TE TAI ŌHANGA
THE TREASURY

Reference: 20190611

30 September 2019

s9(2)(a)

Thank you for your Official Information Act request, received on 1 September 2019. You requested the following:

> *Treasury Report T2019/1301: Fiscal Forecasts for the 2019 Budget and Economic Fiscal Update dated May 21.*

Information being released

Please find enclosed the following document:

Item	Date	Document Description
1.	13 May 2019*	Treasury Report T2019/1301: Fiscal Forecasts for the 2019 Budget and Economic Fiscal Update

* Please note your request referred to a report dated May 21 however, the report you requested was actually dated 13 May 2019.

I have decided to release the document listed above, subject to information being withheld under the following sections of the Official Information Act, as applicable:

- section 9(2)(a) – to protect the privacy of natural persons, including that of deceased natural persons,
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- section 9(2)(j) - enable a Minister of the Crown or any department or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations), and
- 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

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Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

This letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Kamlesh Patel
Team Leader, Fiscal Reporting

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Treasury Report: Fiscal Forecasts for the 2019 Budget and Economic Fiscal Update

Date:	13 May 2019	**Report No:**	T2019/1301
		File Number:	BM-1-2-3-2019

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the contents of this report. **Refer** this report to the Associate Ministers of Finance	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Catherine Manning	Senior Government Reporting Accountant, Fiscal Reporting	s9(2)(k) [redacted]	n/a (mob)	✓
Jayne Winfield	Manager, Fiscal Reporting		s9(2)(a) [redacted]	

Actions for the Minister's Office Staff (if required)

Return the signed report to The Treasury.

If agreed, **refer** a copy of this report to the Associate Ministers of Finance.

Note any feedback on the quality of the report	

Enclosure: **No**

Treasury Report: Fiscal Forecasts for the 2019 Budget and Economic Fiscal Update

Executive Summary

The fiscal forecasts for the 2019 Budget Economic and Fiscal Update (BEFU) were completed on 8 May 2019.

The forecasts have been updated to capture the final macroeconomic forecasts, the impact of final Budget decisions, final allowances and other significant information that has become available since completing our preliminary fiscal forecasts.

Overview of results

The fiscal outlook remains positive with operating surpluses increasing across the forecast and net core Crown debt declining as a percentage of GDP from 2020/21. Table 1 provides a summary of the key indicators.

Table 1 – *Summary of the key indicators*

Year ended 30 June	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
$ billion						
Core Crown tax revenue	80.2	84.7	89.2	95.1	100.2	105.6
Core Crown expenses	80.6	87.3	93.3	98.9	101.7	105.7
Total Crown OBEGAL	5.5	3.5	1.3	2.1	4.7	6.1
Core Crown residual cash	1.3	(2.8)	(4.2)	(4.3)	(0.6)	1.2
Net core Crown debt	57.5	60.3	64.7	69.2	69.9	68.5
Total borrowings	115.7	112.1	118.1	121.2	131.3	130.6
Total Crown operating balance	8.4	(0.3)	4.7	5.9	9.0	10.9
Net worth attributable to the Crown	129.6	130.0	134.7	140.7	149.8	160.8
% of GDP						
Core Crown tax revenue	27.8%	28.2%	28.2%	28.5%	28.6%	28.8%
Core Crown expenses	27.9%	29.1%	29.4%	29.6%	29.0%	28.8%
Total Crown OBEGAL	1.9%	1.2%	0.4%	0.6%	1.3%	1.7%
Core Crown residual cash	0.5%	(0.9%)	(1.3%)	(1.3%)	(0.2%)	0.3%
Net core Crown debt	19.9%	20.1%	20.4%	20.7%	19.9%	18.7%
Total borrowings	40.0%	37.4%	37.3%	36.3%	37.5%	35.6%
Total Crown operating balance	2.9%	(0.1%)	1.5%	1.8%	2.6%	3.0%
Net worth attributable to the Crown	44.9%	43.4%	42.5%	42.1%	42.8%	43.9%

The operating balance before gains and losses (OBEGAL) is expected to rise across the forecast from $3.5 billion surplus forecast in 2018/19 reaching a $6.1 billion surplus (1.7% of GDP) by 2022/23.

Core Crown tax revenue is forecast to increase across the forecast period both in nominal terms and as a percentage of GDP (from 2019/20) and reaches $105.6 billion in 2022/23 (28.8% of GDP). Growth in wages and employment, as well as domestic consumption and corporate profits largely drive this increase.

Core Crown expenses are forecast to increase in nominal terms across the forecast as and as a percentage of GDP increase until 2020/21 before falling to reach 28.8% by 2022/23. The nominal increase is largely attributable to Budget decisions and new spending set aside for future Budgets with increases in social assistance spending across the forecast also contributing to this increase.

While revised tax receipt forecasts result in an improvement to operating flows, capital spending is still expected to exceed net operating cash flows over the first four years of the forecast period. As a result, residual cash deficits are forecast for these years, before returning to a residual cash surplus in the final year of the forecast.

To fund these residual cash deficits, net core Crown debt is forecast to increase in nominal terms before tracking down in the final year of the forecast when residual cash returns to surplus. As a percentage of GDP, net core Crown debt begins to reduce in 2021/22 (forecast to be 19.9% of GDP) and then reduces further to stand at 18.7% of GDP in the final year of the forecast.

Total borrowings are forecast to increase from $115.7 billion in 2017/18 to $130.6 billion by the end of 2022/23. The Crown's balance sheet also continues to grow with net worth attributable to the Crown increasing across the forecast period, largely owing to the rising operating balance surpluses.

Compared to the *Half Year Update*

The majority of changes since the *Half Year Update* relate to the inclusion of the 2019 Budget package and changes to the operating and capital allowances. OBEGAL growth has slowed across the forecast period since the *Half Year Update*, as new spending takes effect and cumulatively, OBEGAL is $9.2 billion lower across the forecast period when compared to the *Half Year Update.*

Core Crown residual cash is cumulatively $6.1 billion lower than *Half Year Update*. This results in an increase to net core Crown debt, which is expected to be around $5.0 billion higher than previously forecast. Increases to both the operating and capital allowances for future budgets, as well as Budget 2019 decisions and reforecasting and phasing of entity forecasts have contributed to this increase. Tax receipts have increased since the *Half Year Update* and at the same time benefit payments 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 or payments are made.

Compared to the preliminary fiscal forecasts

OBEGAL surpluses are forecast to reduce by a total of $4.2 billion across the forecast period. At the same time, residual cash is forecast to reduce by $3.6 billion over the five years and returns to surplus a year later than forecast for the preliminary fiscal forecasts.

Net core Crown debt is $3.0 billion higher than the preliminary fiscal forecasts and is forecast to stand at 19.9% of GDP in 2021/22 and to reduce to 18.7% of GDP in 2022/23 (compared to 19.6% of GDP reducing to 18.0% of GDP in the preliminary forecasts).

The two key drivers of the changes in the forecasts are:

- higher forecast tax revenue - owing to an upward revision of consumption forecasts; a change in our judgement around the split between public and private GST (to ensure greater consistency between Treasury's tax forecasts and the tax information provided by agencies); and the correction of an agency's GST error that had reduced GST revenue in the preliminary fiscal forecasts; and
- an increase in government spending - reflecting final Budget 2019 decisions and future Budget allowance settings.

Key fiscal assumptions

The final economic forecasts were provided to agencies whose forecasts were underpinned by economic factors to ensure consistency across agencies. In addition, the consolidated forecasts were reviewed to ensure consistency between Treasury's tax forecasts and the tax information provided by agencies.

The fiscal forecasts include an assumption that agencies will not spend all that they are approved to spend (known as the top-down adjustment). This adjustment is made at each forecasting round and is based on historical spending trends. Further details of this adjustment and other significant central adjustments are set out in the body of this report.

Recommended Action

We recommend that you:

a **note** the contents of this report.

b **refer** this report to:

- Hon Dr David Clark, Associate Minister of Finance

Refer/not referred.

- Hon David Parker, Associate Minister of Finance

Refer/not referred.

- Hon Shane Jones, Associate Minister of Finance

Refer/not referred.

- Hon James Shaw, Associate Minister of Finance

Refer/not referred.

Jayne Winfield
Manager, Fiscal Reporting

Hon Grant Robertson
Minister of Finance

Treasury Report: Treasury Report: Fiscal Forecasts for the 2019 Budget and Economic Fiscal Update

Purpose of Report

1. The fiscal forecasts for the *2019 Budget Economic and Fiscal Update* (BEFU) were completed on 8 May 2019. They have been updated to capture the final macroeconomic forecasts, the impact of final Budget decisions, final allowances and other significant information that has become available since completing the preliminary fiscal forecasts.

2. The purpose of this report is to outline the forecasts for the key fiscal indicators and discuss changes since the *2018 Half Year Economic Fiscal Update (Half Year Update)* and the preliminary fiscal forecasts. In addition, the key assumptions underpinning the final fiscal forecasts has been included for your reference.

3. Overall, the fiscal outlook remains positive with operating surpluses increasing across the forecast and net core Crown debt declining as a percentage of GDP from 2020/21.

Table 2 – *Summary of key indicators*

Year ended 30 June	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
$ billion						
Core Crown tax revenue	80.2	84.7	89.2	95.1	100.2	105.6
Core Crown expenses	80.6	87.3	93.3	98.9	101.7	105.7
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Total Crown operating balance	2.9%	(0.1%)	1.5%	1.8%	2.6%	3.0%
Net worth attributable to the Crown	44.9%	43.4%	42.5%	42.1%	42.8%	43.9%

4. OBEGAL is expected to rise across the forecast period following an initial decrease in 2019/20 to reach $6.1 billion by 2022/23. Core Crown tax revenue is forecast to increase in nominal terms in each year of the forecast and increase by between 0.1% and 0.3% of nominal GDP in each year from 2019/20 onwards. Core Crown expenses are forecast to increase as a percentage of GDP until 2020/21 and then fall to reach 28.8% by 2022/23.

5. Cash deficits are forecast across the forecast period until 2022/23 when a cash surplus is forecast as net operating cash flows exceed capital cash flows. The cash deficits largely reflect Budget 2019 decisions.

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6. Net core Crown debt, as a percentage of GDP, is forecast to increase across the forecast period until 2021 before decreasing to be 19.9% of GDP in 2021/22 and 18.7% by 2022/23. In nominal terms, net core debt peaks at 69.9 billion in 2021/22 and reduces to $68.5 billion at the end of the forecast period. Core Crown residual cash returns to surplus to 2022/23 and net debt in nominal terms also starts to reduce.

7. Total borrowings represents the amount the Government has borrowed to fund its activities from parties outside of the Government. Total borrowings are forecast to increase from $115.7 billion in 2017/18 to $130.6 billion by the end of 2022/23.

8. The total Crown operating balance, inclusive of gains and losses, is forecast to be a deficit of $0.3 billion in the current year compared to $8.4 billion surplus in 2017/18. The decrease in the current year, is largely a result of significant losses ($4.7 billion) being recorded on the Crown's ACC outstanding claims liability and the GSF retirement plan liability primarily owing to movements in discount rates used to calculate these long-term liabilities. As future actuarial gains or losses are not forecast, they do not impact the operating balance beyond 2018/19. The operating balance is forecast to return to surplus from 2019/20 and remain in surplus for the remainder of the forecast period reaching $10.9 billion in 2022/23.

9. The Crown's balance sheet continues to grow, with net worth attributable to the Crown reaching $160.8 billion (43.9% of GDP) in 2022/23. This growth is largely the result of continued operating balance surpluses across the forecast period.

Core Crown tax revenue

10. Core Crown tax revenue (Figure 1) is forecast to rise in nominal terms in each year of the forecast, while remaining relatively stable as a percentage of GDP. By 2022/23, core Crown tax revenue is expected to reach $105.6 billion, $25.4 billion higher than at the start of the forecast period.

Figure 1 – *Core Crown tax revenue*

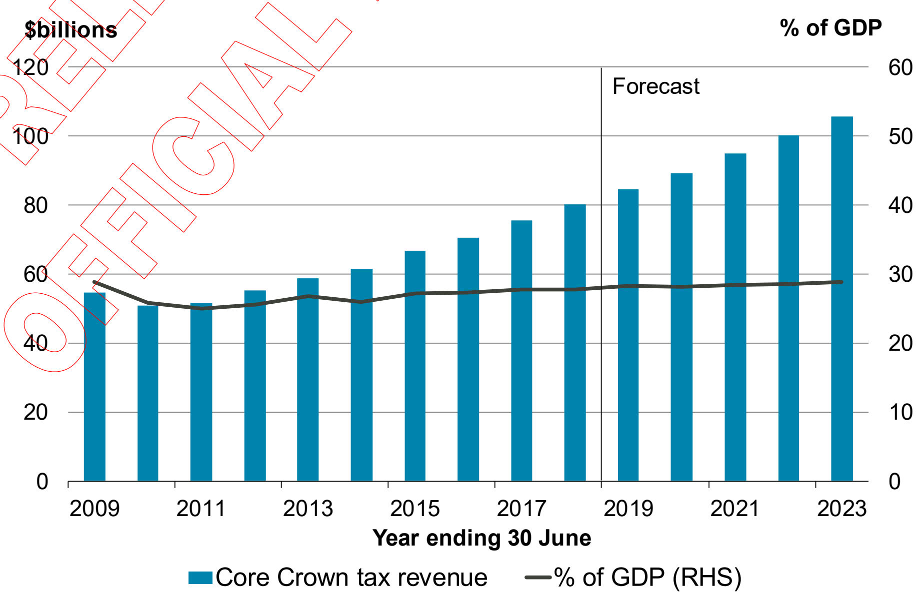

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Table 3 – *Increase in core Crown tax revenue over the forecast period, by major tax type*

Year ending 30 June $billions	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	Total Change
Movement in core Crown tax owing to:						
Source deductions	2.0	2.0	2.2	2.2	2.4	10.8
GST	1.2	1.4	1.5	1.4	1.3	6.8
Corporate tax	1.4	(0.3)	0.9	0.7	0.9	3.6
Net other person tax	(0.5)	1.0	0.6	0.2	0.3	1.6
Resident withholding tax (on interest)	0.1	0.1	0.2	0.4	0.4	1.2
Other taxes	0.3	0.3	0.5	0.2	0.1	1.4
Total movement in core Crown tax revenue	**4.5**	**4.5**	**5.9**	**5.1**	**5.4**	**25.4**
Plus previous year	80.2	84.7	89.2	95.1	100.2	
Core Crown tax revenue	**84.7**	**89.2**	**95.1**	**100.2**	**105.6**	
as a % of GDP	**28.2%**	**28.2%**	**28.5%**	**28.6%**	**28.8%**	

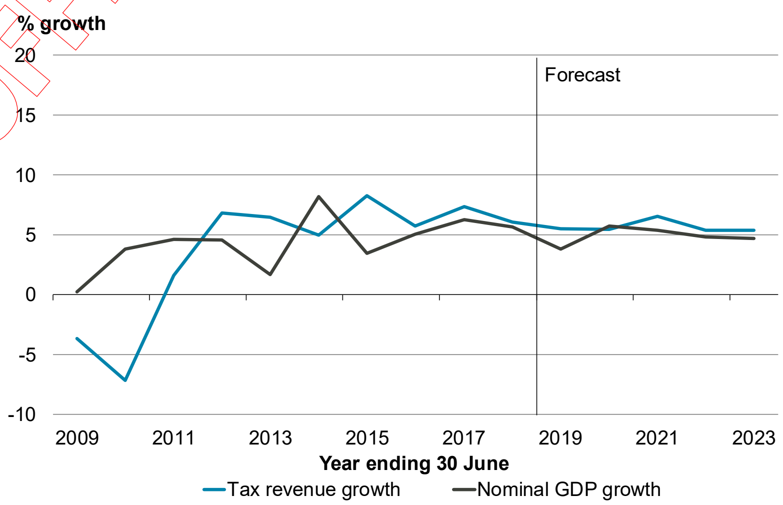
11. Table 3 above shows the largest tax types leading the way in nominal growth:

- Source deductions are forecast to grow by $10.8 billion over the five-year forecast period. Half of this growth is expected to come from forecast wage growth while employment is expected to contribute another $2.4 billion. Fiscal drag is expected to contribute a further $1.9 billion over the five-year forecast period.
- GST is forecast to grow by $6.8 billion over the forecast period, with growth from nominal domestic consumption expected to contribute $6.3 billion, with a lesser contribution from residential investment.
- Corporate tax is forecast to grow by $3.6 billion over the forecast period, mainly owing to expected growth in corporate profits.

12. The average nominal GDP growth over the five years to 2022/23 is forecast to be 4.9%. Over the same period, core Crown tax revenue is forecast to grow at a rate of 5.6% per annum on average. This means that, as a share of the economy, core Crown tax revenue is forecast to increase from 27.8% of GDP in 2017/18 to 28.8% in 2022/23.

13. Core Crown tax revenue is forecast to grow at a slower rate than nominal GDP in 2019/20 (Figure 2) mainly owing to some unusually large one-off effects caused by system changes at Inland Revenue in the 2018/19 results, which has increased corporate tax revenue significantly.

Figure 2 – *Core Crown tax revenue and nominal GDP growth*



14. In April 2019, Inland Revenue moved the administration of income taxes to a new accounting system. This new system has enabled Inland Revenue to accrue recognition of income tax for all taxpayers during the tax year, whereas the previous system relied on year-end assessments to a large extent, particularly for large taxpayers. This change effectively moves forward the recognition point for income tax revenue, and is estimated to add around $1.0 billion to net company tax and reduce net other persons tax by around $0.5 billion in the 2018/19 year, with negligible effects in later years. These changes dominate the corporate tax and net other persons tax forecast movements in the 2018/19 year shown in Table 3, with contrary movements in 2019/20 when the transition effects in the 2018/19 year reverse out.

15. From 2019/20 onwards, core Crown tax revenue is forecast to grow at a higher rate than GDP, owing to a number of factors;

- Fiscal drag is forecast to add 0.6% of GDP to tax revenue by 2022/23;
- CPI-indexation of alcohol and tobacco excise rates adds 0.3% of GDP to forecast tax revenue; and
- some previously-announced policy measures first introduced in the 2018 *Budget Update*, eg, ring-fencing of residential property tax losses and GST on low-value goods imports, are expected to increase tax revenue by 0.2% of GDP over the course of the forecast period.

16. The reduction in the growth rate of tax revenue in the 2021/22 year relative to the 2020/21 year is primarily caused by a timing effect associated with ring-fencing of residential property tax losses.

Core Crown expenses

17. Core Crown expenses (as a percentage of GDP) increase, peaking at 29.6% of GDP in 2020/21 before declining to 28.8% at the end of the forecast period (Figure 3). Nominally, core Crown expenses are expected to increase across the forecast period by $25.1 billion (Figure 4) from $80.6 billion in 2017/18 to $105.7 billion in 2022/23, an increase of around $5.0 billion each year.

Figure 3 – *Core Crown expenses*

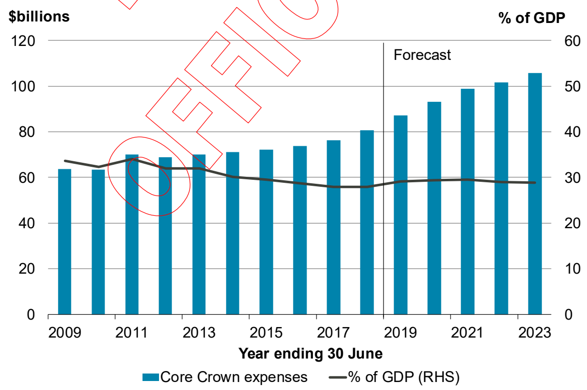
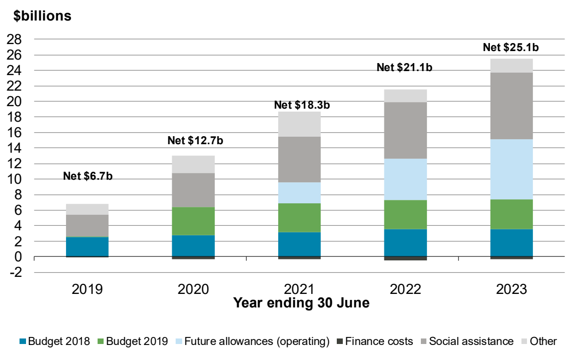


Figure 4 – *Increase in Core Crown expenses*



18. The nominal growth is largely attributable to Budget decisions and new spending set aside for future Budgets. Decisions from Budget 2019 and Budget 2018 are expected to add $3.9 billion and $3.5 billion respectively while allowances add $7.7 billion to forecast future expenditure.

19. In addition, social assistance spending is forecast to increase by $8.6 billion across the forecast period, of which $4.8 billion relates to growth in New Zealand Superannuation expenses as a result of the forecast increase in recipient numbers (17.8% increase) by 2022/23 and the increase in payment rates and other factors. By the end of the forecast period, NZS equals around 53% of core Crown social assistance spending and 17% of core Crown expenditure.

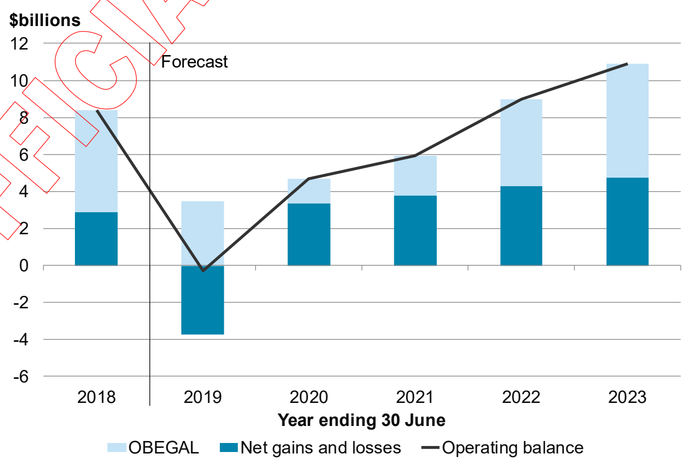
20. Future operating allowances for Budget 2020 have been increased to $3.0 billion and then reduce to $2.4 billion for Budgets 2021 and 2022. Pre-commitments against Budget 2020 leave an average of $2.8 billion of spending yet to be allocated. Overall, forecast new spending from future Budgets are forecast to increase expenses by $7.7 billion by 2022/23. For forecasting purposes, Budget allowances are assumed to be all operating expenditure. However, these allowances can be used for a combination of revenue and expenses initiatives when allocated. The fiscal forecasts also assume that any additional costs in relation to government commitments and future costs pressures will be met from operating allowances.

21. Core Crown finance costs are forecast to decline by around $0.3 billion by the end of the forecast period, primarily owing to a reduction in the effective interest rate on Government bonds. At June 2018 the effective interest rate was 4.1% and by 2022/23 it is forecast to decrease to 2.8%. This reduction comes from government bonds being issued at a lower rate (between 2.3% and 2.7%) than those maturing over the same period (between 3.6% and 5.6%). The decline in the effective interest rate more than offsets the additional finance cost from increased borrowings to help fund the forecast residual cash shortfall.

Operating Balance

22. OBEGAL is forecast to decrease from a $5.5 billion surplus in 2017/18 to $3.5 billion in the current year and then decrease again in 2019/20 to $1.3 billion before returning to steady growth over the rest of the forecast period as revenue starts to grow at a faster pace than expenditure. OBEGAL remains in surplus across the forecast period growing from $1.3 billion in 2019/20 to $6.1 billion in 2022/23 (Figure 5).

Figure 5 – *Components of the operating balance*



23. The forecast decreases in the current year largely reflects expenditure previously forecast for 2017/18 but not spent (the 2017/18 results showed a large underspend), being transferred to the current year combined with increased expenses from decisions made in Budget 2018. The decrease in OBEGAL in 2019/20 reflects the impacts of spending decisions from Budget 2019 and the higher budget allowances.

24. State-owned Enterprises' (SOEs) contribution to OBEGAL remains fairly stable with surpluses forecast across the forecast period. Crown entities (CEs) are collectively forecasting OBEGAL deficits which increase from $0.6 billion deficit in the current year to $1.8 billion. The most significant portion of the CE deficits relates to ACC and the DHBs which are forecasting OBEGAL deficits across the forecast. ACC deficits increase by $0.6 billion over the forecast period from a $0.8 billion forecast deficit in 2018/19 to a $1.4 billion deficit in 2022/23 largely owing to insurance expenses increasing by around $1.0 billion across the forecast. At the same time, DHB deficits are forecast to increase from $0.4 billion in 2018/19 to $0.6 billion from 2019/20 largely owing to increasing costs.

25. The total Crown operating balance, inclusive of gains and losses, is forecast to be a deficit of $0.3 billion in the current year, and is then forecast to return to surplus for the remainder of the forecast period reaching $10.9 billion in 2022/23.

26. In the current year, the Crown has recorded large losses on its non-financial liabilities (ACC outstanding claims liability and the GSF retirement plan liability) of $4.7 billion and losses on the Emissions Trading Scheme of $0.6 billion. The losses are primarily driven by movements in discount rates used to calculate these long-term liabilities. As future actuarial gains or losses are not forecast, they do not impact the operating balance beyond 2018/19.

27. Partially offsetting these losses are the year-to-date gains made on the Crown's large investment portfolios, ACC and the NZS Fund. As the global equity markets have been weaker in the first half of 2018/19 the gains recorded are significantly lower than in 2017/18. These forecasts assume investment income returns to a long-term rate, resulting in stable returns being forecast beyond the current year.

28. The level of the operating balance plays a significant part in increasing the Government's financial assets and is the primary reason for the growth in the Crown's net worth.

Core Crown capital spending

29. The Government is forecasting to spend a net total of $41.1 billion on capital items over the forecast period. Net capital spending includes $15.1 billion on building and acquiring physical assets, $13.0 billion on providing capital to CEs (eg, the New Zealand Transport Agency for state highways and DHBs to build or develop hospitals) and $9.6 billion in contributions to the NZS Fund over the forecast period.

30. Table 4 outlines core Crown capital spending that has a net core Crown debt impact. It excludes capital spending undertaken directly by CEs and SOEs funded from their own resources (including third-party financing).

31. Similar to operating expenses, a top-down adjustment has been applied to capital spending to account for the possibility that expenses will be deferred into later years.

32. Future new capital spending represents funding set aside in contingencies for projects agreed in Budgets and amounts to be allocated in future Budgets. $14.8 billion was set aside for capital spending in Budget 2019-Budget 2022. Of this amount, Budget 2019 decisions accounted for $6.2 billion and $4.2 billion has already been pre-committed leaving $4.4 billion remaining to be allocated.

Table 4 – *Net capital expenditure activity*

Year ended 30 June $billion	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	5-year Total
Education	0.8	0.8	1.2	1.2	1.0	0.8	**5.0**
Defence	0.5	0.8	1.3	1.3	0.8	0.5	**4.7**
Corrections	0.2	0.5	0.2	0.1	0.1	0.1	**1.0**
Health	0.3	0.2	0.1	-	-	-	**0.3**
Police	0.1	0.1	0.1	0.1	0.1	0.1	**0.5**
Inland Revenue	0.1	0.1	0.2	0.2	-	-	**0.5**
Other	0.5	0.8	0.6	0.5	0.7	0.5	**3.1**
Net purchase of physical assets	**2.5**	**3.3**	**3.7**	**3.4**	**2.7**	**2.0**	**15.1**
Student loans	-	(0.1)	(0.1)	(0.1)	(0.1)	-	**(0.4)**
Housing Infrastructure Fund	-	0.1	0.2	0.2	0.2	0.1	**0.8**
PGF loans	-	-	0.7	0.5	-	-	**1.2**
Other	0.1	0.1	-	-	-	(0.1)	**-**
Net advances	**0.1**	**0.1**	**0.8**	**0.6**	**0.1**	**-**	**1.6**
NZTA	1.6	1.2	1.0	0.3	0.9	0.8	**4.2**
City Rail Link	0.3	0.1	0.5	0.4	0.4	0.4	**1.8**
DHBs	0.1	0.5	0.6	0.4	0.5	0.6	**2.6**
Crown Infrastructure Partners	0.1	0.3	0.2	0.2	0.1	-	**0.8**
KiwiRail	0.4	0.4	0.7	0.6	-	-	**1.7**
Southern Response	0.2	0.2	0.1	-	-	-	**0.3**
Otakaro	-	0.1	0.2	0.1	-	-	**0.4**
Tamaki	-	0.1	-	0.1	0.1	-	**0.3**
Other	0.1	0.2	0.3	0.1	0.1	0.2	**0.9**
Net investments	**2.8**	**3.1**	**3.6**	**2.2**	**2.1**	**2.0**	**13.0**
Future new capital spending	-	0.5	0.5	1.0	1.5	1.7	**5.2**
Top-down capital adjustment	-	(1.3)	(1.0)	(0.6)	(0.3)	(0.2)	**(3.4)**
Contribution to NZS Fund	0.5	1.0	1.5	2.1	2.4	2.6	**9.6**
Net capital spending	**5.9**	**6.7**	**9.1**	**8.7**	**8.5**	**8.1**	**41.1**

Residual cash and net core Crown debt

33. After an initial decline, net operating cashflows are expected to rise across the forecast period (Figure 6). However, capital spending is forecast to exceed operating cashflows until the last year of the forecast resulting in forecast residual cash deficits for the first four years. As forecast tax receipts continue to grow and capital spending decreases, a residual cash surplus of $1.2 billion is forecast in the final year of the forecast period

34. This expected growth in operating cash flows largely mirrors the trend shown in OBEGAL and reflects the growth in tax receipts exceeding the growth in operating payments.

35. Net core Crown debt as a percentage of GDP is expected to increase for the first three years of the forecast before declining to stand at 18.7% in 2022/23 (Figure 7). However, in nominal terms, net core Crown debt continues to grow peaking at $69.9 billion in 2021/22, and then starts to decline in the final year of the forecast once residual cash returns to surplus. Net core Crown debt is forecast to stand at $68.5 billion in 2022/23.

36. This forecast nominal increase in net core Crown debt in the short-term is expected to be funded through a combination of using existing financial assets of the Crown and additional funds raised through debt.

Figure 6 – *Core Crown residual cash*

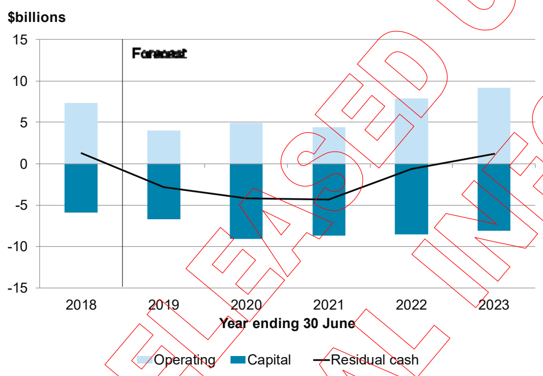
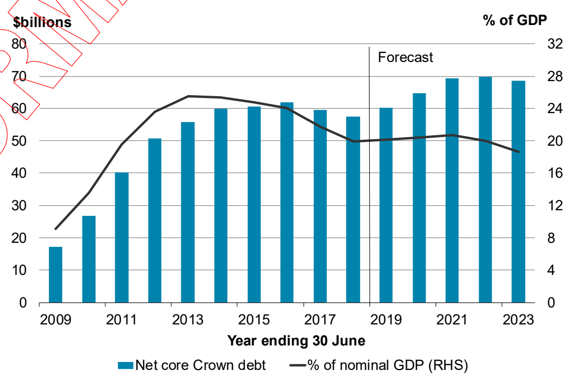


Figure 7 – *Net core Crown debt*



Changes since the Half Year Update

37. The majority of changes since the *Half Year Update* relate to the inclusion of the 2019 Budget package and changes to the operating and capital allowances. A comparison of the key fiscal indicators to the *Half Year Update* forecasts is included in Table 5 below.

Table 5 – *Changes in key fiscal indicators compared to the Half Year Update*

Year ended 30 June **$ billion**	**2019** **Forecast**	**2020** **Forecast**	**2021** **Forecast**	**2022** **Forecast**	**2023** **Forecast**
Core Crown tax revenue					
Budget Update	84.7	89.2	95.1	100.2	105.6
Half Year Update	84.3	89.2	95.0	100.4	105.3
Change	**0.4**	**-**	**0.1**	**(0.2)**	**0.3**
Core Crown expenses					
Budget Update	87.3	93.3	98.9	101.7	105.7
Half Year Update	88.7	90.9	95.9	98.9	103.2
Change	**(1.4)**	**2.4**	**3.0**	**2.8**	**2.5**
OBEGAL					
Budget Update	3.5	1.3	2.1	4.7	6.1
Half Year Update	1.7	4.1	5.1	7.6	8.4
Change	**1.8**	**(2.8)**	**(3.0)**	**(2.9)**	**(2.3)**
Core Crown residual cash					
Budget Update	(2.8)	(4.2)	(4.3)	(0.6)	1.2
Half Year Update	(5.0)	(2.5)	(0.9)	0.9	3.0
Change	**2.2**	**(1.7)**	**(3.4)**	**(1.5)**	**(1.8)**
Net core Crown debt					
Budget Update	60.3	64.7	69.2	69.9	68.5
Half Year Update	62.7	65.6	66.9	66.3	63.5
Change	**(2.4)**	**(0.9)**	**2.3**	**3.6**	**5.0**
Total borrowings					
Budget Update	112.1	118.1	121.2	131.3	130.6
Half Year Update	111.4	116.2	116.9	123.3	122.8
Change	**0.7**	**1.9**	**4.3**	**8.0**	**7.8**
Net worth attributable to the Crown					
Budget Update	130.0	134.7	140.7	149.8	160.8
Half Year Update	133.5	140.9	149.8	161.6	174.7
Change	**(3.5)**	**(6.2)**	**(9.1)**	**(11.8)**	**(13.9)**

OBEGAL

38. OBEGAL growth has slowed across the forecast period since the *Half Year Update*, as new spending takes effect. The major movements in OBEGAL since the *Half Year Update* are outlined in Table 6 below. Cumulatively, OBEGAL is $9.2 billion lower across the forecast period.

Table 6 – *Changes in OBEGAL since the Half Year Update*

Year ending 30 June **$billions**	**2018/19** **Forecast**	**2019/20** **Forecast**	**2020/21** **Forecast**	**2021/22** **Forecast**	**2022/23** **Forecast**
OBEGAL 2018 Half Year Update	**1.7**	**4.1**	**5.1**	**7.6**	**8.4**
Revenue					
Core Crown tax - forecasting changes	0.4	-	0.1	(0.2)	0.3
Expenditure					
Final Budget 19 operating package	(0.1)	(1.2)	(1.3)	(1.3)	(1.5)
Increase to future Budget operating allowances	-	-	(0.6)	(0.6)	(0.6)
Social assistance forecasting changes	0.1	(0.1)	(0.1)	(0.1)	(0.1)
MBIE and PGF phasing (incl PGF write-down)	0.6	(0.3)	(0.6)	-	0.3
Phasing changes - Canterbury	0.2	(0.2)	-	-	-
Technical adjustments	-	(0.1)	-	(0.1)	(0.2)
s9(2)(j)					
Write-down of Crown assets (excl PGF)	(0.2)	(0.4)	-	-	-
ETS reforecast	-	-	-	(0.2)	0.1
Transport capital to operating swap	(0.2)	-	(0.2)	-	-
Net core Crown finance costs	-	-	0.1	(0.1)	(0.1)
Other					
DHBs OBEGAL	-	(0.3)	(0.3)	(0.3)	(0.4)
EQC surplus and Crown support	0.2	0.2	-	-	-
Other SOE/CE results	-	(0.4)	(0.4)	(0.4)	(0.2)
Other changes	0.4	(0.0)	0.1	0.5	0.2
Total changes	1.8	(2.8)	(3.0)	(2.9)	(2.3)
OBEGAL - 2019 Budget Update (Final)	**3.5**	**1.3**	**2.1**	**4.7**	**6.1**

39. Core Crown tax revenue is forecast to be $0.6 billion higher than in the *Half Year Update* over the five-year period up to 2022/23 (Table 7):

- GST forecasts have increased by $3.4 billion across the forecast period. This is mainly owing to increased forecasts of private nominal consumption adding $1.7 billion to the GST forecast; and the correction of an agency's GST forecast and aligning GST forecasts across all agencies with the Treasury's total public GST forecast, which added a further $1.7 billion to the GST forecast.

- Net other persons' tax revenue forecasts are in total $0.5 billion lower, mostly owing to a weaker outlook for growth in entrepreneurial income.

- The resident withholding tax forecast is $1.0 billion lower over the forecast period, owing to a lower forecast interest rate track.

- Corporate tax revenue forecasts are $1.6 billion lower in total, mostly driven by the inclusion of Research & Development (R&D) tax credits as a reduction in tax revenue for the first time by Inland Revenue (previously recognised as an expense by MBIE) which has reduced corporate tax revenue forecasts by $1.3 billion across the forecast period.

Table 7 – *Change in core Crown tax revenue since the Half Year Update*

Year ending 30 June $billions	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	Total Change
Movement in core Crown tax owing to:						
Goods and services tax (GST)	0.4	0.3	0.7	0.8	1.2	3.4
Source deductions	-	(0.1)	-	-	0.1	-
Other persons tax	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.5)
Resident withholding tax (RWT) on interest	-	-	(0.2)	(0.4)	(0.4)	(1.0)
Corporate tax	(0.1)	(0.3)	(0.3)	(0.5)	(0.4)	(1.6)
Other taxes	0.2	0.2	-	-	(0.1)	0.3
Total movement in core Crown tax revenue	**0.4**	**-**	**0.1**	**(0.2)**	**0.3**	**0.6**
Plus Half Year Update's tax base	84.3	89.2	95.0	100.4	105.3	
Core Crown tax revenue at Budget Update	**84.7**	**89.2**	**95.1**	**100.2**	**105.6**	
as a % of GDP	**28.2%**	**28.2%**	**28.5%**	**28.6%**	**28.8%**	

40. Core Crown expenditure has increased since the *Half Year Update*:

- Budget 2019 new operating spending has reduced OBEGAL across the forecast period. This primarily relates to higher expenditure for Budget 2019 when compared with what was previously forecast in the *Half Year Update* for Budget 2019.

- Future Budget operating allowances have increased since the *Half Year Update* and impact on the last three years of the forecast. Then updated allowances are $3.0 billion for Budget 2020 and then reducing back to $2.4 billion for subsequent Budgets.

- Social assistance spending has increased since the *Half Year Update* with changes contributing $0.3 billion across the forecast to the reduction in OBEGAL. Increases to Accommodation Assistance, driven by higher forecast growth in recipient numbers, and Jobseeker Support, increased both by higher forecast recipient numbers and a policy change to index rates to wage growth, rather than CPI, are significant contributors to these increases. Partially offsetting these increases, are decreases in the forecast for family tax credits.

- s9(2)(j) [redacted]

- Other phasing changes, largely in relation to MBIE expenditure (and more particularly PGF), and the Canterbury global settlement rebuild area have resulted in changes to OBEGAL between years but the overall impact on OBEGAL during the forecast period is nil. In addition to phasing, additional write-downs of Crown assets in relation to PGF and the Canterbury rebuild has reduced OBEGAL by around $0.6 billion.

- Technical adjustments (largely changes to MBIE's multi-year appropriations) and capital to operating swaps (mainly transport related) have also contributed to reductions in OBEGAL with each resulting in a $0.4 billion reduction in OBEGAL over the forecast period.

- Net core Crown finance costs have changed slightly between years. These changes in years are driven by changes in the Crown's mix of financial assets and liabilities forecast to be held each year.

41. CE/SOE forecasts have been revised since the *Half Year Update* with some entities OBEGAL forecasts improving and others weakening. The most significant change was in relation to DHBs that have forecast higher deficits than previously largely owing to increasing cost pressures that have not been fully funded being forecast.

42. In addition, EQC forecasts for OBEGAL have improved since the *Half Year Update* with the inclusion of around $0.2 billion reinsurance revenue in the current year which was not included previously. As a result, EQC now no longer require a grant from the Crown for support resulting in a reduction in expenses of $0.2 billion that had previously been included in our preliminary fiscal forecasts.

Residual cash and net core Crown debt

43. Core Crown residual cash is forecast to be $6.1 billion lower than *Half Year Update*. This results in an increase to net core Crown debt, which is expected to be around $5.0 billion higher than previously forecast across the forecast period (Table 8).

Table 8 – *Changes in net core Crown debt since the Half Year Update*

Year ending 30 June $billions	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast
Net core Crown debt - HYEFU 2018	**62.7**	**65.6**	**66.9**	**66.3**	**63.5**
Tax receipt forecasts	0.2	0.1	(0.1)	(0.4)	(0.9)
Timing of R&D tax credits	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)
Benefit forecasting changes	(0.2)	-	0.1	0.2	0.3
Impact of Budget 2019 decisions	0.1	1.3	2.6	4.0	5.5
Increasing in Budget 2020 operating allowance	-	-	0.6	1.2	1.8
Final Budget capital package and increase in MYCA	-	0.1	-	(0.3)	(0.1)
EQC support payments	-	(0.2)	(0.2)	(0.2)	(0.2)
s9(2)(j)					
Changes in PGF spending profile	(0.6)	(0.6)	-	-	-
Net finance costs	0.1	0.1	0.1	0.2	0.4
Reforecast of capital spending	(0.8)	(0.7)	(0.6)	(0.6)	(0.6)
Gains and losses	(0.2)	(0.2)	(0.1)	(0.1)	(0.2)
Other changes	(0.6)	(0.1)	0.2	-	(0.2)
Total changes	**(2.4)**	**(0.9)**	**2.3**	**3.6**	**5.0**
Net core Crown debt - 2019 BEFU (Final)	**60.3**	**64.7**	**69.2**	**69.9**	**68.5**

44. Operating receipts and payments generally mirror the OBEGAL movements discussed above albeit with slightly different cash profiles (eg, a lag in the cash profile for the tax receipts). Increases to both the operating and capital allowances for future budgets, as well as Budget 2019 decisions and reforecasting and phasing of entity forecasts have contributed to the increase in net core Crown debt. Tax receipts have increased since the *Half Year Update* and at the same time benefit payments have also increased.

45. A number of forecasting changes, and changes to spending profiles (eg, s9(2)(j) PGF phasing) have impacted on residual cash and core Crown net debt resulting in increases in some years and reductions in others with some of this spending now being expected outside of the forecast period.

46. In addition to the operating cashflow movements, changes to capital spending as part of Budget 2019 and increases to the multi-year capital envelope and reforecasting have resulted in a net decrease in net core Crown debt by $0.7 billion across the forecast. This decrease is largely owing to capital spending previously forecast to occur prior to 2022/23 now falling outside of the forecast period.

47. Changes to net finance costs owing to a reduction in interest receipts arising from reductions in interest rates resulted in a $0.4 billion increase in net debt largely while the impact of gains and losses on net debt have partially offset this with a $0.2 billion decrease.

Changes since the preliminary fiscal forecasts

48. The majority of changes since the preliminary forecast relate to the 2019 Budget package and changes to the operating and capital allowances. A comparison of the key fiscal indicators against the preliminary forecasts is outlined in Table 9 below.

Table 9 – *Summary of key indicators compared to the preliminary fiscal forecasts*

	Actual	Forecast				
$ billion, June years	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
OBEGAL - final BEFU 19	**5.5**	**3.5**	**1.3**	**2.1**	**4.7**	**6.1**
OBEGAL - HYEFU 2018		1.7	4.1	5.1	7.6	8.4
Total Change		**1.8**	**(2.8)**	**(3.0)**	**(2.9)**	**(2.3)**
Residual Cash - final BEFU 19	**1.3**	**(2.8)**	**(4.2)**	**(4.3)**	**(0.6)**	**1.2**
Residual Cash - HYEFU 2018		(5.0)	(2.5)	(0.9)	0.9	3.1
Total Change		**2.2**	**(1.7)**	**(3.4)**	**(1.5)**	**(1.9)**
Net Debt - final BEFU 19	**57.5**	**60.3**	**64.7**	**69.2**	**69.9**	**68.5**
Net Debt - HYEFU 2018		62.7	65.6	66.9	66.3	63.5
Total Change		**2.4**	**1.0**	**(2.3)**	**(3.6)**	**(5.0)**
% of GDP, June years						
Net Debt - final BEFU 19	**19.9**	**20.1**	**20.4**	**20.7**	**19.9**	**18.7**
Net Debt - HYEFU 2018		20.9	20.7	20.1	19.0	17.4

49. OBEGAL surpluses are forecast to reduce by a total of $4.2 billion across the forecast period compared to the preliminary fiscal forecasts. The main drivers of the changes are changes to core Crown Tax forecasts, the final Budget 2019 operating package and increases in future Budget operating allowances:

- Tax forecasts have increased since the preliminary fiscal forecasts, almost entirely because of a $3.2 billion increase in the GST forecast. This is attributable to an increased nominal private consumption forecast, correction of an agency's GST forecast, and alignment of all agencies' GST forecasts with the Treasury's total public GST forecast. Each of these elements contributed around $1.0 billion relative to the preliminary forecast, in total across the forecast period.

- The final Budget 2019 operating package is reflected in this final fiscal forecast, reducing OBEGAL by $5.4 billion across the forecast period. This impact primarily relates to higher expenditure arising from the Budget package than was previously forecast.

- Future Budget operating allowances for Budgets 2020 have increased from $2.4 billion to $3.0 billion and this impacts the last three years of the forecasts. The impact on OBEGAL of this change is $1.8 billion across the last three years of the forecast.

50. Residual cash is forecast to reduce by $3.6 billion over the five years since the preliminary fiscal forecasts, with residual cash surpluses now expected one year later than previously forecast. Operating receipts and payments that form part of residual cash generally mirror the OBEGAL movements discussed above. In addition, capital spending has increased since the preliminary forecasts with the multi-year capital allowance having been increased from $13.1 billion to $14.8 billion resulting in increased capital spending by $1.7 billion across the forecast period.

51. Largely as a result of the residual cash forecast net debt is $3.0 billion higher than the preliminary fiscal forecasts, to stand at 19.9% of GDP in 2021/22 and reducing to 18.7% of GDP by 2022/23. Net debt now peaks at $69.9 billion in nominal terms in 2021/22 before beginning to reduce.

Summary of Key Fiscal Assumptions

52. 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.

53. These fiscal forecasts include all decisions taken and any other material updates from the 2018 *Half Year Update* forecasts (including updates based on the final economic forecasts). It therefore represents the fiscal forecasts based on final economic forecasts, updated forecast information from SOEs and Crown entities, and the baseline updates from departments. All decisions taken since the *Half Year Update* up until 8 May have been incorporated into these forecasts, either directly through entities' submissions to the Treasury or included as a central adjustment by the Treasury.

Consistency of assumptions

54. The final economic forecasts that were completed on 11 April 2019 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).

Budget allowances

55. The forecast for new operating spending for Budget 2020 has been updated and is set at $3.0 billion (an increase of $0.6 billion since preliminary forecasts), and then this reduces back to $2.4 billion for Budgets 2021 and 2022. As at the forecast finalisation date, some of this $3.0 billion allowance has been pre-committed meaning there is less than $3.0 billion available for Budget 2020. Refer table 10 below.

Table 10 – *Operating allowances*

	2019 Forecast $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m
Forecast New Operating Spending					
Unallocated contingencies	265	1,266	1,540	1,667	1,621
Forecast new spending for Budget 2020	-	-	2,735	2,897	2,897
Forecast new spending for Budget 2021	-	-	-	2,400	2,400
Forecast new spending for Budget 2022	-	-	-	-	2,400
Total forecast new operating spending	**265**	**1,266**	**4,275**	**6,964**	**9,318**

56. The total capital allowance for Budgets 2019 to 2022 has been increased from $13.1 billion to $14.8 billion. As at the forecast finalisation date, $10.4 billion of funding has been allocated, leaving $4.4 billion of funding for future capital initiatives over the next three Budgets. Refer table 11 below.

Table 11 – Capital allowances

	2019 Forecast $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	Post-2023 Forecast $m	Total Forecast $m
Forecast New Capital Spending (annual)							
Unallocated contingencies	458	393	385	379	356	1,274	3,245
Forecast new spending for Budgets 2020 - 2022	-	73	584	1,096	1,315	1,315	4,383
Total forecast new capital spending	**458**	**466**	**969**	**1,475**	**1,671**	**2,589**	**7,628**

Top-down Adjustment

57. 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 12 below.

Table 12 - *Top-down adjustment assumed for BEFU 2019*

$millions	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Operating	800	1,400	500	500	500
Capital	1,250	950	550	250	150
Total	**2,050**	**2,350**	**1,050**	**750**	**650**

58. We have adjusted these since the preliminary fiscal forecasts, decreasing the operating adjustment in the current year, and increasing it in 2019/20 with the outyears remaining static. The increase in 2019/20 is primarily owing to our assumptions around the timing of spending relation to the provincial growth Fund. The capital adjustment has been increased in all years with a large increase ($500 million) in the current year largely owing to significant in-principle expense transfers in the current year that had been agreed that were not reflected in agencies forecasts.

59. Generally the top-down adjustment in the current year (2018/19) and the next year are higher than the other years in the forecast period to compensate for expenses being transferred in from previous years. This was the case for both operating and capital, where transfers have occurred from 2018/19.

DHB deficits

60. The DHBs have forecast large deficits across each year of the forecast. While the DHBs have been forecasting deficits for some time, the size of the deficits is now quite significant. The Treasury have discussed the size of these deficits with the Ministry of Health and on further discussion concluded that the deficits forecast by the Ministry for the DHBs appear to be too low.

61. The Treasury have undertaken a modelling exercise around past behaviour and DHB spending patterns and based on this modelling, concluded that a forecast deficit of $607 million from 2019/20 would be more appropriate. This has resulted in a central adjustment to the Treasury's fiscal forecast increasing the deficits to $607 million from 2019/20. [redacted]
s9(2)(g)(i)

s9(2)(j)
[redacted]

Summary of Key Risks

63. Along with the inherent uncertainty regarding forecasts, there are some known risks to the final fiscal forecasts:

- KiwiRail freight assets continue to be valued on a commercial basis (a specific fiscal risk is also included outlining risks to the valuation methodology).
- s9(2)(g)(i) [redacted]