ from these forecast assumptions and judgements. We have included details of the assumptions and judgements used in the final fiscal forecasts in Annex One.

Changes in the fiscal forecast since the 2020 *Half Year Update*

22. The majority of changes since the *Half Year Update* relate to the inclusion of the 2021 Budget package, revised economic assumptions as well as changes to budget allowances. A comparison of the key fiscal indicators to the *Half Year Update* forecasts is included in Table 3.

Table 3 – Changes in key fiscal indicators compared to the *Half Year Update*

Year ended 30 June	Actual	Forecast					5-year
$ billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	total
Core Crown tax revenue - Budget Update 2021	**85.1**	**91.5**	**93.2**	**101.7**	**107.1**	**113.2**	**506.7**
Core Crown tax revenue - Half Year Update 2020		88.3	89.1	96.9	102.5	108.8	485.6
Total Change		**3.2**	**4.1**	**4.8**	**4.6**	**4.4**	**21.1**
Core Crown expenses - Budget Update 2021	**108.8**	**110.7**	**114.7**	**115.4**	**117.8**	**121.1**	**579.7**
Core Crown expenses - Half Year Update 2020		114.2	109.1	112.0	115.3	118.7	569.3
Total Change		**3.5**	**(5.6)**	**(3.4)**	**(2.5)**	**(2.4)**	**(10.4)**
OBEGAL - Budget Update 2021	**(23.1)**	**(15.1)**	**(18.4)**	**(9.5)**	**(5.7)**	**(2.3)**	**(51.0)**
OBEGAL - Half Year Update 2020		(21.6)	(16.4)	(10.3)	(7.5)	(4.2)	(60.0)
Total Change		**6.5**	**(2.0)**	**0.8**	**1.8**	**1.9**	**9.0**
Residual cash - Budget Update 2021	**(23.7)**	**(25.3)**	**(39.2)**	**(25.7)**	**(6.0)**	**3.3**	**(92.9)**
Residual cash - Half Year Update 2020		(40.2)	(36.3)	(23.7)	(5.5)	3.9	(101.8)
Total Change		**14.9**	**(2.9)**	**(2.0)**	**(0.5)**	**(0.6)**	**8.9**
Net core Crown debt - Budget Update 2021	**83.4**	**113.7**	**153.3**	**178.5**	**184.2**	**180.8**	
Net core Crown debt - Half Year Update 2020		128.6	166.3	189.1	194.2	190.0	
Total Change		**14.9**	**13.0**	**10.6**	**10.0**	**9.2**	
Total Crown operating balance - Budget Update 2021	**(30.0)**	**1.3**	**(15.6)**	**(5.2)**	**(0.9)**	**3.0**	**(17.4)**
Total Crown operating balance - Half Year Update 2020		(25.6)	(15.0)	(6.4)	(3.2)	0.7	(49.5)
Total Change		**26.9**	**(0.6)**	**1.2**	**2.3**	**2.3**	**32.1**
Net worth - Budget Update 2021	**110.3**	**112.0**	**96.6**	**91.5**	**90.8**	**94.0**	
Net worth - Half Year Update 2020		83.9	69.2	63.0	60.1	61.0	
Total Change		**28.1**	**27.4**	**28.5**	**30.7**	**33.0**	
% of GDP, June years							
Net core Crown debt - Budget Update 2021	**26.3**	**34.0**	**43.8**	**48.0**	**46.9**	**43.6**	
Net core Crown debt - Half Year Update 2020		**39.7**	**49.1**	**52.6**	**50.7**	**46.9**	

OBEGAL deficits are lower than previously forecast in most years

23. The OBEGAL deficits have improved in most years across the forecast period when compared to the *Half Year Update*. The decrease in the OBEGAL deficits in 2020/21 is largely as a result of an improvement in the economic outlook and rephasing of expenditure into 2021/22 as mentioned previously.

24. The OBEGAL deficit in 2021/22 is expected to be weaker than previously forecast by $2.0 billion. Although some of the strength in core Crown tax revenue is expected to continue through the 2021/22 fiscal year, this is offset by higher expenditure. Which is primarily relating to the impact of the 2021 Budget Package and rephasing of expenditure out of the current fiscal year and into 2021/22.

25. By the end of the forecast period, the OBEGAL deficit is expected to be around $1.9 billion stronger than the *Half Year Update*. The stronger economic outlook is expected to favourably impact core Crown tax revenue by around $4.4 billion 2024/25. Whilst core Crown expenses are expected to be around $2.4 billion higher largely due to 2021 Budget decisions. In addition, SOE and Crown Entity results are expected to be lower by around $0.9 billion, the largest contributor to this being ACC.

26. Cumulatively, the OBEGAL deficits are $9.0 billion lower across the forecast period compared to the *Half Year Update*.

Tax revenue is higher in all years of the forecast period

27. Core Crown tax revenue is forecast to be $21.1 billion higher over the forecast period when compared to the *Half Year Update* (Table 4), a major driver being higher forecasts of nominal GDP and a stronger starting point as outturns in the year to date have outperformed previous expectation. The increase in tax revenue is distributed across the forecast period, averaging at $4.2 billion of additional revenue per year.

Table 4 – Change in core Crown tax revenue since the *Half Year Update*

Year ended 30 June $ billion	2020/21	2021/22	Forecast 2022/23	2023/24	2024/25	Total change
Movement in core Crown tax owing to:						
GST	1.3	1.6	2.0	2.2	2.0	9.1
Source deductions	0.7	1.4	1.7	1.4	1.1	6.3
Net other persons tax	0.4	0.7	0.6	0.5	0.5	2.7
Corporate tax	0.8	0.5	(0.2)	0.2	0.1	1.4
All other taxes	(0.1)	(0.3)	(0.1)	(0.2)	0.1	(0.6)
Total forecasting change	**3.1**	**3.9**	**4.0**	**4.1**	**3.8**	**18.9**
Tax policy change effects	0.1	0.2	0.8	0.5	0.6	2.2
Total movement in core Crown tax	**3.2**	**4.1**	**4.8**	**4.6**	**4.4**	**21.1**
Plus 2020 Half Year Update	88.3	89.1	96.9	102.5	108.8	
Core Crown tax revenue at Budget Update	**91.5**	**93.2**	**101.7**	**107.1**	**113.2**	
as a % of GDP	**27.4%**	**26.6%**	**27.4%**	**27.3%**	**27.3%**	

28. The changes in tax revenue are mainly driven by the following tax types:

- GST forecasts have increased by $9.1 billion across the forecast period. The driver of change in the 2020/21 year is owing to a higher tax revenue starting point, as tax data up to 31 March 2021 has been used as the base for the *Budget Update* forecasts. From 2021/22 onwards, changes in the forecast for consumption and residential investment drive the change for GST, which grows more in line with the revised nominal GDP levels for the remaining forecast period.

- Source deduction revenue is higher over the forecast period by $6.3 billion, mainly owing to a stronger outlook for employment and wage growth compared to the *Half Year Update*.

- This increase in net other persons tax of $2.7 billion is driven by stronger than expected tax outturns to date in the 2020/21 fiscal year and an improved outlook for taxable profits across the forecast.

- Additionally, tax policy changes arising from 2021 Budget decisions to increase welfare benefits has increased the forecasts for PAYE by around $0.1 billion in 2021/22 and then $0.2 billion per year from 2022/23 onwards.

Figure 2: Core Crown tax revenue

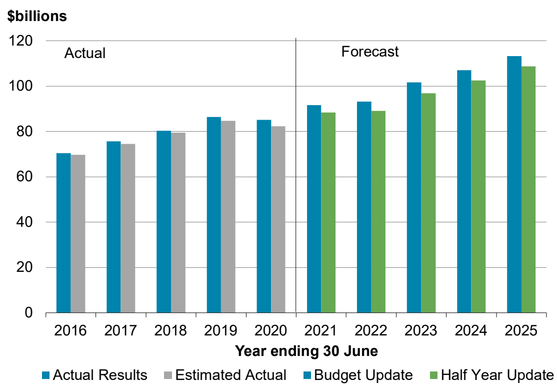
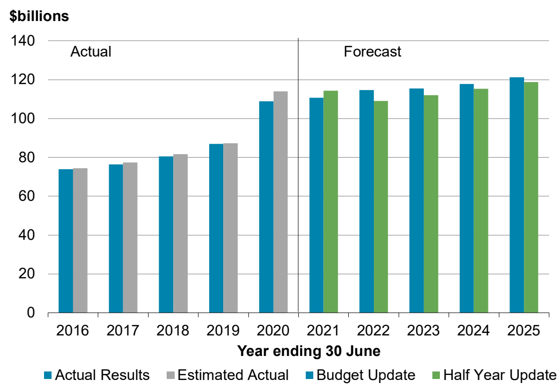


Figure 3: Core Crown expenses



Overall, core Crown expenses have increased by $10.4 billion across the forecast

29. Core Crown expenses for the current fiscal year have been revised down from $114.2 billion to $110.7 billion since the *Half Year Update*, a drop of $3.5 billion (refer Figure 3). This trend then reverses, as from 2021/22 onwards core Crown expenses are forecast to be higher than at the *Half Year Update* by an average of $3.5 billion per year.

30. The drop in core Crown expenses in the current fiscal year is predominantly owing to:
[38]

Table 5 – [38]
[38]

- Tagged contingencies have been rephased since the *Half Year Update* which has resulted in around $1.2 billion of unspent contingencies being moved out of the 2021/21 year and into the remaining years of the forecast period.

- Savings initiatives as part of the 2021 Budget Package have resulted in $0.6 billion of core Crown expenditure being returned to the COVID-19 Response and Recovery Fund (CRRF). This primarily reduced education and transport forecast expenditure in the current fiscal year.

- Other phasing changes in entities' baselines has seen expenditure moved out of the 2020/21 year and into the remaining years of the forecast (primarily next year).

31. For the remainder of the forecast period from 2021/22 to 2024/25, core Crown expenses are expected to be an average of $2.1 billion higher than the *Half Year Update* per year. This is in part owing to the phasing changed mentioned above as much of the expenditure moved out of 2020/21 has been moved into 2021/22, but the movement has also been driven by:

- Budget 2021 new operating spending has increased expenses across the forecast period, primarily from 2021/22 onwards. This largely relates to higher expenditure for Budget 2021 when compared with what was previously forecast as new spending in the *Half Year Update* for Budget 2021.

- Core Crown finance costs have increased across the forecast period by an average of $0.7 billion. This is largely due to an increase in forecast interest rates and inflation rates since the *Half Year Update*, impacting new issuance interest expense.

- Partially offsetting these increases are social assistance spending which, excluding the new welfare package, has decreased since the *Half Year Update* with expenditure revised down by an average of $0.3 billion per year. Decreases to Jobseeker Support and Accommodation Assistance are driven by lower forecast growth in recipient numbers which outweighed the impact of higher wage forecasts. Partially offsetting these decreases were New Zealand Superannuation expenses and the Support Living Payments, which increased owing to the higher wage forecasts.

SOE and Crown Entity results are weaker

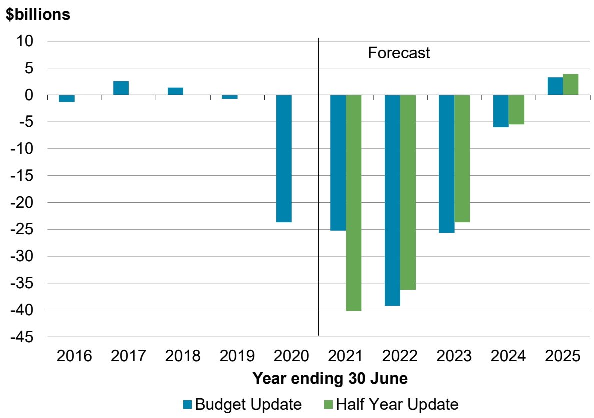
32. Overall SOE and Crown Entity results are expected to be weaker across the forecast period. On average, operating results are expected to be $0.6 billion weaker per year than the *Half Year Update*. This is primarily driven by Crown Entities, which on average are $0.5 billion weaker per year.

33. The OBEGAL results of ACC are expected to be on average around $0.3 billion lower per year, primarily owing to lower forecast levy revenue from 2022/23 onwards compared to the previous forecast. The change in levy revenue is owing to reduced levy rates, as the *Half Year Update* forecast rates were based on a cap of 15%, whereas the *Budget Update* rate forecasts are based on a cap of 5% (15% over three years). Overall, insurance expenses are broadly consistent with the previous forecast.

Residual cash results are stronger in 2020/21, but weaker for the remaining forecast

34. In total, a residual cash deficit of around $92.9 billion is expected over the forecast period which is a reduction of $8.9 billion from the *Half Year Update*. This reduction is primarily attributable to the 2020/21 fiscal year where the deficit is expected to be $14.9 billion lower than the *Half Year Update*. Over the remaining years of the forecast, the residual cash position is expected to be weaker than the *Half Year Update* by an average of $1.5 billion per year from 2021/22 to 2024/25 (Figure 4).

Figure 4 – Core Crown residual cash



35. Operating receipts and payments largely mirror the OBEGAL movements discussed above albeit with slightly different cash profiles (eg, a lag in the cash profile for the tax receipts). Core Crown tax receipts are higher over the forecast period by $22.3 billion, while benefit payments are higher by $2.8 billion. The overall stronger economic outlook is the main reason for these revisions.

36. Net interest payments are higher over the forecast period by $1.8 billion largely driven by the increase in interest and inflation rates since the *Half Year Update*.

37. Budget 2021 new operating spending and reforecasting of entities baselines largely accounts for the remainder of movements in operating cash flows since the *Half Year Update*, broadly in line with the trend in core Crown expenses explained previously.

38. In addition to the operating cashflow movements, changes to capital spending have contributed to the trend in core Crown residual cash. Net capital cash outflows are $5.4 billion lower than the *Half Year Update* in the 2020/21 year, whilst for the rest of the forecast period capital cash flows are on average $3.5 billion per year higher than previously forecast. By the end of the forecast period, capital cash flows are a total of $8.6 billion higher than the *Half Year Update*.

39. The key drivers for this change are the Budget 2021 capital decisions and increases to the multi-year capital envelope. The net impact to the is around $4.2 billion of additional capital spending across the forecast period.

40. In addition, the Reserve Bank's Funding for Lending programme has been re-phased since the *Half Year Update*. Whilst the peak of the programme at $28.0 billion in 2022/23 remains unchanged, the uptake and repayment profile is forecast to be slower to better reflect actual results to date.

41. The improvement in the 2020/21 forecast cash deficit is also been driven by higher receipts from the Emissions Trading Programme (ETS), which is $1.0 billion higher than at the *Half Year Update*. Increases to the price of NZ Units since the *Half Year Update* ($36.90 at 31 March 2021) are expected to increase the use of the fixed price option ($25 per unit) by emitters to meet their obligations, thereby increasing the cash inflow to the Crown.

Net core Crown debt levels have reduced across the forecast period

42. The movements in residual cash flow through to reduce net core Crown debt. In 2020/21, net core Crown debt is forecast to be $14.9 billion lower than previously forecast, driven by the lower residual cash deficit in that year.

43. From 2021/22 onwards the net core Crown debt track remains lower than at the *Half Year Update*, but this gap narrows slightly each year. By the end of the forecast period net core Crown debt is forecast to be $180.8 billion or 43.6% of GDP, which is $9.2 billion (3.3% of GDP) lower than at the *Half Year Update*.

Figure 5: Net core Crown debt

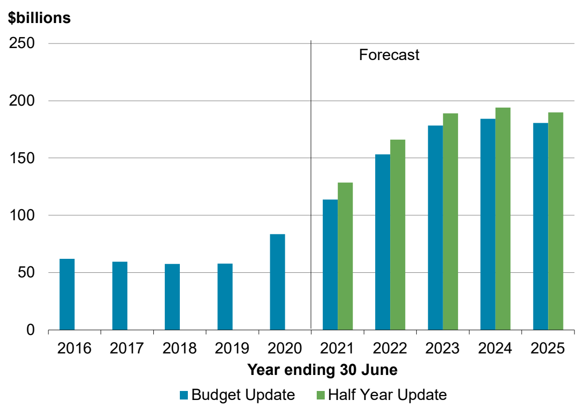
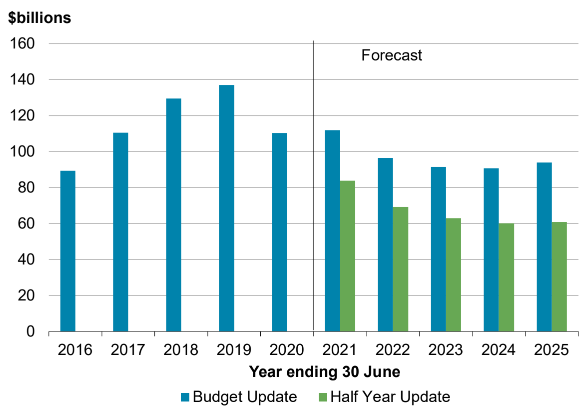


Figure 6: Net worth attributable to the Crown



Net worth is now expected to be higher due to the improvement in operating results

44. The improvement in the total Crown operating balance (including gains and losses) flows through to net worth attributable to the Crown, resulting in an increase of $28.1 billion in the 2020/21 year.

45. The increase compared to the *Half Year Update* remains broadly consistent over the forecast period as operating results align more closely with the previous forecast. By the end of the forecast period net worth attributable to the Crown is forecast to be $94.0 billion, an increase of $33.0 billion from the *Half Year Update*.

46. Total assets across the forecast period are expected to be higher than the *Half Year Update*. Financial assets are driving this variance at an average of $5.9 billion higher per year compared to the previous forecast, which is largely owing to improved market conditions particularly in the near term.

47. Total liabilities are lower than previously expected in all years of the forecast period, largely as a result of ACC's outstanding claims liability which is on average $15.1 billion per year lower than the *Half Year Update*. The decrease in the long-term liability is largely owing to the increase in interest rates since the previous forecast. In addition, total borrowings are lower across the forecast, [33]

in these fiscal forecasts.

Changes since the preliminary fiscal forecasts

48. Changes since the preliminary fiscal forecasts primarily relate to the inclusion of the 2021 Budget package, increases to net core Crown finance costs and rephasing of expenditure out of the 2020/21 fiscal year and into the remaining years of the forecast. Table 6 shows the comparison of the key fiscal indicators against the preliminary forecasts.

Table 6 – Changes in key fiscal indicators compared to the preliminary fiscal forecasts

Year ended 30 June			Forecast			
$ billion	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**5-year total**
OBEGAL - Budget Update 2021 - final	**(15.1)**	**(18.4)**	**(9.5)**	**(5.7)**	**(2.3)**	**(51.0)**
OBEGAL - Budget Update 2021 - preliminary	(17.5)	(14.4)	(7.8)	(4.7)	(1.7)	(46.1)
Total Change	**2.4**	**(4.0)**	**(1.7)**	**(1.0)**	**(0.6)**	**(4.9)**
Residual Cash - Budget Update 2021 - final	**(25.3)**	**(39.2)**	**(25.7)**	**(6.0)**	**3.3**	**(92.9)**
Residual Cash - Budget Update 2021 - preliminary	(31.0)	(33.0)	(24.2)	(5.0)	4.4	(88.8)
Total Change	**5.7**	**(6.2)**	**(1.5)**	**(1.0)**	**(1.1)**	**(4.1)**
Net Worth attributable to the Crown - Budget Update 2021 - final	**112.0**	**96.6**	**91.5**	**90.8**	**94.0**	
Net Worth attributable to the Crown - Budget Update 2021 - preliminary	102.8	91.1	87.5	87.5	91.0	
Total Change	**9.2**	**5.4**	**4.0**	**3.3**	**3.1**	
Net Core Crown Debt - Budget Update 2021 - final	**113.7**	**153.3**	**178.5**	**184.2**	**180.8**	
Net Core Crown Debt - Budget Update 2021 - preliminary	119.4	152.8	176.6	181.4	176.8	
Total Change	**5.7**	**(0.5)**	**(1.9)**	**(2.8)**	**(4.0)**	
% of GDP, June years						
Net Core Crown Debt - Budget Update 2021 - final	**34.0**	**43.8**	**48.0**	**46.9**	**43.6**	
Net Core Crown Debt - Budget Update 2021 - preliminary	**35.4**	**43.8**	**47.6**	**46.1**	**42.6**	

49. OBEGAL deficits are forecast to increase by a total of $4.9 billion across the forecast period compared to the preliminary fiscal forecasts, despite a reduction in the deficit of $2.4 billion in the first year of the forecast. The main drivers of the overall movements are the final Budget 2021 operating package, higher net core Crown finance costs and changes to central assumptions made since the preliminary fiscal forecasts.

- The final Budget 2021 operating package is reflected in the final fiscal forecast, reducing OBEGAL by $1.3 billion across the forecast period. The fiscal impact primarily relates to higher expenditure arising from the Budget package than was previously forecast.

- Core Crown finance costs have increased by $0.8 billion across the forecast period. Despite the reduction in the level of net debt, this has been outweighed by the impact of higher forecast interest and inflation rates since the preliminary fiscal forecasts.

- Overall, the operating top-down adjustment for the final fiscal forecasts has reduced by $2.6 billion since the preliminary forecasts. The biggest driver of this change is that we now expect the remaining unallocated portion of the CRRF will be spent over the forecast period and so we have reduced our top-down accordingly. Previously we assumed spending from the CRRF would be focused on resurgence of the virus, but it is now assumed that the CRRF will be used for purposes wider than that.

50. Revisions to economic forecasts since the preliminary fiscal forecasts is largely neutral to OBEGAL across the forecast period as reductions to core Crown tax revenue forecasts ($2.3 billion) is largely offset by lower benefit expenses (excluding the new welfare package) of $2.1 billion.

51. The year on year OBEGAL movements compared to the preliminary fiscal forecasts (particularly in the 2020/21 and 2021/22 years) are largely owing to the rephasing of entity baselines and tagged contingencies, as expenditure has been moved out of the current fiscal year and into the remaining years of the forecast (mainly 2021/22).

[38]

53. Residual cash deficits are forecast to increase by $4.1 billion over the five years compared to the preliminary fiscal forecasts. Operating receipts and payments that form part of residual cash largely mirror the OBEGAL movements discussed above.

54. There has been significant rephasing of capital cash flows, moving spending out of the current year and into the remaining forecast period (mainly 2021/22) which is a significant driver of the 2020/21 and 2021/22 variances against the preliminary fiscal forecasts.

55. The Reserve Bank's Funding for Lending Programme (FLP) has been rephased based on actual uptake results to March 2021. This has led to a reduction in advances of $1.8 billion in the current year which is now expected in 2021/22.

56. Capital contingencies have also been rephased, resulting in $1.2 billion of unallocated spending shifted out of 2020/21 and across the remaining years of the forecast. This mainly relates to [33] contingencies which have not been draw down as previously forecast.

57. The movements in the residual cash forecasts flow through to impact net core Crown debt. By 2024/25, net core Crown debt is $4.0 billion higher than the preliminary fiscal forecast at $180.8 billion (43.6% of GDP). Net debt is forecast to peak in the same year in nominal terms but at a higher level of $184.2 billion in 2023/24 before beginning to reduce.

58. The largest year on year variance from the preliminary fiscal forecasts is the current fiscal year, where net core Crown debt is expected to be $5.7 billion or 1.4% of GDP lower than in the preliminary fiscal forecasts. This is largely owing to the reduction in the residual cash deficit in the current year, as discussed above.

Consistency of assumptions

The final economic forecasts that were completed on 1 April 2021 were provided to agencies whose forecasts are underpinned by key economic indicators, to ensure consistency of assumptions. Discount rates and CPI assumptions are also centrally set by the Treasury for use in key asset and liability valuations (eg, ACC claims liability, Government Superannuation Fund liability and student loans valuation).

Since the preliminary fiscal forecasts, ACC have resubmitted their fiscal forecasts using the 28 February 2021 discount rates (due to the impact of changes in discount rates between January and February), this has been incorporated into the final fiscal forecasts.

Budget allowances

The forecast for new operating spending for Budget 2021 has been updated and is set at $2.7 billion (a decrease of $0.3 billion since preliminary forecasts) for Budget 2022-2024. As at the forecast finalisation date, some of this $2.7 billion allowance has been pre-committed meaning there is less than $2.7 billion available for Budget 2022. Refer Table 7 below.

Table 7 – Operating allowances

	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Forecast New Operating Spending					
Unallocated operating contingencies	-	3,079	2,118	2,296	2,260
COVID-19 response and recovery funding	500	1,142	1,142	1,142	1,142
Forecast new spending for Budget 2022	-	-	1,991	1,746	1,756
Forecast new spending for Budget 2023	-	-	-	2,700	2,700
Forecast new spending for Budget 2024	-	-	-	-	2,700
Total forecast new operating spending	**500**	**4,221**	**5,251**	**7,884**	**10,558**

The total capital allowance for Budgets 2021 to 2024 has been increased to $12.0 billion (unchanged from the preliminary fiscal forecasts). As at the forecast finalisation date, $7.6 billion of funding for future capital initiatives is remaining over the next three Budgets. Refer table 8 below.

Table 8 – Capital allowances

	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	Post-2025 $m	Total $m
Forecast New Capital Spending (annual)							
Unallocated capital contingencies	-	2,033	2,010	1,583	1,384	531	7,541
Forecast new spending for Budgets 2022 - 2024	-	-	885	1,770	2,276	2,655	7,586
Total forecast new capital spending	**-**	**2,033**	**2,895**	**3,353**	**3,660**	**3,186**	**15,127**

COVID-19 Response and Recovery Fund – phasing of unallocated funding

Since the preliminary fiscal forecast, around $0.9 billion of funding has been allocated, leaving $5.1 billion of unallocated funding. Given the high degree of uncertainty when funding may be allocated, we have phased a small portion ($0.5 billion) for the remaining months of the current year, with the balance of funding split evenly across the forecast period (at $1.1 billion per annum). We are also assuming the unallocated portion of the CRRF will be used to fund operating expenditure.

Table 9 – Profile of unallocated CRRF

BEFU 21 - final forecasts

$millions	2020/21	2021/22	2022/23	2023/24	2024/25
Budget Update 2021 - Final	500	1,142	1,142	1,142	1,142

Top-down Adjustment

The top-down adjustment is a central adjustment to expenditure forecasts (both operating and capital) to reflect department's tendency to use appropriations (upper spending limits) rather than best estimates when preparing their forecasts. The level of the central top-down adjustment is dependent on the quality of forecasts received from departments. Based on our analysis the central top-down adjustment included in the forecasts are set out in Table 10 below.

Table 10 - Top-down adjustment

BEFU 21 - final forecasts

$millions	2020/21	2021/22	2022/23	2023/24	2024/25
Operating	2,025	2,775	800	700	700
Capital	800	2,425	1,400	1,000	850
Total	**2,825**	**5,200**	**2,200**	**1,700**	**1,550**

BEFU 21 - preliminary forecasts

$millions	2020/21	2021/22	2022/23	2023/24	2024/25
Operating	3,475	2,100	1,450	1,300	1300
Capital	1,700	1,800	1,000	700	600
Total	**5,175**	**3,900**	**2,450**	**2,000**	**1,900**
Change in operating top-down from prelims	(1,450)	675	(650)	(600)	(600)
Change in capital top-down from prelims	(900)	625	400	300	250

We have adjusted these since the preliminary fiscal forecasts, decreasing the operating adjustment in the current year and increasing it in 2021/22, with the outyears then decreasing. The increase in 2021/22 is primarily owing to the level of expenditure that has been rephased into that year in entity baselines. The remaining years is largely due to our assumption that the full amount of the remaining CRRF will be fully spent and so the top down has been reduced for this.

The capital adjustment has been increased in all years, except the 2020/21 year which has decreased by $900 million. This again is largely due to rephasing of expenditure which has moved out of the current fiscal year.

Generally, the top-down adjustments in the next fiscal year (2021/22) are higher than the other years in the forecast period to compensate for expenses being transferred from previous years. This was the case for both operating and capital, where transfers have occurred from 2020/21.

Housing assumptions (Housing Acceleration Fund)

The Housing Acceleration Fund is $3.8 billion. The HAF is now incorporated into the final fiscal forecast baseline of the Ministry of Housing and Urban Development (HUD), this is a change from the preliminary fiscal forecasts as at that time the HAF was not yet appropriated.

The table below shows the amounts that have been incorporated into the final fiscal forecasts. It should be noted that there is still a high level of uncertainty around the nature of the spending (e.g. operating vs capital) and the timing profile of the expenditure.

Table 11 – Profile of the HAF included in HUD's final fiscal forecasts

BEFU 21 - final forecasts

$millions	2020/21	2021/22	2022/23	2023/24	2024/25
Operating	-	343	464	505	491
Capital	-	721	346	335	280
Total	**-**	**1,064**	**810**	**840**	**771**

[33,34]