2010 Half Year Update
Additional Information

The following information forms part of the *Half Year Economic and Fiscal Update 2010* ("*Half Year Update*"), released by the Treasury on 14 December 2010. This information provides further details on the *Half Year Update* and should be read in conjunction with the published document. The additional information includes:

- Detailed economic forecast information – these tables provide detailed breakdowns of the economic forecasts.
- Tax tables – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts.
- Additional fiscal indicators – estimates of the cyclically-adjusted balance and fiscal impulse.
- Accounting policies – outline of the specific Crown accounting policies. The published forecast financial statements only provide a summary.

Detailed Economic Forecast Information

The following tables provide additional detail on the economic forecasts presented in the *2010 Half Year Update.*

- Table 1 - Real gross domestic product
- Table 2 - Consumer price index and exchange rates
- Table 3 - Gross domestic expenditure and income
- Tables 4 & 5 - Labour market indicators
- Table 6 - Current account
- Table 7 - Exports – SNA basis
- Table 8 - Imports – SNA basis

Table 1: Real Gross Domestic Product

Chain-volume series expressed in 1995/96 prices

	Actual			Seasonally Adjusted	
	$ million	Annual % change	Annual Average % change	$million	Quarterly % change
2008Q1	33,634	2.1	2.9	33,935	-0.3
2008Q2	33,081	0.7	2.4	33,738	-0.6
2008Q3	33,146	-0.7	1.5	33,520	-0.6
2008Q4	34,458	-2.6	-0.2	33,142	-1.1
2009Q1	32,559	-3.2	-1.5	32,851	-0.9
2009Q2	32,251	-2.5	-2.3	32,900	0.1
2009Q3	32,604	-1.6	-2.5	32,977	0.2
2009Q4	34,637	0.5	-1.7	33,300	1.0
2010Q1	33,175	1.9	-0.4	33,479	0.5
2010Q2	32,871	1.9	0.7	33,536	0.2
2010Q3	33,299	2.1	1.6	33,680	0.4
2010Q4	35,348	2.1	2.0	33,983	0.9
2011Q1	34,014	2.5	2.2	34,326	1.0
2011Q2	33,922	3.2	2.5	34,608	0.8
2011Q3	34,475	3.5	2.8	34,869	0.8
2011Q4	36,638	3.7	3.2	35,224	1.0
2012Q1	35,112	3.2	3.4	35,434	0.6
2012Q2	34,994	3.2	3.4	35,701	0.8
2012Q3	35,541	3.1	3.3	35,948	0.7
2012Q4	37,629	2.7	3.0	36,176	0.6
2013Q1	36,076	2.7	2.9	36,407	0.6
2013Q2	35,921	2.7	2.8	36,648	0.7
2013Q3	36,486	2.7	2.7	36,904	0.7
2013Q4	38,658	2.7	2.7	37,166	0.7
2014Q1	37,094	2.8	2.7	37,434	0.7
2014Q2	36,938	2.8	2.8	37,685	0.7
2014Q3	37,503	2.8	2.8	37,932	0.7
2014Q4	39,712	2.7	2.8	38,179	0.7
2015Q1	38,079	2.7	2.7	38,428	0.7
2015Q2	37,903	2.6	2.7	38,670	0.6

Source: Statistics New Zealand, The Treasury

Table 2: Consumer Price Index and Exchange Rates

	Consumers Price Index			Exchange rates	
	Index	Quarterly % change	Annual % change	TWI	USD
2008Q1	1044	0.7	3.4	71.9	0.79
2008Q2	1061	1.6	4.0	69.2	0.78
2008Q3	1077	1.5	5.1	65.5	0.71
2008Q4	1072	-0.5	3.4	57.8	0.58
2009Q1	1075	0.3	3.0	53.7	0.53
2009Q2	1081	0.6	1.9	58.4	0.60
2009Q3	1095	1.3	1.7	62.6	0.67
2009Q4	1093	-0.2	2.0	65.5	0.73
2010Q1	1097	0.4	2.0	65.3	0.71
2010Q2	1099	0.2	1.7	66.7	0.70
2010Q3	1111	1.1	1.5	66.9	0.72
2010Q4	1135	2.2	3.9	68.5	0.77
2011Q1	1146	1.0	4.5	68.7	0.77
2011Q2	1154	0.7	5.0	66.8	0.74
2011Q3	1161	0.6	4.5	65.5	0.72
2011Q4	1168	0.7	2.9	64.0	0.69
2012Q1	1179	0.9	2.9	63.1	0.68
2012Q2	1187	0.6	2.9	62.2	0.66
2012Q3	1194	0.6	2.9	61.2	0.65
2012Q4	1201	0.6	2.8	60.1	0.63
2013Q1	1210	0.8	2.6	59.1	0.61
2013Q2	1218	0.7	2.6	58.0	0.60
2013Q3	1225	0.5	2.6	57.1	0.58
2013Q4	1231	0.5	2.5	56.3	0.57
2014Q1	1237	0.5	2.2	55.6	0.56
2014Q2	1243	0.5	2.1	54.8	0.55
2014Q3	1249	0.5	2.0	54.1	0.54
2014Q4	1256	0.5	2.0	53.5	0.53
2015Q1	1262	0.5	2.0	53.0	0.52
2015Q2	1268	0.5	2.0	52.5	0.52

Table 3: Gross Domestic Expenditure and Income

March Year	2010 Actual			2011 Forecast			2012 Forecast			2013 Forecast			2014 Forecast			2015 Forecast
	$ mill	%vol	%pr	$ mill	%vol	%pr	$ mill	%vol	%pr	$ mill	%vol	%pr	$ mill	%vol	%pr	$ mill
Consumption:																
- *Private*	110,907	2.0	2.2	115,616	2.2	3.2	121,929	2.5	2.4	128,019	2.5	2.1	133,913	2.5	1.6	139,446
- *Public*	38,250	2.2	2.9	40,248	0.8	2.9	41,748	0.7	2.7	43,197	0.8	2.8	44,753	1.0	2.8	46,469
Gross Fixed Capital Formation:																
- *Residential*	8,388	12.2	2.2	9,625	29.2	5.2	13,072	7.9	5.6	14,891	3.6	5.5	16,266	0.7	4.7	17,147
- *Market **	25,219	6.3	-0.5	26,666	12.3	3.3	30,928	5.1	2.3	33,269	3.1	2.2	35,053	3.4	1.6	36,839
- *Non-market ***	3,185	-11.2	6.1	3,008	-3.6	1.5	2,948	3.8	1.4	3,105	4.6	1.4	3,292	4.1	1.4	3,474
- *Total all sectors*	36,793	7.0	-0.2	39,299	16.0	3.0	46,947	6.1	2.9	51,264	3.6	2.8	54,612	3.2	1.9	57,460
Change in Stocks	-1,379			-142			741			1,687			1,928			1,999
Gross National Expenditure	184,571	3.2	2.3	195,022	5.9	2.3	211,366	3.6	2.4	224,168	2.6	2.3	235,207	2.4	1.8	245,374
Exports	52,424	1.8	6.5	56,736	4.5	1.7	60,330	3.0	7.5	66,771	2.8	8.4	74,393	2.9	6.8	81,740
Imports	49,690	6.0	-0.5	52,507	10.5	5.2	61,048	5.0	7.1	68,639	2.4	7.8	75,727	2.0	6.5	82,217
Expenditure on GDP	187,305	2.2	4.1	199,249	3.9	1.7	210,647	2.9	2.5	222,299	2.7	2.4	233,873	2.7	1.9	244,896
Statistical Discrepancy	719			725			730			735			741			746
Gross Domestic Product	188,024			199,974			211,378			223,035			234,614			245,642
Compensation of employees	82,409		3.3	85,131		4.8	89,195		5.9	94,502		5.9	100,111		5.5	105,661
Operating Surplus, net:																
- *Agriculture*	5,368		24.1	6,662		-4.9	6,334		-0.2	6,322		11.9	7,072		10.8	7,838
- *Other*	48,920		7.9	52,765		5.1	55,439		5.5	58,489		3.3	60,391		2.3	61,799
- *Total all sectors*	54,288		9.5	59,427		3.9	61,773		4.9	64,812		4.1	67,464		3.2	69,638
Consumption of fixed capital	28,595		5.5	30,167		5.5	31,826		5.5	33,577		5.5	35,424		5.5	37,372
Indirect Taxes	23,632		10.6	26,147		12.8	29,482		5.3	31,043		4.7	32,515		4.2	33,871
Less subsidies	899		0.0	899		0.0	899		0.0	899		0.0	899		0.0	899
Gross Domestic Product	188,024		6.4	199,974		5.7	211,378		5.5	223,035		5.2	234,614		4.7	245,642

* Includes Local Government and Non-profit Organisations
** Central Government (includes Crown Entities but not SOEs)

Source: Statistics New Zealand, The Treasury

Tables 4 & 5: Labour Market Indicators

Annual Average Percentage Change

March Year	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Real GDP (production basis)	-0.4	2.2	3.4	2.9	2.7	2.7
Working Age Population	1.4	1.3	1.1	1.1	1.0	1.0
Labour Force	0.7	1.4	0.7	1.2	1.4	1.3
Employment - Total	-1.3	1.3	1.7	1.8	1.7	1.5
Labour Productivity *	2.3	-0.4	1.8	1.1	1.0	1.2
CPI (annual percentage change)	2.0	4.5	2.9	2.6	2.2	2.0
Average Ordinary Time Hourly Wages	3.9	1.9	3.3	4.1	4.2	3.9
Average Weekly Earnings	4.6	2.6	3.2	4.1	4.2	4.0
Real Wages	2.0	-0.9	-0.5	1.3	1.7	1.9
Compensation of Employees	2.2	3.3	4.8	5.9	5.9	5.5
Unit Labour Costs (Hours worked basis)	1.6	2.3	1.4	2.9	3.1	2.7
Real Unit Labour Costs	-0.3	-0.5	-2.4	0.1	0.6	0.7

* Hours worked basis
Source: Statistics New Zealand, The Treasury

Number (000's)

As at March Quarter	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Total Population	4,362	4,400	4,442	4,483	4,523	4,563
Natural Increase	35	29	32	31	30	30
Net Migration	21	9	10	10	10	10
Annual Change	56	38	42	41	40	40
Working Age Population	3,412	3,451	3,488	3,525	3,561	3,597
Annual Change	51	39	38	37	36	36
Not in the labour force (s.a.)	1,088	1,092	1,112	1,118	1,121	1,127
Annual Change	28	4	20	5	4	5
Labour Force (s.a.)	2,315	2,349	2,369	2,401	2,433	2,465
Annual Change	20	34	20	32	32	31
Total Employment (s.a.)	2,175	2,206	2,245	2,284	2,321	2,354
Annual Change	-2	31	39	39	37	33
Unemployment (s.a.)	140	143	124	117	112	110
Annual Change	23	3	-19	-7	-5	-2
Participation Rate (%,s.a.)	68.0	68.1	67.9	68.1	68.3	68.5
Unemployment Rate (%,s.a.)	6.0	6.1	5.2	4.9	4.6	4.5

Table 6: Current Account

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$NZ Million Year ended March	2010 Actual	2011 Estimate	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Exports Goods	40,092	44,351	46,349	51,836	58,342	64,310
annual % Change	*-9.4*	*10.6*	*4.5*	*11.8*	*12.6*	*10.2*
Imports Goods	37,452	40,125	47,209	53,254	58,913	64,130
annual % Change	*-18.2*	*7.1*	*17.7*	*12.8*	*10.6*	*8.9*
Balance on Goods	2,641	4,225	-860	-1,418	-571	180
Exports Services	12,332	12,428	13,989	14,910	16,040	17,427
annual % change	*-4.8*	*0.8*	*12.6*	*6.6*	*7.6*	*8.6*
Imports Services	12,239	12,382	13,839	15,385	16,814	18,087
annual % change	*-11.5*	*1.2*	*11.8*	*11.2*	*9.3*	*7.6*
Balance on services	92	47	149	-475	-774	-660
Balance on goods & services	2,733	4,273	-711	-1,894	-1,345	-480
International income and transfers balance	-7,192	-8,163	-9,408	-13,171	-13,999	-13,725
Current account balance	**-4,458**	**-3,890**	**-10,119**	**-15,065**	**-15,344**	**-14,206**

Percent of Nominal GDP	2010 Actual	2011 Estimate	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Balance on Goods	1.4	2.1	-0.4	-0.6	-0.2	0.1
Balance on services	0.0	0.0	0.1	-0.2	-0.3	-0.3
Balance on goods & services	1.5	2.1	-0.3	-0.9	-0.6	-0.2
International income and transfers balance	-3.8	-4.1	-4.5	-5.9	-6.0	-5.6
Current account balance	**-2.4**	**-2.0**	**-4.8**	**-6.8**	**-6.6**	**-5.8**

Source: Statistics New Zealand, The Treasury

Table 7: Exports – SNA basis

Breakdown of Exports

March Years	Dairy Products %v	%p	$ mn	Meat and Meat Products %v	%p	$ mn	Non-Commodity* %v	%p	$ mn
2007	22.3	2.1	7,455	6.7	2.5	5,037	0.6	12.2	11,668
2008	-0.9	25.7	9,434	-2.9	-5.1	4,656	0.7	6.3	12,456
2009	-15.1	27.8	10,101	1.5	23.2	5,796	1.2	17.3	14,804
2010	30.7	-31.8	9,078	-1.1	-7.5	5,332	-5.1	-7.2	13,052
2011	-4.1	35.1	11,686	-4.1	-2.3	5,000	8.7	-3.0	13,761
2012	1.4	-6.5	11,138	-5.6	6.1	4,987	7.4	5.6	15,616
2013	3.2	4.2	11,992	0.7	8.9	5,472	4.9	11.6	18,290
2014	3.2	6.8	13,222	1.2	7.5	5,951	3.7	12.8	21,384
2015	3.2	5.4	14,379	2.7	5.4	6,439	2.9	9.6	24,135

March Years	Total Goods** %v	%p	$ mn	Services %v	%p	$ mn	Total Exports %v	%p	$ mn
2007	4.9	7.5	35,633	-2.1	4.6	12,639	2.9	6.8	48,272
2008	4.5	3.9	38,718	-0.4	2.3	12,889	3.2	3.3	51,606
2009	-2.0	16.9	44,248	-6.0	6.9	12,949	-3.0	14.6	57,196
2010	5.2	-14.1	40,092	-3.1	-1.6	12,332	3.2	-11.4	52,424
2011	2.6	8.0	44,351	0.1	0.6	12,428	1.8	6.5	56,736
2012	2.7	1.8	46,349	11.7	0.7	13,989	4.5	1.7	60,330
2013	3.0	8.6	51,836	2.7	3.7	14,910	3.0	7.5	66,771
2014	2.6	9.7	58,342	3.2	4.3	16,040	2.8	8.4	74,393
2015	2.3	7.7	64,310	4.7	3.8	17,427	2.9	6.8	81,740

* Consists of 'Metal Products and Machinery Equipment', 'Chemicals, Rubber and Other Non-Metallic Goods' and 'Textile, Apparel and Leather'

Table 8: Imports – SNA basis

Breakdown of Imports

March	Capital Goods (VFD)			Mineral Fuel* (VFD)			Intermediate Goods** (VFD)			Consumption Goods (VFD)		
Years	%v	%p	$ mn	%v	%p	$ mn	%v	%p	$ mn	%v	%p	$ mn
2007	-3.0	2.3	7,249	-8.0	21.4	5,865	-2.8	12.5	15,717	5.8	3.4	9,525
2008	10.2	-9.8	7,213	15.8	2.7	6,982	9.9	-6.5	16,144	6.9	-2.7	9,908
2009	3.3	13.4	8,292	-6.3	26.3	8,186	-5.7	21.7	18,454	-3.0	12.7	10,788
2010	-26.9	0.4	6,202	1.5	-27.4	6,059	-11.1	-9.9	14,799	-4.2	-0.9	10,256
2011	6.7	-12.2	5,813	-5.3	14.6	6,595	10.0	5.1	17,144	8.2	-6.2	10,426
2012	23.9	-3.8	6,931	9.5	10.6	7,991	9.9	7.9	20,339	7.7	5.3	11,838
2013	11.5	3.3	7,983	3.1	10.1	9,062	3.3	8.1	22,704	3.4	9.4	13,386
2014	4.3	4.7	8,719	1.4	8.1	9,939	1.4	8.5	24,971	3.1	9.9	15,164
2015	3.3	3.7	9,337	1.1	6.6	10,717	1.0	7.1	27,013	3.1	8.4	16,943

March	Total Goods (VFD)			Services			Total		
Years	%v	%p	$ mn	%v	%p	$ mn	%v	%p	$ mn
2007	-0.9	8.7	38,464	-3.7	7.0	12,186	-1.6	8.3	50,649
2008	10.0	-4.3	40,515	10.1	-5.8	12,631	10.1	-4.7	53,146
2009	-4.0	17.8	45,770	-5.4	16.7	13,827	-4.3	17.5	59,597
2010	-10.7	-8.3	37,452	-5.8	-6.6	12,239	-9.5	-7.9	49,690
2011	6.0	0.9	40,125	5.0	-3.9	12,382	6.0	-0.5	52,507
2012	12.4	4.6	47,209	4.0	7.5	13,839	10.5	5.2	61,048
2013	5.8	6.6	53,254	1.9	9.1	15,385	5.0	7.1	68,639
2014	2.8	7.6	58,913	0.7	8.5	16,814	2.4	7.8	75,727
2015	2.4	6.3	64,130	0.5	7.0	18,087	2.0	6.5	82,217

* Consists of 'Fuels and Lubricants' and 'Petrol and Aviation Gas'

** Consists of 'Intermediate Goods' excluding 'Fuels and Lubricants' and 'Passenger Cars'

Tax Tables

In line with established practice, Inland Revenue has also prepared a set of tax forecasts, which, like the Treasury's tax forecasts, is based on the Treasury's macroeconomic forecasts. The two sets of forecasts differ from each other because of the different modelling approaches used by the two agencies and the various assumptions and judgements made by the forecasting teams in producing their forecasts.

In total, the Treasury's forecast is lower than Inland Revenue's in 2010/11 mainly owing to differing views on the likely level of GST refunds and the implications of the current level of provisional tax. From 2011/12 onwards, the Treasury's forecasts are higher than Inland Revenue's as the Treasury has a larger pro-cyclical response to the economic recovery built into its tax forecasts than does Inland Revenue.

The aggregate differences between the two sets of forecasts are not large compared with past experience and reach just over 1% of total tax by 2014/15.

Table 9: Treasury and Inland Revenue forecasts of tax revenue (accrual)

$ million	2009/10 Actual	2010/11 Forecast Treasury	2010/11 Forecast IRD	2010/11 Difference	2011/12 Forecast Treasury	2011/12 Forecast IRD	2011/12 Difference	2012/13 Forecast Treasury	2012/13 Forecast IRD	2012/13 Difference	2013/14 Forecast Treasury	2013/14 Forecast IRD	2013/14 Difference	2014/15 Forecast Treasury	2014/15 Forecast IRD	2014/15 Difference
Direct tax																
Individuals																
Source deductions	22,135	20,858	20,658	200	21,415	21,274	141	23,059	22,872	187	24,886	24,652	234	26,711	26,436	275
Other persons tax	3,987	3,883	3,950	(67)	4,543	4,396	147	4,609	4,472	137	4,814	4,680	134	5,087	4,864	223
Refunds	(1,831)	(1,629)	(1,700)	71	(1,484)	(1,560)	76	(1,483)	(1,420)	(63)	(1,521)	(1,400)	(121)	(1,613)	(1,350)	(263)
Fringe benefit tax	461	441	454	(13)	430	438	(8)	448	460	(12)	475	488	(13)	502	529	(27)
Subtotal: Individuals	**24,752**	**23,553**	**23,362**	**191**	**24,904**	**24,548**	**356**	**26,633**	**26,384**	**249**	**28,654**	**28,420**	**234**	**30,687**	**30,479**	**208**
Company tax (net)	**6,631**	**8,300**	**8,628**	**(328)**	**9,014**	**8,955**	**59**	**9,514**	**9,216**	**298**	**9,977**	**9,497**	**480**	**10,381**	**9,754**	**627**
Withholding taxes on:																
Resident interest income	1,804	1,589	1,611	(22)	1,990	1,774	216	2,370	2,049	321	2,666	2,268	398	2,961	2,443	518
Non-resident income	884	495	527	(32)	579	572	7	635	611	24	660	635	25	681	659	22
Foreign-source dividends	(3)	2	4	(2)	2	4	(2)	2	4	(2)	2	4	(2)	2	4	(2)
Resident dividend income	130	221	215	6	233	214	19	314	286	28	490	455	35	505	457	48
Subtotal: Withholding tax	**2,815**	**2,307**	**2,357**	**(50)**	**2,804**	**2,564**	**240**	**3,321**	**2,950**	**371**	**3,818**	**3,362**	**456**	**4,149**	**3,563**	**586**
Total income tax	**34,198**	**34,160**	**34,347**	**(187)**	**36,722**	**36,067**	**655**	**39,468**	**38,550**	**918**	**42,449**	**41,279**	**1,170**	**45,217**	**43,796**	**1,421**
Other: Estate and gift duties	2	1	1	..	..	..	..	..	..	..	..	..	..	..	..	..
Total direct tax	**34,200**	**34,161**	**34,348**	**(187)**	**36,722**	**36,067**	**655**	**39,468**	**38,550**	**918**	**42,449**	**41,279**	**1,170**	**45,217**	**43,796**	**1,421**
Indirect tax																
GST (net)	**16,729**	**19,367**	**19,870**	**(503)**	**21,738**	**21,907**	**(169)**	**22,768**	**23,077**	**(309)**	**23,714**	**24,107**	**(393)**	**24,642**	**25,120**	**(478)**
Excise duties on:																
Alcoholic drinks	600	625	637	(12)	665	655	10	698	672	26	731	687	44	762	701	61
Tobacco products	217	194	202	(8)	217	200	17	225	199	26	226	198	28	229	198	31
Petroleum fuels	805	895	879	16	964	966	(2)	991	1,004	(13)	1,028	1,043	(15)	1,060	1,071	(11)
Subtotal: Excise duties	**1,622**	**1,714**	**1,718**	**(4)**	**1,846**	**1,821**	**25**	**1,914**	**1,875**	**39**	**1,985**	**1,928**	**57**	**2,051**	**1,970**	**81**
Other indirect tax																
Customs duty	1,873	1,959	1,965	(6)	2,152	2,163	(11)	2,203	2,217	(14)	2,224	2,238	(14)	2,251	2,242	9
Road user charges	910	963	970	(7)	1,011	1,020	(9)	1,071	1,080	(9)	1,133	1,135	(2)	1,193	1,190	3
Gaming duties	265	263	261	2	266	263	3	270	266	4	274	270	4	277	274	3
Motor vehicle fees	171	176	175	1	180	180	..	185	185	..	191	190	1	197	195	2
Exhaustible resource levy	39	38	37	1	38	36	2	36	35	1	36	37	(1)	36	40	(4)
Approved issuer levy, cheque duty & other	90	91	80	11	86	72	14	86	72	14	86	72	14	86	72	14
Subtotal: Other indirect tax	**3,348**	**3,490**	**3,488**	**2**	**3,733**	**3,734**	**(1)**	**3,851**	**3,855**	**(4)**	**3,944**	**3,942**	**2**	**4,040**	**4,013**	**27**
Total indirect tax	**21,699**	**24,571**	**25,076**	**(505)**	**27,317**	**27,462**	**(145)**	**28,533**	**28,807**	**(274)**	**29,643**	**29,977**	**(334)**	**30,733**	**31,103**	**(370)**
Total tax	**55,899**	**58,732**	**59,424**	**(692)**	**64,039**	**63,529**	**510**	**68,001**	**67,357**	**644**	**72,092**	**71,256**	**836**	**75,950**	**74,899**	**1,051**
Total tax (% of GDP)	29.5%	29.0%	29.4%	-0.3%	30.0%	29.8%	0.2%	30.2%	29.9%	0.3%	30.5%	30.1%	0.4%	30.7%	30.2%	0.4%
less **Core Crown tax eliminations**																
Core Crown income tax	(27)	373	373		362	362		395	395		433	433		473	473	
GST on Crown expenses and departmental outputs	4,812	5,344	5,344		5,976	5,976		6,126	6,126		6,235	6,235		6,435	6,435	
Crown ESCT	349	473	473		470	470		475	475		479	479		483	483	
Crown AIL	21	15	15		15	15		15	15		15	15		15	15	
Core Crown taxation	**50,744**	**52,527**	**53,219**	**(692)**	**57,216**	**56,706**	**510**	**60,990**	**60,346**	**644**	**64,930**	**64,094**	**836**	**68,544**	**67,493**	**1,051**
Core Crown tax (% of GDP)	26.8%	26.0%	26.3%	-0.3%	26.8%	26.6%	0.2%	27.1%	26.8%	0.3%	27.4%	27.1%	0.4%	27.7%	27.3%	0.4%
less **Total Crown tax eliminations**																
Income tax from SOEs and CEs	339	401	401		477	477		583	583		660	660		677	677	
Other Crown GST	..	..	..		..	..		..	..		..	..		..	..	
ESCT from SOEs and CEs	12	9	9		9	9		9	9		9	9		9	9	
Lottery duty	46	45	45		45	45		49	49		50	50		51	51	
Total Crown taxation	**50,347**	**52,072**	**52,764**	**(692)**	**56,685**	**56,175**	**510**	**60,349**	**59,705**	**644**	**64,211**	**63,375**	**836**	**67,807**	**66,756**	**1,051**
Total Crown tax (% of GDP)	26.6%	25.7%	26.1%	-0.3%	26.6%	26.3%	0.2%	26.8%	26.5%	0.3%	27.1%	26.8%	0.4%	27.4%	27.0%	0.4%
Nominal GDP	189,295	202,398	202,398		213,495	213,495		225,232	225,232		236,656	236,656		247,667	247,667	

Table 10: Treasury and Inland Revenue forecasts of tax receipts (cash)

$ million	2009/10 Actual	2010/11 Forecast Treasury	2010/11 Forecast IRD	2010/11 Difference	2011/12 Forecast Treasury	2011/12 Forecast IRD	2011/12 Difference	2012/13 Forecast Treasury	2012/13 Forecast IRD	2012/13 Difference	2013/14 Forecast Treasury	2013/14 Forecast IRD	2013/14 Difference	2014/15 Forecast Treasury	2014/15 Forecast IRD	2014/15 Difference
Direct tax																
Individuals																
Source deductions	22,097	20,958	20,750	208	21,307	21,181	126	22,949	22,777	172	24,778	24,559	219	26,603	26,343	260
Other persons tax	4,630	4,319	4,600	(281)	5,056	5,010	46	5,087	5,050	37	5,300	5,230	70	5,643	5,400	243
Refunds	(2,793)	(2,298)	(2,600)	302	(2,192)	(2,430)	238	(2,169)	(2,290)	121	(2,228)	(2,250)	22	(2,373)	(2,170)	(203)
Fringe benefit tax	469	440	451	(11)	421	431	(10)	443	453	(10)	467	481	(14)	494	508	(14)
Subtotal: Individuals	**24,403**	**23,419**	**23,201**	**218**	**24,592**	**24,192**	**400**	**26,310**	**25,990**	**320**	**28,317**	**28,020**	**297**	**30,367**	**30,081**	**286**
Company tax (net)	**7,471**	**8,283**	**8,462**	**(179)**	**8,846**	**8,794**	**52**	**9,398**	**9,005**	**393**	**9,803**	**9,267**	**536**	**10,185**	**9,505**	**680**
Withholding taxes on:																
Resident interest income	1,833	1,588	1,611	(23)	1,989	1,774	215	2,369	2,049	320	2,665	2,268	397	2,960	2,443	517
Non-resident income	889	494	527	(33)	578	572	6	634	611	23	659	635	24	680	659	21
Foreign-source dividends	6	2	4	(2)	2	4	(2)	2	4	(2)	2	4	(2)	2	4	(2)
Resident dividend income	114	221	215	6	233	214	19	314	286	28	490	455	35	505	457	48
Subtotal: Withholding tax	**2,842**	**2,305**	**2,357**	**(52)**	**2,802**	**2,564**	**238**	**3,319**	**2,950**	**369**	**3,816**	**3,362**	**454**	**4,147**	**3,563**	**584**
Total income tax	**34,716**	**34,007**	**34,020**	**(13)**	**36,240**	**35,550**	**690**	**39,027**	**37,945**	**1,082**	**41,936**	**40,649**	**1,287**	**44,699**	**43,149**	**1,550**
Other: Estate and gift duties	2	1	1	..	..	..	..	..	..	..	..	..	..	..	..	..
Total direct tax	**34,718**	**34,008**	**34,021**	**(13)**	**36,240**	**35,550**	**690**	**39,027**	**37,945**	**1,082**	**41,936**	**40,649**	**1,287**	**44,699**	**43,149**	**1,550**
Indirect tax																
GST (net)	**16,150**	**18,862**	**19,355**	**(493)**	**21,419**	**21,603**	**(184)**	**22,440**	**22,763**	**(323)**	**23,392**	**23,800**	**(408)**	**24,320**	**24,810**	**(490)**
Excise duties on:																
Alcoholic drinks	622	625	637	(12)	665	655	10	698	672	26	731	687	44	762	701	61
Tobacco products	214	194	202	(8)	217	200	17	225	199	26	226	198	28	229	198	31
Petroleum fuels	805	895	879	16	964	966	(2)	991	1,004	(13)	1,028	1,043	(15)	1,060	1,071	(11)
Subtotal: Excise duties	**1,641**	**1,714**	**1,718**	**(4)**	**1,846**	**1,821**	**25**	**1,914**	**1,875**	**39**	**1,985**	**1,928**	**57**	**2,051**	**1,970**	**81**
Other indirect tax																
Customs duty	1,805	1,959	1,965	(6)	2,152	2,163	(11)	2,203	2,217	(14)	2,224	2,238	(14)	2,251	2,242	9
Road user charges	908	963	970	(7)	1,011	1,020	(9)	1,071	1,080	(9)	1,133	1,135	(2)	1,193	1,190	3
Gaming duties	264	264	261	3	266	263	3	270	266	4	274	270	4	277	274	3
Motor vehicle fees	195	176	175	1	180	180	..	185	185	..	191	190	1	197	195	2
Exhaustible resource levy	37	38	37	1	38	36	2	36	35	1	36	37	(1)	36	40	(4)
Approved issuer levy, cheque duty & other	82	91	77	14	86	72	14	86	72	14	86	72	14	86	72	14
Subtotal: Other indirect tax	**3,291**	**3,491**	**3,485**	**6**	**3,733**	**3,734**	**(1)**	**3,851**	**3,855**	**(4)**	**3,944**	**3,942**	**2**	**4,040**	**4,013**	**27**
Total indirect tax	**21,082**	**24,067**	**24,558**	**(491)**	**26,998**	**27,158**	**(160)**	**28,205**	**28,493**	**(288)**	**29,321**	**29,670**	**(349)**	**30,411**	**30,793**	**(382)**
Total tax	**55,800**	**58,075**	**58,579**	**(504)**	**63,238**	**62,708**	**530**	**67,232**	**66,438**	**794**	**71,257**	**70,319**	**938**	**75,110**	**73,942**	**1,168**
Total tax (% of GDP)	29.5%	28.7%	28.9%	-0.2%	29.6%	29.4%	0.2%	29.9%	29.5%	0.4%	30.1%	29.7%	0.4%	30.3%	29.9%	0.5%
***less* Core Crown tax eliminations**																
Core Crown income tax	111	195	195		389	389		408	408		444	444		483	483	
GST on Crown expenses and departmental outputs	4,809	5,382	5,382		5,968	5,968		6,113	6,113		6,218	6,218		6,429	6,429	
Crown ESCT	341	471	471		467	467		472	472		476	476		480	480	
Crown AIL	23	15	15		15	15		15	15		15	15		15	15	
Core Crown taxation	**50,516**	**52,012**	**52,516**	**(504)**	**56,399**	**55,869**	**530**	**60,224**	**59,430**	**794**	**64,104**	**63,166**	**938**	**67,703**	**66,535**	**1,168**
Core Crown tax (% of GDP)	26.7%	25.7%	25.9%	-0.2%	26.4%	26.2%	0.2%	26.7%	26.4%	0.4%	27.1%	26.7%	0.4%	27.3%	26.9%	0.5%
***less* Total Crown tax eliminations**																
Income tax from SOEs and CEs	354	321	321		437	437		535	535		691	691		771	771	
Other Crown GST	..	(23)	(23)		7	7		11	11		13	13		6	6	
ESCT from SOEs and CEs	12	4	4		5	5		5	5		5	5		5	5	
Lottery duty	46	45	45		45	45		49	49		50	50		51	51	
Total Crown taxation	**50,104**	**51,665**	**52,169**	**(504)**	**55,905**	**55,375**	**530**	**59,624**	**58,830**	**794**	**63,345**	**62,407**	**938**	**66,870**	**65,702**	**1,168**
Total Crown tax (% of GDP)	26.5%	25.5%	25.8%	-0.2%	26.2%	25.9%	0.2%	26.5%	26.1%	0.4%	26.8%	26.4%	0.4%	27.0%	26.5%	0.5%

Table 11: Tax policy changes included in the Half Year Update tax revenue forecasts

Year ended 30 June ($ million)	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Material tax policy changes					
Thin capitalisation for low-asset companies	(30)	(15)	(15)	(15)	(15)
GST transitional measures	(12)	(15)	(4)	(3)	(1)
Extending active income exemption to non-porfolio FIFs	-	(10)	(10)	(10)	(10)
Other	(9)	22	(10)	(6)	(10)
Total	**(51)**	**(18)**	**(39)**	**(34)**	**(36)**

Thin capitalisation rules for low-asset companies

In certain circumstances, companies will be able to use a thin capitalisation test based on cash flow and interest rather than debt and assets.

GST transitional measures

Some transitional measures were introduced to assist GST taxpayers with the change in the GST rate from 12.5% to 15%.

Extending active income exemption to non-portfolio FIFs (Foreign Investment Funds)

The rules for applying the active income exemption to controlled foreign companies will also apply to shareholdings of 10% or more in foreign companies that are not controlled by New Zealand investors.

Additional Fiscal Indicators

There are different approaches to assessing the relationship between the economy and the fiscal position, and the relationship between fiscal policy and the economy. One approach to assessing these relationships uses summary fiscal indicators. A discussion of Treasury's perspective on these indicators, their use and limitations, and the relationship between them, can be found in the Budget 2010 *Economic and Fiscal Update* Additional Information.[1]

The cyclically-adjusted balance (CAB) indicator is subject to uncertainty because it uses estimated variables and is sensitive to new information, particularly regarding the output gap. The Treasury has recently reviewed the CAB indicator.[2] This review has raised methodological issues and examined a range of techniques to estimate the underlying fiscal position. For this *Economic and Fiscal Update*, there have been no methodological changes made since Budget 2010. However, the Treasury is currently considering what information it presents in future *Economic and Fiscal Updates* in light of this review.

The Treasury's fiscal impulse indicator uses the change in a cash based version of the cyclically-adjusted balance for the core Crown.[3] The methodology is the same as at Budget 2010 with the exception that payouts under the Deposit Guarantee Scheme (DGS) have been excluded from the indicator reflecting a judgement that these payouts are unlikely to have a direct impact on aggregate demand. For completeness, the indicator is shown without the adjustment for the DGS payouts, in order to show what effect this assumption has on the indicator.

Treasury's summary fiscal indicators

Output is projected to be below potential until 2014, with the gap closing in 2015. The output gap is estimated to be -0.8% in the 2011 fiscal year, slightly more negative than the -0.6% estimated in the *2010 BEFU Forecasts*. Despite underlying cyclical weakness, the output gap is estimated to be just -0.1% in 2012. This primarily reflects temporary factors: a rise in activity associated the 2011 Rugby World Cup and the response to the damage caused by the Canterbury earthquake.

The CAB indicates a structural deficit in 2011 of around 5.2% of GDP compared to 4.0% estimated at the time of the *2010 BEFU Forecasts*. This mainly reflects fiscal developments, including judgements about tax revenue (independent of judgements about the cyclical weakness of the economy) and one-off expense items, such as those relating to the Canterbury earthquake. The structural balance is forecast to improve significantly in 2012 to -2.7% of GDP.

The estimate of fiscal impulse for the 2011 fiscal year has maintained an expansionary stance with a fiscal impulse of 1.5% of GDP. This is more expansionary than the 1.2% of GDP impulse estimated in the *2010 BEFU Forecasts*, reflecting a larger structural deficit.

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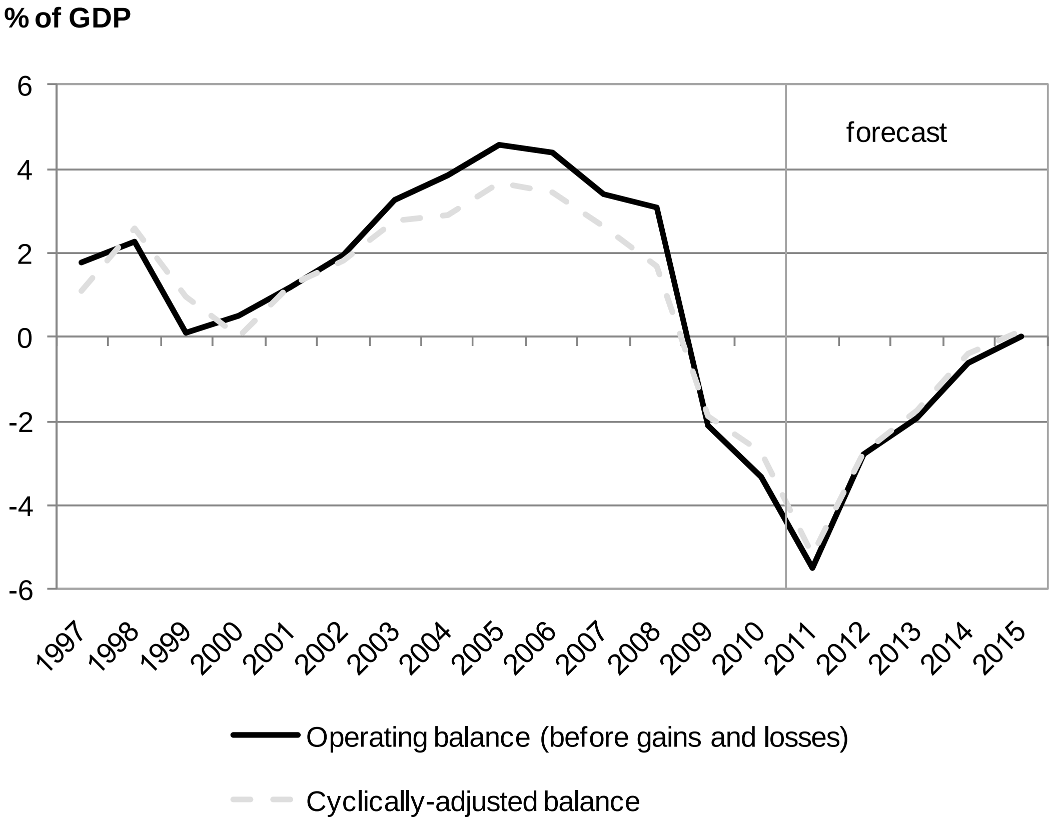
1 Available at http://www.treasury.govt.nz/budget/forecasts/befu2010/befu10-pt6of6.pdf

2 Oscar Parkyn (2010) "Estimating New Zealand's Structural Budget Balance" New Zealand Treasury Working Paper, December 2010. http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/.

3 The indicator methodology and a discussion of these issues are covered in Renee Philip and John Janssen (2002) "Indicators of Fiscal Impulse for New Zealand." New Zealand Treasury Working Paper 02/30, December 2002. http://www.treasury.govt.nz/publications/research-policy/wp/2002/02-30/.

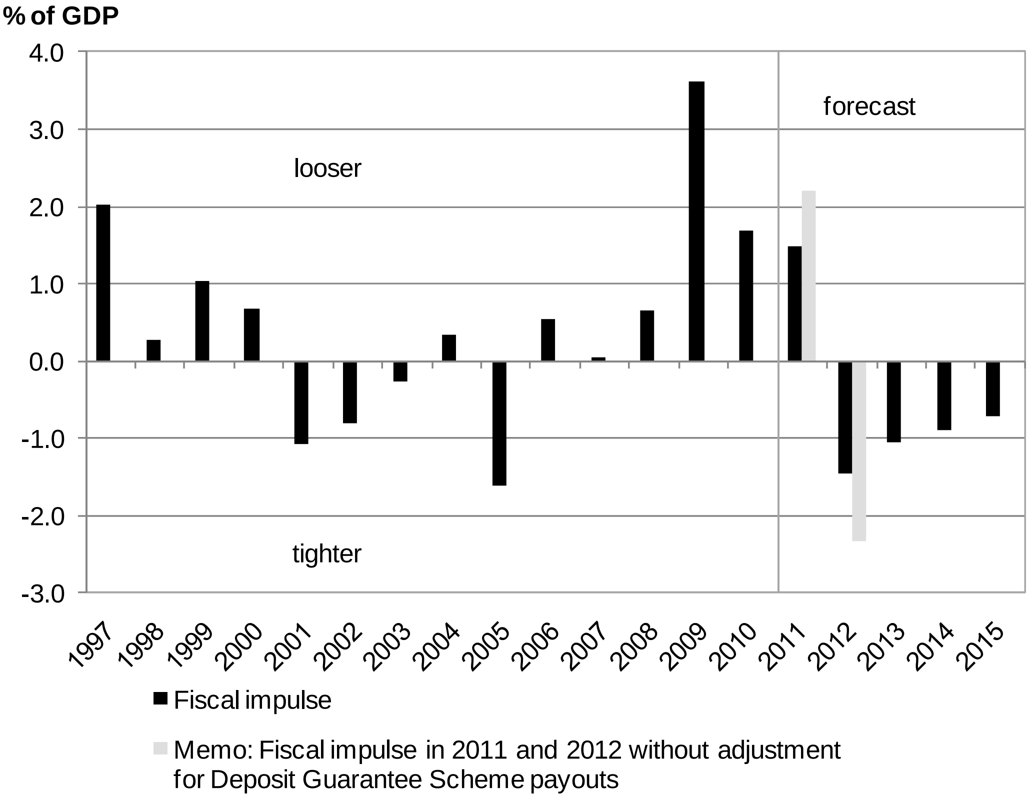
From 2012, the withdrawal of this stimulus is projected to occur, reflecting a steady unwinding of structural deficits.

Figure 1 – Operating balance before gains and losses and cyclically-adjusted indicator



Source: The Treasury. Note: Years stated are those ended 30 June.

Figure 2 – Fiscal impulse



Source: The Treasury. Note: Years stated are those ended 30 June.

Table 12 – Additional fiscal indicators

Operating balance before gains and losses (Year ended June, % GDP)

Historical									Forecast				
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1.9	3.3	3.8	4.6	4.4	3.4	3.1	-2.1	-3.3	-5.5	-2.8	-1.9	-0.6	0.0

Cyclically-adjusted operating balance before gains and losses (Year ended June, % GDP)

Historical									Forecast				
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1.8	2.8	2.9	3.7	3.4	2.6	1.7	-1.9	-2.7	-5.2	-2.7	-1.7	-0.4	0.2

Memorandum items:

Output gap (Year ended June, % deviation)

Historical									Forecast				
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
0.3	1.0	1.9	1.9	2.0	1.7	3.0	-0.5	-1.4	-0.8	-0.1	-0.5	-0.5	-0.4

Fiscal impulse (Year ended June, % GDP)

Historical									Forecast				
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
-0.8	-0.3	0.3	-1.6	0.5	0.1	0.7	3.6	1.7	1.5	-1.5	-1.1	-0.9	-0.7

Source: The Treasury

Accounting Policies

The forecast financial statements contained in the published *Half Year Economic and Fiscal Update 2010* are based on the following accounting policies.

Statement of Compliance

These forecast financial statements have been prepared in accordance with the Public Finance Act 1989 and with New Zealand Generally Accepted Accounting Practice (NZ GAAP). The accounting policies applied in the statements are the same as those applied in the audited, actual financial statements of the Government for the year ended 30 June 2010.

For the purposes of these forecast financial statements, the government reporting entity has been designated as a public benefit entity. The forecast financial statements comply with FRS-42*: Prospective Financial Statements* and NZ GAAP as it relates to prospective financial statements.

Reporting Entity

The Government reporting entity as defined in section 2(1) of the Public Finance Act 1989 means:

- the Sovereign in right of New Zealand, and
- the legislative, executive, and judicial branches of the Government of New Zealand.

Basis of Preparation

These forecast financial statements have been prepared on the basis of historic cost modified by the revaluation of certain assets and liabilities.

The forecast financial statements are prepared on an accrual basis, unless otherwise specified (for example, the Statement of Cash Flows).

The forecast financial statements are presented in New Zealand dollars rounded to the nearest million, unless otherwise specified.

Judgements and Estimations

The preparation of these forecast financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future, as with the settlement of ACC outstanding claim obligations and Government Superannuation retirement benefits, depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. For example, the risk free rate is derived from government bond rates for the periods covered by these bonds, and is extrapolated to converge towards the long-term average of 6% beyond that time. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

More details on these judgements and estimations are available in the Financial Statements of the Government of New Zealand for the year ended 30 June 2010.

Early Adoption of Standards and Interpretations

The Government has elected to early-adopt all NZ IFRSs and Interpretations that had been approved by the New Zealand Accounting Standards Review Board as at 30 June 2010 but that are not yet effective, with the exception of *NZ IFRS 9: Financial Instruments*. This new standard (which is incomplete) was approved by the Accounting Standards Review Board in November 2009. The standard addresses the issues of classification and measurement of financial assets and becomes effective for annual reporting periods commencing on or after 1 January 2013.

The standards and interpretations that have been early-adopted by the Government predominantly relate to the presentation of financial information and do not have a material impact on these forecast financial statements.

Reporting and Forecast Period

The reporting period for these forecast financial statements is the year ended 30 June 2011 to 30 June 2015.

The “2010 Actual” figures reported in the statements are the audited results reported in the Financial Statements of Government for the year ended 30 June 2010. The “2011 Previous Budget” figures are the original forecasts to 30 June 2011, as presented in the 2010 Budget. The “2011 Forecast” figures incorporate actual financial results up to either 30 September 2010 or 31 October 2010.

Where necessary, the financial information for State-owned enterprises and Crown entities that have a balance date other than 30 June has been adjusted for any transactions or events that have occurred since their most recent balance date and that are significant for the Government’s financial statements. Such entities are primarily in the education sector.

Basis of Combination

These forecast financial statements combine the following entities using the acquisition method of combination:

Core Entities

- Ministers of the Crown
- Government departments
- Offices of Parliament
- the Reserve Bank of New Zealand
- New Zealand Superannuation Fund

Other entities

- State-owned enterprises
- Crown entities (excl. Tertiary Education Institutions)
- Air New Zealand Limited
- Organisations listed in Schedule 4 of the Public Finance Act 1989

Corresponding assets, liabilities, income and expenses, are added together line by line. Transactions and balances between these sub-entities are eliminated on combination. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Government reporting entity.

Tertiary education institutions are equity-accounted for the reasons explained in the notes to the Government's financial statements for the period ended 30 June 2010. This treatment recognises these entities' net assets, including asset revaluation movements, surpluses and deficits.

The basis of combination for joint ventures depends on the form of the joint venture.

- Jointly controlled operations: The Government reporting entity recognises the assets it controls, the liabilities and expenses that it incurs, and its share of the jointly controlled operations' income
- Jointly controlled assets: The Government reporting entity recognises its share of the jointly controlled assets, its share of any liabilities and expenses incurred jointly, any other liabilities and expenses it has incurred in respect of the jointly controlled asset, and income from the sale or use of its share of the output of the jointly controlled assets; and
- Jointly controlled entities: Jointly controlled entities are equity accounted, whereby the Government reporting entity initially recognises its share of interest in these entities' net assets at cost and subsequently adjusts the cost for changes in net assets. The Government reporting entity's share of the jointly controlled entities' surpluses and deficits are recognised in the statement of financial performance.

Accounting Policies

The accounting policies set out below have been applied consistently to all periods in the *2010 HYEFU Update*.

Income

Taxation revenue levied through the Crown's sovereign power

The Government provides many services and benefits that do not give rise to revenue. Further, payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits, since there is no relationship between paying tax and receiving Crown services and transfers. Such revenue is received through the exercise of the sovereign power of the Crown in Parliament.

Where possible, taxation revenue is recognised at the time the debt to the Crown arises.

Revenue type	Revenue recognition point
Source deductions	When an individual earns income that is subject to PAYE
Resident withholding tax (RWT)	When an individual is paid interest or dividends subject to deduction at source
Fringe benefit tax (FBT)	When benefits are provided that give rise to FBT
Provisional tax	When taxable income is earned
Terminal tax	Assessment filed date
Goods and services tax (GST)	When the liability to the Crown is incurred
Customs and excise duty	When goods become subject to duty
Road user charges and motor vehicle fees	When payment of the fee or charge is made
Stamp, cheque and credit card duties	When the liability to the Crown is incurred
Exhaustible resources levy	When the resource is extracted
Other indirect taxes	When the debt to the Crown arises
Levies (eg, ACC levies)	When the obligation to pay the levy is incurred

Revenue earned through operations

Revenue from the supply of goods and services to third parties is measured at the fair value of consideration received. Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the supply of services is recognised on a straight-line basis over the specified period for the services unless an alternative method better represents the stage of completion of the transaction.

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Dividend income

Dividend income from investments is recognised when the Government's rights as a shareholder to receive payment have been established.

Rental income

Rental income is recognised in the statement of financial performance on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental income.

Donated or Subsidised Assets

Where an asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as income in the statement of financial performance.

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits and entitlements

Welfare benefits and entitlements, including New Zealand Superannuation, are recognised in the period when an application for a benefit has been received and the eligibility criteria has been met.

Grants and subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Foreign currency

Transactions in foreign currencies are initially translated at the foreign exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance, except when recognised in the statement of comprehensive income when hedge accounting is applied.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into New Zealand dollars at the exchange rate applicable at the fair value date. The associated foreign exchange gains or losses follow the fair value gains or losses to either the statement of financial performance or the statement of comprehensive income.

Foreign exchange gains and losses arising from translating monetary items that form part of the net investment in a foreign operation are reported in a translation reserve in net worth and recognised in the statement of comprehensive income.

Sovereign receivables and taxes repayable

Receivables from taxes, levies and fines (and any penalties associated with these activities) as well as social benefit receivables do not arise out of a contract. These non-contract receivables are collectively referred to as sovereign receivables.

Sovereign receivables are initially assessed at nominal amount or face value; that is, the receivable reflects the amount of tax owed, levy, fine charged, or social benefit debt payable. These receivables are subsequently adjusted for penalties and interest as they are charged, and tested for impairment. Interest and penalties charged on tax receivables are presented as tax revenue in the statement of financial performance.

Taxes repayable represent refunds due to taxpayers and are recognised at their nominal value. They are subsequently adjusted for interest once account and refund reviews are complete.

Financial instruments

Financial assets

Financial assets are designated into the following categories: loans and receivables, financial instruments available-for-sale, financial assets held-for-trading, and financial instruments designated as fair value through profit and loss. This designation is made by reference to the purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

The maximum loss due to default on any financial asset is the carrying value reported in the statement of financial position.

Major financial asset type	Designation
Trade and other receivables	All designated as loans and receivables
Student loans	All designated as loans and receivables
Kiwibank mortgages	Generally designated as loans and receivables
Other advances	Generally designated as loans and receivables
IMF financial assets	All designated as loans and receivables
Share investments	Generally designated as fair value through profit and loss
Marketable securities	Generally designated as fair value through profit and loss

Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method (refer interest income policy). Loans and receivables issued with a duration of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of financial performance.

Financial assets held for trading and financial assets designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance.

A financial asset is designated at fair value through profit and loss if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either significantly reduces an accounting mismatch with related liabilities or is part of a group of financial assets that is managed and evaluated on a fair value basis, such as with the NZ

Superannuation Fund. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Available-for-sale financial assets are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised in the statement of comprehensive income with some exceptions. Those exceptions are for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses resulting from translation differences due to changes in amortised cost of the asset. These latter items are recognised in the statement of financial performance.

For non-monetary available-for-sale financial assets (eg, some unlisted equity instruments) the fair value movements recognised in the statement of comprehensive income include any related foreign exchange component. At derecognition, the cumulative fair value gain or loss previously recognised in the statement of comprehensive income, is recognised in the statement of financial performance.

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Fair values of quoted investments are based on current bid prices. Regular way purchases and sales of all financial assets are accounted for at trade date. If the market for a financial asset is not active, fair values for initial recognition and, where appropriate, subsequent measurement are established by using valuation techniques, as set out in the following notes. At each balance date an assessment is made whether there is objective evidence that a financial asset or group of financial assets is impaired.

Financial liabilities

Major financial liability type	**Designation**
Accounts payable	All designated at amortised cost
Government stock	Generally designated at amortised cost
Treasury bills	Generally designated at amortised cost
Government retail stock	All designated at amortised cost
Settlement deposits with Reserve Bank	All designated as fair value through profit and loss
Issued currency	Not designated: Recognised at face value

Financial liabilities held for trading and financial liabilities designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance. A financial liability is designated at fair value through profit and loss if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either eliminates or significantly reduces an accounting mismatch with related assets or is part of a group of financial liabilities that is managed and evaluated on a fair value basis. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with durations of less than 12 months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the statement of financial performance as is any gain or loss when the liability is derecognised.

Currency issued for circulation, including demonetised currency after 1 July 2004, is recognised at face value. Currency issued represents a liability in favour of the holder.

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively. Recognition of the movements in the value of derivatives depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged (see Hedging section below).

Derivatives that are not designated for hedge accounting are classified as held-for-trading financial instruments with fair value gains or losses recognised in the statement of financial performance. Such derivatives may be entered into for risk management purposes, although not formally designated for hedge accounting, or for tactical trading.

Hedging

Individual entities consolidated within the Government reporting entity apply hedge accounting after considering the costs and benefits of adopting hedge accounting, including:

- whether an economic hedge exists and the effectiveness of that hedge,
- whether the hedge accounting qualifications could be met, and
- the extent to which it would improve the relevance of reported results.

Transactions between entities within the Government reporting entity do not qualify for hedge accounting in the financial statements of the Government (although they may qualify for hedge accounting in the separate financial statements of the individual entities). Where a derivative is used to hedge the foreign exchange exposure of a monetary asset or liability, the effects of the hedge relationship are automatically reflected in the statement of financial performance so hedge accounting is not necessary.

(a) Cash flow hedge

Where a derivative qualifies as a hedge of variability in asset or liability cash flows (cash flow hedge), the effective portion of any gain or loss on the derivative is recognised in the statement of comprehensive income and the ineffective portion is recognised in the statement of financial performance. Where the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability (eg, where the hedge relates to the purchase of an asset in a foreign currency), the amount recognised in the statement of comprehensive income is included in the initial cost of the asset or liability. Otherwise, gains or losses recognised in the statement of comprehensive income transfer to the statement of financial performance in the same period as when the hedged item affects the statement of financial performance (eg, when the forecast sale occurs). Effective portions of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in net worth at that time remains in net worth and is recognised when the forecast transaction is ultimately recognised in the statement of financial performance. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the statement of comprehensive income is transferred to the statement of financial performance.

(b) Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in the statement of financial performance together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

Financial Instruments – forecasting policies

For forecasting purposes, financial instruments held after 30 June 2010 are assumed to be held until they mature. Additional gains and losses on financial assets measured at fair value are based on long-run rate of return assumptions appropriate to the forecast portfolio mix, after adjusting for interest revenue and dividend revenue which are reported separately. Gains and losses on financial liabilities measured at fair value are assumed to unwind over the period to maturity, as they are assumed to be redeemed at par value.

Forecast sales and purchases of financial instruments are assumed to be issued at par value, with no premiums or discounts forecast. The exceptions are interest-free assets with long maturities, such as student loans and some sovereign receivables, where a write-down to fair value is recognised when the loan or receivable is issued.

Forecasts of borrowings incorporate a number of technical assumptions regarding the use of the Crown's fiscal surplus for domestic debt reduction. These assumptions may not reflect the actual future composition of the domestic debt programmes, as these decisions have yet to be made.

Derivatives held for trading are measured at fair value, which is nil when initially entered into. That is, fair value changes are only recognised after the derivative is created and as a result of changes in underlying variables such as exchange rates. Hence, forecasts for derivatives expected to be entered into over the forecast period are assumed to have a nil balance. Forward margins on forward-exchange contracts existing as at 30 June 2010 are amortised over the period of the contract on a straight line basis.

Gains and losses are not forecast for financial assets measured at amortised cost.

Inventories

Inventories are recorded at the lower of cost (calculated using weighted average method) and net realisable value. Inventories held for distribution for public benefit purposes are recorded at cost adjusted where applicable for any loss of service potential. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the current replacement cost at the date of acquisition.

Inventories include unissued currency and harvested agricultural produce (eg, logs, wool).

The cost of harvested agricultural produce is measured at fair value less estimated point-of-sale costs at the point of harvest.

Property, plant and equipment

Items of property, plant and equipment are initially recorded at cost. Cost may include transfers from net worth of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be reliably determined, as income in the statement of financial performance.

Revaluations are carried out for a number of classes of property, plant and equipment to reflect the service potential or economic benefit obtained through control of the asset. Revaluation is based on the fair value of the asset, with changes reported by class of asset.

Subsequent to initial recognition, classes of property, plant and equipment are accounted for as set out below.

Class of PPE	**Accounting policy**
Land and Buildings	Land and buildings are recorded at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued. Valuations undertaken in accordance with standards issued by the New Zealand Property Institute are used where available. Otherwise, valuations conducted in accordance with the Rating Valuation Act 1998, may be used if they have been confirmed as appropriate by an independent valuer. When revaluing buildings, there must be componentisation to the level required to ensure adequate representation of the material components of the buildings. At a minimum, this requires componentisation to three levels: structure, building services and fit-out.
Specialist Military Equipment	Specialist military equipment is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the bases of these valuations are confirmed as appropriate by an independent valuer.
State Highways	State highways are recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Land associated with the state highways is valued using an opportunity cost based on adjacent use, as an approximation to fair value.
Rail Network	The rail network is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Land associated with the rail network is valued using an opportunity cost based on adjacent use, as an approximation to fair value.
Aircraft	Aircraft (excluding Specialised Military Equipment) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.
Electricity Distribution	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.
Electricity Generation	Electricity generation assets are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.
Specified Cultural and Heritage assets	Specified cultural and heritage assets comprise national parks, conservation areas and related recreational facilities, as well as National Archives holdings and the collections of the National Library, Parliamentary Library and Te Papa. Such physical assets are recorded at fair value less subsequent impairment losses and, for non-land assets, less subsequent accumulated depreciation. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and when they do not generate cash flows and where no market exists to provide a valuation.
Other Plant and Equipment	Other plant and equipment, which includes motor vehicles and office equipment, are recorded at cost less depreciation and impairment losses accumulated since the assets were purchased.

Classes of property, plant and equipment that are revalued are revalued at least every five years or whenever the carrying amount differs materially to fair value.

Items of property are revalued to fair value for the highest and best use of the item on the basis of the market value of the item, or on the basis of market evidence, such as discounted cash flow calculations. If no market evidence of fair value exists, an optimised depreciated replacement cost approach is used as the best proxy for fair value.

Where an item of property is recorded at its optimised depreciated replacement cost, this cost is based on the estimated present cost of constructing the existing item of property by the most appropriate method of construction, less allowances for physical deterioration and optimisation for obsolescence and relevant surplus capacity. Where an item of property is recorded at its optimised depreciated replacement cost, the cost does not include any borrowing costs.

Unrealised gains and losses arising from changes in the value of property, plant and equipment are recognised as at balance date. To the extent that a gain reverses a loss previously charged to the statement of financial performance for the asset class, the gain is credited to the statement of financial performance. Otherwise, gains are credited to an asset revaluation reserve for that class of asset. To the extent that there is a balance in the asset revaluation reserve for the asset class any loss is debited to the reserve. Otherwise, losses are reported in the statement of financial performance.

Realised gains and losses arising from disposal of property, plant and equipment are recognised in the statement of financial performance in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to taxpayer funds.

Generally, Government borrowings are not directly attributable to individual assets. Therefore, any borrowing costs incurred during the period required to complete and prepare assets for their intended use are expensed rather than capitalised.

Where an asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. The main reason for holding some assets (for example, electricity generation assets) is to generate cash. For these assets the recoverable amount is the higher of the amount that could be recovered by sale (after deducting the costs of sale) or the amount that will be generated by using the asset through its useful life. Some assets do not generate cash (for example, state highways) and for those assets, depreciated replacement cost is used. Losses resulting from impairment are reported in the statement of financial performance, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

Typically, the estimated useful lives of different classes of property, plant and equipment are as follows:

Class of PPE	Estimated useful lives
Buildings	25 to 60 years
Specialist military equipment	5 to 55 years
State highways: Pavement (surfacing) Pavement (other) Bridges	 7 years 50 years 70 to 105 years
Rail Network: Track and ballast Tunnels and bridges Overhead traction and signalling	 25 to 40 years 60 to 100 years 10 to 40 years
Aircraft (excluding specialist military equipment)	10 to 20 years
Electricity distribution network	2 to 80 years
Electricity generation assets	25 to 55 years
Other plant and equipment	3 to 30 years

Specified heritage and cultural assets are generally not depreciated.

Property, plant and equipment

Forecasts of the value of property, plant and equipment (including state highways and rail infrastructure) use the valuations recorded in the Financial Statements of the Government for the prior year and any additional valuations that have occurred up to the forecast reference date. As a consequence, no further realised or unrealised gains or losses are forecast for the entire forecast period.

Equity accounted investments

The applicable financial reporting standards that determine the basis of combination of entities that make up the Government reporting entity are NZ IAS 27: *Consolidated and Separate Financial Statements* and NZ IAS 28: *Investments in Associates.* NZ IAS 27 refers to guidance provided in IPSAS 6: *Consolidated and Separate Financial Statements* and FRS 37: *Consolidating Investments in Subsidiaries* which shall be used by public benefit entities in determining whether they control another entity.

These standards are, however, not clear about how the definitions of control and significant influence should be applied in some circumstances in the public sector, particularly where legislation provides public sector entities with statutory autonomy and independence, in particular with Tertiary Education Institutions. Treasury's view is that because the Government cannot determine their operating and financing policies, but does have a number of powers in relation to these entities, it is appropriate to treat them as associates.

Biological assets

Biological assets (eg, trees and sheep) managed for harvesting into agricultural produce (eg, logs and wool) or for transforming into additional biological assets are measured at fair value less estimated costs to sell, with any realised and unrealised gains or losses reported in the statement of financial performance. Where fair value cannot be reliably determined, the asset is recorded at cost less accumulated depreciation and accumulated impairment losses. For commercial forests, fair value takes into account age, quality of timber and the forest management plan.

Biological assets not managed for harvesting into agricultural produce, or being transformed into additional biological assets are reported as property, plant and equipment in accordance with the policies for property, plant and equipment.

Intangible assets

Intangible assets are initially recorded at cost. Where an intangible asset is created for nil or nominal consideration it is also initially carried at cost, which by definition is nil/nominal.

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably measured. Research is "original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding". Expenditure incurred on the research phase of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred.

The Government's holdings of assigned amount units arising from the Kyoto protocol are reported at fair value. Other intangible assets with finite lives are subsequently recorded at cost less any amortisation and impairment losses. Amortisation is charged to the statement of financial performance on a straight-line basis over the useful life of the asset. Typically, the estimated useful life of computer software is three to five years.

Intangible assets with indefinite useful lives are not amortised, but are tested annually for impairment.

Realised gains and losses arising from disposal of intangible assets are recognised in the statement of financial performance in the period in which the transaction occurs.

Intangible assets with finite lives are reviewed annually to determine if there is any indication of impairment. Where an intangible asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. Losses resulting from impairment are reported in the statement of financial performance.

Goodwill is tested for impairment annually.

Non-current assets held for sale and discontinued operations

Non-current assets or disposal groups are separately classified where their carrying amount will be recovered through a sale transaction rather than continuing use; that is, where such assets are available for immediate sale and where sale is highly probable. Non-current assets or disposal groups are recorded at the lower of their carrying amount and fair value less costs to sell.

Investment Property

Investment property is property held primarily to earn rentals or for capital appreciation or both. It does not include property held primarily for strategic purposes or to provide a social service (eg, affordable housing) even though such property may earn rentals or appreciate in value – such property is reported as property, plant and equipment.

Investment properties are measured at fair value. Gains or losses arising from fair value changes are included in the statement of financial performance. Valuations are undertaken in accordance with standards issued by the New Zealand Property Institute.

Employee benefits

Pension liabilities

Obligations for contributions to defined contribution retirement plans are recognised in the statement of financial performance as they fall due. Obligations for defined benefit retirement plans are recorded at the latest actuarial value of the Crown liability. All movements in the liability, including actuarial gains and losses, are recognised in full in the statement of financial performance in the period in which they occur.

Other employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of financial performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows.

Termination benefits

Termination benefits are recognised in the statement of financial performance only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

Insurance contracts

The future cost of ACC claims liabilities is revalued annually based on the latest actuarial information. Movements of the liability are reflected in the statement of financial performance. Financial assets backing the liability are designated at fair value through profit and loss.

Leases

Finance leases transfer to the Crown as lessee substantially all the risks and rewards incident on the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

Other liabilities and provisions

Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at the present value of their estimated future cash outflows.

Contingent assets and contingent liabilities

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising the option to cancel are reported at the value of those penalty or exit costs (ie, the minimum future payments).

Commitments are classified as:

- capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date
- non-cancellable operating leases with a lease term of more than one year; and
- other non-cancellable commitments (these may include consulting contracts, cleaning contracts and ship charters).

Interest commitments on debts and commitments relating to employment contracts are not included in the Statement of Commitments.

Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures have been restated to ensure consistency with the current period unless it is impracticable to do so.

Comparatives referred to as Original Budget were forecasts published in the *2010 Budget Economic and Fiscal Update*. These forecasts include budget adjustments for new unallocated spending during the year (both operating and capital) and top-down adjustments which reduce the bias for forecast expenditure by departments to reflect maximum spending limits instead of mid-point estimates.

Segment analysis

The Government Reporting Entity is not required to provide segment reporting as it is a public benefit entity. Nevertheless, information is presented for material institutional components and major economic activities within or undertaken by the Government Reporting Entity. The three major institutional components of the Crown are:

- Core Crown: This group, which includes Ministers, government departments, Offices of Parliament, the Reserve Bank of New Zealand and the New Zealand Superannuation Fund most closely represents the budget sector and provides information that is useful for fiscal analysis purposes.
- State-owned enterprises: This group includes entities governed by the State–owned Enterprises Act, and (for the purposes of these statements) also includes Air New Zealand represents entities that undertake commercial activity.
- Crown entities: This group includes entities governed by the Crown Entities Act 2004. These entities have separate legal form and specified government frameworks (including the degree to which each Crown entity is required to give effect to, or be independent of, government policy).

Functional analysis is also provided of a number of financial statements items. This functional analysis is drawn from the *Classification of the Functions of Government* as developed by the Organization for Economic Co-operation and Development (OECD).