The Treasury

Budget 2021 Information Release

August 2021

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[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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Treasury Report: Budget Economic and Fiscal Update 2021 - Preliminary Fiscal Forecasts

TE TAI ŌHANGA
THE TREASURY

Date:	26 March 2021	**Report No:**	T2021/726
		File Number:	BM-1-2-3-2021-1

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Note** the contents of this report.	Read prior to the Weekly Agency Meeting, at 9am Wednesday 31 March

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

Executive Summary

This report provides a summary of the Treasury's Budget 2021 preliminary fiscal forecasts completed on 23 March 2021. This report covers:

- an overview of the preliminary fiscal forecasts;
- the key changes since the *Half Year Economic and Fiscal Update 2020 (Half Year Update*); and
- the key central assumptions that underpin the preliminary fiscal forecasts.

Compared to the *Half Year Update*, 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, that in turn has also flowed through to most other 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	91.6	93.4	101.8	107.5	114.0
Core Crown revenue	91.9	98.3	100.2	109.2	115.4	122.3
Core Crown expenses	108.8	113.2	110.8	113.8	117.3	121.4
Total Crown OBEGAL	(23.1)	(17.5)	(14.4)	(7.8)	(4.7)	(1.7)
Core Crown residual cash	(23.7)	(31.0)	(33.0)	(24.2)	(5.0)	4.4
Net core Crown debt	83.4	119.4	152.8	176.6	181.4	176.8
Total borrowings	152.7	178.1	212.2	238.8	243.2	238.4
Total Crown operating balance	(30.0)	(7.9)	(11.9)	(3.8)	(0.2)	3.3
Net worth attributable to the Crown	110.3	102.8	91.1	87.5	87.5	91.0
% of GDP						
Core Crown tax revenue	26.9%	27.2%	26.8%	27.4%	27.3%	27.4%
Core Crown expenses	34.4%	33.6%	31.8%	30.7%	29.8%	29.2%
Total Crown OBEGAL	(7.3%)	(5.2%)	(4.1%)	(2.1%)	(1.2%)	(0.4%)
Total Crown operating balance	(9.5%)	(2.3%)	(3.4%)	(1.0%)	(0.1%)	0.8%
Core Crown residual cash	(7.5%)	(9.2%)	(9.5%)	(6.5%)	(1.3%)	1.1%
Net core Crown debt	26.3%	35.4%	43.8%	47.6%	46.1%	42.6%
Total borrowings	48.2%	52.9%	60.9%	64.3%	61.8%	57.4%
Net worth attributable to the Crown	34.8%	30.5%	26.1%	23.6%	22.2%	21.9%

The operating balance before gains and losses (OBEGAL) deficit reduces in each year of the forecast period, narrowing to a $1.7 billion deficit by 2024/25. The OBEGAL deficit has improved on average by around $2.8 billion per year over the forecast period compared to the *Half Year Update*.

The improvement in OGEGAL deficits is driven by significant increases in expected tax revenue across the forecast period, partially offset by increases to operating allowances, higher benefit expenses and the weakening operating results of Crown entities (particularly ACC) and State-Owned Enterprises (SOEs).

In addition, the allocation of the $3.8 billion Housing Acceleration Fund (HAF) from the remaining unallocated portion of the COVID-19 Response and Recovery Fund (CRRF) has had a positive impact on our forecast for OBEGAL of around $1.6 billion, as a portion of this spending is now expected to be on capital expenditure, rather than operating. This allocation to the HAF, coupled with other decisions now leaves a remaining unallocated CRRF balance of around $6.0 billion.

Core Crown residual cash strengthens across the forecast period and is forecast to return to a surplus of $4.4 billion in the final year of the forecast period. Overall, the residual cash position is forecast to be $13.0 billion better than the *Half Year Update* which is mainly owing to the same drivers as mentioned above impacting OBEGAL (except the Crown entities/SOE results and allocation to the HAF). In addition, the residual cash position has been adversely impacted by an increase in capital allowances.

In nominal terms net core Crown debt is forecast to increase, peaking at $181.4 billion by 2023/24. However, as a percentage of GDP net core Crown debt is expected to peak a year earlier at 47.6% in 2022/23 and then starts to fall reaching 42.6% by 2024/25. Across all five years of the forecast, the net core Crown debt balance has reduced compared to the *Half Year Update*, driven mainly by improvements to core Crown residual cash which flows through to net core Crown debt.

Similar to the *Half Year Update*, the Reserve Bank's Funding for Lending Programme (FLP) has a significant impact on the trends in residual cash and net core Crown debt. If the impact of the FLP was looked through for these indicators net core Crown debt would peak at 40.2% of GDP in 2023/24, while there would be a $8.1 billion residual cash deficit forecast in 2024/25.

The preliminary fiscal forecasts include Budget allowances that were confirmed by Budget Ministers on 15 March 2021. [33,34]

The fiscal forecasts are due to be finalised on 30 April 2021. The final fiscal forecasts will include the impact of the final economic and tax forecasts which are not included in these preliminary forecasts. Our final fiscal forecasts will also include final Budget decisions and any other decisions or material developments.

We will provide an additional report to you outlining our final fiscal forecasts and will also provide you details of any significant changes in our disclosures.

Recommended Action

We recommend that you:

a **note** that the Treasury's preliminary fiscal forecasts for the *2021 Budget Economic and Fiscal Update* (*Budget Update*) were finalised on Tuesday 23 March 2021

b **note** that the preliminary fiscal outlook has improved since the 2020 *Half Year Update,* with the operating balances before gains and losses (OBEGAL) deficits and net core Crown debt lower now expected to be both lower

c **note** that the forecast for OBEGAL deficits improve across the forecast period and a deficit of $1.7 billion is expected in 2024/25, while net core Crown debt as a percentage of GDP peaks at 47.6% in 2022/23, before falling to 42.6% of GDP by 2024/25

d **note** that the preliminary fiscal forecasts include $6.0 billion of unallocated COVID-19 Response and Recovery Fund (CRRF) funding and $3.8 billion if funding for the Housing Acceleration Fund (HAF) funding

e **note** the preliminary fiscal forecasts include Budget allowances that were confirmed by Budget Ministers on Monday 15 March 2021

f **note** that the 2021 Budget package is likely to be higher than what has been assumed in the Treasury's fiscal forecasts

g [33,34]

h **note** the supporting information that both you and your office have requested regarding pay equity settlements will be provided to you in a separate aide memoire

i **note** that this report is an agenda item at the Weekly Agency Meeting on Wednesday 31 March

j **note** that the Treasury's final fiscal forecasts for the *Budget Update* are due to be finalised on Friday 30 April 2021, and

k **note** that a report on the final fiscal forecast will be provided to you in the week ending 7 May 2021.

Jayne Winfield
Manager, Fiscal Reporting

Hon Grant Robertson
Minister of Finance

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

Purpose of Report

1. The preliminary fiscal forecasts for the *Budget Update* were completed on 23 March 2021. They capture the fiscal impact from the preliminary economic forecasts that were completed on 19 February 2021. These preliminary fiscal forecasts incorporate Government decisions and probable decisions up to 15 March 2021.

2. The purpose of this report is to provide an overview of the preliminary fiscal forecasts with a focus on how key indicators have changed since the *Half Year Update*.

3. We have also included some of our key judgements and assumptions that underpin these preliminary fiscal forecasts focusing on the new and significantly changed assumptions.

Budget Update 2021 Preliminary Fiscal Forecasts

The fiscal outlook begins to recover from the impacts of COVID-19

4. The fiscal forecasts reflect an improved economic outlook, arising from a stronger recovery from the COVID-19 pandemic than previously forecast. The strength in the economic and tax forecasts have had a significant impact on the key fiscal indicators. A summary of key fiscal indicators is outlined in Table 2.

Table 2 – Summary of the key fiscal indicators

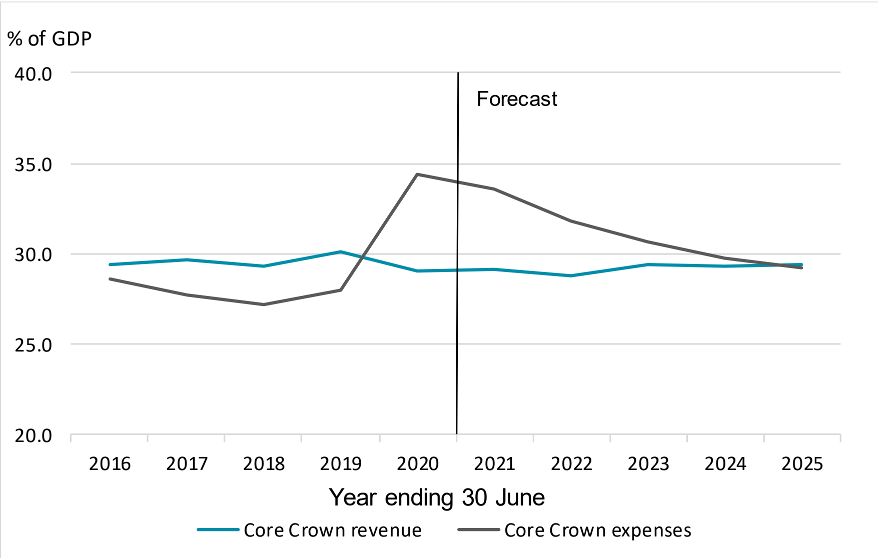
Year ended 30 June	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
$ billion						
Core Crown tax revenue	85.1	91.6	93.4	101.8	107.5	114.0
Core Crown revenue	91.9	98.3	100.2	109.2	115.4	122.3
Core Crown expenses	108.8	113.2	110.8	113.8	117.3	121.4
Total Crown OBEGAL	(23.1)	(17.5)	(14.4)	(7.8)	(4.7)	(1.7)
Core Crown residual cash	(23.7)	(31.0)	(33.0)	(24.2)	(5.0)	4.4
Net core Crown debt	83.4	119.4	152.8	176.6	181.4	176.8
Total borrowings	152.7	178.1	212.2	238.8	243.2	238.4
Total Crown operating balance	(30.0)	(7.9)	(11.9)	(3.8)	(0.2)	3.3
Net worth attributable to the Crown	110.3	102.8	91.1	87.5	87.5	91.0
% of GDP						
Core Crown tax revenue	26.9%	27.2%	26.8%	27.4%	27.3%	27.4%
Core Crown expenses	34.4%	33.6%	31.8%	30.7%	29.8%	29.2%
Total Crown OBEGAL	(7.3%)	(5.2%)	(4.1%)	(2.1%)	(1.2%)	(0.4%)
Total Crown operating balance	(9.5%)	(2.3%)	(3.4%)	(1.0%)	(0.1%)	0.8%
Core Crown residual cash	(7.5%)	(9.2%)	(9.5%)	(6.5%)	(1.3%)	1.1%
Net core Crown debt	26.3%	35.4%	43.8%	47.6%	46.1%	42.6%
Total borrowings	48.2%	52.9%	60.9%	64.3%	61.8%	57.4%
Net worth attributable to the Crown	34.8%	30.5%	26.1%	23.6%	22.2%	21.9%

Core Crown revenue grows in line with economy while core Crown expenses fall, leading to an improvement to OBEGAL…

5. The operating balance before gains and losses (OBEGAL) continues to be in deficit across the forecast period. The OBEGAL deficit in the current year is forecast at $17.5 billion, a $5.6 billion reduction since last year. The OBEGAL deficit is then forecast to reduce by an average of $4 billion each year across the rest of the forecast period. In the final year of the forecast, an OBEGAL deficit of $1.7 billion is forecast, a $15.8 billion lower deficit than what is expected in the current year.

6. This improvement in OBEGAL across the forecast reflects the steady growth in tax revenue across the forecast period [T2021/327 refers], along with a reduction in core Crown expenses (as a percentage of GDP) as the majority of the temporary COVID-19 fiscal support measures are assumed to be no longer required. Figure 1 below shows core Crown revenue and expenses as a percentage of GDP and the convergence of the two over the forecast is reflected in a reduction to the OBEGAL deficit.

Figure 1 – Core Crown revenue and core Crown expenses as a percentage of GDP



…which also leads to a reduction in residual cash deficits…

7. A residual cash deficit is expected in the four years to 2023/24. However, in the final year of the forecast this returns to a residual cash surplus of $4.4 billion. The trend in these deficits broadly follows a similar trend to the OBEGAL forecast with larger cash deficits particularly in the first two years of the forecast as cash payments for the COVID-19 pandemic related expenses are expected. The overall cash deficit across the forecast period is a total net deficit of $88.9 billion, this cash shortfall is funded largely through additional borrowing.

8. These forecasts include the impact of the Reserve Bank's $28 billion Funding for Lending Programme (FLP). The Reserve Bank's FLP has had a significant impact on the residual cash indicators in individual years, with additional advances being forecast in the first three years of the forecast ($6.2 billion in 2020/21, $12.5 billion in 2021/22 and $9.3 billion in 2022/23, totalling $28 billion by 2022/23). From 2023/24 these advances are expected to start to be repaid which has a positive impact on residual cash of $18.7 billion across the last two years of the forecast period. Therefore, over the forecast period the net impact on residual cash from the FLP is expected to be a net deficit of $9.3 billion.

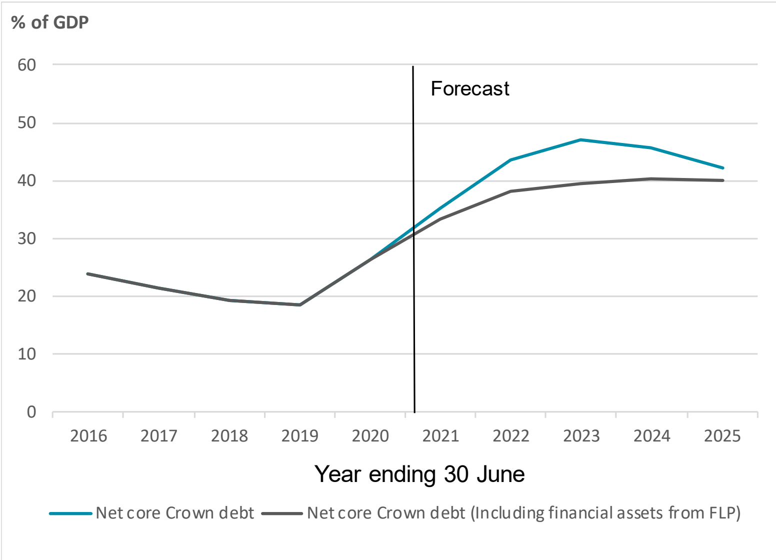
9. If the impact of the FLP was looked through for the residual cash indicator, the overall cash deficit across the five year forecast would be a total cash deficit of $79.6 billion and there would be a residual cash deficit of $8.1 billion in the final year of the forecast.

…the residual cash deficits flow through to increase net core Crown debt particularly in the near term…

10. Net core Crown debt is expected to grow significantly over the forecast period, mainly driven by the need to fund the residual cash deficits expected through to 2023/24. As a percentage of GDP, net core Crown debt is expected to increase rapidly in the first two years of the forecast period, before peaking as a percentage of GDP at 47.6% in 2022/23 and then starting to decline across the remaining forecast period.

11. The FLP also has a significant impact on net core Crown debt. Net core Crown debt includes the FLP liabilities but excludes the corresponding assets because they are classed as advances and advances are excluded from the definition of net core Crown debt. Figure 2 below shows net core Crown debt as a percentage of GDP as per the existing definition (i.e. excluding the FLP assets) and also shows what net core Crown debt would look like across the forecast if the FLP asset were included.

Figure 2 – Impact of FLP on net core Crown debt indicator



12. If the impact of the FLP was 'looked through'[1] for net core Crown debt, it is expected to peak at around 40.2% of GDP in 2023/24.

13. As the FLP is a significant (but temporary) programme, we will continue to improve transparency within the *Budget Update* documents to assist readers of the document in understanding the impacts on the key indicators. This includes continuing to present net core Crown debt both with and without the inclusion of the financial assets from the FLP in the forecast financial statements. We will report to you prior to the completion of our final fiscal forecasts to explain how we propose to communicate this within the *Budget Update*.

…resulting in a decline in net worth attributable to the Crown.

14. Net worth attributable to the Crown is forecast to decline in the first three years of the forecast period before levelling off in 2023/24 and recovering slightly in the final year of the forecast period. By the end of the forecast period, net worth attributable to the Crown is forecast to be 11.5% lower than in the current year. As a percentage of GDP, net worth is forecast to decline across the forecast period. This reduction mainly reflects the forecast total Crown operating balance deficits (totalling $20.5 billion across the forecast), which includes the impact of the COVID-19 pandemic on OBEGAL and other external factors impacting gains and losses.

[1] Meaning the Government should not seek to offset the fiscal impacts through decisions to achieve its fiscal policy objctives.

There are a number of risks to the preliminary fiscal forecasts

15. 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 assumptions and judgements, while uncertainty around the forecast assumptions and judgements increases over the forecast period.

16. There continues to be a higher degree of uncertainty than normal due to the impacts of the COVID-19 pandemic on the economy and some key judgements used to forecast the unallocated funding set aside by the Government.

17. [33,34]

18.

19.

21. The Treasury has had to make some high level judgements around the likely spending from the HAF (refer paragraph 48). At the moment we have assumed a certain split between operating and capital expenditure, however given the high level of uncertainty actual spending may differ to what we have assumed.

22. Along with the inherent uncertainty regarding forecasts, there are some known risks to the preliminary fiscal forecasts. The preliminary fiscal forecasts do not reflect economic data received after the preliminary economic forecasts were finalised on 19 February. The GDP release for the December quarter was released on 18 March and this information will be incorporated into the final economic and fiscal forecasts.

23. The headline December quarter GDP was weaker than forecast, although the difference relative to nominal expenditure GDP was relatively small with a 1.6% decline in the quarter versus a forecast 1.3% fall. March quarter growth may also be slightly weaker than forecast reflecting the negative impacts of the higher alert levels, particularly in Auckland, during the quarter. We still anticipate fairly modest growth over 2021 as a whole, with the potential for some catch up in the middle of the year provided the country remains at Alert level 1 and increased trans-Tasman travel is possible. Overall, we expect that much of the strength relative to HYEFU will be maintained, including lower rates of unemployment and higher nominal GDP and tax revenues, although there is a risk that the extent of upward revision relative to HYEFU may be smaller than in the preliminary forecasts. Tax data continues to remain supportive of this. However, uncertainty remains greater than normal, including for the pace of the recovery of tourism as border restrictions are eased.

Changes in the fiscal forecasts since the *Half Year Update*

24. Whilst the fiscal outlook continues to show OBEGAL deficits and an increase in net core Crown debt, there has been some improvement in the key fiscal indicators when compared to the *Half Year Update*.

25. A comparison of the key fiscal indicators to the *Half Year Update* forecasts is included in Table 3 below.

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

Year ended 30 June	Actual	Forecast				
$ billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
OBEGAL - Budget Update 2021 - preliminary	**(23.1)**	**(17.5)**	**(14.4)**	**(7.8)**	**(4.7)**	**(1.7)**
OBEGAL - Half Year Update 2020		(21.6)	(16.4)	(10.3)	(7.5)	(4.2)
Total Change		**4.1**	**2.0**	**2.5**	**2.8**	**2.5**
Residual Cash - Budget Update 2021 - preliminary	**(23.7)**	**(31.0)**	**(33.0)**	**(24.2)**	**(5.0)**	**4.4**
Residual Cash - Half Year Update 2020		(40.2)	(36.3)	(23.7)	(5.5)	3.9
Total Change		**9.2**	**3.3**	**(0.5)**	**0.5**	**0.5**
Net Worth attributable to the Crown - Budget Update 2021 - preliminary	**110.3**	**102.8**	**91.1**	**87.5**	**87.5**	**91.0**
Net Worth attributable to the Crown - Half Year Update 2020		83.9	69.2	63.0	60.1	61.0
Total Change		**18.9**	**21.9**	**24.5**	**27.4**	**30.0**
Net Core Crown Debt - Budget Update 2021 - preliminary	**83.4**	**119.4**	**152.8**	**176.6**	**181.4**	**176.8**
Net Core Crown Debt - Half Year Update 2020		128.6	166.2	189.1	194.2	190.0
Total Change		**9.2**	**13.4**	**12.5**	**12.8**	**13.2**
% of GDP, June years						
Net Core Crown Debt - Budget Update 2021 - preliminary	**26.3**	**35.4**	**43.8**	**47.6**	**46.1**	**42.6**
Net Core Crown Debt - Half Year Update 2020		**39.7**	**49.1**	**52.6**	**50.7**	**46.9**

Operating deficits are lower than previously expected across all years…

26. The OBEGAL deficits have reduced in all years across the forecast period when compared to the *Half Year Update*. The deficit for the 2020/21 fiscal year is expected to be lower by $4.1 billion with an OBEGAL deficit forecast of $17.5 billion. Over the rest of the forecast period OBEGAL deficits are expected to reduce on average by around $2.5 billion.

27. The decrease in the OBEGAL deficits across the forecast is owing to an improvement in core Crown tax revenue due to stronger economic activity, partially offset by an increase in core Crown expenses in most years and weaker forecast results across the Crown entities and SOE sectors.

… with tax revenue expected to be higher in all years of the forecast period…

28. Core Crown tax revenue forecasts have increased by an average of $4.5 billion each year compared to the *Half Year Update*, adding a total of around $22.7 billion to core Crown tax revenue, across the five years of the forecast period. The higher tax revenue starting point and stronger nominal GDP growth forecast, have resulted in the significant increase to the tax revenue forecasts in all years of the forecast period.

29. As previously advised [T2021/327 refers], higher forecasts of nominal GDP are a major driver of higher forecasts of tax revenues. Increases in the forecasts for nominal GDP and its components add $2.5 billion to the tax revenue forecasts each year, on average.

30. It is worth noting the revisions in the forecast for core Crown tax revenue is lower than those communicated previously based on the economic forecasts (which were prior to receiving all fiscal data for consolidation). This is because a larger portion of the overall improvement in tax revenue is driven by GST on public consumption which is eliminated in our fiscal forecasts as it is a transaction within the Crown. There is a difference of $1.8 billion from what was previously indicated in [T2021/327].

31. Core Crown tax revenue for the seven months to January 2021 was $1.8 billion above the *Half Year Update* forecast. There were positive variances against forecast in GST, corporate tax and source deductions tax and this is largely a result of economic activity holding up slightly better than expected in the December quarter. The results to January have been used as a base for these preliminary *Budget Update* forecasts. This strong trend against forecast has continued into the February results, with core Crown tax revenue in the eight months to February 2021 coming in at $2.3 billion above the *Half Year Update* forecast.

… while core Crown expenses increase in most years of the forecast period…

32. Core Crown expenses are expected to be a total of $7.2 billion higher across the forecast period, an average of $1.4 billion higher per year of the forecast. This is primarily due to the increase to Budget allowances since the *Half Year Update*, which is expected to increase core Crown expenses by $1.5 billion by 2024/25. Overall, the increase in Budget allowances total $3.8 billion across the forecast period.

33. Core Crown finance costs have increased compared to the *Half Year Update*. Whilst they remain similar in the current year, by 2024/25 core Crown finance costs are expected to be $0.8 billion higher than expected at the *Half Year Update*, adding a total of around $2.5 billion to core Crown expenses across the forecast period. Although borrowing requirements have fallen since the *Half Year Update*, the increase in finance costs has been driven by an increase in interest rates.

34. Benefit expenses are expected to be higher than previously forecast by an average of around $0.4 billion in each year of the forecast period, primarily owing to higher NZ Superannuation payments. NZ Superannuation has increased by a total of $1.7 billion across the five year forecast, mainly from an upward revision to wage growth forecasts. Supported living payments have also increased by a total of $0.4 billion compared to the *Half Year Update* owing to a higher number of recipients and the increase to wage growth forecasts.

35. Partially offsetting the above increase in benefit expenses, there has been a downward revision to jobseeker support, accommodation assistance and the hardship allowance (totalling $0.6 billion across the forecast) primarily driven by the stronger economic outlook which has reduced the expected number of recipients.

36. In addition, the allocation of the $3.8 billion Housing Acceleration Fund (HAF) from the remaining unallocated portion of the COVID-19 Response and Recovery Fund (CRRF) has had a positive impact on our forecast for core Crown expenses of around $1.6 billion, as a portion of this spending is now expected to be on capital expenditure, rather than operating.

…and SOE and Crown Entity results are weaker.

37. Outside of the core Crown, SOE and Crown Entity results are expected to be lower across the forecast by around $3.9 billion. This has been predominantly driven by the OBEGAL results of ACC which are expected to be $3.0 billion lower than previously forecast largely owing to a decrease in levy revenue (from reduced levy rates) and increases in claims costs due to revised claim volumes, services changes and inflation.

Residual cash deficits have also improved in most years of the forecast period…

38. The operating results above (excluding SOE/Crown Entity and HAF changes) largely flow through to improve residual cash. By the end of the forecast period residual cash is expected to be a surplus of $4.4 billion. Across the forecast period, combined residual cash deficits of $88.9 billion are expected up to 2024/25 which is a decrease of $13 billion compared to the *Half Year Update*.

39. Core Crown tax receipts are higher over the forecast period by $23.7 billion, largely owing to the stronger economic factors mentioned previously. Benefit payments are forecast to be higher than the *Half Year Update* by $2.1 billion across the five years, which is broadly consistent with the increase to benefit expenses.

40. Since the *Half Year Update* increases in both operating and capital allowances have been included in the fiscal forecasts and these result in an increase totalling $6.2 billion to the overall residual cash deficits across the forecast.

41. The Reserve Bank's Funding for Lending programme has been rephased since the *Half Year Update* [T2021/463 refers] which has led to an improvement in the residual cash deficit in the near term, but then has a negative impact on residual cash by the end of the forecast period. The slower uptake of FLP results in fewer loans being advanced in the first two years of the forecast (improving residual cash) but then in the final two years of the forecast, fewer repayments are expected which has reduced residual cash compared to the *Half Year Update*. The overall impact of the change from the *Half Year Update* is a net $3.3 billion contribution to residual cash deficits across the forecast period.

…resulting in a lower net core Crown debt track.

42. The overall improvements to residual cash, flow through to reduce net core Crown debt in all years of the forecast period.

43. Net core Crown debt is now expected to peak as a percentage of GDP at 47.6% in 2022/23 (previously peaking at 52.6% GDP at the *Half Year Update*). In nominal terms, net core Crown debt is forecast to peak a year later, at $181.4 billion in 2023/24. This is $12.8 billion lower than the *Half Year Update* which was forecast to peak at $194.2 billion in the same year.

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

44. The improvement in the operating results when compared to the *Half Year Update* has largely driven the increase in net worth. Over the forecast period OBEGAL deficits have reduced by $13.9 billion which flows through to improve the net worth position.

45. The gains and losses which are included in the operating balance are forecast to be higher in the current year by $13.5 billion compared to the *Half Year Update*, which has a favourable impact on the net worth level. The gains and losses in the remaining forecast period are broadly in line with what was expected at the *Half Year Update*.

Key Assumptions

46. The preliminary fiscal forecasts are based on the preliminary economic forecast (completed on 19 February 2021), information provided by individual entities, coupled with central adjustments made by the Treasury for items which aren't captured in individual entity forecasts. Summarised below are some of the key assumptions worth noting that have changed since our previous report to you on the key judgements included within the fiscal forecasts [T2021/463 refers].

Budget allowances

47. The preliminary fiscal forecasts include operating allowances of $3.0 billion for Budget 2021 through to Budget 2024. While the multi-year capital allowance for Budget 2021 to Budget 2024 is $12.0 billion. This is based on decisions from Budget Ministers on 15 March. Given the timing of decisions, this is not reflected in the preliminary economic forecasts (based on published allowances in BPS) and therefore the economic and fiscal forecasts have been prepared on different assumptions however we expect the impact of this to be minimal.

The Housing Acceleration Fund (HAF)

48. Following the Government's housing announcements on Tuesday 23 March 2021, we have needed to make some assumptions to include the fiscal impacts from HAF and Kāinga Ora's strategic purchasing of land for our preliminary fiscal forecasts. Our assumptions have been based on discussions with you at Budget Matters on 16 March and the Ministry of Housing and Urban Development (MHUD). We are assuming that $3.8 billion will be made available for the HAF and this will be funded from the unallocated portion of the CRRF. To determine the nature and timing of the spending from HAF we have assumed there are two main elements to the Fund.

Element	Description	Indicative Amount
Large Scale Projects (LSP)	Funding to Kāinga Ora to enable the delivery of five large-scale projects (LSPs) in Auckland (Roskill, Māngere, Tāmaki, Northcote and Oranga) and Eastern Porirua. The funding would be used to invest in roading, water infrastructure and land remediation works.	[38]
Infrastructure on Crown owned and non-Crown owned land	This would be contestable funding available to be sought to provide infrastructure to unlock land for housing developments, and directly overcome funding and financing constraints faced by councils and other infrastructure providers.	

Large Scale Project

49. The expenditure in relation to the LSP is most likely to be paid by Kāinga Ora to the councils as a development contribution.

50. For the preliminary forecasts we are assuming that any development contribution directly attributable in getting the land owned by Kāinga Ora into a condition to progress with the development is assumed to be treated as capital expenditure. The portion of the development contribution the Crown pays which represents the councils' share of the development is treated as operating expenditure, this is on the basis that in substance the Crown is subsidising the council to development an asset on their books, rather than adding value to the Crown balance sheet.

51. The split between operating and capital and the phasing of the expenditure has been determined following discussions with Ministry of Housing and Urban Development (MHUD) using the available information on LSP.

Table 4 – Profile of the LSP

$million	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**Beyond 2025**	**Total**
Operating	[38]					
Capital						
Total						

Infrastructure on Crown owned and non-Crown owned land

52. Our understanding is the majority of the remaining HAF will be used as funding to councils and other developers to build infrastructure. On this basis we are assuming that the expenditure will be operating in nature (but capital for councils). For the preliminary forecasts we are pro-rating the amount remaining with the ratio agreed with MHUD.

Table 5 – Profile of the Infrastructure on Crown owned and non-Crown owned land

$million	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**Beyond 2025**	**Total**
Operating	[38]					

53. At this stage, there are no appropriations set up relating to the HAF and there are still subsequent decisions to be taken by Ministers. As a result, the HAF will be presented as a tagged contingency within the fiscal forecasts. This treatment may change for the published fiscal forecast in the 2021 *Budget Update* depending on further decision Ministers may make.

Kāinga Ora 3rd party borrowings

54. In addition to the establishment of the HAF, to implement the policies agreed by Cabinet there will need to an increase in Kāinga Ora's 3rd party borrowings. Kāinga Ora have estimated an increase in borrowings of $2 billion is required over a ten year period. The funding raised will be used to purchase land for development. For the preliminary fiscal forecasts we are assuming an increase in 3rd party borrowings of $200 million per annum.

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

55. After the allocation to the Housing Acceleration Fund of $3.8 billion from the CRRF, there is around $6.0 billion of funding left. We have made the judgement it is the Government's intention that the full amount will be spent over the forecast period. Given the high degree of uncertainty when funding may be allocated, we have phased the remaining CRRF funding evenly across the forecast period at $1.2 billion each year. We are also assuming the unallocated portion of the CRRF will be used to fund operating expenditure.

Table 6 – Profile of unallocated CRRF

$ millions	2020/21	2021/22	2022/23	2023/24	2024/25
Budget Update 2021 - Preliminary	1,191	1,191	1,191	1,191	1,191
Half Year Update 2020	2,015	1,809	2,176	2,170	2,170
Change	(824)	(618)	(985)	(979)	(979)

56. COVID-19 spending decisions have resulted in a lift in the level of overall expenditure. We have worked through whether the lift in expenditure is achievable and what this means for our top-down adjustments (discussed further below). In addition, there remains a high degree of uncertainty whether the full amount of the unallocated portion of the CRRF will be required as our judgement is it will only be used in case of resurgence and other essential COVID-19 pandemic related expenditure.

The Top-down Adjustment

57. The top-down adjustment reduces overall expenditure (both operating and capital) to reflect the extent departments use appropriations (which are upper limits) when preparing their forecasts. A couple of key factors that drive the size of the top-down adjustment is the overall level of expenditure and the quality of forecast information the Treasury receives from departments.

58. From our analysis, Table 7 below outlines our top-down adjustment for inclusion in the preliminary fiscal forecasts for the *Budget Update*.

Table 7 – Operating and Capital top-down adjustment

BEFU 21 - preliminary forecasts					
$millions	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Operating	3,475	2,100	1,450	1,300	1,300
Capital	1,700	1,800	1,000	700	600
Total	**5,175**	**3,900**	**2,450**	**2,000**	**1,900**
HYEFU 20 - final forecasts					
$millions	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Operating	4,200	2,550	1,350	1,300	1300
Capital	2,350	1,050	750	600	600
Total	**6,550**	**3,600**	**2,100**	**1,900**	**1,900**
Change in operating top-down from previous EFU	(725)	(450)	100	-	-
Change in capital top-down from previous EFU	(650)	750	250	100	-

59. Despite the top-down adjustments being higher than historic Budget Updates, across the forecast period the operating adjustment has actually decreased since the *Half Year Update* (by $1.1 billion) while the capital top-down adjustment has slightly increased (by $0.5 billion).

60. Since the *Half Year Update*, we have decreased the operating top-down adjustment in the current year by $0.7 billion largely owing to the level of expenses that have been transferred from the current year and into the 2021/22 fiscal year, along with the reduction in the unallocated CRRF (resulting from the allocation of $3.8 billion out of the CRRF and into the HAF). The expense transfers result in a corresponding increase to the 2021/22 year top-down adjustment, however this was more than offset by the impact of the reduction in the remaining CRRF. The reduction in the remaining CRRF has led to a significant reduction in the top-down on the unallocated portion (particularly in the near term) as our assumption of what is achievable to be spent is largely unchanged from the *Half Year Update*. The top-down across the remaining forecast period is broadly consistent with the *Half Year Update*.

61. The capital expenditure top-down adjustment has decreased in the current year compared to the *Half Year Update* by $0.7 billion, whilst the adjustment has increased in the 2021/22 and 2022/23 fiscal years and remain broadly consistent the *Half Year Update* for the remaining forecast period. This is primarily due to the significant level of capital expenses that have been transferred primarily into the 2021/22 fiscal year from the current year ($1.2 billion). In the absence of an increase to the top-down adjustment in 2021/22, based on previous experience this would likely result in significant underspends.

[38]

Next Steps

65. This report is an agenda item at the Weekly Agency Meeting on 31 March, which will provide an opportunity to discuss the contents of this report with Treasury Officials.

66. The final fiscal forecasts for inclusion in the *Budget Economic and Fiscal Update* are due to be finalised on 30 April 2021. The final fiscal forecasts will incorporate updated economic and tax forecasts, 2021 Budget decisions and any further material developments. In addition, the final fiscal forecasts will include further updates of fiscal forecasts by some of our SOEs and Crown entities (eg, DHBs, ACC and NZTA).

67. We will provide a report to you in the week ending 7 May outlining our final fiscal forecasts.