Half Year Economic and Fiscal Update 2010

Hon Bill English, Minister of Finance

14 December 2010

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Statement of Responsibility

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in supplying the Minister of Finance with this Economic and Fiscal Update. The Update incorporates the fiscal and economic implications both of Government decisions and circumstances as at 22 November 2010 that were communicated to me, and of other economic and fiscal information available to the Treasury in accordance with the provisions of the Public Finance Act 1989.

John Whitehead
Secretary to the Treasury

6 December 2010

This Economic and Fiscal Update has been prepared in accordance with the Public Finance Act 1989. I accept overall responsibility for the integrity of the disclosures contained in this Update, and the consistency and completeness of the Update information in accordance with the requirements of the Public Finance Act 1989.

To enable the Treasury to prepare this Update, I have ensured that the Secretary to the Treasury has been advised of all Government decisions and other circumstances as at 22 November 2010 of which I was aware and that had material economic or fiscal implications.

Hon Bill English
Minister of Finance

6 December 2010

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Economic and Fiscal Update

Overview

Economic outlook

Growth has been weaker than forecast at Budget and activity is anticipated to have lifted only gradually over the second half of 2010. The economic recovery is expected to continue to be gradual, with growth weighed down by subdued domestic demand. Temporary factors and events are expected to lift growth to 3.4% in the March 2012 year, but the current expansion is forecast to be weaker than recent recoveries, with growth expected to be slightly under 3% beyond 2012.

The outlook is characterised by muted growth in private consumption as households are expected to remain cautious in their spending and investment decisions. Business investment is forecast to increase from current levels, boosted by the earthquake recovery and a degree of catch-up by firms. Even so, the forecast recovery is weaker than what would typically have been expected following the sharp contraction that occurred during the recent recession. Government spending is also expected to be restrained, reflecting difficult fiscal circumstances.

Goods exports have been stronger than forecast at Budget 2010, reflecting increased demand for commodities such as dairy and meat. Strong demand has also been reflected in elevated prices for these goods. While this helps to partially offset the weaker outlook for domestic demand than at Budget 2010, the export response is expected to be gradual, constrained by the high exchange rate and the pace at which commodity production can increase. As a result, economic growth is forecast to continue, but at a slower rate than anticipated earlier this year.

The current account deficit is expected to widen as import demand increases and rising firm profitability sees greater income accruing to overseas owners of New Zealand firms. However, the current account deficit is not expected to widen to the same degree as in Budget 2010, contributing to a lower level of external indebtedness than at Budget 2010.

Slightly weaker real activity and lower prices for consumer goods and services than anticipated earlier in the year contribute to nominal Gross Domestic Product (GDP) being lower over the coming five years than was expected at Budget 2010.

Short-term uncertainties include the impact of the Canterbury earthquake, adverse weather conditions as well as the recently implemented tax reforms. In such an environment, households and businesses may exercise considerably more caution than is anticipated in the main forecasts.

The global economy remains a major source of uncertainty and risk. The recovery from the global financial crisis (GFC) remains fragile, with the current turmoil in Europe being one source of downside risk. On the other hand, New Zealand's exposure to fast-growing developing markets and the Australian economy means that the risks associated with developments in our trading partners are not all negative. These risks in relation to the international outlook are explored as alternative scenarios.

Fiscal outlook

The fiscal position has weakened significantly since 2008, with tax revenues falling as the economy contracted and income tax cuts taking effect. Core Crown expenditure has increased primarily owing to past policy decisions; for example, KiwiSaver and Working for Families, and the indexation of benefits. Operating deficits continue to widen in the current year reflecting one-off expenditure such as that associated with the Canterbury earthquake and the Weathertight homes scheme, as well as weaker tax growth stemming from the slower economic recovery. An operating deficit (before gains and losses) of 5.5% of GDP is expected in the current fiscal year.

The deficit then narrows as the economy recovers and slower growth in expenditure is expected. The operating balance (before gains and losses) is forecast to break even in the June 2015 year, with the first surplus of note projected for the June 2016 year.

A sustained period of cash deficits is expected, with net debt forecast to double from 14.1% of GDP in June 2010 to 28.5% of GDP by June 2015. Net debt is then projected to return to the Government's long-run target of 20% of GDP in June 2022, in line with Budget 2010 projections.

Table 1.1 – Summary of the Treasury's economic and fiscal forecasts

	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Economic (March years, %)						
Economic growth[1]	-0.4	2.2	3.4	2.9	2.7	2.7
Consumer price inflation[2]	2.0	4.5	2.9	2.6	2.2	2.0
Unemployment rate[3]	6.0	6.1	5.2	4.9	4.6	4.5
Fiscal (June years, % of GDP)						
Operating balance[4]	-3.3	-5.5	-2.8	-1.9	-0.6	0.0
Net debt[5]	14.1	20.8	24.2	26.5	27.8	28.5
Net worth[6]	50.2	42.4	38.3	35.3	34.0	33.6

Notes:
1 Real production GDP, annual average percentage change
2 Consumers Price Index (CPI), annual percentage change
3 Percent of labour force, March quarter, seasonally adjusted
4 Total Crown operating balance before gains and losses
5 Net core Crown debt excluding the New Zealand Superannuation Fund and advances
6 Total Crown net worth

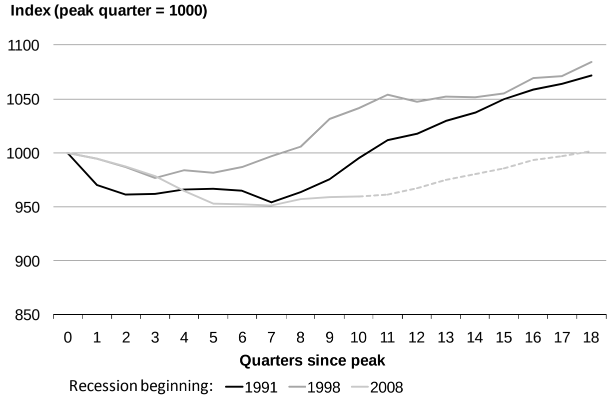
Sources: Statistics New Zealand, the Treasury

Main forecasts

The economic expansion is expected to be more gradual compared to previous upturns…

The New Zealand economy contracted over 2008 and early 2009, with output falling 3.5% from peak to trough. While the economy has been recovering since June 2009, GDP remains 1.5% below the pre-recession level. The fall in output per person was even larger at 4.9% and per capita output is not expected to return to its pre-recessionary peak until June 2012, significantly later than in the two previous recessions (Figure 1.1).

Figure 1.1 – Real production GDP per capita

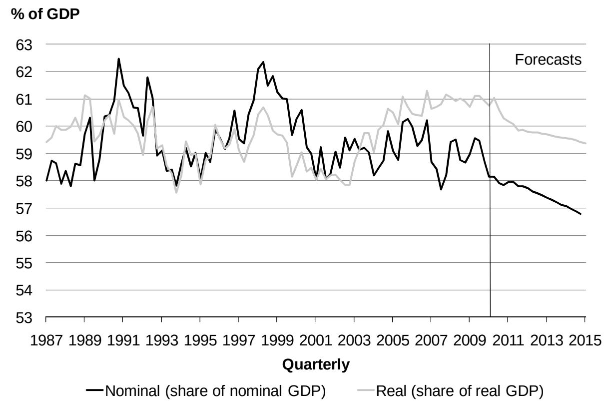


Sources: Statistics New Zealand, the Treasury

…characterised by modest household spending…

Household spending is expected to move in line with incomes, with real growth averaging just 2.4% per year and both real and nominal measures declining as a share of the economy (Figure 1.2). The outlook is forecast to be subdued when contrasted with spending last decade, some of which was financed through increased borrowing. High demand for imported goods and services, coupled with increased debt-servicing costs on a large stock of debt, saw the current account deficit lift to reach nearly 9% of GDP at the end of 2008, a manifestation of imbalances in the economy.

Figure 1.2 – Private consumption



Sources: Statistics New Zealand, the Treasury

…with less reliance on borrowing…

Household credit growth has eased considerably since the onset of the 2008/09 recession and is expected to remain weak as borrowers continue to be averse to taking on more debt. While nominal house prices have fallen 5% since their peak at the end of 2007, they remain elevated relative to disposable income. House prices are expected to increase only gradually over the next five years, while falling in real terms through to 2013 as inflation exceeds nominal house price growth. With housing accounting for the majority of household wealth, borrowers will remain reticent about funding consumption out of wealth.

…and a stronger relationship with incomes

As household wealth is expected to provide little support, developments in the labour market become the key driver of private consumption over the medium term. With changes in the job market lagging economic developments, the continued economic recovery is anticipated to translate into modest employment growth, with one-off factors, including the Rugby World Cup, driving stronger growth over the 2011 calendar year. Wage growth appears to have troughed and is expected to lift, supporting consumer spending, although rising inflation and interest rates will provide significant offsets.

Imports of goods and services are expected to rise in coming years, in line with the recovery in domestic demand, and are boosted significantly in the March 2012 year from the purchase of goods and materials owing to the rebuild following the Canterbury earthquake. A forecast depreciation of the New Zealand dollar is expected to limit import demand, particularly from the March 2012 year, as imported goods become more expensive.

Residential investment lifts owing to earthquake recovery and population growth

Residential investment is forecast to lift strongly in the March 2011 and 2012 years, with some of the increase accounted for by the rebuild following the Canterbury earthquake (see the box on the impacts of the earthquake on pages 22 and 23). Despite a theme of household consolidation and increasing interest rates, population growth and catch-up from recent low rates of investment support housing investment over the medium term.

Goods and Services Tax (GST) is collected on many of the components of consumption, and residential investment. A more subdued household sector than expected earlier in the year contributes to slower GST revenue growth relative to Budget 2010. However, the 1 October lift in the GST rate from 12.5% to 15.0% contributes to the amount of GST collected increasing sharply from its 2010 level.

Businesses have been deleveraging…

Business borrowing from banks has contracted sharply in recent times, with Reserve Bank of New Zealand (RBNZ) data showing a decline of $5 billion (6.6%) in the level of business credit in October 2010 compared with a year earlier. The decline in business borrowing is likely driven by a combination of some businesses strengthening their balance sheets by paying off debt, others postponing or cancelling investment in plant and machinery in response to uncertainty around the strength of the economic recovery, and a degree of conservatism among lenders. Some of the fall in business credit can also be put down to large corporates obtaining alternative funding by accessing capital markets.

…and are expected to remain cautious as the recovery progresses

Market investment experienced large falls during the recent recession, falling 22% between June 2008 and March 2010. Market investment is expected to pick up in the near term, driven by post-earthquake activity, a high exchange rate keeping prices low, improved profitability and necessary replacement investment following deferral over the past two years. Despite the boost to construction following earthquake-related repairs, market investment growth remains weaker than typically expected following such a large fall.

Table 1.2 – Economic forecasts[1]

(Annual average % change, March years)	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Private consumption	0.6	2.0	2.2	2.5	2.5	2.5
Public consumption	1.1	2.2	0.8	0.7	0.8	1.0
Total consumption	**0.7**	**2.0**	**1.9**	**2.1**	**2.1**	**2.2**
Residential investment	-11.5	12.2	29.2	7.9	3.6	0.7
Non-market investment	8.3	-11.2	-3.6	3.8	4.6	4.1
Market investment	-11.4	6.3	12.3	5.1	3.1	3.4
Total investment	**-9.7**	**7.0**	**16.0**	**6.1**	**3.6**	**3.2**
Stock change[2]	-1.9	0.6	0.7	0.5	0.1	0.0
Gross national expenditure	**-3.3**	**3.2**	**5.9**	**3.6**	**2.6**	**2.4**
Exports	3.2	1.8	4.5	3.0	2.8	2.9
Imports	-9.5	6.0	10.5	5.0	2.4	2.0
GDP (expenditure measure)	**0.5**	**2.2**	**3.9**	**2.9**	**2.7**	**2.7**
GDP (production measure)	**-0.4**	**2.2**	**3.4**	**2.9**	**2.7**	**2.7**
Real GDP per capita	-1.6	1.1	2.4	2.0	1.8	1.8
Nominal GDP (expenditure basis)	1.7	6.4	5.7	5.5	5.2	4.7
GDP deflator	1.3	4.1	1.7	2.5	2.4	1.9
Output gap (% deviation, March qtr)[3]	-1.2	-0.4	-0.2	-0.5	-0.5	-0.3
Employment	-1.3	1.3	1.7	1.8	1.7	1.5
Unemployment[4]	6.0	6.1	5.2	4.9	4.6	4.5
Nominal wages[5]	2.2	2.9	3.6	4.2	4.1	3.8
CPI inflation[6]	2.0	4.5	2.9	2.6	2.2	2.0
Merchandise terms of trade[7]	-6.3	7.0	-2.7	1.8	1.9	1.3
Current account balance						
- $billion	-4.5	-3.9	-10.1	-15.1	-15.3	-14.2
- % of GDP	-2.4	-2.0	-4.8	-6.8	-6.6	-5.8
Net international investment position						
- $billion	-161.0	-166.4	-177.4	-192.5	-207.2	-221.3
- % of GDP	-85.9	-83.5	-84.2	-86.6	-88.6	-90.4
TWI[8]	65.3	68.7	63.1	59.1	55.6	53.0
90-day bank bill rate[8]	2.7	3.3	4.5	5.0	5.0	5.0
10-year bond rate[8]	5.9	5.2	5.3	5.4	5.4	5.5

Notes:
1 Forecasts finalised 5 November 2010
2 Contribution to GDP growth
3 Estimated as the percentage point difference between real GDP and potential GDP
4 Household Labour Force Survey, percent of the labour force, March quarter, seasonally adjusted
5 Quarterly Employment Survey, average ordinary-time hourly earnings, annual percentage change
6 Annual percentage change
7 SNA basis, annual average percentage change
8 Average for the March quarter

A longer time series for these variables is provided on page 124.

Sources: Statistics New Zealand, RBNZ, the Treasury

Economic and fiscal impacts of the Canterbury earthquake

Damage from the Canterbury earthquake and the subsequent recovery in activity affect the economic and fiscal outlook. These effects are summarised below.

Damage assumptions

Exact damage levels remain unknown but influence the amount of repair and replacement activity that will occur as well as influencing costs to the Government. The economic forecasts assume $5 billion worth of damage across residential properties and contents, commercial buildings and assets, and infrastructure.[1]

Economic impacts

The earthquake is expected to have reduced economic activity by around 0.4% in the September quarter relative to what it would have been in the absence of the earthquake. Not all indicators of GDP will pick up this impact and therefore the forecasts incorporate a 0.2% adverse effect.

The amount of recovery activity is related to the damage estimates. These have been adjusted to allow a combination of non-replacement and that some of the recovery activity will crowd out investment that would have occurred in the absence of the earthquake.

Relative to a situation in which the earthquake had not occurred, the main economic impacts are that real GDP growth is 0.4 percentage points higher as a result of earthquake recovery activity over the March 2012 year. This additional growth will be concentrated in residential and other investment, partly offset by higher imports. Growth is then slightly lower in the next three years. This is because, while earthquake recovery activity continues to occur, it is not as large as in the March 2012 year. Overall, the level of activity remains higher than it would have been in the absence of the earthquake through to 2015. Employment is boosted by the higher activity, resulting in the unemployment rate in the March quarter of 2012 being around 0.3 percentage points lower than it would have been in the absence of earthquake-related recovery activity. The current account deficit will be reduced in the March 2011 year as a result of reinsurance inflows, while higher imports, to support rebuilding, will widen the deficit relative to what it would have been in the absence of the earthquake over the next few years.

Fiscal impacts

The tax forecasts included in the Half Year Economic and Fiscal Update (HYEFU) are based on an economic outlook that includes the effect of the earthquake on economic activity and therefore incomes and expenditure. The Government will face earthquake-related costs in the following areas:

Residential property

The Earthquake Commission (EQC) has reinsurance for its costs above $1.5 billion, up to $4 billion. The damage assumption for residential property is less than $4 billion, so EQC's net costs are forecast to be $1.5 billion. This has increased the 2010/11 forecast total Crown operating deficit by $1.5 billion, but has not affected core Crown net debt because EQC's

1 The $5 billion assumption contained in these forecasts updates the earlier estimate provided in http://www.treasury.govt.nz/economy/reports/econbrief-eice-10sep10.pdf This amount is an estimate of the total cost, of which government costs are only a part.

assets and liabilities are not part of the core Crown. Although there is no impact on net debt, the New Zealand Debt Management Office (NZDMO) has incorporated the expected funding implications arising from EQC's redemption of government securities into the Government's debt programme.

EQC's reinsurance covers any damage caused by aftershocks up to 30 days after the original event. While aftershocks have continued after this period, the additional damage is not expected to have been significant and no provision for this has been included in the fiscal forecasts.

Local authorities

Under current Civil Defence Emergency Management policy, local authorities are eligible for government funding of 60% of the costs of repairing essential infrastructure. These include water, stormwater and sewerage facilities and river management systems where there is major community disruption or continuing risk to life. However, no provision for these costs has been included in the fiscal forecasts because a reliable estimate of the amount will not be available until a review of underground systems (currently underway) is completed.

The Government's contribution to repairing local roads is determined under a different arrangement through the National Land Transport Programme (NLTP). The current estimate of total damage is $110 million, with the Government's share estimated at $66 million, spread over three years. It is expected that the Government will absorb these costs through the NLTP by reprioritising projects, meaning the costs are already included in these forecasts. However, any future emergency events could affect this – see the Fiscal Risks chapter.

Government-owned assets

The cost of repairing state highways is not expected to be significant and will be absorbed by reprioritising projects. Costs associated with repairing other government infrastructure, including schools, housing and health facility assets, are largely covered by insurance and no additional provision for these costs has been factored into these forecasts.

Additional assistance

The Government has provided other assistance for the community and the cost of these initiatives is estimated to be less than $100 million.[2] This assistance has been funded within the existing operating allowance, thereby decreasing the amount of new funding available for other projects.

Fiscal uncertainty

The overall cost faced by the Government remains uncertain as there are still some costs that the Government has not yet committed to, or that cannot yet be reliably measured. When such costs are committed to, or when they can be reliably measured, they will be recorded in the Crown's financial statements and forecasts. Recording these costs is likely to have an adverse impact on the Crown's operating balance and net debt position. However, given that the amount of residential property damage appears unlikely to exceed $4 billion, the most significant cost, EQC's $1.5 billion net cost, is captured in these forecasts, as are the costs directly related to Government-owned assets and the additional assistance provided by the Government.

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2 For example wage subsidies, trauma counselling and restoration of historic buildings.

Growing profits to boost business tax but past losses will dampen tax growth

Recent tax outturns and talks with firms around New Zealand point to weaker business profits than assumed at Budget 2010. Provisional tax payments have also been lower than expected earlier in the year, as economic conditions have been softer than anticipated by corporates and other businesses.

Tax losses accumulated during the recent recession may now be playing a part in restraining business income tax growth. Based on currently-available data, gross losses incurred by all companies reached more than $18 billion in the 2009 tax year, an increase of more than 30% on the previous year. This pushed the stock of tax losses up to about twice its level after the recession of the late 1990s. These losses will be progressively offset against profits in future tax years, thereby reducing business income tax revenue. The forecasts include an assumption that loss usage will be at an elevated level for the next few years, reducing business income tax revenue by around $350 million each year, compared to what would have been the case in the absence of the recent loss build-up. The level of loss utilisation is anticipated to fall back to a more normal level in the June 2015 year.

These factors result in forecasts for total business tax to increase from $10.3 billion in the June 2011 year to $13.4 billion in the June 2015 year, although over the four years to June 2014 business income tax is forecast to be a cumulative $2.6 billion lower than forecast at Budget 2010.

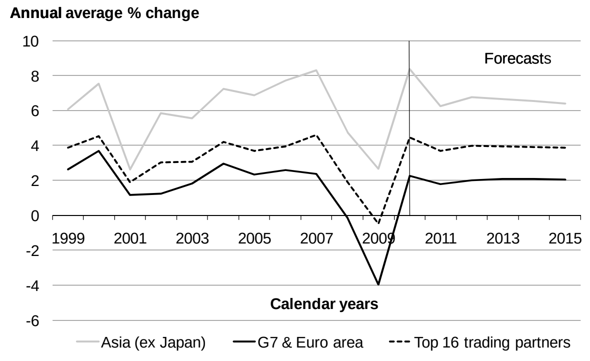
Government spending to account for a smaller share of the economy

As was the case at Budget 2010, government consumption is expected to continue to play less of a role in the economy, based on lower levels of new spending than occurred over the middle of this decade. The operating allowance for new spending adds $1.12 billion to government expenses in the June 2012 year, and is forecast to grow at 2% per annum thereafter. This represents significantly slower growth than occurred over the 2004 to 2008 period when new operating spending (excluding revenue initiatives) ranged between $2 billion and $3.5 billion per annum.

Developments in Asia are increasingly important for export growth

New Zealand is expected to continue to benefit from strong growth in emerging Asia, especially China, which expanded rapidly over the first three quarters of 2010. Although growth is expected to ease in the near term, the region is set to continue to outperform advanced economies. The economies of New Zealand's top 16 trading partners are assumed to grow by 4.5% in 2010, before easing back to just under 4% on average through to 2015 (Figure 1.3).

Figure 1.3 – World growth rate comparisons



Sources: International Monetary Fund (IMF), the Treasury

Strength in Asia has also had significant benefits for our largest single trading partner, with Australia being the strongest performing advanced economy over the past two years. While the outlook for other advanced economies is less optimistic, the weight of New Zealand's trading partners (based on export shares) is expected to continue to shift towards Asia, providing fundamental support for goods and services exports over the medium term (see the box on page 34 on New Zealand's economic and fiscal outlook in an international context).

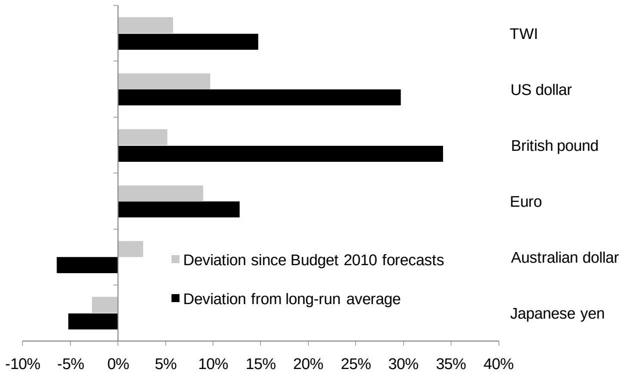
Higher demand is putting upward pressure on prices for our key commodities…

The value of exported goods increased over the first half of 2010, aided by the ongoing recovery in China and Australia. Higher demand has led to a broad-based lift in prices for New Zealand's main commodities, with the ANZ commodity price index at a record high in world price terms in November. High commodity prices are positive overall for New Zealand and help drive the merchandise terms of trade. It is anticipated that the terms of trade will remain elevated over the medium term, as demand for soft commodity goods grows, in line with developments in emerging Asia, particularly China, which include strong income growth and urbanisation.

…but the elevated exchange rate is limiting exports in other industries

Past recoveries have been characterised by a low exchange rate providing support for the export sector. Although the Trade Weighted Index (TWI) fell sharply through late 2008 and early 2009, it bounced back strongly as the outlook for the global economy improved over 2009 and is currently around the same level as it was prior to the recession and high by historical standards (Figure 1.4). Although strong commodity prices are providing a buffer and the Rugby World Cup is expected to boost services exports next year, the level of the exchange rate is limiting the contribution of exports to the economic recovery. The exchange rate is forecast to remain elevated in the near term, reflecting current market forces, before falling owing to fundamentals, such as New Zealand's high level of international indebtedness and a recovering global economy.

Figure 1.4 – TWI and bilateral exchange rates



Sources: RBNZ, the Treasury

Note: The long-run average applies from the March 1999 to September 2010 quarters for the Euro and the 20 years to September 2010 for all other rates. Budget 2010 forecasts finalised 16 April 2010.

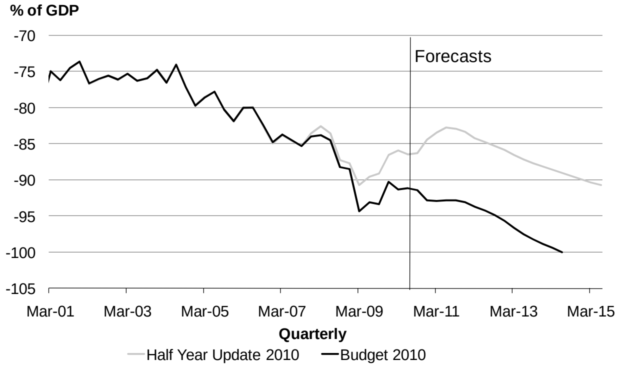
Annual current account deficit to widen, but not to previous levels

Several factors led to the annual current account deficit falling sharply earlier this year: exports suffered less of a fall than imports during the recession; low interest rates led to a fall in net interest payments offshore; and net profits accruing to overseas-owned firms declined. The latter partly arose from the structured finance cases brought against the major banks by the Commissioner of Inland Revenue.

Earthquake-related reinsurance inflows are expected to help drive the current account deficit below 2% of GDP in 2011, before the deficit peaks at 6.8% of GDP in 2013 as interest payments and profits accruing to overseas-owned firms lift in line with rising interest rates and the economic recovery respectively. The annual current account deficit falls to 5.8% of GDP by March 2015, as the falling exchange rate dampens import growth, while export growth remains steady. Compared with Budget 2010, the current account deficit is smaller throughout the forecasts, and it peaks earlier and lower, reflecting a higher degree of household consolidation.

In these forecasts, net international liabilities fall as a proportion of GDP in the near term. However, current account deficits are still expected to grow more quickly than the nominal economy beyond 2011, lifting net international liabilities to just over 90% of GDP by 2015. This is still significantly lower than what was expected at Budget 2010 (Figure 1.5). Data revisions play a role in this, along with smaller current account deficits, discussed above.

Figure 1.5 – Net international investment position



Sources: Statistics New Zealand, the Treasury

Economic activity is forecast to remain below potential over the next five years…

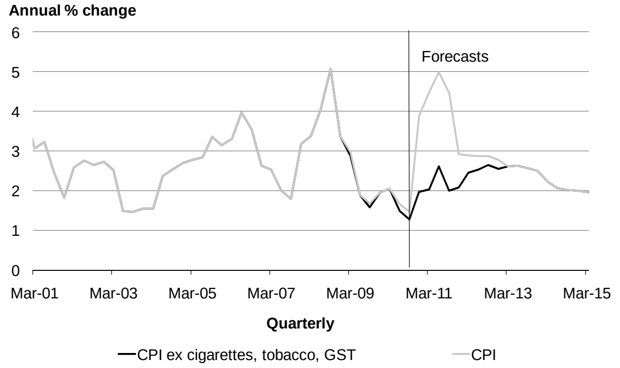
Potential output is the highest level of output that can be sustained without generating excess inflation over the medium term and is a function of the capital stock, labour inputs and productivity. The expected recovery in business investment, continued population growth, together with labour productivity, which is forecast to grow at average levels of around 1.5% over the medium term, contribute to potential output growing on average by 2.5% per annum. Growth in potential output is estimated to have eased back from what was expected prior to the 2008/09 recession, largely accounted for by a marked fall in capital investment over the past two years, and partly owing to a reassessment of the level of potential output before the recession. Over the next five years, actual output growth is expected to exceed growth in potential output. Consequently, the gap between the two measures narrows gradually and is approximately closed by 2015.

…keeping a lid on underlying inflation pressures

Given the negative output gap, underlying non-tradables inflation (excluding the effects of government policy) remains well contained as policy changes are assumed not to have lifted inflation expectations materially. Nevertheless, with spare capacity in the economy gradually diminishing, interest rates rise gradually from mid-2011 to achieve an inflation track that returns to the middle of the 1% to 3% policy target band during 2014. Lower-than-average non-tradables inflation helps offset a slightly higher track for tradables inflation resulting from the falling exchange rate.

Increases in GST, other government charges and excises should see the headline rate of annual inflation spike to 5% in June 2011 (Figure 1.6). The significant lifts in cigarette and tobacco excise rates have reduced, and will continue to reduce, the amount of product purchased. As a result, the impact on the typical consumer of higher prices is likely to be lower than that implied by increases in the CPI, which uses fixed weights.

Figure 1.6 – CPI and CPI ex cigarettes, tobacco, GST



Sources: Statistics New Zealand, the Treasury

Weaker growth in nominal GDP results in lower tax revenue than at Budget

Nominal GDP is expected to grow from $189 billion in the June 2010 year to nearly $248 billion in June 2015. However, weaker domestic prices and lower real activity relative to that forecast in Budget 2010 result in nominal GDP being a cumulative $5.2 billion lower than in Budget 2010 over the four years to June 2014. Tax revenue is expected to be a cumulative $3.2 billon lower, with weaker nominal GDP accounting for around two-thirds of the change since Budget 2010. The remainder of the difference is explained by changes in the assumed magnitude of the tax loss cycle over the next four years and re-estimation of the average effective tax rate of the various major tax types relative to their notional underlying economic drivers, such as employees' compensation, private consumption and residential investment.

Table 1.3 – Change in core Crown tax revenue forecasts

Year ended 30 June $billion	**2011 Forecast**	**2012 Forecast**	**2013 Forecast**	**2014 Forecast**	**2015 Forecast**
Core Crown tax revenue					
Budget 2010 forecasts	**53.9**	**58.0**	**61.5**	**65.4**	**-**
Forecast changes	-1.4	-0.8	-0.5	-0.5	-
Half Year Update 2010 forecasts	**52.5**	**57.2**	**61.0**	**64.9**	**68.5**
Changes in components					
Source deductions	0.2	-0.1	0.0	0.0	-
Other persons tax	-0.7	-0.2	-0.3	-0.2	-
Corporate tax	-0.4	-0.3	-0.2	-0.2	-
GST	-0.4	-0.1	0.0	-0.1	-
Other taxes	-0.1	-0.1	0.0	0.0	-

Source: The Treasury

In line with established practice, Inland Revenue has also prepared a set of tax forecasts, which is also based on the Treasury's macroeconomic forecasts. The two sets of forecasts differ 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 June 2011, mainly owing to differing views on the likely level of GST refunds and the implications of the current level of provisional tax. From June 2012 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 and reach just over 1% of total tax by June 2015.[3]

Fiscal outlook

Table 1.4 – Summary of key fiscal indicators

Year ended 30 June	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
$billion						
Core Crown revenue	56.2	58.4	63.4	67.8	72.3	76.6
Core Crown expenses	64.0	70.6	71.4	74.2	75.9	78.6
Core Crown residual cash	-9.0	-15.6	-9.7	-8.1	-6.1	-4.9
Net debt[1]	26.7	42.1	51.7	59.6	65.8	70.5
Gross debt[2]	53.6	67.4	72.6	75.1	84.5	84.3
Total Crown operating balance before gains and losses	-6.3	-11.1	-6.0	-4.4	-1.5	0.0
Total Crown operating balance	-4.5	-9.1	-4.1	-2.3	0.9	2.7
Total Crown net worth	95.0	85.8	81.7	79.5	80.4	83.1
% of GDP						
Core Crown revenue	29.7	28.9	29.7	30.1	30.5	30.9
Core Crown expenses	33.8	34.9	33.4	33.0	32.1	31.7
Core Crown residual cash	-4.8	-7.7	-4.5	-3.6	-2.6	-2.0
Net debt[1]	14.1	20.8	24.2	26.5	27.8	28.5
Gross debt[2]	28.3	33.3	34.0	33.3	35.7	34.0
Total Crown operating balance before gains and losses	-3.3	-5.5	-2.8	-1.9	-0.6	0.0
Total Crown operating balance	-2.4	-4.5	-1.9	-1.0	0.4	1.1
Net worth	50.2	42.4	38.3	35.3	34.0	33.6

Notes: 1 Net core Crown debt excluding the New Zealand Superannuation Fund and advances

2 Gross sovereign-issued debt excluding Reserve Bank bills and settlement cash

A glossary and longer time series for these and other indicators are provided on page123

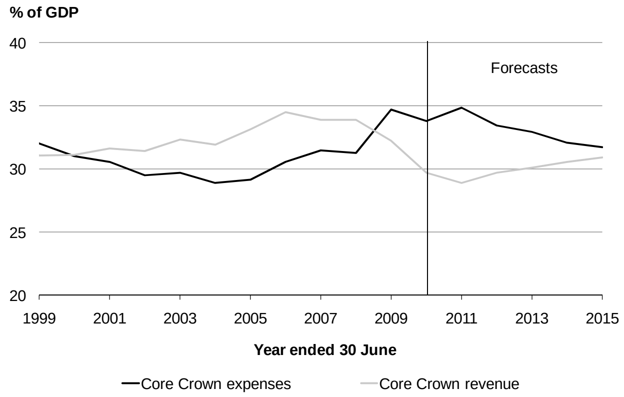
Source: The Treasury

Core Crown revenue grows slowly as taxes respond to the subdued recovery…

Core Crown revenue is forecast to increase from $56.2 billion in the June 2010 year (29.7% of GDP) to $76.6 billion in the June 2015 year (30.9% of GDP). Higher tax revenue is expected to be the main source of growth, owing to:

- growth in nominal GDP
- fiscal drag, which is the result of an individual's average tax rate increasing as their income rises
- an assumed run-down of tax losses accumulated during the recession, and

Figure 1.7 – Core Crown expenses and revenue



Source: The Treasury

3 For a detailed comparison of the Treasury and Inland Revenue forecasts of tax revenue, see *Additional Information* on the Treasury website.

- forecast deposit interest rate rises and growth in the amount of money on deposit over the next four years lead to an expected increase in interest withholding tax.

As discussed earlier, tax revenue is expected to be a cumulative $3.2 billon lower than expected at Budget 2010. This lower tax revenue is a key driver behind more-negative operating and cash deficits compared to Budget 2010.

…and core Crown expenses increase but fall as a share of the economy

Core Crown expenses are forecast to rise from $64.0 billion in the June 2010 year (33.8% of GDP) to $78.6 billion in the June 2015 year (31.7% of GDP), which is a similar trend to the Budget 2010 forecast. Key factors behind the rising profile are increases in benefit expenses, finance costs and forecast new spending through the operating allowance.

- Benefit expenses are forecast to increase from $22.4 billion in the June 2011 year to $25.7 billion in the June 2015 year. This increase is mainly owing to the indexation of social assistance benefits, which increases expenses by around $2.1 billion, and growth in New Zealand Superannuation (NZS) recipient numbers of around 20,000 per annum, adding an extra $1.4 billion over the next four years.
- Finance costs are forecast to increase from $2.3 billion in the June 2010 year to $4.9 billion in the June 2015 year owing to the flow-on impact to debt servicing costs from recent and forecast increases in debt.
- The operating allowance for new spending adds $1.12 billion to expenses in the June 2012 year (ie, the original $1.1 billion increased by 2%). The operating allowance grows at 2% per annum thereafter, adding a further $4.8 billion by the June 2015 year.

Although expenses rise in absolute terms, as a share of the economy they decline from 2011, in part owing to a pick-up in nominal GDP, but also as a result of:

- the decision to manage within smaller operating allowances for new spending
- Emissions Trading Scheme (ETS), related expenses are expected to decline, and
- no further expenditure being expected in relation to the Weathertight homes scheme as it is a one-off expenditure item in 2011.

As a result, expenses grow more slowly than the economy and the gap between expenses and revenue as a percentage of GDP narrows considerably.

The operating balance deficit peaks in the June 2011 year…

The operating balance (before gains and losses) deficit is forecast to peak at $11.1 billion in the June 2011 year (Table 1.5). Although tax revenue is forecast to increase compared to the June 2010 year, the growth in tax revenue in 2011 is somewhat subdued owing to the slow nature of the economic recovery. The key factors driving the deterioration in the operating balance since June 2010 are:

- one-off expenditure including costs in relation to the Canterbury earthquake and the Weathertight homes scheme
- the impact of previous policy decisions such as the Budget 2010 tax package and introduction of the ETS
- increasing debt levels leading to higher debt financing costs, and
- demographic changes driving an increase in eligibility for NZS benefit payments.

Table 1.5 – Change in operating balance from 2010 to 2011

$billion	
Operating balance before gains and losses June 2010	**(6.3)**
Tax revenue	1.7
Earthquake costs	(1.5)
Weathertight homes scheme	(0.7)
Impact of Budget 2010 (including tax package)	(1.4)
ETS	(0.9)
Finance costs	(0.6)
NZS payments	(0.5)
Other changes	(0.9)
Total change	**(4.8)**
Operating balance before gains and losses June 2011	**(11.1)**

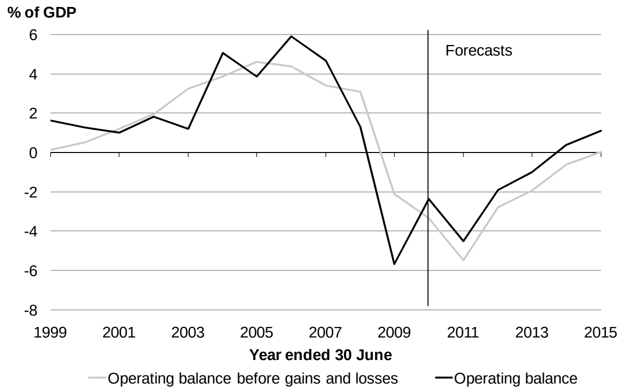
Source: The Treasury

…but breaks even in the June 2015 year

After peaking in the June 2011 year, the operating deficit narrows and is expected to return to a break-even point by June 2015 (Figure 1.8). The first surplus of note is projected to be recorded by June 2016 (see Medium-term projections on page 36).

The total Crown operating balance (including gains and losses) is also in deficit in the June 2011 year and returns to surplus by the June 2014 year. The deficit is forecast to be smaller than the operating balance before gains and losses because Crown financial institutions such as the NZS Fund are expected to make gains, on average, over the next five years.

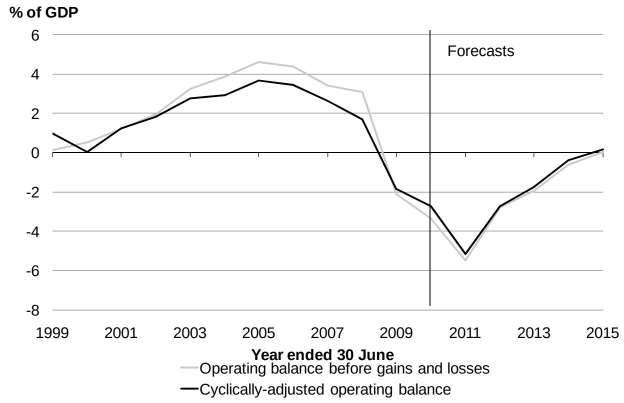
Figure 1.8 – Total Crown operating balance before gains and losses



Source: The Treasury

The underlying nature of these operating deficits can be measured by the cyclically-adjusted, or structural, operating balance, which gauges how much of the operating balance before gains and losses reflects temporary cyclical factors rather than long-lasting factors. The operating deficit is largely structural, evidenced by a cyclically-adjusted deficit of 5.2% of GDP in the June 2011 year. Beyond 2011, a gradual improvement in the structural position is expected, such that a cyclically-adjusted surplus of 0.2% of GDP is forecast in the June 2015 year.[4]

Figure 1.9 – Cyclically-adjusted operating balance

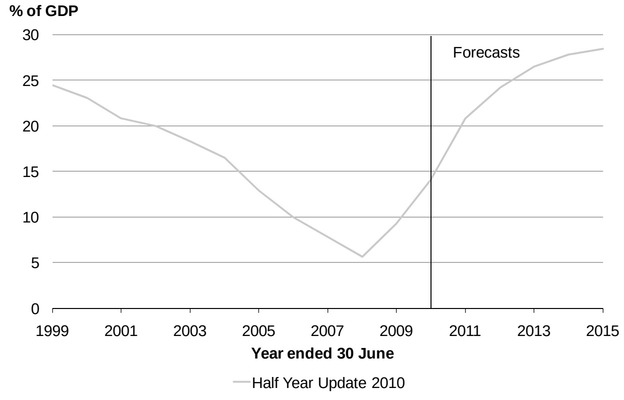


Source: The Treasury

Cash deficits are met by increased borrowing

Residual cash deficits are forecast to continue over the next five years. The trend is similar to that for operating deficits, peaking in the June 2011 year at $15.6 billion before reducing to $4.9 billion in the June 2015 year. Overall, cash deficits total $44.4 billion over the next five years.

Figure 1.10 – Net core Crown debt



Source: The Treasury

Cash deficits represent the amount the Government has to fund, either by raising debt or reducing financial assets. Cash deficits are expected to raise net core Crown debt from $26.7 billion (14.1% of GDP) in the June 2010 year to $70.5 billion (28.5% of GDP) by the June 2015 year. Net debt is forecast to peak in the June 2015 year (Figure 1.10).

4 For more details, see the *Additional Information* on the Treasury website www.treasury.govt.nz/budget/forecasts/hyefu2010

Table 1.6 – reconciliation from operating balance to residual cash and net debt

Year ending 30 June $billion	**2010 Actual**	**2011 Forecast**	**2012 Forecast**	**2013 Forecast**	**2014 Forecast**	**2015 Forecast**
Core Crown revenue	56.2	58.4	63.4	67.8	72.3	76.6
Core Crown expenses	(64.0)	(70.6)	(71.4)	(74.2)	(75.9)	(78.6)
Net surpluses/(deficits) of SOEs and CEs and core Crown gains and losses	3.3	3.1	3.9	4.1	4.5	4.7
Total Crown operating balance	**(4.5)**	**(9.1)**	**(4.1)**	**(2.3)**	**0.9**	**2.7**
Net retained surpluses of SOEs, CEs and NZSF	(3.7)	(3.1)	(3.9)	(4.1)	(4.5)	(4.7)
Non-cash items and working capital movements	3.2	2.3	2.5	2.2	1.8	1.1
Net core Crown cash flow from operations	**(5.0)**	**(9.9)**	**(5.5)**	**(4.2)**	**(1.8)**	**(0.9)**
Contribution to NZSF	(0.2)	-	-	-	-	-
Net core Crown cash flow from operations after contributions to NZSF	**(5.2)**	**(9.9)**	**(5.5)**	**(4.2)**	**(1.8)**	**(0.9)**
Purchase of physical assets	(1.8)	(2.3)	(1.8)	(1.3)	(1.6)	(1.2)
Advances and capital injections	(2.0)	(3.4)	(1.8)	(1.9)	(1.8)	(1.7)
Forecast for future new capital spending	-	-	(0.6)	(0.7)	(1.0)	(1.2)
Core Crown residual cash deficit	**(9.0)**	**(15.6)**	**(9.7)**	**(8.1)**	**(6.1)**	**(4.9)**
Opening net debt	17.1	26.7	42.1	51.7	59.6	65.8
Core Crown residual cash deficit	9.0	15.6	9.7	8.1	6.1	4.9
Other valuation changes in financial assets and financial liabilities	0.6	(0.2)	(0.1)	(0.2)	0.1	(0.2)
Closing net debt	**26.7**	**42.1**	**51.7**	**59.6**	**65.8**	**70.5**

Source: The Treasury

The expected cash shortfall is forecast to be met by additional borrowing and the utilisation of financial assets held by NZDMO. The majority of the borrowing requirement will be met through bond issuance in the New Zealand domestic market (Table 1.7). Issuance totals $59.7 billion over the next five years. After meeting debt maturities, net bond issuance totals $31.8 billion. On a comparable period basis (ie, June 2011 to June 2014), forecast net bond issuance to the market has increased by $8.5 billion relative to the Budget 2010 forecast. This reflects an increase in the forecast cash deficit and an assumption that the June 2014 borrowing programme now includes some pre-funding of the June 2015 bond maturity. It also reflects the forecast for EQC's redemption of a portion of its government securities, which affects the market issuance of bonds; however, there is no effect on the overall debt position of the Crown.

The current June 2011 government bond programme has been increased by $1 billion to $13.5 billion ($14 billion net cash proceeds). Having already completed over half of the original $12.5 billion programme following strong demand for New Zealand government bonds, the increase provides flexibility for continued regular nominal bond issuance should market conditions remain favourable and given the potential issuance of an inflation-indexed bond.

Table 1.7 – Net increase in domestic bonds

Year ended 30 June $billion	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	5-year Total
Cash proceeds from issue of domestic bonds (market)	14.0	13.9	12.8	9.3	9.8	59.7
Repayment of domestic bonds (market)	-	(8.0)	(10.0)	-	(9.9)	(27.9)
Net increase in domestic bonds (market)	14.0	5.9	2.8	9.3	(0.2)	31.8
Cash proceeds from issue of domestic bonds (non-market)	-	0.2	1.0	0.2	0.8	2.2
Repayment of domestic bonds (non-market)	-	(0.8)	(0.8)	-	(0.6)	(2.2)
Net increase in domestic bonds (non-market)	-	(0.6)	0.2	0.2	0.2	-
Net cash proceeds from bond issuance	**14.0**	**5.3**	**3.0**	**9.5**	**-**	**31.8**

Source: The Treasury

Net worth declines because of continued operating deficits, then rises by June 2015

Net worth is forecast to fall from $95 billion (50.2% of GDP) in June 2010 to $79.5 billion (35.3% of GDP) in June 2013 and then rise to $83.1 billion (33.6% of GDP) by June 2015. Although net worth declines, the Government is still expected to increase total assets from $223.4 billion in June 2010 to $256.3 billion by June 2015.

Table 1.8 – Asset movements

Year ended 30 June $billion	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	5-year Total
Opening total assets	217.2	223.4	232.3	238.6	241.0	252.7	
Increases in assets:							
Addition of property, plant and equipment[1]	6.6	8.2	7.6	7.0	6.8	6.5	36.1
- ACC reinvestment of returns	2.7	3.5	2.6	2.9	3.2	3.4	15.6
- Student loans issued	1.5	1.5	1.6	1.6	1.6	1.6	7.9
- NZSF reinvestment of returns	2.0	1.4	1.2	1.3	1.5	1.6	7.0
- Forecast for new capital spending	-	0.3	0.7	0.7	1.0	1.2	3.9
Reduction in assets:							
- Depreciation on property, plant and equipment	(3.6)	(3.8)	(4.0)	(4.1)	(4.2)	(4.4)	(20.5)
- (Reduction)/increases in NZDMO/RBNZ financial assets	(2.8)	(0.2)	(5.7)	(6.4)	3.3	(5.4)	(14.3)
Other changes in assets	(0.1)	(2.1)	2.2	(0.7)	(1.3)	(0.9)	(2.8)
Net change in assets	**6.2**	**8.9**	**6.3**	**2.4**	**11.7**	**3.6**	**32.9**
Closing total assets	**223.4**	**232.3**	**238.6**	**241.0**	**252.7**	**256.3**	

[1] Further breakdown is provided in note 14 of the forecast financial statements.

Source: The Treasury

Although total assets are expected to increase by around $32.9 billion, the overall level of capital investment is expected to be double this figure. The key areas of investment include:

- the purchase of around $36.1 billion of physical assets over the next five years, primarily in the areas of transport, energy, education, health and defence
- Accident Compensation Corporation (ACC) and NZS Fund reinvesting returns in financial assets of $15.6 billion and $7 billion respectively
- an expected issuance of student loans of $7.9 billion, and
- funding for future capital investments over the next five years of $3.9 billion.

This investment in assets will be offset by $20.5 billion of expected depreciation and an anticipated reduction in financial assets held by the RBNZ and NZDMO.

New Zealand's economic and fiscal outlook in an international context

New Zealand fared better than many developed economies following the global financial crisis (GFC), but its recovery is expected to be subdued, as in most developed economies. The GFC also had an impact on the Government's fiscal position, but less than for some countries, reflecting its stronger initial position.

Economic impact of the crisis

The New Zealand economy entered recession before the impact of the GFC as a result of a drought in the summer of 2007/08 and a tightening of monetary policy in response to increasing inflation. The economy recorded five successive quarters of economic contraction from March 2008 to March 2009, with a decline in production GDP of 3.5%. So far, New Zealand has recorded five quarters of expansion, totalling 2.1% growth, but it is not expected to regain its previous level of output until the first quarter of 2011 (Figure 1.11).

The downturn in New Zealand was relatively mild compared with other Organisation for Economic Co-operation and Development (OECD) economies, with the peak-to-trough decline ranked the seventh smallest out of 33 countries. The main reasons for this lesser impact were the soundness of the financial sector in New Zealand and the economy's dependence on soft commodity exports and close trade links with Australia and China, both of which performed strongly through the GFC. The monetary policy response in New Zealand also lessened the impact of the GFC on the economy.

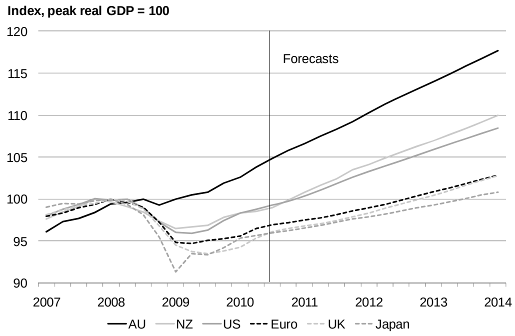
Table 1.9 – Economic growth outlook

(Calendar year, % change)	2009 Actual	2010 Estimate	2011 Forecast	2012 Forecast
New Zealand	-1.7	2.0	3.2	3.0
Australia	1.2	3.4	3.5	3.5
China	9.1	10.0	9.0	9.5
United States	-2.6	2.7	2.4	2.7
Euro Zone	-4.1	1.5	1.5	1.7
United Kingdom	-4.9	1.8	1.8	1.9
Japan	-5.2	2.6	1.2	1.4
Other Asia*	0.1	7.8	5.1	5.5
Trading partner growth	**-0.5**	**4.5**	**3.7**	**4.0**

* South Korea, Taiwan, Hong Kong, Singapore, Indonesia, Malaysia, Philippines, Indonesia and India, weighted by NZ export shares.

Sources: Statistics New Zealand, IMF, the Treasury

Figure 1.11 – Downturn and recovery



Sources: Statistics New Zealand, IMF, the Treasury

New Zealand's recovery from the downturn is expected to be gradual, chiefly because of the consolidation by households, businesses and government. This is in line with the major developed economies, apart from Australia where a robust recovery is expected given its close integration with emerging Asia, particularly China. Australia experienced only one quarter of negative growth following the GFC, supported by a strong financial sector, ample monetary and fiscal stimulus and a resumption of demand for minerals from China, which is leading to a surge in investment in the mining sector and higher terms of trade that are supporting growth in private consumption (Table 1.9).

We expect growth to slow slightly from high levels in China as steps are taken to control inflation and cool the property market. Strong growth has been led by infrastructure investment and exports. After their sharp dip immediately following the GFC as global demand for manufactured goods fell and stocks were run down, the economies of emerging Asia (ex China) recovered rapidly but are not expected to sustain that rate of growth. Nevertheless, their growth rate will remain much higher than the developed economies.

Generally, the developed economies are expected to experience long, slow recoveries because of a range of factors, some of which are more important for some than for others. We expect the rate of recovery in the United States (US) to be constrained by household consolidation, a weak labour market and further adjustment in the housing market. The financial sector is still weak and the Government must reduce its ongoing deficits some time.

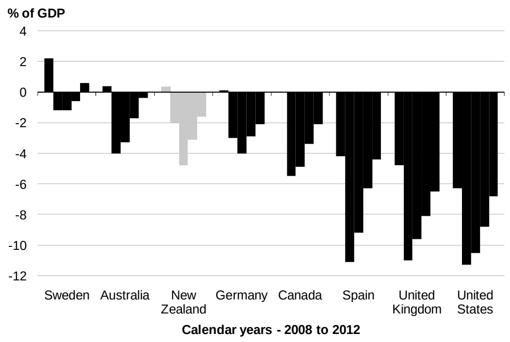
The outlook for the recovery in the Euro area and the United Kingdom (UK) is muted as the region copes with financial sector weakness, sovereign debt and the possible negative short-term effects of fiscal consolidation in the UK and some parts of the Euro area. The housing market in the UK and parts of Europe is weak and will take time to recover.

The recovery in Japan is also expected to be sluggish. Japan's economy was already in a weak position prior to the GFC and it was affected directly by the sharp contraction in emerging Asia as manufacturing was cut back and stocks were reduced. Following reasonably rapid growth in 2010, the recovery is expected to falter as domestic demand is hampered by deflation and lower external demand by the appreciation of the yen.

Comparing fiscal performance

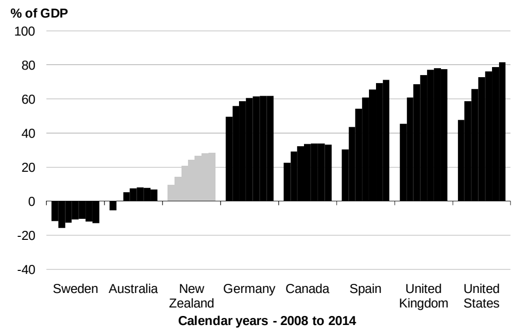
Similar to its economic performance, New Zealand's fiscal performance through the GFC was better than some but worse than the best performers. Prior to the crisis, New Zealand was one of a handful of countries running a surplus on its financial balance.[5] Reflecting the combined impact of prior policy decisions and the recession on revenues, the financial position moved into substantial deficit in the 2009 June year. This pattern was mirrored in most other developed economies (Figure 1.12).

Figure 1.12 – General government financial balance



Sources: OECD Economic Outlook 88, the Treasury

Figure 1.13 – General government net debt



Sources: IMF Fall Fiscal Monitor 2010, the Treasury

Note: New Zealand data are for the System of National Accounts (SNA) general government sector (central plus local government, excluding State Owned Enterprises (SOEs) and Local Authority Trading Enterprises (LATEs)) derived from a Generally Accepted Accounting Principles - (GAAP) based proxy indicator applied to historical Statistics New Zealand (SNZ) data and refer to years ended 31 March (30 June for net debt). The figures shown in the graphs are from the *Half-Year Update* forecasts*.* Data for other economies are general government financial balance and refer to calendar years.

New Zealand's fiscal deficit is expected to peak this year, before declining gradually over the next few years and moving into surplus in 2016 June year. Australia is expected to return to surplus a few years earlier. Some other countries, which have been more-severely affected by recession, are forecast to face a much longer period of large deficits.

5 To enable comparison across countries, New Zealand's GAAP/IFRS-based fiscal accounts need to be converted to an SNA basis. Statistics New Zealand produces historical SNA estimates for the central government and general government financial balance. Over the forecast period, high-level adjustments have been made to GAAP forecasts to convert them to a SNA basis. The SNA-based figures for New Zealand used for this comparison should therefore be regarded as indicative.

These developments are reflected in net debt movements. Although continuing to rise through to the middle of the decade, New Zealand's level of net debt is expected to remain low by the standards of many OECD economies. Net debt in the major advanced economies is expected to reach an average 90% of GDP in 2015, significantly higher than the New Zealand peak (Figure 1.13). Relative to other smaller advanced economies, New Zealand's forecast level of net debt is either comparable or slightly lower.

Medium-term projections

Projections cover the period 2016 to 2025...

This section takes the main forecasts covering the period through to June 2015 in the previous section and projects them forward to June 2025. Projections differ from forecasts in both the manner they are produced and the sense of accuracy they portray. The projections grow forward economic and fiscal variables from the forecast base, using both demographic projections and assumptions, with the latter usually based on long-term averages. Some variables require a transitional period in the early projected years to reach stable, long-term values. These assumptions are outlined on pages 45-49.

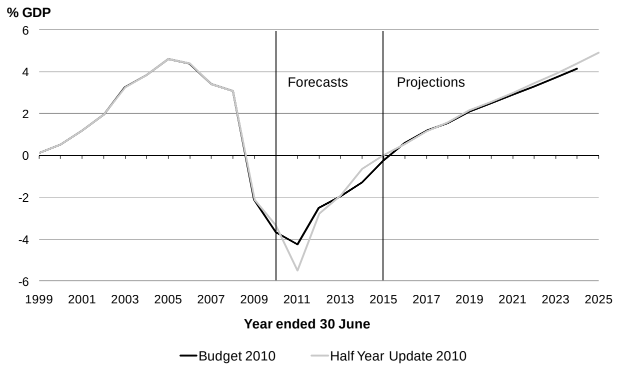
Projections are very sensitive to changes in the assumptions and changes in the forecast base. For this reason, and owing to inherent uncertainty in such medium-term projections, it is best to focus on the general trajectory over time, particularly the near term. Alternative medium-term scenarios are presented in the next section.

Labour productivity growth is projected to continue to increase before stabilising at 1.5% per annum from June 2017. Annual labour force growth declines to 0.5% in June 2020, contributing to a slowing of real GDP growth over this time. Beyond 2020, annual real GDP growth stabilises at 2% through to the end of the projection period in June 2025. With inflation expected to be in the middle of the RBNZ's 1%-3% target band, changes in nominal GDP growth are driven by real activity, with nominal GDP growth falling to around 4% from 2018 onwards.

…and show a similar track for the operating balance (before gains and losses) as expected at Budget 2010

Beyond 2015, the projected profile of the total Crown operating balance (before gains and losses) is very similar to that projected at Budget 2010, but lifts at a slightly faster pace (Figure 1.14). This is because the gap in tax revenue seen over the forecast period closes over the projected period as the economy returns to full potential. Furthermore, projected expenditure is coming off a lower base compared with Budget 2010, which helps offset lower tax revenue, especially in the initial projection

Figure 1.14 – Total Crown operating balance (before gains and losses)



Source: The Treasury

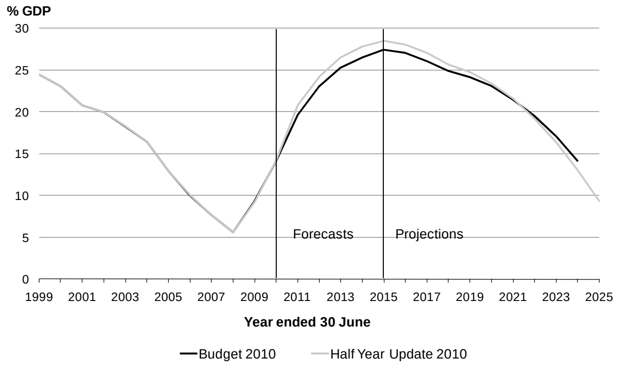
years. After breaking even in the June 2015 year, the total Crown operating balance (before gains and losses) is projected to be 0.5% of GDP in the year to June 2016 and lift gradually thereafter to reach just under 5% by 2025.

The core Crown operating balance is expected to return to surplus in 2017 and is of sufficient size for a full contribution to the NZSF in 2019, the same year as projected at Budget 2010.

Net debt declines as a proportion of GDP…

Net debt starts from a slightly higher forecast base than at Budget 2010. However, the improved operating balance track closes the gap by around the year ended June 2021 and then sees net debt drop below the Budget 2010 track. As was the case at Budget, net debt is projected to fall below 20% of GDP by 2022 (Figure 1.15).

Figure 1.15 – Net debt



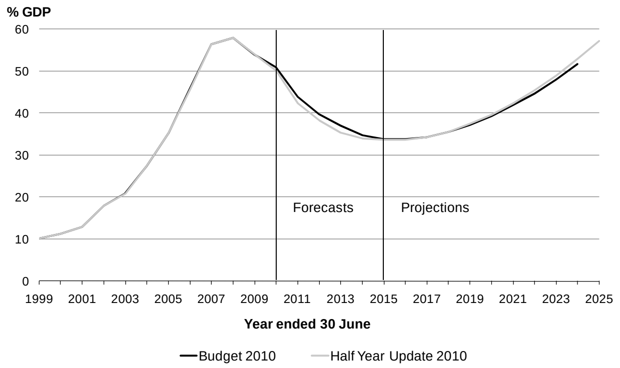
Source: The Treasury

The decline in net debt to around 20% of GDP towards the end of the projection period is in line with the Government's long-term fiscal objective. Meeting this objective would mean the Crown is better placed to absorb economic shocks. It would also put New Zealand in a better position when the long-term fiscal pressures from an ageing population and other factors begin to escalate.

…and net worth lifts in line with the improving fiscal position

Increasing operating balances over the projected years, with their consequent impact of reducing debt levels, are reflected in total net worth increasing over time. By 2025, net worth is projected to reach 57% of GDP, similar to the level it attained in 2008 before the GFC (Figure 1.16).

Figure 1.16 – Total Crown net worth



Source: The Treasury

Given the uncertainty around the HYEFU projections, and the forecasts these projections build on, the next section examines alternative scenarios that fall within the range of possible outcomes.

Risks and scenarios

There are always uncertainties and risks associated with forecasts. These can be sourced from both the international economy and domestic developments.

Global developments present both upside and downside risks…

Although most economies are now growing again after the GFC, there is considerable uncertainty about the pace and durability of the recovery in many developed economies.

One source of downside risk relates to sovereign and banking system funding problems in some European economies and associated risks of contagion. An intensification and broadening of these problems to other countries would likely have significant negative impacts on activity levels, official interest rates and capital flows, particularly in Europe, with spill-overs to the rest of the world.

Another uncertainty relates to the response of the private sector to the ending of fiscal stimulus and in some economies the switch to fiscal consolidation. Consolidation will act to dampen domestic demand in the shorter term. As a result, the pace of growth will depend on the degree of offset coming from any crowding-in of private sector investment or higher net exports.

Other risks include the pace of recovery in the US, where there is continuing weakness in the labour and housing markets, and the extent of global imbalances which could lead to an increase in trade and capital barriers. These would impair world growth and, depending on the nature of the barriers, could adversely affect New Zealand export volumes.

Risks in China and emerging Asia are tilted to higher growth as these economies continue their economic development. Although China is currently taking steps to constrain credit growth, with some consequent short-term risks to growth, ongoing infrastructure investment and the scope for private spending to expand could see higher average growth over the next five years and further boost demand for minerals and soft commodities. It is also possible that the US and European economies could grow more quickly than expected if the current headwinds to growth dissipate faster than currently expected.

Economic strength in developing countries has helped support global commodity prices and boosted New Zealand's terms of trade, which are expected to remain elevated over the next five years. Past experience, however, indicates that negative shocks to commodity prices cannot be ruled out. Disappointing growth from emerging markets would be one factor that could result in lower demand and commodity prices than in the main forecasts.

...while the impact of atypical events and the behaviour of households present domestic risks

In the domestic economy, there is uncertainty about the degree to which rebuilding from the Canterbury earthquake will boost growth, and over what period. Since the forecasts were finalised, there have been a number of adverse developments. These are the discovery of a kiwifruit disease, the disaster at Pike River coal mine and the dry conditions developing in parts of the country as a result of the La Niña weather pattern. Risks of this kind will always exist in an economy with a large natural resource base, with drought effects having potentially significant adverse impacts on output and exports. Record temperatures during November mean that the risk that drought conditions will adversely impact on economic activity is particularly high.

New Zealand households have taken initial moves towards strengthening their financial position and are much more cautious about taking on debt, but it is not clear how sustained their restraint will be. Greater restraint will lead to lower growth in the short term, but possibly more sustainable growth in the long term; less restraint would bring higher growth in the near term, but risk a sharper deleveraging and rebalancing later. Developments in the housing market will influence household behaviour, with any additional housing market weakness likely to dampen household spending levels.

Two scenarios have been developed from these risks to illustrate the uncertainty associated with the current economic outlook. The scenarios are constructed by applying relevant shocks and alternative judgements to the New Zealand Treasury Model (NZTM). They should be treated as providing a high-level representation of how the economy could differ from the main forecasts. The focus is on key economic variables, rather than the larger suite produced as part of the main forecasts.

As a result, significantly different outcomes are possible

While the main forecast represents our view of the most likely path the economy will take, the scenarios illustrate that a large range of different outcomes is possible. The upside scenario assumes a stronger outlook for China and emerging Asia flows through to the economy in the form of higher prices for commodity exports. The downside scenario represents a more severe event with larger economic and fiscal implications, but with a lower probability. In this scenario, global growth falters and New Zealand's terms of trade are adversely affected. The scenarios are extended into the projection period in the same way as the main forecasts were in the preceding section, illustrating the considerable range in fiscal outcomes that could occur.

Table 1.10 – Summary of key economic variables for main forecasts and scenarios

(Annual average % change, Year ended 31 March)	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Real GDP (production measure)						
Main forecast	**-0.4**	**2.2**	**3.4**	**2.9**	**2.7**	**2.7**
Upside scenario		2.2	3.9	3.1	2.9	2.8
Downside scenario		1.3	1.2	3.9	3.0	2.3
Merchandise terms of trade[1]						
Main forecast	**-6.3**	**7.0**	**-2.7**	**1.8**	**1.9**	**1.3**
Upside scenario		7.9	1.6	2.5	1.8	1.2
Downside scenario		6.9	-7.3	-1.0	0.3	-0.4
Unemployment rate[2]						
Main forecast	**6.0**	**6.1**	**5.2**	**4.9**	**4.6**	**4.5**
Upside scenario		6.1	5.0	4.7	4.5	4.4
Downside scenario		6.5	6.2	5.8	5.6	5.5
Nominal GDP ($billion)						
Main forecast	**187**	**199**	**211**	**222**	**234**	**245**
Upside scenario		200	215	227	239	251
Downside scenario		197	201	213	223	231

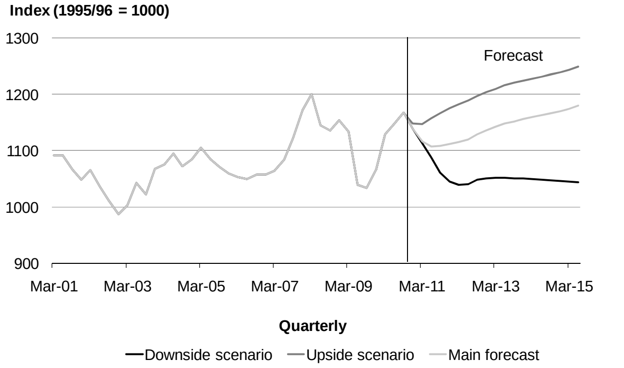
Notes: 1 SNA basis
2 March quarter, annual % change, seasonally adjusted

Upside scenario

Stronger demand for commodities lifts the terms of trade above the main track…

New Zealand is a key supplier of soft commodities to the global economy, particularly dairy products and meat. Limited global resources and long lags in production mean that changing demand manifests itself in price swings in the short term, having a significant impact on the terms of trade and the overall economy.

Figure 1.17 – SNA merchandise terms of trade



Sources: Statistics New Zealand, the Treasury

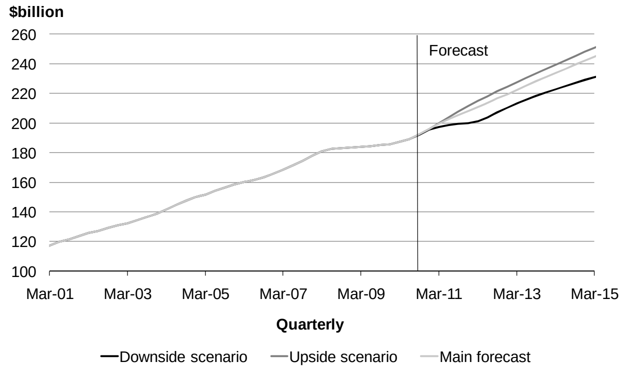
The main forecasts assume that the terms of trade ease off in the short run but remain elevated over the medium term. In the upside scenario, it is assumed that stronger demand from key trading partners (particularly China and Australia) results in higher commodity prices and a continuation of the upward trend seen in the terms of trade over the past decade (Figure 1.17).

…and benefits flow through the rest of the economy

A higher terms of trade places upward pressure on the exchange rate, which, coupled with stronger earnings, leads to increased domestic demand. Private consumption growth averages 3.1%, compared with 2.4% in the main forecasts, and residential investment also lifts, driving GST revenue higher. In line with recent trends, some of the income surprise is saved, lifting the household saving rate above that in the main forecasts over the medium term. Stronger export values relative to imports drive a lower overall profile for the current account deficit.

More robust demand creates some inflation pressure, but higher potential output owing to stronger investment, combined with a more elevated exchange rate, means the overall impact on consumer prices is relatively small, allowing official interest rates to remain broadly similar to those expected in the main forecasts.

Figure 1.18 – Annual nominal GDP



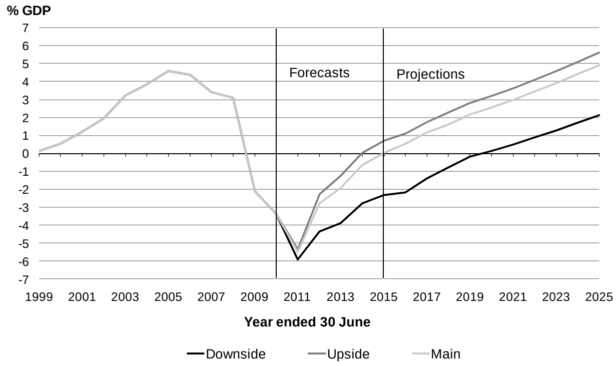
Sources: Statistics New Zealand, the Treasury

…driving higher tax revenues and a more positive fiscal position

The stronger economic outlook in this scenario lifts nominal GDP $4.2 billion (2%) higher in the March 2012 year and a cumulative $23 billion higher than the main forecasts over the 2011 to 2015 June years. Such a scenario would boost demand for labour and wages, flowing through to higher PAYE tax revenue which, together with higher corporate tax and GST, results in overall tax revenue being a cumulative $6.6 billion higher than in the main forecasts.

With expenses broadly similar to the main forecasts, higher tax revenues mean the overall fiscal outlook is stronger than envisaged in the main forecasts. The operating balance (before gains and losses) breaks even in the June 2014 year, one year earlier than in the main projections. Net debt is projected to fall below 20% of nominal GDP in the June 2020 year, two years earlier than in the main projections.

Figure 1.19 – Total Crown operating balance (before gains and losses)



Source: The Treasury

Core Crown operating surpluses (before gains and losses) are projected to be of sufficient size to trigger the resumption of contributions to the NZSF by the June 2018 year – one year earlier than in the main projections.

Downside scenario

Global growth falters and financial conditions tighten, leading to lower export demand…

The downside scenario centres on sovereign debt issues in Europe intensifying and causing financial market disruption globally. As a result, global growth prospects falter. The channels through which such an event impacts on the New Zealand economy are primarily export demand, access to credit, confidence and wealth.

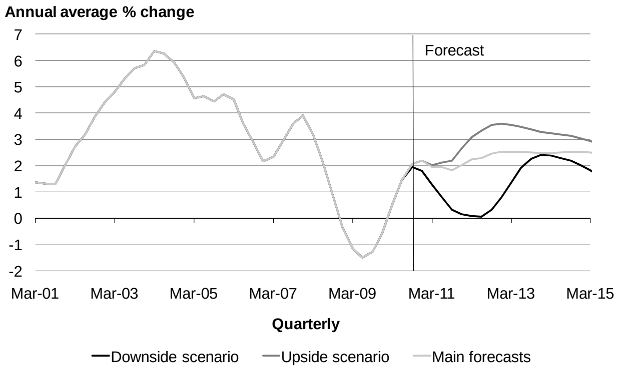
In this scenario, export demand is negatively affected, with lower commodity prices reflected in a much lower terms of trade, despite weakness in prices for some of the goods New Zealand imports (Figure 1.17 above). Although we would expect to see a significant decline in the exchange rate that would help offset lower export prices, the extent of the fall in demand means that overall export values are likely to be lower than in the main forecasts.

With financial markets experiencing renewed dislocation and risk aversion rising, capital-importing countries such as New Zealand could expect to face higher global funding costs. While official interest rates are likely to be lowered in such an event to limit the impact on retail interest rates, banks' access to funding could be more limited. The net result would be a more restricted supply of credit, at a higher price, to businesses and households. With confidence levels hit by the global situation, demand for credit also falls, resulting in weaker business and residential investment growth.

…and weaker private consumption

House prices could be expected to fall further, reflecting a lack of confidence and credit, driving household wealth lower. Lower wealth, together with a weaker labour market, results in a significantly lower profile for real private consumption (Figure 1.20)

Figure 1.20 – Real private consumption



Sources: Statistics New Zealand, the Treasury

…driving real growth lower than in the main forecasts…

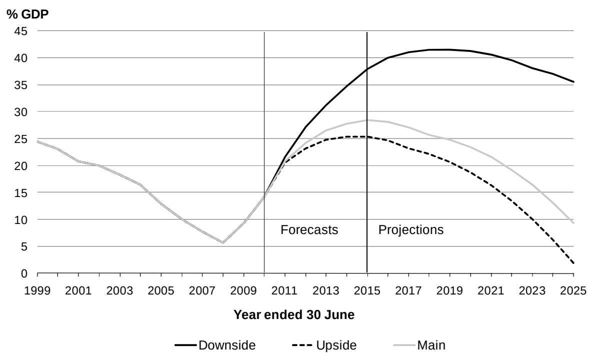
With business investment, residential investment and private consumption all weaker than in the main forecasts, the overall profile for real GDP is markedly lower than in the main forecasts.

The lower terms of trade, coupled with softer domestic prices, reflecting the weaker domestic economy, results in nominal GDP in the five years to June 2015 being around a cumulative $50 billion lower than in the main forecasts, with tax revenues expected to be nearly a cumulative $18 billion lower over the same period.

…and weakening the fiscal outlook

The total Crown operating balance (before gains and losses) would still be in deficit by about 2½% of GDP in the June 2015 year, while core Crown net debt would have risen to nearly 40%. Across the 10 years of post-forecast projections there is little recovery in the nominal GDP track, relative to that arising from the main forecast. As a consequence, the tax revenue gap of the next five years is maintained, which, in turn, flows through to much-lower operating balances. With surpluses taking longer to achieve, and being smaller when they do occur, the net debt track does not begin to reduce, as a percentage of GDP, until the end of this decade. The long-term target of net debt at 20% of GDP is not attained, with the ratio falling to about 35% by the mid-2020s.

Figure 1.21 – Core Crown net debt



Source: The Treasury

It is important to note that the fiscal scenarios do not include a fiscal policy response which would be necessary if events were to evolve in a similar manner to that outlined in the downside scenario.

Fiscal sensitivities

The scenarios presented above reflect only two of a large number of possible alternative paths the economy may take. Table 1.11 provides some "rules of thumb" on the sensitivities of the fiscal position to changes in several specific economic variables. These enable an assessment of how the fiscal position could be affected should events turn out differently.

Table 1.11 – Fiscal sensitivity analysis

Year ended 30 June ($million)	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
1% lower nominal GDP growth per annum on					
Tax revenue	(520)	(1,135)	(1,810)	(2,560)	(3,370)
Revenue impact of a 1% decrease in growth of					
Wages and salaries	(230)	(470)	(750)	(1,075)	(1,450)
Taxable business profits	(100)	(235)	(385)	(540)	(710)
One percentage point lower interest rates					
Interest income[1]	(90)	(104)	(105)	(56)	(75)
Expenses[1]	(106)	(302)	(436)	(522)	(615)
Impact of interest rates on the operating balance	16	198	331	466	540

Note: 1 NZDMO holdings only

Source: The Treasury

Finalisation dates and assumptions for the forecasts and projections

Economic and fiscal forecasts – finalisation dates	
Economic forecasts	5 November
Tax revenue forecasts	12 November
Fiscal forecasts	22 November
Text finalised	7 December

Economic forecast assumptions

Tax policy – The tax reform package announced earlier in the year has a significant impact on the economy. As in Budget 2010, the economic forecasts incorporate a level of real GDP that is 0.4% higher than in the absence of the tax package by June 2014, growing to 0.9% higher in the 2016 June projection year.[6]

Several relatively minor tax policy changes, agreed to by Cabinet since the Budget 2010, have been included in the HYEFU.

6 For more information, see www.treasury.govt.nz/budget/forecasts/befu2010/009.htm

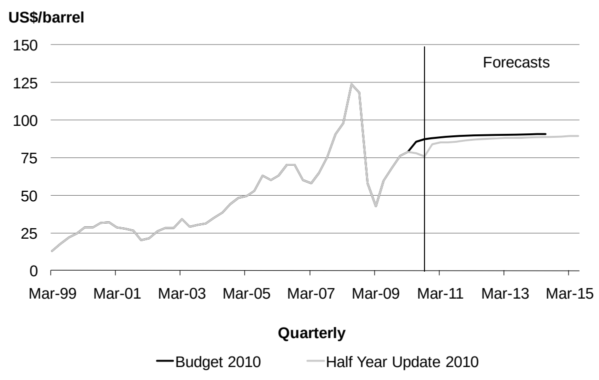
Table 1.12 – Tax policy changes included in the HYEFU tax revenue forecasts[7]

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)**

Trading partner growth – New Zealand's trading partners grew more strongly in the first half of 2010 than previously expected, especially emerging Asia and Australia. Growth is expected to ease in the second half of 2010 and in 2011 as monetary policy is tightened in the faster growing regions and renewed weakness is apparent in the developed economies as sovereign debt concerns, fiscal consolidation, deflation and weak labour and housing markets constrain growth in the Euro area, UK, Japan and the US, respectively. Trading partner growth is projected to ease from 4.5% in 2010 to 3.7% in 2011, before recovering again to 4% in 2012.

Oil prices – Based on the average futures prices for WTI oil over the month to 27 October 2010, the price of oil is assumed to rise to US$89/barrel by March 2015. The oil price assumption contained in the HYEFU is lower than assumed in Budget 2010 (Figure 1.22).

Figure 1.22 – WTI oil prices



Sources: Datastream, the Treasury

Terms of trade – The merchandise terms of trade (as measured in the SNA) are assumed to decline 3.4% through to June 2011, before rising 6.5% over the next four years. This measure of the merchandise terms of trade is influenced by both price level changes and changes in the composition of export and import volumes. For example, a shift of production towards higher priced exports will see the terms of trade rise.

Monetary conditions – The TWI is expected to be 68.5 in the December 2010 quarter and is assumed to be marginally higher (68.7) in March 2011. The TWI is then assumed to fall to 53 by March 2015. Ninety-day interest rates are expected to remain broadly steady before lifting to 3.7% in the June 2011 quarter and then steadily rise to 5% by late 2012.

External migration – The net inflow of permanent and long-term migrants is assumed to fall from 13,600 in the year to September 2010 to 8,900 in the year to March 2011 before lifting to 10,000 per annum by early 2012.

Other policy – The ETS had an immediate impact on the price of liquid fossil fuels from 1 July 2010 but the impact on prices was offset by declines in the New Zealand dollar price of fuel over this time. While stationary energy was included in the scheme on the same date, the impact on consumer prices has been more gradual than assumed at Budget, reflecting delayed pass-through from retailers, with the full impact now expected to occur by the middle of 2011.

7 For a fuller description of the changes see www.treasury.govt.nz/budget/forecasts/hyefu2010

Fiscal forecast assumptions

The fiscal forecasts are based on assumptions and judgements developed from the best information available on 22 November 2010, when the forecasts were finalised. Actual events are likely to differ from some of these assumptions and judgements. Furthermore, uncertainty around the forecast assumptions and judgements increases over the forecast period.

The fiscal forecasts are prepared on the basis of underlying economic forecasts. Such forecasts are critical for determining revenue and expense estimates. For example:

- a nominal GDP forecast is needed in order to forecast tax revenue
- a forecast of CPI inflation is needed because social assistance benefits are generally indexed to inflation
- an unemployment forecast is needed to underpin the projected number of unemployment benefit recipients, and
- forecasts of interest rates are needed to forecast finance costs, interest income and discount rates.

A summary of the key economic forecasts that are particularly relevant to the fiscal forecasts is provided in Table 1.13 below on a June year basis, to align with the Government's balance date.

Table 1.13 – Summary of key economic variables used in fiscal forecasts (June year basis)

	2011		2012	2013	2014	2015
Year ended 30 June	**Budget Forecasts**	**HYEFU Forecasts**	**HYEFU Forecasts**	**HYEFU Forecasts**	**HYEFU Forecasts**	**HYEFU Forecasts**
Real GDP (P) (ann avg % chg)	3.3	2.5	3.4	2.8	2.8	2.7
Nominal GDP (E) ($b)	204	202	213	225	237	248
CPI (annual avg % change)	4.8	3.7	3.3	2.7	2.3	2.0
Govt 10-year bonds (ann avg %)	5.9	5.3	5.3	5.3	5.4	5.5
5-year bonds (ann avg %)	5.5	4.6	5.0	5.3	5.3	5.4
90-day bill rate (ann avg %)	3.9	3.3	4.5	5.0	5.0	5.0
Unemployment rate (HLFS basis, ann avg %)	6.4	6.2	5.4	4.9	4.6	4.5
Total employment (ann avg % change)	0.9	1.8	1.6	1.8	1.6	1.5
Current account (% of GDP)	-5.0	-1.5	-6.0	-6.8	-6.3	-5.6

Source: The Treasury

Projection assumptions

The projection period begins in the June 2016 year. The post-forecast fiscal projections are based on the long-run technical and policy assumptions outlined below. The projection model can be found on the Treasury website.

Table 1.14 – Summary of economic and demographic assumptions[1]

Year ended 30 June	2011	2012	2013	2014	2015	2016	2017	2018	2019	…	2025
	Forecasts					Projections					
Labour force	1.4	0.8	1.3	1.3	1.3	1.0	1.0	0.6	0.6	...	0.5
Unemployment rate[2]	6.2	5.4	4.9	4.6	4.5	4.5	4.5	4.5	4.5	...	4.5
Employment	1.8	1.6	1.8	1.6	1.5	1.0	1.0	0.6	0.6	...	0.5
Labour productivity[3]	-0.1	1.8	1.0	1.1	1.2	1.4	1.5	1.5	1.5	...	1.5
Real GDP	2.5	3.4	2.8	2.8	2.7	2.7	2.6	2.1	2.1	...	2.0
Consumer price index (annual % change)	5.0	2.9	2.6	2.1	2.0	2.0	2.0	2.0	2.0	...	2.0
Government 5-year bonds (ann avg %)	4.6	5.0	5.3	5.3	5.4	5.6	5.8	6.0	6.0	...	6.0
Average hourly wage	2.0	3.6	4.1	4.2	3.9	3.4	3.5	3.5	3.5	...	3.5

Notes: 1 Annual average % change unless otherwise stated

2 HLFS basis, annual average

3 Hours worked measure

Source: The Treasury

Given the difficulty in projecting cycles and shocks beyond the forecast horizon, the projections use trend or long-run averages for the growth rates or levels of key economic variables. In the HYEFU, some of these variables are not predicted to return to their trend levels within the five-year forecast period because of the persistent effects of the recession. However, the variables are assumed to return to these trend rates or levels in the first few years of the projections. These variables are: age-and-gender group labour force participation rates; average hours worked; government 5-year bond rate; and labour productivity growth. For the labour force participation rate, it is assumed that the labour force will fully recover from any cyclical impact by 2016/17, which in turn sees the labour force participation rate returning to the level seen in 2008/09. In subsequent years, the labour force participation rates are growing in line with projections produced by Statistics New Zealand. For the other variables, a rate of transition to the long-run trend rate or level is determined. These variables all contribute to the projection of nominal GDP, which is both a driver of a number of important fiscal variables, such as tax revenue, and the denominator in key fiscal ratios.

Table 1.15 – Summary of fiscal assumptions for forecasts and projections

<table>
<tr><th></th><th>Forecast period (to 2015)</th><th>Projection period (2016-2025)</th></tr>
<tr><td>Government decisions</td><td>• Incorporate government decisions up to 22 November 2010.</td><td>• Only incorporates policy settings contained in the forecast base.</td></tr>
<tr><td>Operating allowance</td><td>• Net $1.12 billion in 2011/12 (ie, the original $1.1 billion increased by 2%), growing by the rate of 2% per annum for subsequent Budgets.</td><td>• Also based on annual increments of a 2011/12 base of $1.12 billion, grown at 2% per annum.</td></tr>
<tr><td>Capital allowance</td><td>• $1.39 billion from Budget 2011 to 2014, allocated as follows over the forecast period (June year basis):
<table>
<tr><th>$billion</th><th>2011</th><th>2012</th><th>2013</th><th>2014</th><th>2015</th></tr>
<tr><td>Contingency</td><td>0.13</td><td>0.01</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Budget 11</td><td>0.16</td><td>0.56</td><td>-</td><td>0.16</td><td>0.09</td></tr>
<tr><td>Budget 12</td><td>-</td><td>0.16</td><td>0.54</td><td>0.10</td><td>0.26</td></tr>
<tr><td>Budget 13</td><td>-</td><td>-</td><td>0.16</td><td>0.56</td><td>0.10</td></tr>
<tr><td>Budget 14</td><td>-</td><td>-</td><td>-</td><td>0.16</td><td>0.56</td></tr>
<tr><td>Budget 15</td><td>-</td><td>-</td><td>-</td><td>-</td><td>0.16</td></tr>
<tr><td>Total</td><td>0.29</td><td>0.73</td><td>0.70</td><td>0.98</td><td>1.17</td></tr>
</table>
• Page 58 outlines indicative decisions against Budget 2011.</td><td>• Based on a track of $900 million in 2013/14 as the starting point, increasing at 2% p.a. Value in 2015/16 is $936 million.</td></tr>
<tr><td>Emissions Trading Scheme (ETS)</td><td>• The forecasts have been prepared in accordance with current government ETS policies. Details of current climate change policies are listed at: www.mfe.govt.nz/issues/climate/policies-initiatives
• The carbon price assumption is based on estimates of the current carbon price from Price Carbon and is assumed to remain constant at €10.75 with an exchange rate of 0.5409 (a carbon price of NZ$19.87) over the forecast period.
• The forecast assumes a 67% uptake of post-1989 foresters into the ETS over Commitment Period One (CP1).
• It is assumed the ETS has no fiscal impact on debt or cash flows, as the net cash impact from the ETS and international obligations is highly uncertain.</td><td>• The ETS has been modelled as having no net fiscal impact in the projection period (expenses equal revenues), as the net impact of the ETS and future international obligations is highly uncertain. Any net revenue (the value of credits received after free allocation of credits to participating industries and after meeting future emission liabilities) is assumed to be recycled back to the public through fiscally equivalent, unspecified tax reductions or spending increases.</td></tr>
<tr><td>Kyoto position</td><td>• The Kyoto position included in the fiscal forecasts reflects the Government’s obligation for CP1, which is for the period 2008 to 2012.</td><td>• Projections beyond 2015 do not incorporate a quantitative estimate of any net emissions liability that may eventuate from New Zealand’s obligation under future international climate change agreements.</td></tr>
</table>

	Forecast period (to 2015)	Projection period (2016-2025)
NZSF contributions	• Assume no contributions over the forecast period.	• Contributions calculated via separate NZSF model. • Assumed to recommence at $2.8 billion in 2019 when the projected core Crown operating surplus (before gains and losses) is more than enough to cover the capital contribution.
Investment rate of returns	• Incorporate the actual results to 30 September 2010. Beyond 30 September, gains on financial instruments are based on long-term benchmark rates of return for each portfolio.	
Finance cost on new bond issuances	• Based on five-year rate from the main economic forecasts and adjusted for differing maturity.	
Borrowing requirements	• The forecast cash deficits will be met by reducing financial assets and issuing debt.	
Top-down adjustment	• Top-down adjustment to operating and capital as follows: **$ billion** / **2011** / **2012** / **2013** / **2014** / **2015** Operating / 0.85 / 0.15 / - / - / - Capital / 0.35 / 0.15 / - / - / - • This is a downward adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper-spending limits) for their expenditure forecasts.	
Property, plant and equipment	• For the purposes of the forecast financial statements, no revaluations of property, plant and equipment are projected beyond the current year. Valuations as recorded for the 2010 annual financial statements and any additional valuations that have occurred up to 30 September 2010 are included in these forecasts.	
Student loans	• The value of student loans is based on a valuation model adapted to reflect current student loans policy. As such, the value over the forecast period is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and discount rates used to determine the effective interest rate for new borrowers. Any change in these assumptions would affect the fiscal forecast.	

	Forecast period (to 2015)	Projection period (2016-2025)
Government Superannuation Fund (GSF) and ACC liabilities	• GSF and ACC liabilities included in these forecasts have been valued as at 31 October 2010 and 30 June 2010 respectively, with the ACC valuation being adjusted for the 30 September 2010 discount rate. Both liabilities are valued by projecting future cash payments and discounting them to present value. These valuations rely on historical data to predict future trends and use of economic assumptions such as inflation and discount rates. Any change in actual payments or economic assumptions would affect the present fiscal forecast. For example, if the discount rate decreases, the value of the liabilities would increase. Pages 101 and 102 outline the key economic assumptions used for both valuations. GSF's assets are offset against the gross liability and have been updated to reflect market values at 31 October 2010. The value of assets over the forecast period reflects long-run rate of return assumptions appropriate to the forecast portfolio mix.	
Fiscal drag		• Projecting source deductions involves employed labour force growth plus nominal average wage growth, supplemented by a fiscal drag elasticity of 1.35.

2

Fiscal Risks

The Government's fiscal strategy aims to return the budget to surplus, bring down debt to restore a buffer against unforeseen circumstances, and support growth in a way that minimises economic vulnerability. The ability of the Government to achieve this fiscal strategy depends on future government decisions and, to a significant extent, the level of risk inherent in the global and domestic economies. This chapter describes risks to the economic and fiscal outlook from the perspective of a taxpayer.

The Public Finance Act 1989 (PFA) requires that each *Economic and Fiscal Update* incorporate, to the extent that it is possible to do so, all future government decisions and other circumstances that may have a material effect on the economic and fiscal outlook. Providing this information serves two purposes. First, providing information on uncertainty ensures that any risks that are able to be identified are transparently disclosed. The only exceptions to this requirement are where disclosure might cause serious harm to New Zealand's security, economy or Government. The second purpose is to aid interpretation of the statements by providing a sense of the uncertainty surrounding the economic and fiscal outlook.

The HYEFU 2010 risk chapter has been expanded to cover how events in the wider economy can impact on the fiscal position. This expands the focus of the risk chapter beyond the traditional contingent risks and the policy under active consideration, which are now included in the second part of this chapter. In providing this information no attempt has been made to specify individual economic events. Instead the focus of the additional material is on the size of potential change (variance) relative to what is included in our forecasts. Specific economic risks, to the extent that they impact on the economic outlook and are able to be identified, are discussed in the Economic and Fiscal Update chapter.

Fiscal strategy must respond to changes in the economy

Fiscal strategy specifies the Government's future spending intentions given expectations about how much tax it is likely to collect. Changes in the economy affect the Government through changes in tax and, to a lesser extent, through changes in either spending or the value of assets and liabilities held on the balance sheet. Thus, the key risk to the Government's ability to deliver on its fiscal strategy is that the economy will not evolve in line with the Treasury's economic forecasts over an extended period.

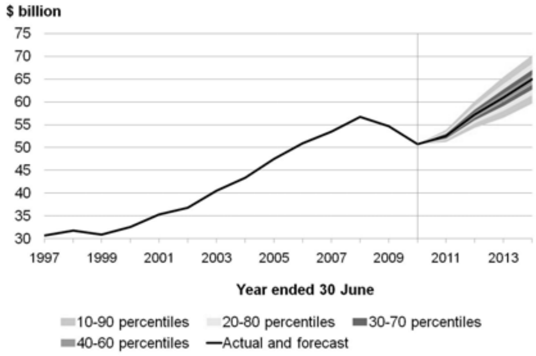
Revenue uncertainty

Taxation revenue is the primary channel through which changes in the economy affect the Crown's fiscal position. For taxation revenue, it is uncertainty about the level of nominal GDP that is most important. Two uncertainties that could significantly alter our forecasts for taxation revenue include: a change in trend growth; or uncertainty about the permanence of declines in tax following a large shock. Significant changes in prices, most notably through the terms of trade, have been especially important in the New Zealand context.

The experience of New Zealand over the past three decades provides three clear examples:

- The 1997 Asian crisis: The shock was assumed to be more permanent than it was and, as a result, the economy recovered faster than forecast.
- Growth through the 2000s: Forecasts persistently underestimated the strength and sustained persistence of above par economic growth mainly as a result of a terms of trade shock.
- The global financial crisis: Tax revenue suffered a structural decline after forecasts overestimated trend growth in government revenues (refer Figure 2.1).

Figure 2.1 – Revenue uncertainty (holding policy constant)[8]



Source: The Treasury

Note: The blue bands represent sequential deciles such that the difference between the 10th and 90th pecentiles represents an 80% confidence interval.

The *Economic and Fiscal Update* provides the Treasury's current view of how the economy is expected to evolve. The upside and downside scenarios (refer page 38) provide two possible alternative scenarios for how the economy could differ from our central forecasts, although more extreme outcomes are possible. Historic variance in taxation revenues for the next fiscal year (refer Figure 2.1), once the impacts of policy change are taken into account, would normally fall within a two standard deviation range of plus or minus $4.9 billion (8.8%) on the current revenue base of $56 billion. Outcomes beyond this range could be expected to occur one year out of every 20.

Historic estimates of uncertainty may understate the potential volatility of forecasts over the next five years. Global imbalances that have not unwound to any significant extent, a large negative net international investment position and high levels of domestic debt all create uncertainty. Structural changes in the economy that affect the rate at which revenue grows relative to spending would place pressure on the Government's fiscal strategy.

8 A full summary of the methodology and critical assumptions is included in Treasury Working Paper 10/08. Standard deviation assumptions used for 0-, 1-, 2- and 3-year ahead forecasts are 2.0%, 4.3%, 6.1% and 6.8% of the actual respectively. These are interpolations of the *BEFU* forecast estimates, adjusting for the timing of the *HYEFU* forecast.

Expenditure uncertainty

Most unexpected costs are likely to be captured through reprioritisation or from within the $1.12 billion annual budget operating allowance. However, large unexpected events, such as the Canterbury earthquake (refer page 22), can still place significant pressure on the Government's other spending priorities. A summary of the risks that are able to be specifically identified at the time of writing have been included in the second part of this chapter.

On 22 November 2010 Standard and Poor's placed the New Zealand sovereign rating on a negative watch. The decision referenced declining fiscal flexibility as a result of government budget deficits and widening external imbalances with respect to growing private sector debt. A credit downgrade would likely increase the Government's expenses through rising debt servicing costs.

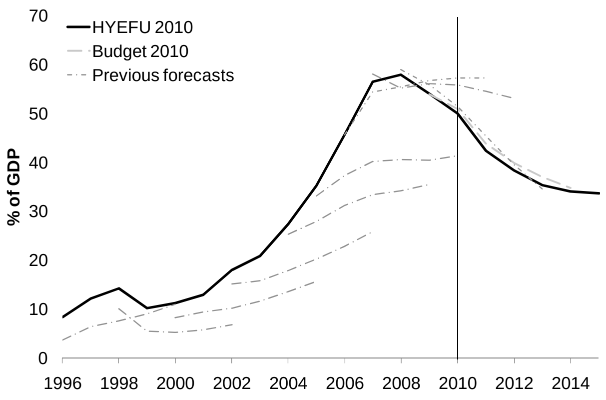
Valuation uncertainty

Valuations of the assets and liabilities held on the Government's balance sheet respond to changes in interest rates, exchange rates and market prices. Significant changes in the balance sheet could eventually flow through placing pressure on the Crown's fiscal position. Risks to the government balance sheet lie beyond the scope of this chapter. However, the Government's capital spending intentions and information on portfolio risk are laid out in the *Budget Policy Statement*, *National Infrastructure Plan* and *Investment Statement*.

Uncertainty about the buffer provided by net worth

The impact of tax, spending and valuation changes all create significant uncertainty about the future level of the Government's net worth. Higher net worth, or lower net debt, provide the Government with the fiscal headroom to spend or avoid increasing taxes in a recession. In this way, balance sheet measures, or lower debt, can be viewed as rough indicators of the risk that policy may need to change in a future crisis or a recession.

Figure 2.2 – Variation in past forecasts for net worth



Source: The Treasury

The global financial crisis has highlighted that the value of net worth can change rapidly when the economy is hit by an unusually large shock. This chapter makes no assessment of risk to the New Zealand economy. However, the effect of the economy and the impact of unexpected events on uncertainty about the future value of net worth can be illustrated by plotting forecasts for net worth against actual outcomes (refer Figure 2.2). Net worth is forecast to decline from 50.2% of GDP in June 2010 to 33.6% of GDP by June 2015, before recovering thereafter. A summary of the assumptions and judgements underlying our expectations for net worth, net debt and the economy as a whole has been included on page 45.

Statement of Specific Fiscal Risks

Context of the specific fiscal risks

The Statement of Specific Fiscal Risks sets out all government decisions, contingent liabilities or contractual obligations known to the government and subject to specific materiality requirements that may have a material effect on the economic or fiscal outlook[9].

The risks outlined in this chapter, should they eventuate, would only have an effect on the operating balance and/or net debt to the extent that they were not funded from within budget allowances, by reprioritising existing expenditure or through third-party revenue.

Policy options for many risks require further development, and the quantum of the risk is often uncertain. Consequently, the final cost or saving may differ from the amounts disclosed in this chapter.

Categories of risk

Previously, risks were grouped according to whether or not they were quantified. To improve the presentation of the information, they are now categorised to help explain the impact the risk would have if it were to occur. The categories of risk are explained and listed below.

- **Pending policy decisions affecting revenue:** Changes to tax policy or ACC levies could reduce or increase Government income from taxes or levies.
- **Pending policy decisions affecting expenses:** Costs of policy proposals could increase or decrease depending on decisions taken and they are risks to the extent that they cannot be managed within baselines or budget allowances.
- **Pending capital decisions:** Capital investment decisions are risks to the extent that they cannot be managed within balance sheets or budget allowances.
- **Matters dependent on external factors:** The liability of the Government for costs is sometimes dependent on external factors such as the outcome of negotiations or international obligations.

9 The Statement of Specific Fiscal Risks is a requirement set out in sections 26Q and 26U of the Public Finance Act 1989.

Summary table

The matters listed below are disclosed as specific fiscal risks because they meet the rules for disclosure outlined in the next section. Full descriptions of the risks listed below are set out following the rules for disclosure.

Specific fiscal risks as at 22 November 2010	Status	Value of risk
Pending policy decisions affecting revenue		
ACC – Levies and Non-earners' Account	Changed	Unquantified
Revenue – Income-sharing Tax Credits	New	$500m per annum by 2014/15
Revenue – Potential Tax Policy Changes	Changed	Unquantified
Risk to Third Party Revenue	Unchanged	Unquantified
Pending policy decisions affecting expenses		
Corrections – Community Probation Services Capacity	Changed	$25m per annum operating expenditure and $20m capital expenditure
Education – Early Childhood Education Funding	Changed	Unquantified
Education – Operating Funding for New Schools	New	Unquantified
Education – Inflation Adjustment for School Operating Funding	Unchanged	Unquantified
Education – Repairing Leaky Schools	Unchanged	Unquantified
Finance – Electricity Reforms	Changed	Unquantified
State Sector Employment Agreements	Unchanged	Unquantified
Housing – Housing Shareholders' Advisory Group	New	Unquantified
Justice – Review of the Legal Aid System	Unchanged	Unquantified
Revenue – Child Support	Unchanged	Unquantified
Revenue – Redesigning Business Processes at Inland Revenue	Unchanged	Unquantified
Pending capital decisions		
Corrections – Prison Capacity	Changed	$600m capital expenditure and $90m per annum operating expenditure
Communications – Broadband Investment Initiative	Changed	$1,010m
Education – Broadband Investment: Schools	Changed	$205m
Education – School Property	Changed	$1,950m
Finance – Crown Overseas Properties	Unchanged	$150m
Housing – Weathertight Homes	Changed	Unquantified
Justice – Auckland Region Property Strategy	Changed	$150m over three years
Police – Digital Radio Network Full Implementation	Changed	$170m capital expenditure and $5m rising to $30m per annum operating expenditure
Transport – Support for New Zealand Railways Corporation (KiwiRail)	Changed	$950m

Specific fiscal risks as at 22 November 2010	Status	Value of risk
Matters dependent on external factors		
Canterbury Earthquake – Land	New	Unquantified
Canterbury Earthquake – Local Authorities	New	Unquantified
Climate Change – ETS and International Climate Change Obligations	Unchanged	Unquantified
Climate Change – Finance for Developing Countries	Changed	Unquantified
Defence Force – Future Operationally Deployed Forces Activity	Unchanged	$30m per annum
Defence Force – Sale of Skyhawks and Aermacchi Trainers	Changed	Unquantified
Energy – Crown Revenue from Petroleum Royalties	New	Unquantified
Finance – Original Crown Retail Deposit Guarantee Scheme	Changed	Unquantified
Finance – Extended Crown Retail Deposit Guarantee Scheme	New	Unquantified
Finance – Government Commitments to International Financial Institutions	Unchanged	Unquantified
Health – Caregiver Employment Conditions	Changed	$100m per annum
Health – Payment of Family Caregivers	Unchanged	Unquantified
Revenue – Cash Held in Tax Pools	Unchanged	Unquantified
Reviews of the Delivery of Public Services	Unchanged	Unquantified
State Services – KiwiSaver Contribution	Unchanged	Unquantified
Treaty Negotiations – Treaty of Waitangi Claims – Settlement Relativity Payments	New	Unquantified

Criteria and rules for disclosure in the fiscal forecasts or as specific fiscal risks

The criteria and rules set out below are used to determine if government decisions or other circumstances should be incorporated into the fiscal forecasts, disclosed as specific fiscal risks or, in some circumstances, excluded from disclosure. Since the last Economic and Fiscal Update, the materiality criterion for disclosure has been raised from $10 million in any one year to $100 million over five years (2010/11 to 2014/15) in order to provide greater focus on the more material risks. There are 12 risks that are not published because of the revision, with a combined average value per annum of approximately $88 million.

Criteria for including matters in the fiscal forecasts

Matters are incorporated into the fiscal forecasts provided they meet all of the following criteria:

- The quantum is more than $100 million over five years.
- The matter can be quantified for particular years with reasonable certainty.
- A decision has been taken; or a decision has not yet been taken, but it is reasonably probable[10] the matter will be approved, or it is reasonably probable the situation will occur.

Additionally, any other matters may be incorporated into the forecasts if the Secretary to the Treasury considers, using his best professional judgement, that the matters may have a material effect on the fiscal and economic outlook and are certain enough to include in the fiscal forecasts.

Rules for the disclosure of specific fiscal risks

Matters are disclosed as specific fiscal risks if:

- the likely cost is more than $100 million over five years, and either
- a decision has not yet been taken, but it is reasonably possible[11] (but not probable) that the matter will be approved or the situation will occur, or
- it is reasonably probable that the matter will be approved or the situation will occur, but the matter cannot be quantified or assigned to particular years with reasonable certainty.

Additionally, any other matters may be disclosed as specific fiscal risks if the Secretary to the Treasury considers, using his best professional judgement, that the matters may have a material effect (more than $100 million over five years) on the fiscal and economic outlook, but are not certain enough to include in the fiscal forecasts.

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10 For these purposes "reasonably probable" is taken to mean that the matter is more likely than not to be approved within the forecast period (by considering, for example, whether there is a better than 50% chance of the matter occurring or being approved).

11 For these purposes "reasonably possible" is taken to mean that the matter might be approved within the forecast period (by considering, for example, whether there is a 20% to 50% chance of the matter occurring or being approved).

Exclusions from disclosure

Matters are excluded from disclosure as specific fiscal risks if they fail to meet the materiality criterion (ie, are less than $100 million over five years), or if they are unlikely[12] to be approved or occur within the forecasting period.

Additionally, the Minister of Finance may determine that an item included in the fiscal forecasts or a specific fiscal risk not be disclosed, if such disclosure would be likely to:

- prejudice the substantial economic interests of New Zealand
- prejudice the security or defence of New Zealand or international relations of the Government
- compromise the Crown in a material way in negotiation, litigation or commercial activity, or
- result in a material loss of value to the Crown.

Furthermore, the Minister of Finance has to determine that there is no reasonable or prudent way the Government can avoid this prejudice, compromise or material loss by making a decision on the fiscal risk before the finalisation of the forecasts, or by disclosing the forecast item or fiscal risk without reference to its fiscal implications.

Charges against the fiscal forecasts

Communications – Broadband Investment Initiative

Based on the criteria outlined above, it is probable that additional funding to Crown Fibre Holdings Limited for a new broadband network will be approved by the Government during the forecast period. Consequently, this matter has been incorporated into the fiscal forecasts as a potential charge against the capital allowances for future Budgets.

	2010/11	2011/12	2012/13	2013/14	2014/15
Broadband Investment Initiative	0	0	$300m	$200m	$200m

12 For these purposes “unlikely” is taken to mean that the matter will probably not be approved within the forecast period (by considering, for example, whether there is a less than 20% chance of the matter occurring or being approved).

Statement of Specific Fiscal Risks

Pending policy decisions affecting revenue

ACC – Levies and Non-earners' Account (Changed, Unquantified)

Changes in tax settings, economic factors and ACC's financial performance affect the ACC's levy income and the Crown's liability for claims.

Revenue – Income-sharing Tax Credits (New, Quantified)

The Government has introduced legislation to establish an income-sharing tax credit, which is being considered by select committee. If passed, the legislation will allow couples with children under the age of 18 to pool their earnings for income tax purposes if they meet certain criteria. If implemented, the changes will reduce tax revenues by $500 million per annum once the scheme is fully operational.

Revenue – Potential Tax Policy Changes (Changed, Unquantified)

The tax policy work programme announced by the Government includes a number of items which are under consideration, including:

- the tax treatment of profit distribution plans
- the tax treatment of charitable giving
- the imputation system
- the tax treatment of employee benefits
- amortisation of capital raising costs
- the international tax review
- the GST treatment of cross-border business activities, and
- the tax treatment of hybrid instruments.

Measures on the work programme are expected to be revenue neutral or positive in aggregate. Measures enacted since Budget 2009, and included in revenue forecasts, have increased tax revenue by around $60 million per annum. The remaining items could be revenue negative up to the same extent. Because it is unclear exactly what additional policy changes, if any, will be made at this stage, these further changes have not been included in revenue forecasts.

Risk to Third Party Revenue (Unchanged, Unquantified)

A wide range of government activities are funded through third party fees and charges. With a decrease in economic activity, there is a risk that decreases in third party revenue streams will require changes to service delivery with transitional costs to the Crown. For example, decreases in Customs revenue or in levies on building activity may mean that some activities are temporarily unable to be fully cost-recovered and the Government will need to reduce the level of an activity or temporarily subsidise that activity.

Pending policy decisions affecting expenses

Corrections – Community Probation Services Capacity (Changed, Quantified)

Over the next 10 years sentences and orders served in the community are forecast to increase. If the growth materialises as forecast, it is estimated that additional funding will be required for Probation Officers and investment in Community Probation infrastructure. Based on current forecasts, expenses are estimated at $20 million capital expenditure in total and operating expenditure of $25 million per annum by 2014/15.

Education – Early Childhood Education Funding (Changed, Unquantified)

Demand for Early Childhood Education (ECE) services is continuing to increase more than forecast, raising the costs of subsidies to ECE services. If this continues, the Government will face additional cost pressures.

Education – Inflation Adjustment for School Operating Funding (Unchanged, Unquantified)

The Government has historically increased school operating grants in each Budget. Any funding for school operations grants would depend on the circumstances and the ability of the proposal to be managed within existing baselines and any allocation provided during the Budget process.

Education – Operating Funding for New Schools (New, Unquantified)

Applications for the establishment of new schools or for the approval of integration agreements present an unquantified risk. Proposals for the establishment of Kura Kaupapa Māori, Trades Academies or other secondary-tertiary establishments will drive the demand for funding in this area.

Education – Repairing Leaky Schools (Unchanged, Unquantified)

A $930 million impairment has been made to the school property portfolio reflecting “leaky building” (defective building) issues. There is a risk that existing funding will not be sufficient to repair the damage to schools which has been accounted for by the impairment.

Finance – Electricity Reforms (Changed, Unquantified)

In December 2009, the Government announced a series of measures related to improving the operation of the electricity market, including reconfiguring State Owned Enterprises’ assets (virtual asset swaps and the sale of Meridian’s Tekapo A and B power stations to Genesis and the sale of the Crown-owned Whirinaki power station to Meridian). The timing and some of the details of the SOE asset reconfiguration have yet to be decided. Given this, the impact of the reforms on the individual SOEs and the Crown cannot currently be estimated.

Housing – Housing Shareholders' Advisory Group (New, Unquantified)

The Government is considering a report by the Housing Shareholders' Advisory Group (HSAG) that includes recommendations for how to improve the effectiveness and efficiency of social housing provision, and make housing more affordable. The Government will consider and initial response before the end of the year. Until then, the magnitude of the fiscal risk will remain uncertain.

Justice – Review of the Legal Aid System (Unchanged, Quantified)

The Government is developing options for delivering legal aid services in a sustainable and affordable way. Decisions are due to be taken on proposals in late 2010. Final costs will depend on decisions taken.

Revenue – Child Support (Unchanged, Unquantified)

A government discussion document has been released which considers changes to the child support regime. The discussion document considers the costs of raising children, potential changes to the child support formula and options to improve compliance with the child support regime. Any changes would have administrative costs for Inland Revenue and could have further costs to government from reduced offsets to benefits.

Revenue – Redesigning Business Processes at Inland Revenue (Unchanged, Unquantified)

The Government is investigating options to redesign business processes at Inland Revenue, which could include both policy and administrative options to simplify customer interactions in the Pay As You Earn and Personal Tax Summary systems. Any changes could impact tax revenue collections or have material administrative costs to implement.

State Sector Employment Agreements (Unchanged, Unquantified)

A number of large collective agreements are due to be renegotiated in the short to medium term. As well as direct fiscal implications from any changes to remuneration, the renegotiation of these agreements can have flow-on effects to remuneration in other sectors. The Government has signalled an expectation for restraint given the current economic environment and conditions in the private sector.

Pending capital decisions

Communications – Broadband Investment Initiative (Changed, Quantified)

The Government has committed to spend $1.548 billion on a new broadband network delivering ultra-fast broadband services. Of this amount, $290 million has been appropriated through Budget 2009 and $248 million through Budget 2010. Capital expenses of $300 million in 2012/13 and $200 million in each of 2013/14 and 2014/15 are included in the forecasts as potential charges against the capital allowance. However, the timing and final amount of capital contributions to Crown Fibre Holdings Limited may differ significantly from those forecast.

Corrections – Prison Capacity (Changed, Quantified)

In the next 10 years the prisoner population is forecast to increase. Based on current estimates, 600 additional prisoner places (beyond current commitments) will be needed by 2020. Some Corrections assets may also come to the end of their useful life and need to be decommissioned. This translates to $600 million additional capital expenditure in the next 10 years, with an operating expenditure impact of $90 million per annum by 2024.

Education – Broadband Investment: Schools (Changed, Quantified)

The Government has signalled an investment in Vote Communications to support the introduction of ultra-fast broadband into schools. The estimated cost of completing the upgrade of hardware in schools (School Network Upgrade Programme) has increased to $205 million and there is currently no funding set aside to manage the additional expense.

Education – School Property (Changed, Quantified)

The Ministry of Education faces financial risks in relation to school property: $165 million may be required in 2011 for new schools to meet roll growth and population movements.

Finance – Crown Overseas Properties (Unchanged, Quantified)

The Government holds New Zealand House in London on a long-term lease from the Crown Estate (UK). Depending on the Government's future intentions for this building, an upgrade may be required. Preliminary cost estimates for this upgrade total $150 million over the period 2012/13 to 2014/15.

Housing – Weathertight Homes (Changed, Unquantified)

The Government has agreed to offer a package to assist homeowners to repair homes affected by the weathertightness issues that occurred in the late 1990s and early 2000s. The package includes a 25% government contribution towards agreed repair costs, a 25% contribution from participating territorial authorities and credit support for the remaining repair costs for those who meet the eligibility and lending criteria. There is a risk that the costs of the package will exceed the $1.055 billion provided for in the forecasts, as uncertainty remains regarding the extent of damage to eligible homes and the level of uptake.

Justice – Auckland Region Property Strategy (Changed, Quantified)

The forecast level of demand for court services indicates there may be a need for additional courthouse capacity in the greater Auckland region. If additional funding is provided, the overall estimated cost will be up to $150 million with $20 million in 2011/12, $25 million in 2012/13 and $105 million in 2013/14.

Police – Digital Radio Network Full Implementation (Changed, Quantified)

The Government has previously funded the implementation of a Digital Radio Network in the Wellington, Auckland and Canterbury areas for New Zealand Police, to be completed by December 2010. Police are developing the business case for completion of a whole of government National Digital Radio Network with an Indicative Business Case planned for completion by 30 April 2011. Current estimates suggest capital costs of around $170 million over the period 2011/12 to 2017/18; and around $5 million of operating expenditure in 2012/13, rising to around $30 million per annum when fully implemented.

Transport – Support for New Zealand Railways Corporation (KiwiRail) (Changed, Quantified)

The Government has agreed in principle to support a 10-year strategy for the New Zealand Railways Corporation (NZRC, trading as KiwiRail Group) to achieve a commercially viable rail network. A total of $750 million in capital over three years is the expected Crown contribution towards the strategy, but its disbursement is dependent on the approval of suitable business cases and demonstrable progress towards objectives. Budget 2010 provided $250 million in capital as the first tranche of Crown funding for this strategy. NZRC will submit a case for the second tranche of the $750 million for Budget 2011.

The overall commitment KiwiRail seeks towards the 10-year plan is $1.2 billion over the forecast period 2010/11 to 2014/15.

KiwiRail has $408 million in debt to the Crown maturing in the forecast period, all of which may need to be refinanced or restructured. Of this, $250 million is maturing in 2011/12.

Matters dependent on external factors

Canterbury Earthquake – Land (New, Unquantified)

The total extent of damage in the region is still being determined. The Government is considering a range of options that might be made to assist the Canterbury region in its rebuilding. Options may include further remediation of private and Crown-owned land.

Canterbury Earthquake – Local Authorities (New, Unquantified)

Current government policy is to reimburse 60% of the combined eligible costs of restoring critical local government infrastructure (eg, water and sewerage), in the case of damage caused in an emergency event. The amount of the Government's contribution to restoring local government infrastructure in the Canterbury region has not yet been determined.

Climate Change – ETS and International Climate Change Obligations (Unchanged, Unquantified)

There is uncertainty in the level of fiscal impact associated with the Kyoto obligation over the 2008-2012 first commitment period. The net impact of variables including carbon prices, levels of net-emissions, the uptake of post-1989 foresters and allocation levels to emitters is highly uncertain and could change the Government's costs significantly. The Government may need to purchase emission units to meet its obligations under the Climate Change Response Act 2002 and the Kyoto protocol, with a corresponding impact on net debt. A review of the Emissions Trading Scheme (ETS) is also scheduled for 2011. Any change to ETS settings could have significant fiscal implications. After the first commitment period, no rights or obligations are forecast in the Government's accounts for any post-2012 international climate change agreement. International negotiations are currently underway but the potential nature, timing and size of any New Zealand commitment is highly uncertain. The fiscal impact of any commitment will need to be recognised at the time an agreement is made.

Climate Change – Finance for Developing Countries (Changed, Unquantified)

Following the Copenhagen climate change negotiations in 2009, New Zealand associated with the Copenhagen Accord. In the accord, developed countries committed to jointly mobilising US$100 billion per year by 2020 to address the needs of developing countries, in the context of meaningful mitigation actions and transparency on implementation. This would come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance. New Zealand's contribution as a portion of this finance is currently uncertain.

Defence Force – Future Operationally Deployed Forces Activity (Unchanged, Quantified)

There are currently over 400 New Zealand Defence Force personnel deployed overseas on peace-keeping and United Nations missions. Maintaining existing deployment levels would result in an increased annual operating balance impact of some $30 million from 2011/12 subject to any decisions to change existing deployments. The forthcoming White Paper on Defence, expected to be complete by 30 November 2010, will consider future funding requirements for a range of operational commitments in the context of Government's wider policy priorities and fiscal position.

Defence Force – Sale of Skyhawks and Aermacchi Trainers (Changed, Unquantified)

The sale of the former Air Combat Force aircraft now depends on the successful conclusion of commercial negotiations. Should the sale proceed, the net sale proceeds are uncertain.

Energy – Crown Revenue from Petroleum Royalties (New, Unquantified)

The Crown Revenue from Petroleum Royalties is very dependent upon the US$ value per barrel and US$ / NZ$ exchange rate. Movements up or down in either of these variables could result in a significant decrease or increase in Crown revenue. The overall impact for the Crown could be negative or positive.

Finance – Original Crown Retail Deposit Guarantee Scheme (Changed, Unquantified)

The Government operates an opt-in Retail Deposit Guarantee Scheme over financial institution deposits. The objective of the scheme is to ensure ongoing retail depositor confidence in New Zealand's financial system, given the international financial market turbulence. As at 31 October, eight entities guaranteed under the original Retail Deposit Guarantee Scheme had been placed into receivership. The Crown recognises its obligations under the scheme as liabilities and its rights of recovery from the receivers as assets. While the reported assets represent a best estimate of likely recoveries from the receiverships the eventual loss to the Crown is dependent upon the value that can be realised from these entities' assets. Except as provided on the Treasury website, further information on the Retail Deposit Guarantee Scheme cannot be provided due to commercial sensitivity.

Finance – Extended Crown Retail Deposit Guarantee Scheme (New, Unquantified)

The extended scheme came into place on 12 October 2010 immediately upon expiry of the original scheme. A total of seven financial institutions have been approved under the extended Retail Deposit Guarantee Scheme. These entities are listed on the Treasury website and have deposits totalling $2.3 billion under guarantee. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of financial institutions in the event the guarantee is called upon. The Crown continually updates the likelihood of further default actions triggering the guarantee and assesses the expected loss given default. As at 31 October the Crown assessed the risk of default by the seven entities participating in the extended scheme to be unlikely and therefore no provision was considered necessary in relation to the amount guaranteed by the Crown under the extended guarantee. Although one of the entities in the extended scheme has subsequently gone into default, the Crown assesses the risk of default of the remaining six entities participating in the extended scheme to be unlikely. While the provision represents a best estimate of the likely loss, a range of outcomes is possible under the scheme in terms of which entities may default and the eventual loss to the Crown following an event of default. This reflects the significant uncertainty as to the value that can be realised from an entity's assets following an event of default.

Finance – Government Commitments to International Financial Institutions (Unchanged, Unquantified)

The forecast level of government commitments to international financial institutions is subject to change, depending on the Government's response to any changed financial plans on the part of these institutions.

Health – Caregiver Employment Conditions (Changed, Quantified)

The Employment Court has made a judgment in favour of two third party employed caregivers regarding their sleepover employment conditions. Although the third party employer is appealing the decision, an unsuccessful result would require consideration of the repercussions for the Crown. This decision would also have an impact on other service providers in health and other sectors.

Health – Payment of Family Caregivers (Unchanged, Quantified)

The Human Rights Tribunal has declared that the Ministry of Health's policy of not employing family members to provide care to disabled relatives is in breach of s19 of the New Zealand Bill of Rights. An appeal has been lodged in the High Court.

Revenue – Cash Held in Tax Pools (Unchanged, Unquantified)

Funds held in tax pools are recognised as an asset to the Crown. There is a risk that funds held in these pools, over and above a customer's provisional tax liability, may be withdrawn, resulting in an unquantified cash loss to the Crown.

Reviews of the Delivery of Public Services (Unchanged, Unquantified)

The Government has announced its intention to deliver better public services for less. Recommendations arising from reviews may identify areas of expenditure that are not efficient, effective or aligned to government policy, or could be delivered differently. Reviews may recommend, or result in, changes to service delivery and/or free up resources for reprioritisation within the Vote (or within the organisation) or be returned to the centre to meet pressures in other areas. Reviews of government activities that result in improved cost-effectiveness are likely to have a positive impact on the fiscal position.

State Services – KiwiSaver Contribution (Unchanged, Unquantified)

The forecasts in relation to KiwiSaver policies are dependent on a number of assumptions and projections, such as uptake and contribution rates, all of which may change through time. In the current economic environment, factors such as reduced automatic enrolment, financial market disruption and low consumer confidence increase forecast uncertainty.

Treaty Negotiations – Treaty of Waitangi Claims – Settlement Relativity Payments (New, Unquantified)

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. The mechanism provides that, where the total redress amount for all historical Treaty settlements exceeds $1 billion in 1994 present-value terms, the Crown is liable to make payments to maintain the real value of Ngāi Tahu's and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and approximately 16% for Ngāi Tahu. There is a risk that the timing and the amount of the expense for the relativity payments may differ from that included in the fiscal forecasts.

Risks removed since the 2010 Budget Economic and Fiscal Update

The following risks have been removed since the 2010 Budget Economic and Fiscal Update:

Expired risks	Reason
Broadcasting – Digital Switchover	Decision taken
Defence Force – Defence Review	White Paper has been released
Economic Development – Venture Investment Fund Underwrite	Decision taken
Education – Medical Training Places	No longer material
Education – Youth Guarantee	No longer material
Finance – New Zealand Post equity injection to fund expansion	Decision taken
Health – Additional Wellchild Visits	No longer material
Health – District Health Board Deficits	No longer material
Health – H1N1 Pandemic	No longer likely
Housing – State Housing Tenancy Management	Superseded by Housing Shareholders' Advisory Group risk
Immigration – Immigration New Zealand Change Programme	No longer material
Immigration – Re-development of Mangere Refugee Centre	No longer material
Ministerial Services – Rugby World Cup Visits Programme	Decision taken
Revenue – Review Tax Treatment of Fitout of Commercial and Industrial Buildings	Funded from Baselines
Revenue – Reviews stemming from Budget 2010 Tax Changes	Funded from Baselines
Revenue – Tax Issues Relating to Auckland Governance Reform	Funded from Baselines
Transport – Changes to Penalties for Driving Offences	Decision taken
Transport – Tauranga Eastern Corridor	Decision taken

Contingent liabilities and assets

Contingent liabilities are costs that the Crown will have to face if a particular event occurs. Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims and uncalled capital. The contingent liabilities facing the Crown are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation.

In general, if a contingent liability were realised it would reduce the operating balance and increase net debt. However, in the case of contingencies for uncalled capital, the negative impact would be restricted to net debt.

Where contingent liabilities have arisen as a consequence of legal action being taken against the Crown, the amount shown is the amount claimed and thus the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the amount of any award against the Crown.

Only contingent liabilities involving amounts of over $100 million are separately disclosed. Contingent liabilities below $100 million are included in the "other quantifiable contingent liabilities" total.

Contingent liabilities have been stated as at 31 October 2010, being the latest set of contingent liabilities reported.

Quantifiable contingent liabilities

Guarantees and indemnities	**Status[13]**	**($million)**
Other guarantees and indemnities	Changed	103
Uncalled capital		
Asian Development Bank	Changed	1,035
International Bank for Reconstruction and Development	Changed	1,071
Other uncalled capital	Changed	45
Legal proceedings and disputes		
Tax in dispute	Changed	301
Other legal proceedings and disputes	Changed	112
Other quantifiable contingent liabilities		
International finance organisations	Changed	1,501
Kyoto Protocol Units	Changed	1,665
New Zealand Export Credit Office	Changed	105
Other quantifiable contingent liabilities	Changed	305
Total quantifiable contingent liabilities		**6,243**

13 Relative to reporting in the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2010.

Unquantifiable contingent liabilities

Guarantees and indemnities	Status
Airways New Zealand	Unchanged
AsureQuality Limited	Unchanged
At Work Insurance Limited	Unchanged
Bona Vacantia property	Unchanged
Contact Energy Limited	Unchanged
Earthquake Commission (EQC)	Unchanged
Electricity Corporation of New Zealand Limited (ECNZ)	Unchanged
Genesis Power Limited – financial guarantees	Unchanged
Genesis Power Limited – letters of credit and performance bonds	Unchanged
Housing New Zealand Corporation (HNZC)	Unchanged
Indemnities against acts of war and terrorism	Unchanged
Indemnification of the Stadel Museum's touring exhibition	New
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Landcorp Farming Limited	Unchanged
Maui Partners	Unchanged
Meridian Energy – letters of credit and performance bonds	Changed
National Provident Fund (NPF)	Unchanged
New Zealand Railways Corporation	Unchanged
Persons exercising investigating powers	Unchanged
Public Trust	Unchanged
Reserve Bank of New Zealand	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Tainui Corporation	Unchanged
Other unquantifiable contingent liabilities	
Abuse claims	Unchanged
Accident Compensation Corporation (ACC) litigations	Changed
Air New Zealand litigation	Changed
Canterbury earthquake	New
Caregiver employment conditions	Unchanged
Environmental liabilities	Unchanged
Maui contracts	Unchanged
Kordia Group Limited	Unchanged
Rugby New Zealand World Cup 2011 Limited	Unchanged
Television New Zealand	Unchanged
Treaty of Waitangi claims	Unchanged
Westpac New Zealand Limited	Unchanged

The following contingent liabilities are no longer disclosed separately owing to the materiality criterion to disclose items separately being raised from $10 million to $100 million.

Guarantees and indemnities:

- Air New Zealand
- Cook Islands – Asian Development Bank loans
- Indemnification of receivers and managers – Terralink Limited
- Ministry of Transport – funding guarantee

Uncalled capital:

- Bank for International Settlements
- European Bank for Reconstruction and Development

Legal proceedings and disputes:

- Accident Compensation Corporation
- Health – legal claims
- Kapiti West Link Road

Other quantifiable contingent liabilities:

- Air New Zealand partnership
- Crown Health Financing Agency
- Inland Revenue – unclaimed monies
- Reserve Bank – demonetised currency
- State highway extension

Statement of contingent liabilities

Quantified contingent liabilities

Guarantees and indemnities

Guarantees and indemnities are disclosed in accordance with *NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets*. In addition, guarantees given under Section 65ZD of the PFA are disclosed in accordance with Section 26Q(3)(b)(i)(B) of the same Act.

Legal proceedings and disputes

The amounts under quantifiable contingent liabilities for legal proceedings and disputes are shown exclusive of any interest and costs that may be claimed if these cases were decided against the Crown.

Where contingent liabilities have arisen as a consequence of legal action being taken against the Crown, the amount shown is the amount claimed and thus the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the possible amount of any award against the Crown.

Tax in dispute

Tax in dispute represents the outstanding debt of those tax assessments raised, against which an objection has been lodged and legal action is proceeding. When a taxpayer disagrees with an assessment issued following the dispute process, the taxpayer may challenge that decision by filing proceedings with the Taxation Review Authority or the High Court.

$301 million at 31 October 2010 ($295 million at 30 June 2010)

Other quantifiable contingent liabilities

International finance organisations

The Crown has lodged promissory notes with the IMF. Payment of the notes depends upon the operation of the rules of the organisation.

$1,501 million at 31 October 2010 ($1,529 million at 30 June 2010)

Kyoto protocol

The Ministry of Agriculture and Forestry has a liability on behalf of the Crown relating to the 84 million forestry credits. During the first commitment period, the Ministry estimates that 89.1 million tonnes of credits will be generated by carbon removals via forests (2010: 89.1 million tonnes). Of this amount, 5.1 million tonnes has been allocated to foresters through the ETS as at 31 October 2010. To the extent that these forests are harvested (in subsequent commitment periods) and a future international agreement is negotiated, there will be an associated liability generated that will need to be repaid. As the forestry credits have been incorporated when calculating the current position for the first commitment period, the associated obligation of the Crown in respect of future commitment periods has been reported as a separate contingent liability. Using the carbon price as at 31 October 2010 of $NZ19.83, this contingent liability can be measured at $NZ1,665 million ($1,590 million at 30 June 2010)

New Zealand Export Credit Office (NZECO) – export guarantees

NZECO provides a range of guarantee products to assist New Zealand exporters. These NZECO guarantees are recorded by the Crown as contingent liabilities.

$105 million at 31 October 2010 ($133 million at 30 June 2010)

Unquantifiable contingent liabilities

Accounting standard *NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets* requires that contingent liabilities be disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Disclosure of remote contingent liabilities is only required if knowledge of the transaction or event is necessary to achieve the objectives of general purpose financial reporting. This section provides details of those contingent liabilities of the Crown that cannot be quantified (remote contingent liabilities are excluded).

Guarantees and indemnities

Airways Corporation of New Zealand

The Crown has indemnified Airways Corporation of New Zealand Limited as contained in Airways' contract with New Zealand Defence Force for the provision of air traffic control services. The indemnity relates to any claim brought against Airways by third parties arising from military flight operations undertaken by the Royal New Zealand Air Force.

AsureQuality Limited

The Crown has indemnified the directors of AsureQuality Limited in the event that they incur any personal liability for redundancies arising from any agreement by international trading partners that allows post-mortem meat inspection by parties other than the Ministry of Agriculture and Forestry, or its sub-contractor.

At Work Insurance Limited

The Crown has indemnified the liquidators of At Work Insurance Limited (Deloitte Touche Tohmatsu) against various employment-related claims.

Bona Vacantia property

P&O NZ Limited sought a declaratory judgement that property disclaimed by a liquidator is bona vacantia. A settlement has been reached, which includes a Crown indemnity in favour of New Zealand Aluminium Smelters and Comalco in relation to aluminium dross disposed of in their landfill, for costs that may be incurred in removing the dross and disposing of it at another site if they are required to do so by an appropriate authority. The Minister of Finance signed the indemnity on 24 November 2003. In February 2004, a similar indemnity was signed in respect of aluminium dross currently stored at another site in Invercargill.

Contact Energy Limited (Contact)

The Crown and Contact signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei. Those documents contained two reciprocal indemnities between the Crown and Contact to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.

Earthquake Commission (EQC)

The Crown is liable to meet any deficiency in EQC's assets in meeting the Commission's financial liabilities (section 16 of the Earthquake Commission Act 1993). In the event of a major natural disaster the Crown may be called upon to meet any financial shortfall incurred by the Commission.

On 4 September 2010 the Canterbury region experienced a serious earthquake – refer to pages 22 and 23 for further discussion.

Electricity Corporation of New Zealand Limited (ECNZ)

The ECNZ Sale and Purchase Agreement provides for compensation to ECNZ for any tax, levy or royalty imposed on ECNZ for the use of water or geothermal energy for plants in existence or under construction at the date of the Sale and Purchase Agreement. The Agreement also provides for compensation for any net costs to ECNZ arising from resumption of assets pursuant to the Treaty of Waitangi (State Enterprises) Act 1988.

The Deed of Assumption and Release between ECNZ, Contact Energy Limited and the Crown provides that the Crown is no longer liable to ECNZ in respect of those assets transferred to it from ECNZ. As a result of the split of ECNZ in 1999, Ministers have transferred the benefits of the Deed to ECNZ's successors – Meridian Energy Limited, Mighty River Power Limited and Genesis Power Limited.

Under the Transpower New Zealand Limited (Transpower) Sale and Purchase and Debt Assumption Agreements, the Crown has indemnified ECNZ for any losses resulting from changes in tax rules applicable to transactions listed in the Agreements. Additionally, the Crown has indemnified the directors and officers of ECNZ for any liability they may incur in their personal capacities as a result of the Transpower separation process.

Following the split of ECNZ in 1999 into three new companies, the Crown has indemnified ECNZ in relation to all ECNZ's pre-split liabilities, including:

- existing debt and swap obligations
- hedge contracts and obligations, and
- any liabilities that arise out of the split itself.

Genesis Energy (Genesis) – financial guarantees

Genesis has issued financial guarantees to the alliance contractor and other agents of the Kupe joint venture for the full and faithful performance of its subsidiaries in their capacities as joint venture partners, to the extent of their several liabilities under the development agreement.

Genesis issued a financial guarantee to Energy Clearing House Limited for the full and faithful performance of its subsidiary Energy Online Limited, to the extent of its liabilities for its retail electricity purchases.

These guarantees may give rise to liabilities in the company if the subsidiaries do not meet their obligations under the terms of the respective arrangements.

Genesis Energy (Genesis) – letters of credit and performance bonds

Genesis, as a participant in the electricity market, issued letters of credit to the Energy Clearing House Limited under the markets' security requirements. These letters of credit are issued as part of normal trading conditions and are to ensure there is no significant credit risk exposure to any one market participant.

Genesis has also issued letters of credit and performance bonds to certain suppliers and services providers under normal trading conditions. The liabilities covered by these arrangements are already provided for in the Statement of Financial Position, and therefore not expected to create any adverse effects on the financial results presented. These are not material to the financial statements.

Housing New Zealand Corporation (HNZC)

HNZC is liable to the owners (ANZ National Bank Limited, Ichthus Limited and Westpac Banking Corporation) of mortgages sold by HNZC during 1992 to 1999 for credit losses they may incur from specified limited aspects of their ownership of those mortgages with the Crown standing behind this obligation.

The Crown has provided a warranty in respect of title to the assets transferred to Housing New Zealand Limited (HNZL) (HNZL was incorporated into the HNZC group as a subsidiary in 2001 as part of a legislated consolidation of government housing functions) and has indemnified HNZL against any breach of this warranty. In addition, the Crown has indemnified HNZL against any third-party claims that are a result of acts or omissions prior to 1 November 1992. It has also indemnified the directors and officers of HNZL against any liability consequent upon the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.

Indemnities against acts of war and terrorism

The Crown has indemnified Air New Zealand against claims arising from acts of war and terrorism that cannot be met from insurance, up to a limit of US$1 billion in respect of any one claim.

Indemnification of the Stadel Museum's touring exhibition

The Crown has a contingent liability for damages and losses under the scheme for indemnifying the Stadel Museum's touring exhibition. The amount is not disclosed in order to keep the value of the exhibition confidential to the Crown and the lending museum. This protects Te Papa's ability to hold similar exhibitions in the future.

Justices of the Peace, Community Magistrates and Disputes Tribunal Referees

Section 197 of the Summary Proceedings Act 1957, requires the Crown to indemnify Justices of the Peace and Community Magistrates against damages or costs awarded against them as a result of them exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified. Section 58 of the Disputes Tribunal Act 1988 confers a similar indemnity on Disputes Tribunal Referees.

Landcorp Farming Limited (Landcorp)

The Protected Land Agreement provides that the Crown will pay Landcorp any accumulated capital costs and accumulated losses or Landcorp will pay the Crown any accumulated profit, attributed to a Protected Land property that is required to be transferred to the Crown or that the Crown releases for sale. The Crown will also be liable to pay Landcorp, at the time of sale or transfer of any property deemed to be Protected Land, the amount of any outstanding equity payments on the initial value of the property.

Maui Partners

The Crown has entered into confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information. The deed contains an indemnity against any losses arising from a breach of the deed.

Meridian Energy (Meridian) – letters of credit and performance bonds

In addition to its borrowings, Meridian has entered into a number of letters of credit and performance guarantee arrangements that provide credit support of $69.1 million to support the collateral requirements of Meridian's trading business. Of the $69.1 million, $2.4 million expires in the 2011 financial year, $20 million expires in the 2012 financial year and $0.125 million expires in the 2016 financial year with the balance having no expiry date.

National Provident Fund (NPF)

NPF has been indemnified for certain potential tax liabilities. Under the NPF Restructuring Act 1990, the Crown guarantees:

- the benefits payable by all NPF schemes (section 60)
- investments and interest thereon deposited with the NPF Board prior to 1 April 1991 (section 61), and
- payment to certain NPF defined contribution schemes where application of the 4% minimum earnings rate causes any deficiency or increased deficiencies in reserves to arise (section 72).

A provision has been made in these financial statements in respect of the actuarially assessed deficit in the DBP Annuitants' Scheme (refer to note 20).

New Zealand Railways Corporation

The Crown has indemnified the directors of New Zealand Railways Corporation against any liability arising from the surrender of the licence and lease of the Auckland rail corridor.

The Crown has further indemnified the directors of New Zealand Railways Corporation against all liabilities in connection with the Corporation taking ownership and/or responsibility for the national rail network and any associated assets and liabilities on 1 September 2004.

Section 10 of the Finance Act 1990 guarantees all loan and swap obligations of the New Zealand Railways Corporation.

Persons exercising investigating powers

The Crown, under section 63 of the Corporations (Investigation and Management) Act 1989, indemnifies the Securities Commission, the Registrar and Deputy Registrar of Companies, members of an advisory committee, every statutory manager of a corporation and persons appointed pursuant to sections 17 and 19 of the Act in respect of any liability arising as a result of exercising the investigating powers conferred under the Act. The indemnity does not apply where the investigating powers have been exercised in bad faith.

Public Trust

Section 52 of the Public Trust Act 2001 provides for the Crown to meet any deficiency in the Public Trust's Common Fund in meeting lawful claims on the Fund. This is a permanent (legislated) liability. On 7 November 2008 the Minister of Finance guaranteed interest payable on estates whose money constitutes the Common Fund.

Reserve Bank of New Zealand

Section 21(2) of the Reserve Bank of New Zealand Act 1989 requires the Crown to pay the Reserve Bank the amount of any exchange losses incurred by the Bank as a result of dealing in foreign exchange under sections 17 and 18 of the Act. This is a permanent (legislated) liability.

Synfuels-Waitara Outfall Indemnity

As part of the 1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI), the Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site.

The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.

Tainui Corporation

Several leases of Tainui land at Huntly and Meremere have been transferred from ECNZ to Genesis Power. The Crown has provided guarantees to Tainui Corporation relating to Genesis Power’s obligations under the lease agreements.

Other unquantifiable contingent liabilities

Abuse claims

There is ongoing legal action against the Crown in relation to historical abuse claims. At this stage the number of claimants and outcomes of these cases are uncertain.

Accident Compensation Corporation (ACC) litigations

There are several legal actions against ACC in existence, arising in the main from challenges to operational decisions made by ACC. ACC will be vigorously defending these claims.

Air New Zealand litigation

Air New Zealand has been named in five class actions. One, in Australia, claims travel agents' commission on fuel surcharges and two (one in Australia and the other in the United States) make allegations against more than 30 airlines, of anti competitive conduct in relation to pricing in the air cargo business. The other two class actions (in the United States and in Canada) allege that Air New Zealand together with many other airlines conspired in respect of fares and surcharges on trans-Pacific routes. All class actions are being defended.

The allegations made in relation to the air cargo business are also the subject of investigations or proceedings by regulators in New Zealand, Australia and the United States. A formal Statement of Objections was issued by the European Commission in 2007 to 25 airlines including Air New Zealand. Air New Zealand responded to this Statement of Objections and on 9 November 2010 the European Commission advised that it had closed its file in relation to Air New Zealand, being satisfied that there was insufficient evidence of any breach of the law. On 15 December 2008 the New Zealand Commerce Commission filed proceedings against 13 airlines including Air New Zealand alleging breaches of the Commerce Act 1986. On 17 May 2010 the Australian Competition and Consumer Commission filed proceedings alleging breaches of the (Australian) Trade Practices Act 1974.

Air New Zealand is defending these proceedings. In the event that a court determined, or it was agreed with a regulator, that Air New Zealand had breached relevant laws, Air New Zealand would have potential liability for pecuniary penalties and to third-party damages under the laws of the relevant jurisdictions.

Canterbury earthquake

Apart from the costs arising from the earthquake that have been quantified and included in these forecasts, there are also some unquantifiable components and associated risks that cannot yet be quantified. Refer to the commentary provided on pages 22 and 23 for more details on the expected fiscal impacts of the earthquake and how these have been reflected in these forecasts.

Caregiver employment conditions

In October 2010, the Court of Appeal heard an appeal against an Employment Court decision relating to minimum wage requirements for employees of disability support services providers currently paid sleepover allowances. If the employer's appeal is unsuccessful, consideration will need to be given to the repercussions for the Crown.

Environmental liabilities

Under common law and various statutes, the Crown may have responsibility to remedy adverse effects on the environment arising from Crown activities.

Departments managing significant Crown properties have implemented systems to identify, monitor and assess potential contaminated sites.

In accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* any contaminated sites for which the Crown has accepted liability and for which costs can be reliably measured have been included in the Schedule of Non-Departmental Liabilities.

Kordia Group Limited

As part of its contractual obligations with clients, Kordia Limited has an undertaking to provide services at a certain level and should this not be achieved, Kordia Limited may be liable for contract penalties. It is not possible to quantify what these may be until an event has occurred. The company does not expect any liabilities to occur as a result of these contractual obligations.

The company makes advances to its subsidiary companies. The company's loan facility comprises a syndicated revolving cash advance facility between three banks, committed to a maximum amount of $120 million ($136 million at 30 June 2010). The facility is supported by a negative pledge by the company and its guaranteeing subsidiaries over their assets and undertakings. Under the negative pledge, each guaranteeing subsidiary may be liable for indebtedness incurred by the company and other guaranteeing subsidiaries. The company considers the negative pledge to be an insurance contract. Such contracts and cross guarantees are treated as a contingent liability and only recognised as a liability if a payment is probable.

Maui Contracts

Contracts in respect of which the Crown purchases gas from Maui Mining companies and sells gas downstream to Contract Energy Limited, Vector Gas Limited and Methanex Waitara Valley Limited provide for invoices to be re-opened in certain circumstances within two years of their issue date as a result of revisions to indices. These revisions may result in the Crown refunding monies or receiving monies from those parties.

Rugby World Cup 2011 Limited

The Crown has agreed in joint venture arrangements with the New Zealand Rugby Union (NZRU) to an uncapped underwrite of the costs of hosting the 2011 Rugby World Cup, on a loss-sharing basis (Crown 67%, NZRU 33%). A provision for the forecast losses has been made in the Government's financial statements.

The Crown has agreed to reimburse New Zealand income tax that might be incurred by the joint venture entity (Rugby New Zealand 2011 Limited) or the NZRU in relation to the joint venture entity, and has also agreed to reimburse the NZRU for New Zealand withholding tax that might be incurred on certain payments made in relation to the tournament.

Television New Zealand

The company is subject to a number of legal claims. Given the stage of proceedings and uncertainty as to outcomes of the cases, no estimate of the financial effect can be made and no provision for any potential liability has been made in the financial statements.

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Crown with respect to land which has been transferred by the Crown to an SOE or tertiary institution, or is subject to the Crown Forest Assets Act 1989.

On occasion Māori claimants pursue the resolution of particular claims against the Crown through higher courts. There are currently two such actions against the Crown – one awaiting a decision on an application at the Supreme Court and one to be heard at the High Court. Failure to successfully defend such actions may result in liability for historical Treaty grievances in excess of that currently anticipated.

Westpac New Zealand Limited (Westpac)

Under the Domestic Transaction Banking Services Master Agreement with Westpac Banking Corporation (Westpac's rights and obligations under this agreement were vested in Westpac New Zealand Limited under the Westpac New Zealand Act 2006), dated 30 November 2004, the Crown has indemnified Westpac:

- in relation to letters of credit issued on behalf of the Crown, and
- for costs and expenses incurred by reason of third-party claims against Westpac relating to indirect instructions, direct debits, third-party cheques, departmental credit card merchant agreements, use of online banking products and Inland Revenue processing arrangements.

Under the Supplier Payments Service – New Zealand Government Master Agreement dated 23 June 2010, the Crown indemnified Westpac against certain costs, damages and losses to third parties resulting from unauthorised, forged or fraudulent payment instructions (excluding costs, damages and losses arising from Westpac's wilful default, negligence or breach of the agreement or other applicable legal obligation).

Contingent assets

Legal proceedings and tax disputes

Legal proceedings and tax disputes are contingent assets in relation to Inland Revenue pending assessments or Inland Revenue initiated assessments. They are net of any losses brought forward. Contingent assets arise where Inland Revenue has advised or is about to advise a taxpayer of a proposed adjustment to their tax assessment. There has been no amended assessment issued at this point or revenue recognised so these are recorded legal proceedings and disputes – non-assessed. The taxpayer has the right to dispute this adjustment and a disputes resolution process is entered into. Inland Revenue quantifies a contingent asset based on the likely outcome of the disputes process based on experience and similar prior cases.

$568 million at 31 October 2010 ($504 million at 30 June 2010)

Foreshore and seabed

The Foreshore and Seabed Act 2004 (FSA):

- vests the full legal and beneficial ownership of the public foreshore and seabed in the Crown
- provides for the recognition and protection of ongoing customary rights with respect to the public foreshore and seabed
- enables applications to the High Court to investigate if previously held common law rights have been adversely impacted, and if so, providing for those affected either to participate in the administration of a foreshore and seabed reserve or else enter into formal discussions on redress, and
- provides for general rights of public access and recreation in, on, over and across the public foreshore and seabed and general rights of navigation within the foreshore and seabed.

The public foreshore and seabed means the marine area that is bounded on the landward side by the line of mean high water spring; and on the seaward side by the outer limits of the territorial sea, but does not include land subject to a specified freehold interest (refer section 5 of the FSA).

The FSA codifies the nature of the Crown's ownership interest in the public foreshore and seabed on behalf of the public of New Zealand. Although full legal and beneficial ownership of the public foreshore and seabed has been vested in the Crown, there are significant limitations to the Crown's rights under the FSA. As well as recognising and protecting customary rights, the FSA significantly restricts the Crown's ability to alienate or dispose of any part of the public foreshore and seabed and significantly restricts the Crown's ability to exclude others from entering or engaging in recreational activities or navigating in, on or within the public foreshore and seabed. Because of the complex nature of the Crown's ownership interest in the public foreshore and seabed and because it is not possible to obtain a reliable valuation of the Crown's interest, the public foreshore and seabed has not been recognised as an asset in the forecast financial statements. The Government intends to repeal the FSA by the end of 2010.

3

Forecast Financial Statements

These forecasts have been prepared in accordance with the Public Finance Act 1989.

They are based on the accounting policies and assumptions that follow. As with all such assumptions, there is a degree of uncertainty surrounding them. This uncertainty increases as the forecast horizon extends.

The forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. They reflect all Government decisions and circumstances communicated to 22 November 2010.

The finalisation dates and key assumptions that underpin the preparation of the Forecast Financial Statements are outlined on pages 43 to 49.

Statement of Accounting Policies

Significant accounting policies

These Forecast Financial Statements have been prepared in accordance with the accounting policies that are expected to be used in the comparable audited actual Financial Statements of the Government.

These Forecast Financial Statements comply with generally accepted accounting practice (GAAP) as required by the Public Finance Act 1989 and have been prepared in accordance with Financial Reporting Standard 42: Prospective Financial Statements.

All forecasts use the accrual basis of accounting. Forecasts have been prepared for the consolidated financial statements of the Government reporting entity, which includes all entities controlled by the Government (as defined by applicable financial reporting standards).

The specific accounting policies are reproduced in full on Treasury's website at http://www.treasury.govt.nz/publications/guidance/reporting/accounting.

Changes in accounting policies

All policies have been applied on a consistent basis during the forecast period. There have been no changes in accounting policies during the period.

Forecast policies

These Forecast Financial Statements have been prepared on the basis of Treasury's best professional judgment.

Actual financial results for the periods covered are likely to vary from the information presented. Factors that may lead to a material difference between information in these forecast financial statements and the actual reported results in future years are set out in the chapter on Fiscal Risks on pages 51 to 80.

Key forecast assumptions used are set out on pages 43 to 49.

Government Reporting Entity as at 22 November 2010

These forecast financial statements are for the Government reporting entity as specified in Part III of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities:

Departments

Agriculture and Forestry
Archives New Zealand
Building and Housing
Conservation
Corrections
Crown Law Office
Culture and Heritage
Defence
Economic Development
Education
Education Review Office
Environment
Fisheries
Foreign Affairs and Trade
Government Communications Security Bureau
Health
Inland Revenue
Internal Affairs
Justice
Labour
Land Information New Zealand
Māori Development
National Library of New Zealand
New Zealand Customs Service
New Zealand Defence Force
New Zealand Police
New Zealand Security Intelligence Service
Office of the Clerk
Pacific Island Affairs
Parliamentary Counsel Office
Parliamentary Service
Prime Minister and Cabinet
Research, Science and Technology
Science and Innovation*
Serious Fraud Office
Social Development
State Services Commission
Statistics
Transport
Treasury
Women's Affairs

* The Ministry of Science and Innovation was listed as a Department in legislation on 1 November 2010 in the State Sector Act and will replace the Ministry of Research, Science and Technology and the Foundation for Research, Science and Technology (a Crown entity) in the 2011 financial year.

State-owned enterprises

Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
Genesis Power Limited
Kordia Group Limited
Landcorp Farming Limited
Learning Media Limited
Meridian Energy Limited
Meteorological Service of New Zealand Limited
Mighty River Power Limited
New Zealand Post Limited
New Zealand Railways Corporation*
Quotable Value Limited
Solid Energy New Zealand Limited
Terralink Limited (in liquidation)
Timberlands West Coast Limited
Transpower New Zealand Limited

Air New Zealand Limited (included for disclosure purposes as if it were an SOE).

* Includes KiwiRail Holdings

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

Offices of Parliament

Office of the Controller and Auditor General
Office of the Ombudsmen
Parliamentary Commissioner for the Environment

Organisations named or described in Schedule 4 of the Public Finance Act 1989

Agriculture and Marketing Research and Development Trust
Asia New Zealand Foundation
Crown Fibre Holdings Limited
Fish and game councils (12)
Health Benefits Limited
Leadership Development Centre Trust
Learning State Limited
National Pacific Radio Trust
New Zealand Fish and Game Council
New Zealand Game Bird Habitat Trust Board
New Zealand Government Property Corporation
New Zealand Lottery Grants Board
Ngāi Tahu Ancillary Claims Trust
Pacific Co-operation Foundation
Pacific Island Business Development Trust
Research and Education Advanced Network New Zealand Limited
Reserves boards (23)
Road Safety Trust
Sentencing Council
The Māori Trustee

Crown entities

Accident Compensation Corporation
Accounting Standards Review Board
Alcohol Advisory Council of New Zealand
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Career Services
Charities Commission
Children's Commissioner
Civil Aviation Authority of New Zealand
Commerce Commission
Crown Health Financing Agency
Crown research institutes (8)
District health boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Electricity Authority
Electoral Commission
Energy Efficiency and Conservation Authority
Environmental Risk Management Authority
Families Commission
Foundation for Research, Science and Technology
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Quality and Safety Commission*
Health Research Council of New Zealand
Health Sponsorship Council
Housing New Zealand Corporation
Human Rights Commission
Independent Police Conduct Authority
Law Commission
Legal Services Agency
Maritime New Zealand
Mental Health Commission
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Board
New Zealand Blood Service
New Zealand Film Commission
New Zealand Fire Service Commission
New Zealand Historic Places Trust (Pouhere Taonga)
New Zealand Lotteries Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Teachers Council
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Venture Investment Fund Limited
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School boards of trustees (2,479)
Securities Commission
Social Workers Registration Board
Sport and Recreation New Zealand
Standards Council
Takeovers Panel
Te Reo Whakapuaki Irirangi (Te Māngai Pāho)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Tertiary education institutions (31)
Testing Laboratory Registration Council
Transport Accident Investigation Commission

Crown entity subsidiaries are consolidated by their parents and not listed separately in this table

*The Health Quality and Safety Commission was listed as a Crown Agent in legislation on 9 November 2010, and begins operation on 1 December 2010.

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
Revenue								
Taxation revenue	1	50,347	53,457	52,072	56,685	60,349	64,211	67,807
Other sovereign revenue	1	4,682	5,759	5,700	6,012	6,444	6,925	7,627
Total revenue levied through the Crown's sovereign power		**55,029**	**59,216**	**57,772**	**62,697**	**66,793**	**71,136**	**75,434**
Sales of goods and services		14,331	15,399	15,591	16,148	17,198	17,872	18,396
Interest revenue and dividends	2	2,315	4,063	2,888	3,303	3,582	3,705	3,915
Other revenue		3,050	3,103	3,608	2,984	3,125	3,209	3,300
Total revenue earned through the Crown's operations		**19,696**	**22,565**	**22,087**	**22,435**	**23,905**	**24,786**	**25,611**
Total revenue (excluding gains)		**74,725**	**81,781**	**79,859**	**85,132**	**90,698**	**95,922**	**101,045**
Expenses								
Transfer payments and subsidies	3	21,213	22,628	22,411	23,189	23,934	24,701	25,668
Personnel expenses	4	18,477	19,109	18,939	19,157	19,478	19,436	19,673
Depreciation and amortisation	5	4,229	4,428	4,344	4,605	4,757	4,838	4,942
Other operating expenses	5	31,338	35,927	37,133	34,772	35,497	35,283	35,575
Interest expenses	6	2,777	4,612	3,388	4,322	4,823	5,162	5,610
Insurance expenses	7	3,006	3,725	5,362	3,759	4,051	4,369	4,719
Forecast new operating spending	8	-	394	230	1,442	2,529	3,634	4,819
Top-down expense adjustment	8	-	(410)	(850)	(150)	-	-	-
Total expenses (excluding losses)		**81,040**	**90,413**	**90,957**	**91,096**	**95,069**	**97,423**	**101,006**
Operating balance before gains/(losses)		**(6,315)**	**(8,632)**	**(11,098)**	**(5,964)**	**(4,371)**	**(1,501)**	**39**
Net gains/(losses) on financial instruments	9	2,522	1,250	2,227	1,365	1,609	1,906	2,176
Net gains/(losses) on non-financial instruments	10	(960)	181	(557)	165	175	180	183
Total gains/(losses)		**1,562**	**1,431**	**1,670**	**1,530**	**1,784**	**2,086**	**2,359**
Net surplus from associates and joint ventures		227	134	312	314	328	322	320
Operating balance (including minority interest)		**(4,526)**	**(7,067)**	**(9,116)**	**(4,120)**	**(2,259)**	**907**	**2,718**
Attributable to minority interest		17	-	-	-	-	-	-
Operating balance	11	**(4,509)**	**(7,067)**	**(9,116)**	**(4,120)**	**(2,259)**	**907**	**2,718**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Financial Performance (continued) – Functional Expense Analysis

for the years ending 30 June

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
Total Crown Expenses							
By functional classification							
Social security and welfare	24,206	26,127	25,708	26,840	28,004	29,274	30,570
GSF pension expenses	333	363	312	372	424	460	490
Health	12,673	13,379	13,308	13,186	13,151	13,127	13,115
Education	12,440	12,861	12,793	12,755	12,865	12,731	12,904
Core government services	2,830	3,922	3,919	3,954	3,929	3,974	4,007
Law and order	3,354	3,746	3,689	3,637	3,615	3,619	3,625
Defence	1,771	1,862	1,922	1,825	1,820	1,820	1,820
Transport and communications	7,991	8,184	8,464	8,374	8,609	8,870	9,105
Economic and industrial services	7,541	8,114	10,424	8,316	8,540	8,540	8,681
Primary services	1,373	1,742	1,690	1,682	1,674	1,661	1,668
Heritage, culture and recreation	2,584	3,344	3,525	2,827	3,435	2,881	2,891
Housing and community development	1,087	1,102	1,823	1,136	1,174	1,195	1,226
Other	80	1,071	612	578	477	475	475
Finance costs	2,777	4,612	3,388	4,322	4,823	5,162	5,610
Forecast new operating spending	-	394	230	1,442	2,529	3,634	4,819
Top-down expense adjustment	-	(410)	(850)	(150)	-	-	-
Total Crown expenses excluding losses	**81,040**	**90,413**	**90,957**	**91,096**	**95,069**	**97,423**	**101,006**

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank, but not Crown entities and State-owned enterprises.

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
Core Crown Expenses							
By functional classification							
Social security and welfare	21,185	22,120	22,052	22,792	23,659	24,780	25,739
GSF pension expenses	328	357	304	362	414	450	480
Health	13,128	14,043	13,956	13,971	13,966	13,780	13,755
Education	11,724	11,992	12,048	12,019	12,061	11,875	12,018
Core government services	2,974	3,979	4,069	4,043	4,019	4,061	4,094
Law and order	3,191	3,537	3,481	3,429	3,404	3,401	3,400
Defence	1,814	1,912	1,972	1,872	1,867	1,867	1,867
Transport and communications	2,345	2,417	2,563	2,134	2,064	2,081	2,081
Economic and industrial services	2,839	2,828	2,989	2,652	2,520	2,484	2,512
Primary services	507	757	792	759	740	718	716
Heritage, culture and recreation	1,281	2,037	2,187	1,453	1,961	1,380	1,357
Housing and community development	306	370	1,073	365	373	377	394
Other	80	1,088	612	578	477	475	475
Finance costs	2,311	3,230	3,082	3,683	4,179	4,542	4,919
Forecast new operating spending	-	394	230	1,442	2,529	3,634	4,819
Top-down expense adjustment	-	(410)	(850)	(150)	-	-	-
Total core Crown expenses excluding losses	**64,013**	**70,651**	**70,560**	**71,404**	**74,233**	**75,905**	**78,626**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Comprehensive Income

for the years ending 30 June

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
Revaluation of physical assets	196	-	(41)	-	-	-	-
Effective portion of changes in the fair value of cash flow hedges	(112)	5	5	13	2	-	-
Net change in fair value of cash flow hedges transferred to operating balance	(62)	(1)	-	-	-	-	-
Net change in fair value of cash flow hedges transferred to the hedged item	(3)	-	(14)	(6)	-	-	-
Foreign currency translation differences for foreign operations	(11)	-	(25)	-	-	-	-
Valuation gain/(losses) on investments available for sale taken to reserves	3	1	9	6	10	13	15
Other movements	(1)	(1)	3	2	4	3	7
Other comprehensive income for the year	**10**	**4**	**(63)**	**15**	**16**	**16**	**22**
Operating balance (including minority interest)	(4,526)	(7,067)	(9,116)	(4,120)	(2,259)	907	2,718
Total Comprehensive Income	**(4,516)**	**(7,063)**	**(9,179)**	**(4,105)**	**(2,243)**	**923**	**2,740**
Attributable to:							
- minority interest	(34)	-	-	-	-	-	-
- the Crown	(4,482)	(7,063)	(9,179)	(4,105)	(2,243)	923	2,740
Total Comprehensive Income	**(4,516)**	**(7,063)**	**(9,179)**	**(4,105)**	**(2,243)**	**923**	**2,740**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Cash Flows

for the years ending 30 June

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
Cash Flows From Operations							
Cash was provided from							
Taxation receipts	50,104	52,681	51,665	55,905	59,624	63,345	66,870
Other sovereign receipts	4,268	4,792	4,797	5,022	5,128	5,215	5,224
Sales of goods and services	14,411	15,173	15,232	15,501	16,584	17,107	17,740
Interest and dividend receipts	2,378	3,592	2,650	3,243	3,249	3,377	3,719
Other operating receipts	2,974	2,960	3,452	3,756	3,383	3,382	3,375
Total cash provided from operations	**74,135**	**79,198**	**77,796**	**83,427**	**87,968**	**92,426**	**96,928**
Cash was disbursed to							
Transfer payments and subsidies	21,335	22,642	22,436	23,136	24,114	24,705	25,729
Personnel and operating payments	50,767	54,693	57,679	54,125	54,259	54,806	55,237
Interest payments	2,420	3,979	3,190	4,180	5,024	5,186	5,924
Forecast new operating spending	-	394	230	1,442	2,529	3,634	4,819
Top-down expense adjustment	-	(410)	(850)	(150)	-	-	-
Total cash disbursed to operations	**74,522**	**81,298**	**82,685**	**82,733**	**85,926**	**88,331**	**91,709**
Net cash flows from operations	**(387)**	**(2,100)**	**(4,889)**	**694**	**2,042**	**4,095**	**5,219**
Cash Flows From Investing Activities							
Cash was provided from/(disbursed to)							
Net purchase of physical assets	(5,866)	(7,842)	(7,718)	(7,056)	(6,566)	(6,312)	(5,721)
Net purchase of shares and other securities	2,093	(1,088)	281	1,554	2,988	(5,915)	2,466
Net purchase of intangible assets	(377)	(513)	(537)	(454)	(352)	(310)	(285)
Net repayment/(issues) of advances	(310)	(1,426)	(1,503)	(868)	(442)	(407)	(370)
Net acquisition of investments in associates	(198)	(468)	(122)	(297)	(303)	(207)	(180)
Forecast new capital spending	-	(282)	(292)	(732)	(707)	(981)	(1,170)
Top-down capital adjustment	-	300	350	150	-	-	-
Net cash flows from investing activities	**(4,658)**	**(11,319)**	**(9,541)**	**(7,703)**	**(5,382)**	**(14,132)**	**(5,260)**
Net cash flows from operating and investing activities	**(5,045)**	**(13,419)**	**(14,430)**	**(7,009)**	**(3,340)**	**(10,037)**	**(41)**
Cash Flows From Financing Activities							
Cash was provided from/(disbursed to)							
Issues of circulating currency	15	104	117	207	217	228	239
Net issue/(repayment) of Government stock[1]	7,158	11,718	13,753	5,582	2,450	8,926	(598)
Net issue/(repayment) of foreign-currency borrowings	3,296	(5,320)	(4,789)	(3,793)	(783)	(920)	(1,454)
Net issue/(repayment) of other New Zealand dollar borrowings	(3,765)	6,898	7,384	4,950	1,429	2,144	2,117
Net cash flows from financing activities	**6,704**	**13,400**	**16,465**	**6,946**	**3,313**	**10,378**	**304**
Net movement in cash	**1,659**	**(19)**	**2,035**	**(63)**	**(27)**	**341**	**263**
Opening cash balance	6,268	6,143	7,774	9,687	9,624	9,597	9,938
Foreign-exchange gains/(losses) on opening cash	(153)	2	(122)	-	-	-	-
Closing cash balance	**7,774**	**6,126**	**9,687**	**9,624**	**9,597**	**9,938**	**10,201**

[1] Net issues of Government stock is after elimination of holdings by entities such as NZS Fund, ACC and EQC. Further information on the proceeds and repayments of Government stock ("domestic bonds") is available in note 22.

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Cash Flows (continued)

for the years ending 30 June

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
Net Cash Flows from Operations	**(387)**	**(2,100)**	**(4,889)**	**694**	**2,042**	**4,095**	**5,219**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses)							
Net gains/(losses) on financial instruments	2,522	1,250	2,227	1,365	1,609	1,906	2,176
Net gains/(losses) on non-financial instruments	(960)	181	(557)	165	175	180	183
Total gains/(losses)	**1,562**	**1,431**	**1,670**	**1,530**	**1,784**	**2,086**	**2,359**
Other Non-cash Items in Operating Balance							
Depreciation and amortisation	(4,229)	(4,428)	(4,344)	(4,605)	(4,757)	(4,838)	(4,942)
Write-down on initial recognition of financial assets	(855)	(896)	(809)	(819)	(829)	(839)	(848)
Impairment on financial assets (excl receivables)	33	5	16	16	16	15	16
Decrease/(increase) in defined benefit retirement plan liabilities	284	337	356	259	168	153	153
Decrease/(increase) in insurance liabilities	(974)	(1,329)	(1,642)	(860)	(1,537)	(1,684)	(1,872)
Other	244	135	317	314	328	322	320
Total other non-cash Items	**(5,497)**	**(6,176)**	**(6,106)**	**(5,695)**	**(6,611)**	**(6,871)**	**(7,173)**
Movements in Working Capital							
Increase/(decrease) in receivables	(338)	225	1,086	(944)	(464)	(33)	357
Increase/(decrease) in accrued interest	(420)	(162)	41	(82)	534	352	511
Increase/(decrease) in inventories	78	51	86	48	45	31	52
Increase/(decrease) in prepayments	18	(7)	(12)	(2)	1	-	4
Decrease/(increase) in deferred revenue	(202)	109	192	77	40	22	22
Decrease/(increase) in payables	677	(438)	(1,184)	254	370	1,225	1,367
Total movements in working capital	**(187)**	**(222)**	**209**	**(649)**	**526**	**1,597**	**2,313**
Operating balance	**(4,509)**	**(7,067)**	**(9,116)**	**(4,120)**	**(2,259)**	**907**	**2,718**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
Opening net worth	99,515	96,479	94,988	85,809	81,704	79,461	80,384
Operating balance (including minority interest)	(4,526)	(7,067)	(9,116)	(4,120)	(2,259)	907	2,718
Net revaluations	196	-	(41)	-	-	-	-
Transfers to/(from) reserves	(96)	4	8	15	6	3	7
(Gains)/losses transferred to the statement of financial performance	(60)	(1)	-	-	-	-	-
Other movements	(30)	1	(30)	-	10	13	15
Total comprehensive income	**(4,516)**	**(7,063)**	**(9,179)**	**(4,105)**	**(2,243)**	**923**	**2,740**
Transactions with minority interest in Air New Zealand	(11)	-	-	-	-	-	-
Closing net worth	**94,988**	**89,416**	**85,809**	**81,704**	**79,461**	**80,384**	**83,124**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Financial Position

as at 30 June

	Note	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
Assets								
Cash and cash equivalents	12	7,774	6,126	9,687	9,624	9,597	9,938	10,201
Receivables	12	13,884	14,038	14,970	14,026	13,563	13,530	13,886
Marketable securities, deposits and derivatives in gain	12	43,687	46,220	42,375	38,641	34,382	38,970	35,504
Share investments	12	12,179	17,771	13,704	16,945	19,627	22,379	25,346
Advances	12	18,447	20,411	19,642	23,354	24,181	24,407	24,600
Inventory		1,160	1,228	1,245	1,293	1,338	1,369	1,421
Other assets		1,661	1,488	1,705	1,703	1,709	1,705	1,703
Property, plant & equipment	14	113,330	117,742	117,328	120,491	123,140	125,865	127,749
Equity accounted investments[1]		9,049	9,440	9,345	9,554	9,773	9,976	10,173
Intangible assets and goodwill	15	2,184	2,596	2,369	2,464	2,429	2,371	2,308
Forecast for new capital spending		-	282	292	1,024	1,731	2,712	3,882
Top-down capital adjustment		-	(425)	(350)	(500)	(500)	(500)	(500)
Total assets		**223,355**	**236,917**	**232,312**	**238,619**	**240,970**	**252,722**	**256,273**
Liabilities								
Issued currency		4,020	4,251	4,137	4,344	4,561	4,789	5,028
Payables	17	9,931	10,001	9,562	10,092	10,226	10,705	11,117
Deferred revenue		1,628	1,222	1,436	1,360	1,320	1,298	1,298
Borrowings		69,733	89,416	85,876	95,189	97,949	107,278	106,651
Insurance liabilities	18	27,131	28,635	29,604	30,464	32,001	33,685	35,557
Retirement plan liabilities	19	9,940	8,821	9,436	9,113	8,832	8,580	8,352
Provisions	20	5,984	5,155	6,452	6,353	6,620	6,003	5,146
Total liabilities		**128,367**	**147,501**	**146,503**	**156,915**	**161,509**	**172,338**	**173,149**
Total assets less total liabilities		**94,988**	**89,416**	**85,809**	**81,704**	**79,461**	**80,384**	**83,124**
Net Worth								
Taxpayer funds	21	31,087	26,983	22,010	17,925	15,710	16,644	19,393
Property, plant and equipment revaluation reserve	21	63,593	62,086	63,516	63,483	63,443	63,419	63,395
Other reserves	21	(94)	(100)	(119)	(106)	(94)	(81)	(66)
Total net worth attributable to the Crown		**94,586**	**88,969**	**85,407**	**81,302**	**79,059**	**79,982**	**82,722**
Net worth attributable to minority interest		402	447	402	402	402	402	402
Total net worth		**94,988**	**89,416**	**85,809**	**81,704**	**79,461**	**80,384**	**83,124**

[1] Tertiary education institutions constitute most equity accounted investments.

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Borrowings

as at 30 June

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
Borrowings							
Government stock	27,926	41,328	40,153	45,228	47,100	55,697	54,664
Treasury bills	7,625	9,509	7,428	7,595	7,585	7,585	7,584
Government retail stock	309	337	295	295	295	295	295
Settlement deposits with Reserve Bank	6,679	7,602	7,108	7,108	7,108	7,108	7,108
Derivatives in loss	2,376	1,369	1,555	1,382	1,380	1,300	1,258
Finance lease liabilities	920	1,037	1,052	1,324	1,226	1,589	1,616
Other borrowings	23,898	28,234	28,285	32,257	33,255	33,704	34,126
Total borrowings	**69,733**	**89,416**	**85,876**	**95,189**	**97,949**	**107,278**	**106,651**
Total sovereign-guaranteed debt	50,017	65,890	64,188	69,349	70,970	79,369	78,307
Total non-sovereign-guaranteed debt	19,716	23,526	21,688	25,840	26,979	27,909	28,344
Total borrowings	**69,733**	**89,416**	**85,876**	**95,189**	**97,949**	**107,278**	**106,651**
Net debt:							
Core Crown borrowings[1]	58,583	73,196	73,001	78,200	80,728	90,146	90,035
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	308	(31)	58	10	8	(15)	(55)
Gross sovereign-issued debt[2]	**58,891**	**73,165**	**73,059**	**78,210**	**80,736**	**90,131**	**89,980**
Less core Crown financial assets[3]	57,209	61,317	58,816	56,174	52,746	58,085	55,183
Net core Crown debt (incl. NZS Fund)[4]	**1,682**	**11,848**	**14,243**	**22,036**	**27,990**	**32,046**	**34,797**
Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[5]	14,189	16,575	15,785	17,132	18,576	20,108	21,772
Net core Crown debt (excl. NZS Fund)[4]	**15,871**	**28,423**	**30,028**	**39,168**	**46,566**	**52,154**	**56,569**
Core Crown Advances	10,867	11,542	12,050	12,496	13,058	13,604	13,900
Net core Crown debt (excl. NZS Fund and advances)[6]	**26,738**	**39,965**	**42,078**	**51,664**	**59,624**	**65,758**	**70,469**
Gross debt:							
Gross sovereign-issued debt[2]	58,891	73,165	73,059	78,210	80,736	90,131	89,980
Less Reserve Bank settlement cash and bank bills	(6,900)	(7,796)	(7,259)	(7,259)	(7,259)	(7,259)	(7,259)
Add back changes to DMO borrowing due to settlement cash[7]	1,600	1,600	1,600	1,600	1,600	1,600	1,600
Gross sovereign-issued debt excluding Reserve Bank settlement cash and bank bills[4]	**53,591**	**66,969**	**67,400**	**72,551**	**75,077**	**84,472**	**84,321**

Notes on Borrowings

Total Borrowings can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by State-owned enterprises and Crown entities are not explicitly guaranteed by the Crown. Sovereign-guaranteed debt excludes Kiwibank deposits guaranteed under the retail deposit guarantee scheme. No other debt of State-owned enterprises and Crown entities is currently guaranteed by the Crown.

1. Core Crown borrowings in this instance includes unsettled purchases of securities (classified as accounts payable in the statement of financial position).

2. Gross sovereign-issued debt (GSID) represents debt issued by the sovereign (the core Crown) and includes any Government stock held by the New Zealand Superannuation Fund (NZS Fund), ACC and EQC.

3. Core Crown financial assets exclude receivables.

4. Net core Crown debt represents GSID less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the credit worthiness of a country.

5. Adding back the NZS Fund assets provides the financial liabilities less financial assets of the core Crown, excluding those assets set aside to meet part of the future cost of New Zealand superannuation.

6. Net core Crown debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.

7. The Reserve Bank has used $1.6 billion of settlement cash to purchase reserves that were to have been funded by the NZ Debt Management Office borrowing. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

The accompanying notes and accounting policies are an integral part of these Statements.

Statement of Actual Commitments

as at 31 October 2010

	As at 31 Oct 2010 $m	As at 30 June 2010 $m
Capital Commitments		
Specialist military equipment	417	422
Land and buildings	818	849
Other property, plant and equipment	6,473	6,370
Other capital commitments	242	224
Tertiary Education Institutions	302	302
Total capital commitments	**8,252**	**8,167**
Operating Commitments		
Non-cancellable accommodation leases	2,925	2,862
Other non-cancellable leases	3,557	3,230
Non-cancellable contracts for the supply of goods and services	2,361	2,258
Other operating commitments	9,062	9,376
Tertiary Education Institutions	304	304
Total operating commitments	**18,209**	**18,030**
Total commitments	**26,461**	**26,197**
Total Commitments by Segment		
Core Crown	16,423	20,983
Crown entities	13,219	13,811
State-owned enterprises	7,775	7,242
Inter-segment eliminations	(10,956)	(15,839)
Total commitments	**26,461**	**26,197**

Statement of Actual Contingent Liabilities and Assets

as at 31 October 2010

	As at 31 Oct 2010 $m	As at 30 June 2010 $m
Quantifiable Contingent Liabilities		
Guarantees and indemnities	103	106
Uncalled capital	2,151	2,310
Legal proceedings and disputes	413	414
Other contingent liabilities	3,576	3,535
Total quantifiable contingent liabilities	**6,243**	**6,365**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	5,916	6,050
Crown entities	258	171
State-owned enterprises	69	144
Inter-segment eliminations	-	-
Total quantifiable contingent liabilities	**6,243**	**6,365**
Quantifiable Contingent Assets by Segment		
Core Crown	634	570
Crown entities	3	2
Total quantifiable contingent assets	**637**	**572**

The accompanying notes and accounting policies are an integral part of these Statements.

More information on contingent liabilities (quantified and unquantified) is outlined on pages 68 to 80 of the Fiscal Risks chapter.

Notes to the Forecast Financial Statements

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 1: Revenue Collected Through the Crown's Sovereign Power							
Taxation Revenue (accrual)							
Individuals							
Source deductions	21,774	20,174	20,376	20,936	22,575	24,398	26,219
Other persons	3,987	4,403	3,883	4,543	4,609	4,814	5,087
Refunds	(1,831)	(1,484)	(1,629)	(1,484)	(1,483)	(1,521)	(1,613)
Fringe benefit tax	461	430	441	430	448	475	502
Total individuals	**24,391**	**23,523**	**23,071**	**24,425**	**26,149**	**28,166**	**30,195**
Corporate Tax							
Gross companies tax	6,698	8,214	7,897	8,605	8,987	9,369	9,735
Refunds	(379)	(376)	(371)	(430)	(451)	(485)	(504)
Non-resident withholding tax	884	628	495	579	635	660	681
Foreign-source dividend w/holding payments	(3)	8	2	2	2	2	2
Total corporate tax	**7,200**	**8,474**	**8,023**	**8,756**	**9,173**	**9,546**	**9,914**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,804	1,465	1,589	1,990	2,370	2,666	2,961
Resident w/holding tax on dividend income	130	240	221	233	314	490	505
Estate and gift duties	2	1	1	-	-	-	-
Total other direct income tax	**1,936**	**1,706**	**1,811**	**2,223**	**2,684**	**3,156**	**3,466**
Total direct income tax	**33,527**	**33,703**	**32,905**	**35,404**	**38,006**	**40,868**	**43,575**
Goods and Services Tax							
Gross goods and services tax	19,797	23,968	23,726	27,222	29,407	31,404	33,235
Refunds	(7,880)	(9,524)	(9,703)	(11,460)	(12,765)	(13,925)	(15,028)
Total goods and services tax	**11,917**	**14,444**	**14,023**	**15,762**	**16,642**	**17,479**	**18,207**
Other Indirect Taxation							
Road user charges	910	955	963	1,011	1,071	1,133	1,193
Petroleum fuels excise - domestic production	805	907	895	964	991	1,028	1,060
Alcohol excise - domestic production	600	657	625	665	698	731	762
Tobacco excise - domestic production	217	209	194	217	225	226	229
Petroleum fuels excise - imports[1]	622	600	597	643	661	685	707
Alcohol excise - imports[1]	225	242	234	250	262	274	286
Tobacco excise - imports[1]	851	1,020	908	1,060	1,101	1,105	1,119
Other customs duty	175	198	220	199	179	160	139
Gaming duties	219	228	218	221	221	224	226
Motor vehicle fees	171	175	176	180	185	191	197
Energy resources levies	39	38	38	38	36	36	36
Approved issuer levy and cheque duty	69	81	76	71	71	71	71
Total other indirect taxation	**4,903**	**5,310**	**5,144**	**5,519**	**5,701**	**5,864**	**6,025**
Total indirect taxation	**16,820**	**19,754**	**19,167**	**21,281**	**22,343**	**23,343**	**24,232**
Total taxation revenue	**50,347**	**53,457**	**52,072**	**56,685**	**60,349**	**64,211**	**67,807**
Other Sovereign Revenue (accrual)							
ACC levies	3,261	3,823	3,855	4,039	4,159	4,297	4,441
Fire Service levies	301	309	306	312	318	326	334
EQC levies	86	87	87	87	87	87	87
Other miscellaneous items	1,034	1,540	1,452	1,574	1,880	2,215	2,765
Total other sovereign revenue	**4,682**	**5,759**	**5,700**	**6,012**	**6,444**	**6,925**	**7,627**
Total sovereign revenue	**55,029**	**59,216**	**57,772**	**62,697**	**66,793**	**71,136**	**75,434**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power							
Taxation Receipts (cash)							
Individuals							
Source deductions	21,744	20,314	20,483	20,835	22,472	24,297	26,118
Other persons	4,630	4,875	4,319	5,056	5,087	5,300	5,643
Refunds	(2,793)	(2,255)	(2,298)	(2,192)	(2,169)	(2,228)	(2,373)
Fringe benefit tax	469	433	440	421	443	467	494
Total individuals	**24,050**	**23,367**	**22,944**	**24,120**	**25,833**	**27,836**	**29,882**
Corporate Tax							
Gross companies tax	8,650	9,051	8,908	9,158	9,577	9,820	10,099
Refunds	(1,644)	(1,314)	(1,141)	(1,138)	(1,122)	(1,152)	(1,168)
Non-resident withholding tax	889	627	494	578	634	659	680
Foreign-source dividend w/holding payments	6	8	2	2	2	2	2
Total corporate tax	**7,901**	**8,372**	**8,263**	**8,600**	**9,091**	**9,329**	**9,613**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,833	1,463	1,588	1,989	2,369	2,665	2,960
Resident w/holding tax on dividend income	114	240	221	233	314	490	505
Estate and gift duties	2	1	1	-	-	-	-
Total other direct income tax	**1,949**	**1,704**	**1,810**	**2,222**	**2,683**	**3,155**	**3,465**
Total direct income tax	**33,900**	**33,443**	**33,017**	**34,942**	**37,607**	**40,320**	**42,960**
Goods and Services Tax							
Gross goods and services tax	18,797	23,052	22,562	26,338	28,517	30,522	32,350
Refunds	(7,456)	(9,124)	(9,059)	(10,894)	(12,201)	(13,361)	(14,465)
Total goods and services tax	**11,341**	**13,928**	**13,503**	**15,444**	**16,316**	**17,161**	**17,885**
Other Indirect Taxation							
Petroleum fuels excise	805	907	895	964	991	1,028	1,060
Tobacco excise	214	209	194	217	225	226	229
Customs duty	1,805	2,060	1,959	2,152	2,203	2,224	2,251
Road user charges	908	955	963	1,011	1,071	1,133	1,193
Alcohol excise	622	657	625	665	698	731	762
Gaming duties	218	228	219	221	221	224	226
Motor vehicle fees	195	175	176	180	185	191	197
Energy resources levies	37	38	38	38	36	36	36
Approved issuer levy and cheque duty	59	81	76	71	71	71	71
Total other indirect taxation	**4,863**	**5,310**	**5,145**	**5,519**	**5,701**	**5,864**	**6,025**
Total indirect taxation	**16,204**	**19,238**	**18,648**	**20,963**	**22,017**	**23,025**	**23,910**
Total Taxation Receipts	**50,104**	**52,681**	**51,665**	**55,905**	**59,624**	**63,345**	**66,870**
Other Sovereign Receipts (cash)							
ACC levies	3,291	3,761	3,760	3,972	4,087	4,154	4,143
Fire Service levies	301	309	306	312	318	326	334
EQC levies	86	87	87	87	87	87	87
Other miscellaneous items	590	635	644	651	636	648	660
Total other sovereign receipts	**4,268**	**4,792**	**4,797**	**5,022**	**5,128**	**5,215**	**5,224**
Total sovereign receipts	**54,372**	**57,473**	**56,462**	**60,927**	**64,752**	**68,560**	**72,094**

Notes to the Forecast Financial Statements

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 2: Interest Revenue and Dividends							
By type							
Interest revenue	1,926	3,482	2,432	2,749	2,942	2,987	3,137
Dividends	389	581	456	554	640	718	778
Total interest revenue and dividends	**2,315**	**4,063**	**2,888**	**3,303**	**3,582**	**3,705**	**3,915**
By source							
Core Crown	2,135	2,487	2,128	2,508	2,862	3,025	3,179
Crown entities	1,146	939	1,075	1,093	1,226	1,368	1,512
State-owned enterprises	626	1,550	859	918	961	964	971
Inter-segment eliminations	(1,592)	(913)	(1,174)	(1,216)	(1,467)	(1,652)	(1,747)
Total interest revenue and dividends	**2,315**	**4,063**	**2,888**	**3,303**	**3,582**	**3,705**	**3,915**
NOTE 3: Transfer Payments and Subsidies							
New Zealand superannuation	8,290	8,822	8,817	9,481	10,112	10,820	11,606
Domestic purposes benefit	1,693	1,756	1,771	1,861	1,921	1,980	2,040
Unemployment benefit	930	969	980	990	921	867	817
Invalids benefit	1,303	1,319	1,314	1,362	1,396	1,430	1,463
Family tax credit	2,168	2,239	2,219	2,193	2,207	2,169	2,237
Accommodation supplement	1,154	1,221	1,214	1,254	1,273	1,296	1,321
Sickness benefit	710	760	726	738	762	788	813
Student allowances	570	656	624	622	574	524	501
Disability allowances	411	421	413	421	432	445	458
Other social assistance benefits	2,525	2,801	2,774	2,656	2,693	2,752	2,747
Total social assistance grants	**19,754**	**20,964**	**20,852**	**21,578**	**22,291**	**23,071**	**24,003**
Subsidies							
KiwiSaver subsidies	1,024	1,179	1,066	1,102	1,084	1,071	1,106
Other transfer payments							
Official development assistance	435	485	493	509	559	559	559
Total transfer payments and subsidies	**21,213**	**22,628**	**22,411**	**23,189**	**23,934**	**24,701**	**25,668**
NOTE 4: Personnel Expenses							
Core Crown	5,991	6,076	5,979	6,017	6,045	6,100	6,154
Crown entities	10,043	10,516	10,318	10,454	10,700	10,552	10,685
State-owned enterprises	2,455	2,526	2,651	2,695	2,742	2,793	2,843
Inter-segment eliminations	(12)	(9)	(9)	(9)	(9)	(9)	(9)
Total personnel expenses	**18,477**	**19,109**	**18,939**	**19,157**	**19,478**	**19,436**	**19,673**
NOTE 5: Depreciation, Amortisation and Other Operating Expenses							
Core Crown	34,226	38,677	39,651	37,159	37,478	36,679	36,820
Crown entities	18,392	17,903	17,991	17,695	17,699	17,809	17,944
State-owned enterprises	9,494	10,237	10,356	10,849	11,418	11,686	11,985
Inter-segment eliminations	(26,545)	(26,462)	(26,521)	(26,326)	(26,341)	(26,053)	(26,232)
Total depreciation, amortisation and other operating expenses	**35,567**	**40,355**	**41,477**	**39,377**	**40,254**	**40,121**	**40,517**

Notes to the Forecast Financial Statements

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 6: Interest Expenses							
By type							
Interest on financial liabilities	2,724	4,537	3,303	4,249	4,750	5,085	5,531
Interest unwind on provisions	53	75	85	73	73	77	79
Total interest expenses	**2,777**	**4,612**	**3,388**	**4,322**	**4,823**	**5,162**	**5,610**
By source							
Core Crown	2,311	3,230	3,082	3,683	4,179	4,542	4,919
Crown entities	245	181	263	289	302	305	307
State-owned enterprises	845	1,733	1,074	1,205	1,243	1,299	1,437
Inter-segment eliminations	(624)	(532)	(1,031)	(855)	(901)	(984)	(1,053)
Total interest expenses	**2,777**	**4,612**	**3,388**	**4,322**	**4,823**	**5,162**	**5,610**
NOTE 7: Insurance Expenses							
By entity							
ACC	2,922	3,668	3,298	3,696	3,984	4,298	4,649
Earthquake Commission	64	39	2,046	45	49	52	51
Other	20	18	18	18	18	19	19
Total insurance expenses	**3,006**	**3,725**	**5,362**	**3,759**	**4,051**	**4,369**	**4,719**
NOTE 8: Forecast New Operating Spending and Top-Down Adjustment							
Forecast new spending up to Budget 2011	-	394	230	434	376	340	340
Forecast for future new spending	-	-	-	1,008	2,153	3,294	4,479
Total forecast new operating spending	**-**	**394**	**230**	**1,442**	**2,529**	**3,634**	**4,819**
Top-down expense adjustment	**-**	**(410)**	**(850)**	**(150)**	**-**	**-**	**-**

Forecast new spending up to Budget 2011 represents expenses included in Budget 2010 that have yet to be allocated.

Forecast for future new spending indicates the expected spending increases from the operating allowances planned for future budgets.

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 9: Gains and Losses on Financial Instruments							
By source							
Core Crown	2,094	1,231	1,902	1,455	1,535	1,683	1,827
Crown entities	787	209	615	120	284	445	583
State-owned enterprises	(105)	(11)	(65)	(6)	6	6	(2)
Inter-segment eliminations	(254)	(179)	(225)	(204)	(216)	(228)	(232)
Net gains/(losses) on financial instruments	**2,522**	**1,250**	**2,227**	**1,365**	**1,609**	**1,906**	**2,176**
NOTE 10: Gains and Losses on Non-Financial Instruments							
By type							
Actuarial gains/(losses) on GSF liability	(1,231)	-	144	-	-	-	-
Actuarial gains/(losses) on ACC outstanding claims	410	-	(831)	-	-	-	-
Other	(139)	181	130	165	175	180	183
Net gains/(losses) on non-financial instruments	**(960)**	**181**	**(557)**	**165**	**175**	**180**	**183**
By source							
Core Crown	(1,351)	21	122	(15)	(15)	(15)	(16)
Crown entities	398	(17)	(846)	(1)	(1)	(1)	(1)
State-owned enterprises	(7)	177	168	180	191	197	200
Inter-segment eliminations	-	-	(1)	1	-	(1)	-
Net gains/(losses) on non-financial instruments	**(960)**	**181**	**(557)**	**165**	**175**	**180**	**183**

Notes to the Forecast Financial Statements

	2010	2011	2011	2012	2013	2014	2015
		Previous					
	Actual	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	$m	$m	$m	$m	$m	$m	$m
NOTE 11: Source of Operating Balance							
Core Crown	(7,000)	(9,082)	(10,022)	(6,441)	(4,812)	(1,873)	(147)
Crown entities	2,373	1,423	234	1,998	2,108	2,201	2,266
State-owned enterprises	635	1,014	1,059	907	1,241	1,480	1,543
Inter-segment eliminations	(517)	(422)	(387)	(584)	(796)	(901)	(944)
Total operating balance	**(4,509)**	**(7,067)**	**(9,116)**	**(4,120)**	**(2,259)**	**907**	**2,718**
NOTE 12: Financial Assets							
Cash and cash equivalents	7,774	6,126	9,687	9,624	9,597	9,938	10,201
Tax receivables	6,864	6,288	6,214	5,862	5,447	5,152	4,905
Trade and other receivables	7,020	7,750	8,756	8,164	8,116	8,378	8,981
Student loans (refer note 13)	6,790	7,300	7,239	7,641	7,964	8,218	8,399
Kiwibank mortgages	10,419	12,411	11,106	14,381	14,985	14,985	14,985
Long-term deposits	2,784	2,240	2,712	2,748	2,804	2,861	2,915
IMF financial assets	2,199	2,546	2,430	2,430	2,431	2,432	2,432
Other advances	1,238	700	1,297	1,332	1,232	1,204	1,216
Share investments	12,179	17,771	13,704	16,945	19,627	22,379	25,346
Derivatives in gain	2,972	1,771	2,839	2,189	1,816	1,416	1,247
Other marketable securities	35,732	39,663	34,394	31,274	27,331	32,261	28,910
Total financial assets	**95,971**	**104,566**	**100,378**	**102,590**	**101,350**	**109,224**	**109,537**
Financial assets by entity							
NZDMO	23,097	24,360	24,216	18,709	12,515	15,768	10,851
Reserve Bank of New Zealand	19,260	18,928	17,965	17,797	17,624	17,644	17,176
NZ Superannuation Fund	15,552	16,452	16,610	17,815	19,159	20,643	22,269
Other core Crown	16,508	16,777	17,027	16,560	16,359	17,744	16,347
Intra-segment eliminations	(8,437)	(6,845)	(8,190)	(6,582)	(5,422)	(6,630)	(4,508)
Total core Crown segment	65,980	69,672	67,628	64,299	60,235	65,169	62,135
ACC portfolio	16,975	18,897	20,513	23,134	26,058	29,224	32,581
EQC portfolio	6,003	6,424	5,299	5,083	5,443	5,834	6,260
Other Crown entities	6,874	6,352	6,406	6,709	7,015	7,299	7,555
Intra-segment eliminations	(1,716)	(1,482)	(1,200)	(1,514)	(1,523)	(1,532)	(1,541)
Total Crown entities segment	28,136	30,191	31,018	33,412	36,993	40,825	44,855
Total State-owned enterprises segment	16,064	18,987	17,721	21,093	21,584	21,980	22,263
Inter-segment eliminations	(14,209)	(14,284)	(15,989)	(16,214)	(17,462)	(18,750)	(19,716)
Total financial assets	**95,971**	**104,566**	**100,378**	**102,590**	**101,350**	**109,224**	**109,537**
NOTE 13: Student Loans							
Nominal value (including accrued interest)	11,145	12,050	11,987	12,762	13,447	14,054	14,573
Opening book value	6,553	6,874	6,790	7,239	7,641	7,964	8,218
Amount borrowed in current year	1,525	1,616	1,547	1,558	1,580	1,602	1,622
Less initial write down to fair value	(728)	(772)	(706)	(711)	(720)	(730)	(739)
Repayments made during the year	(754)	(826)	(791)	(878)	(997)	(1,101)	(1,213)
Interest unwind	463	506	496	530	558	582	610
(Impairment)/reversal of impairment	(280)	(110)	(110)	(110)	(110)	(110)	(110)
Other movements	11	12	13	13	12	11	11
Closing book value	**6,790**	**7,300**	**7,239**	**7,641**	**7,964**	**8,218**	**8,399**

Notes to the Forecast Financial Statements

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 14: Property, Plant and Equipment							
By Class of asset							
Net Carrying Value							
Land (valuation)	16,688	16,570	16,895	16,934	16,966	17,097	17,238
Buildings (valuation)	24,019	25,831	24,921	25,437	25,568	25,767	25,595
Electricity distribution network (cost)	2,251	2,887	2,722	3,336	3,822	4,022	4,224
Electricity generation assets (valuation)	13,642	12,333	13,830	13,818	14,372	14,818	15,247
Aircraft (excluding military) (valuation)	1,731	2,347	1,842	2,365	2,648	3,071	3,204
State highways (valuation)	24,838	25,596	26,033	26,795	27,548	28,407	29,374
Rail network (valuation)	12,437	13,224	13,076	13,418	13,875	14,283	14,505
Specialist military equipment (valuation)	3,413	3,835	3,494	3,526	3,391	3,179	2,965
Specified cultural and heritage assets (valuation)	8,505	8,645	8,480	8,526	8,555	8,579	8,604
Other plant and equipment (cost)	5,806	6,474	6,035	6,336	6,395	6,642	6,793
Total property, plant and equipment	**113,330**	**117,742**	**117,328**	**120,491**	**123,140**	**125,865**	**127,749**
By source							
Core Crown	29,986	31,877	30,691	30,923	30,729	30,767	30,442
Crown entities	48,109	49,453	49,908	51,260	52,311	53,247	54,246
State-owned enterprises	35,235	36,412	36,729	38,308	40,100	41,851	43,061
Inter-segment eliminations	-	-	-	-	-	-	-
Total property, plant and equipment	**113,330**	**117,742**	**117,328**	**120,491**	**123,140**	**125,865**	**127,749**
Schedule of movements							
Cost or valuation							
Opening balance	119,547	125,897	123,941	132,002	139,012	145,602	152,354
Additions (refer below for further breakdown)	6,555	8,221	8,162	7,628	7,024	6,785	6,493
Disposals	(977)	(229)	(292)	(325)	(311)	(415)	(372)
Net Revaluations	(1,143)	-	(41)	-	-	-	-
Other	(41)	(273)	232	(293)	(123)	382	(48)
Total cost or valuation	**123,941**	**133,616**	**132,002**	**139,012**	**145,602**	**152,354**	**158,427**
Accumulated depreciation and impairment							
Opening balance	9,412	12,263	10,611	14,674	18,521	22,461	26,489
Eliminated on disposal	(587)	(64)	(75)	(105)	(102)	(95)	(84)
Eliminated on revaluation	(1,349)	-	-	-	-	-	-
Depreciation expense	3,582	3,834	3,756	4,008	4,146	4,225	4,360
Other	(447)	(159)	382	(56)	(103)	(102)	(87)
Total accumulated depreciation and impairment	**10,611**	**15,874**	**14,674**	**18,521**	**22,462**	**26,489**	**30,678**
Total property, plant and equipment	**113,330**	**117,742**	**117,328**	**120,491**	**123,140**	**125,865**	**127,749**
Additions - by functional classification							
Transport	2,383	2,494	2,764	2,727	2,497	2,724	2,390
Economic	1,425	1,793	1,466	1,521	1,844	1,809	1,864
Education	725	936	983	730	682	676	676
Health	430	932	804	756	552	401	447
Defence	526	936	775	728	394	154	154
Other	1,066	1,130	1,371	1,166	1,055	1,021	961
Total additions to property, plant and equipment[1]	**6,555**	**8,221**	**8,162**	**7,628**	**7,024**	**6,785**	**6,493**

[1] These additions do not include any purchases which may result from the allocation of the forecast for new capital spending (separately disclosed in the Statement of Financial Position).

Notes to the Forecast Financial Statements

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 15: Intangible Assets and Goodwill							
By type							
Net Kyoto position[1]	212	231	222	222	222	222	222
Goodwill	487	457	483	483	483	483	483
Other intangible assets	1,485	1,908	1,664	1,759	1,724	1,666	1,603
Total intangible assets and goodwill	**2,184**	**2,596**	**2,369**	**2,464**	**2,429**	**2,371**	**2,308**
By source							
Core Crown	1,122	1,327	1,245	1,301	1,312	1,318	1,317
Crown entities	417	503	459	494	473	435	405
State-owned enterprises	645	766	665	669	644	618	586
Inter-segment eliminations	-	-	-	-	-	-	-
Total intangible assets and goodwill	**2,184**	**2,596**	**2,369**	**2,464**	**2,429**	**2,371**	**2,308**

1. The New Zealand Government has committed under the Kyoto Protocol to ensuring that New Zealand's average net emissions of greenhouse gases over 2008-2012 (the first commitment period of the Kyoto Protocol or CP1) is reduced to 1990 levels or to take responsibility for the difference. New Zealand can meet its commitment through emissions reductions and use of the Kyoto Protocol flexibility mechanisms such as Joint Implementation, the Clean Development Mechanism, and offsetting increased emissions against carbon removed by forests. The position will crystallise when the first Kyoto commitment period is settled up post-2012. These financial statements report on the New Zealand Government's obligations for the first commitment period, but not for future commitment periods which are currently being negotiated.

A full copy of the Net Position Report 2010 can be found on the Ministry for the Environment's website: www.mfe.govt.nz

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 16: NZ Superannuation Fund							
Revenue	433	520	462	501	537	562	592
Less current tax expense	(27)	310	373	362	395	433	473
Less other expenses	502	135	145	168	185	203	211
Add gains/(losses)	1,750	978	1,452	1,256	1,373	1,517	1,659
Operating balance	**1,708**	**1,053**	**1,396**	**1,227**	**1,330**	**1,443**	**1,567**
Opening net worth	13,688	16,066	15,656	17,059	18,295	19,635	21,091
Gross contribution from the Crown	250	-	-	-	-	-	-
Operating balance	1,708	1,053	1,396	1,227	1,330	1,443	1,567
Other movements in reserves	10	5	7	9	10	13	16
Closing net worth	**15,656**	**17,124**	**17,059**	**18,295**	**19,635**	**21,091**	**22,674**
Comprising:							
Financial assets	15,552	16,452	16,610	17,815	19,159	20,643	22,269
Net other assets	104	672	449	480	476	448	405
Closing net worth	**15,656**	**17,124**	**17,059**	**18,295**	**19,635**	**21,091**	**22,674**
NOTE 17: Payables							
By type							
Accounts payable	6,703	6,242	6,334	6,864	6,998	7,477	7,889
Taxes repayable	3,228	3,759	3,228	3,228	3,228	3,228	3,228
Total payables	**9,931**	**10,001**	**9,562**	**10,092**	**10,226**	**10,705**	**11,117**
By source							
Core Crown	7,120	7,011	5,956	6,043	5,802	5,908	6,002
Crown entities	4,390	3,680	4,776	4,692	4,702	4,670	4,670
State-owned enterprises	4,652	4,876	5,160	5,615	6,040	6,374	6,630
Inter-segment eliminations	(6,231)	(5,566)	(6,330)	(6,258)	(6,318)	(6,247)	(6,185)
Total payables	**9,931**	**10,001**	**9,562**	**10,092**	**10,226**	**10,705**	**11,117**

Notes to the Forecast Financial Statements

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 18: Insurance Liabilities							
By entity							
ACC liability	26,997	28,483	28,956	30,307	31,837	33,517	35,387
EQC property damage claims[1]	88	86	597	97	98	99	99
Other insurance liabilities	46	66	51	60	66	69	71
Total insurance liabilities	**27,131**	**28,635**	**29,604**	**30,464**	**32,001**	**33,685**	**35,557**

ACC liability

Calculation information

PricewaterhouseCoopers Actuarial Pty Ltd have prepared an independent actuarial estimate of the ACC outstanding claims liability as at 30 June 2010. This estimate includes the expected future payments relating to accidents that occurred prior to balance date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected future administrative expenses of managing these claims.

The key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), average weekly earnings and the discount rate. Discount rates were derived from the yield curve for New Zealand government bonds. For these forecast statements, the claims liability has been updated for the latest discount rate as at 30 September 2010. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is a short-term discount rate of 5.42% and a long-term discount rate of 6.00%. Other key variables in each valuation are the forecast increases in claim costs over and above the economic variables above, and the assumed rate at which long-term claimants will leave the scheme over the period. This assessment is largely based on scheme history.

Presentation approach

The projected outstanding claims liability is included within total liabilities. ACC has available to it a portfolio of assets that partially offset the claims liability. The assets (less cross holdings of NZ Government stock) are included in the asset portion of the Crown's overall statement of financial position.

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
Gross ACC liability							
Opening gross liability	26,446	27,169	26,997	28,956	30,307	31,837	33,517
Net change	551	1,314	1,959	1,351	1,530	1,680	1,870
Closing gross liability	**26,997**	**28,483**	**28,956**	**30,307**	**31,837**	**33,517**	**35,387**
Less net assets available to ACC							
Opening net asset value	13,695	16,607	16,745	19,929	22,611	25,530	28,684
Net change	3,050	2,282	3,184	2,682	2,919	3,154	3,371
Closing net asset value	**16,745**	**18,889**	**19,929**	**22,611**	**25,530**	**28,684**	**32,055**
Net ACC reserves (net liability)							
Opening reserves position	(12,751)	(10,562)	(10,252)	(9,027)	(7,696)	(6,307)	(4,833)
Net change	2,499	968	1,225	1,331	1,389	1,474	1,501
Closing reserves position (net liability)	**(10,252)**	**(9,594)**	**(9,027)**	**(7,696)**	**(6,307)**	**(4,833)**	**(3,332)**

[1] The majority of the 2011 forecast balance relates to the Canterbury earthquake. Refer the text box on pages 22 and 23 for more information.

Notes to the Forecast Financial Statements

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 19: Retirement Plan Liabilities							
Government Superannuation Fund (GSF)	9,936	8,817	9,433	9,110	8,828	8,576	8,348
Other funds	4	4	3	3	4	4	4
Total retirement plan liabilities	**9,940**	**8,821**	**9,436**	**9,113**	**8,832**	**8,580**	**8,352**

The net liability of the Government Superannuation Fund (GSF) liabilities has been calculated by the Government Actuary as at 31 October 2010. The liability arises from closed schemes for past and present public sector employees as set out in the Government Superannuation Fund Act 1956. A Projected Unit Credit method is used to calculate the liability as at 31 October 2010, based on membership data as at that date. The funding method requires the benefits payable from GSF in respect of past service to be calculated and then discounted back to the valuation date.

The net GSF liability at this valuation was calculated using discount rates derived from the market yield curve as at the balance date and then blended to the long-term discount rate of 6.00% (long-term rate unchanged from 30 June 2010). Other principal long-term financial assumptions were an inflation rate, as measured by the Consumer Price Index, of 5.90% for 2011 decreasing to 2.40% in 2012 and 2013 and then increasing to 2.50% from 2014 (unchanged from 30 June 2010) and an annual salary growth rate, before any promotional effects, of 3.00% (unchanged from 30 June 2010).

The 2010/11 projected movement in the net GSF liability is $503 million, reflecting a decrease in the GSF liability of $281 million and an increase in the GSF assets of $222 million.

The decrease in the GSF liability of $281 million includes an actuarial loss, between 1 July 2010 and 31 October 2010, of $19 million due to experience adjustments. In addition to the actuarial loss, changes in the current service cost, interest cost and benefits paid to members, give an overall net projected change of $281 million.

The increase in the value of the net assets of GSF of $222 million includes an actuarial gain, from 1 July 2010 to 31 October 2010, of $163 million. The balance of $59 million is the total of the expected investment returns and contributions received, offset by the benefits paid to members.

The changes in the projected net GSF liability from 2010/11 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
GSF net defined benefit retirement liability							
GSF liability							
Opening GSF liability	11,792	12,204	12,881	12,600	12,331	12,099	11,894
Net projected change	1,089	(320)	(281)	(269)	(232)	(205)	(183)
Closing GSF liability	**12,881**	**11,884**	**12,600**	**12,331**	**12,099**	**11,894**	**11,711**
Less net assets available to GSF							
Opening net asset value	2,804	3,050	2,945	3,167	3,221	3,271	3,318
Investment valuation changes	285	151	340	178	180	183	186
Contribution and other income less pension payments	(144)	(134)	(118)	(124)	(130)	(136)	(141)
Closing net asset value	**2,945**	**3,067**	**3,167**	**3,221**	**3,271**	**3,318**	**3,363**
Net GSF liability							
Opening unfunded liability	8,988	9,154	9,936	9,433	9,110	8,828	8,576
Net projected change	948	(337)	(503)	(323)	(282)	(252)	(228)
Closing unfunded liability	**9,936**	**8,817**	**9,433**	**9,110**	**8,828**	**8,576**	**8,348**

Notes to the Forecast Financial Statements

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 20: Provisions							
Provision for ETS credits	74	722	720	709	1,074	706	(59)
Provision for future retail deposit guarantee scheme payments	748	-	-	-	-	-	-
Provision for National Provident Fund guarantee	1,007	883	965	925	884	843	802
Provision for employee entitlements	2,836	2,516	2,790	2,822	2,896	2,780	2,792
Other provisions	1,319	1,034	1,977	1,897	1,766	1,674	1,611
Total provisions	**5,984**	**5,155**	**6,452**	**6,353**	**6,620**	**6,003**	**5,146**
By source							
Core Crown	3,424	2,788	3,877	3,864	4,088	3,460	2,531
Crown entities	1,695	1,563	1,671	1,685	1,703	1,707	1,712
State-owned enterprises	925	862	919	845	860	927	1,006
Inter-segment eliminations	(60)	(58)	(15)	(41)	(31)	(91)	(103)
Total provisions	**5,984**	**5,155**	**6,452**	**6,353**	**6,620**	**6,003**	**5,146**

Provision for ETS credits

The Emissions Trading Scheme (ETS) was established to encourage reduction in greenhouse gas emissions. The ETS creates a limited number of tradable units (the NZ Unit) which the Government can allocate freely or sell to entities. The allocation of NZ Units creates a provision (and an expense if allocated for free). The provision is reduced, and revenue recognised, as NZ Units are surrendered to the Crown by emitters. Emitters can also use international Kyoto units to settle their emission obligation, which will occur where emissions exceed the number of allocated NZ units.

The carbon price is assumed to remain constant over the forecast period and is based on the estimates of the current carbon price of €10.75 with an exchange rate of 0.5409 (a carbon price of NZ$19.87).

Details of current climate change policies are listed at: www.mfe.govt.nz/issues/climate/policies-initiatives

The ETS impact on the fiscal forecast is as follows:

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
Revenue	23	378	370	371	567	766	1,164
Expenses	80	1,007	1,016	360	932	398	399
OBEGAL	**(57)**	**(629)**	**(646)**	**11**	**(365)**	**368**	**765**
Provision for ETS credits	74	722	720	709	1,074	706	(59)

Notes to the Forecast Financial Statements

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 21: Net Worth attributable to the Crown							
Taxpayers funds	31,087	26,983	22,010	17,925	15,710	16,644	19,393
Property, plant and equipment revaluation reserve	63,593	62,086	63,516	63,483	63,443	63,419	63,395
Investment revaluation reserve	59	62	68	74	84	97	112
Cash flow hedge reserve	(143)	(186)	(152)	(145)	(143)	(143)	(143)
Foreign currency translation reserve	(10)	24	(35)	(35)	(35)	(35)	(35)
Total net worth attributable to the Crown	**94,586**	**88,969**	**85,407**	**81,302**	**79,059**	**79,982**	**82,722**
Taxpayers Funds							
Opening taxpayers funds	36,382	34,027	31,087	22,010	17,925	15,710	16,644
Operating balance excluding minority interest	(4,509)	(7,067)	(9,116)	(4,120)	(2,259)	907	2,718
Transfers from/(to) other reserves	(786)	23	39	35	44	27	31
Closing taxpayers funds	**31,087**	**26,983**	**22,010**	**17,925**	**15,710**	**16,644**	**19,393**
Property, Plant and Equipment Revaluation Reserve							
Opening revaluation reserve	62,612	62,110	63,593	63,516	63,483	63,443	63,419
Net revaluations	196	-	(41)	-	-	-	-
Transfers from/(to) other reserves	785	(24)	(36)	(33)	(40)	(24)	(24)
Closing property, plant and equipment revaluation reserve	**63,593**	**62,086**	**63,516**	**63,483**	**63,443**	**63,419**	**63,395**
Investment Revaluation Reserve							
Opening investment revaluation reserve	56	61	59	68	74	84	97
Valuation gain/(losses) on investments available for sale taken to reserves	3	1	9	6	10	13	15
Closing investment revaluation reserve	**59**	**62**	**68**	**74**	**84**	**97**	**112**
Cash Flow Hedge Reserve							
Opening cash flow hedge reserve	18	(190)	(143)	(152)	(145)	(143)	(143)
Transfer into reserve	(96)	5	5	13	2	-	-
Transfer to the statement of financial performance	(62)	(1)	-	-	-	-	-
Transfer to initial carrying value of hedged item	(3)	-	(14)	(6)	-	-	-
Closing cash flow hedge reserve	**(143)**	**(186)**	**(152)**	**(145)**	**(143)**	**(143)**	**(143)**
Foreign Currency Translation Reserve							
Opening foreign currency translation reserve	-	24	(10)	(35)	(35)	(35)	(35)
Movement arising from translation of foreign operations	(10)	-	(25)	-	-	-	-
Closing foreign currency translation reserve	**(10)**	**24**	**(35)**	**(35)**	**(35)**	**(35)**	**(35)**

Notes to the Forecast Financial Statements

	2010 Actual $m	2011 Previous Budget $m	2011 Forecast $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m
NOTE 22: Reconciliation of core Crown operating cash flows to residual core Crown cash							
Core Crown Cash Flows from Operations							
Total tax receipts	50,631	53,348	52,231	56,780	60,620	64,535	68,181
Total other sovereign receipts	566	582	607	613	599	611	623
Interest, profits and dividends	1,897	1,572	1,449	1,711	2,008	2,027	2,226
Sale of goods & services and other receipts	2,658	2,214	2,561	2,334	2,286	2,277	2,197
Transfer payments and subsidies	(21,605)	(22,726)	(22,491)	(23,199)	(24,180)	(24,951)	(25,974)
Personnel and operating costs	(37,157)	(40,498)	(42,127)	(38,961)	(38,875)	(38,495)	(38,536)
Finance costs	(1,981)	(2,847)	(2,747)	(3,515)	(4,091)	(4,135)	(4,759)
Forecast for future new operating spending	-	(394)	(230)	(1,442)	(2,529)	(3,634)	(4,819)
Top-down expense adjustment	-	410	850	150	-	-	-
Net cash flows from core Crown operations	**(4,991)**	**(8,339)**	**(9,897)**	**(5,529)**	**(4,162)**	**(1,765)**	**(861)**
Net purchase of physical assets	(1,778)	(2,258)	(2,322)	(1,807)	(1,348)	(1,561)	(1,190)
Net increase in advances	(926)	(905)	(1,718)	(647)	(747)	(745)	(494)
Net purchase of investments	(1,055)	(1,843)	(1,723)	(1,128)	(1,171)	(1,060)	(1,162)
Contribution to NZ Superannuation Fund	(250)	-	-	-	-	-	-
Forecast for future new capital spending	-	(282)	(292)	(732)	(707)	(981)	(1,170)
Top-down capital adjustment	-	300	350	150	-	-	-
Residual cash	**(9,000)**	**(13,327)**	**(15,602)**	**(9,693)**	**(8,135)**	**(6,112)**	**(4,877)**
Financed by:							
Other net sale/(purchase) of marketable securities and deposits	2,002	(286)	860	4,101	5,064	(3,653)	4,599
Total operating and investing activities	**(6,998)**	**(13,613)**	**(14,742)**	**(5,592)**	**(3,071)**	**(9,765)**	**(278)**
Used in:							
Net (repayment)/issue of other New Zealand dollar borrowing	(3,938)	5,815	6,678	3,876	665	964	1,471
Net (repayment)/issue of foreign currency borrowing	3,368	(5,320)	(4,759)	(3,788)	(764)	(886)	(1,406)
Issues of circulating currency	15	104	117	207	217	228	239
Decrease/(increase) in cash	(817)	14	(1,311)	(1)	(19)	(34)	(51)
	(1,372)	**613**	**725**	**294**	**99**	**272**	**253**
Net cash inflow/(outflow) to be offset by domestic bonds	**(8,370)**	**(13,000)**	**(14,017)**	**(5,298)**	**(2,972)**	**(9,493)**	**(25)**
Gross Cash Proceeds from Domestic Bonds							
Domestic bonds (market)	12,424	12,776	14,011	13,860	12,774	9,307	9,761
Domestic bonds (non-market)	799	224	6	196	1,028	186	795
Total gross cash proceeds from domestic bonds	**13,223**	**13,000**	**14,017**	**14,056**	**13,802**	**9,493**	**10,556**
Repayment of domestic bonds (market)	(4,197)	-	-	(7,982)	(9,987)	-	(9,934)
Repayment of domestic bonds (non-market)	(656)	-	-	(776)	(843)	-	(597)
Net cash proceeds from domestic bonds	**8,370**	**13,000**	**14,017**	**5,298**	**2,972**	**9,493**	**25**

Forecast Statement of Segments

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2010

	Core Crown 2010 Actual $m	Crown Entities 2010 Actual $m	State-owned Enterprises 2010 Actual $m	Inter-segment eliminations 2010 Actual $m	Total Crown 2010 Actual $m
Revenue					
Taxation revenue	50,744	-	-	(397)	50,347
Other sovereign revenue	1,015	4,840	-	(1,173)	4,682
Sales of goods and services	1,387	14,107	11,979	(13,142)	14,331
Interest revenue and dividends	2,135	1,146	626	(1,592)	2,315
Other revenue	935	12,553	974	(11,412)	3,050
Total Revenue (excluding gains)	**56,216**	**32,646**	**13,579**	**(27,716)**	**74,725**
Expenses					
Social assistance and official development assistance	21,484	-	-	(271)	21,213
Personnel expenses	5,991	10,043	2,455	(12)	18,477
Other operating expenses	34,227	21,379	9,512	(26,545)	38,573
Interest expenses	2,311	245	845	(624)	2,777
Forecast for future new spending and top down adjustment	-	-	-	-	-
Total Expenses (excluding losses)	**64,013**	**31,667**	**12,812**	**(27,452)**	**81,040**
Operating Balance before gains/(losses)	**(7,797)**	**979**	**767**	**(264)**	**(6,315)**
Total gains/(losses)	742	1,185	(112)	(253)	1,562
Net surplus/(deficit) from associates and joint ventures	55	209	(37)	-	227
Attributable to minority interest in Air NZ	-	-	17	-	17
Operating Balance	**(7,000)**	**2,373**	**635**	**(517)**	**(4,509)**
Expenses by functional classification					
Social security and welfare	21,185	3,848	-	(827)	24,206
Health	13,128	11,070	-	(11,525)	12,673
Education	11,724	9,010	23	(8,317)	12,440
Transport and communications	2,345	2,108	5,977	(2,439)	7,991
Other	13,320	5,386	5,967	(3,720)	20,953
Finance costs	2,311	245	845	(624)	2,777
Forecast for future new spending and top down adjustment	-	-	-	-	-
Total Crown Expenses (excluding losses)	**64,013**	**31,667**	**12,812**	**(27,452)**	**81,040**

STATEMENT OF FINANCIAL POSITION
as at 30 June 2010

	Core Crown 2010 Actual $m	Crown Entities 2010 Actual $m	State-owned Enterprises 2010 Actual $m	Inter-segment eliminations 2010 Actual $m	Total Crown 2010 Actual $m
Assets					
Cash and cash equivalents	4,973	2,392	585	(176)	7,774
Receivables	8,776	4,713	1,740	(1,345)	13,884
Other financial assets	52,232	21,031	13,740	(12,690)	74,313
Property, plant & equipment	29,986	48,109	35,235	-	113,330
Equity accounted investments	28,663	7,760	223	(27,597)	9,049
Intangible assets and goodwill	1,122	417	645	-	2,184
Other assets	1,463	326	1,071	(39)	2,821
Forecast for new capital spending and top down adjustment	-	-	-	-	-
Total Assets	**127,215**	**84,748**	**53,239**	**(41,847)**	**223,355**
Liabilities					
Borrowings	57,583	4,835	19,747	(12,432)	69,733
Other liabilities	24,963	33,421	6,612	(6,362)	58,634
Total Liabilities	**82,546**	**38,256**	**26,359**	**(18,794)**	**128,367**
Total Assets less Total Liabilities	**44,669**	**46,492**	**26,880**	**(23,053)**	**94,988**
Net Worth					
Taxpayer funds	28,761	19,316	9,373	(26,363)	31,087
Reserves	15,908	27,176	17,064	3,351	63,499
Net worth attributable to minority interest in Air NZ	-	-	443	(41)	402
Total Net Worth	**44,669**	**46,492**	**26,880**	**(23,053)**	**94,988**

Forecast Statement of Segments (continued)

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2011

	Core Crown 2011 Forecast $m	Crown Entities 2011 Forecast $m	State-owned Enterprises 2011 Forecast $m	Inter-segment eliminations 2011 Forecast $m	Total Crown 2011 Forecast $m
Revenue					
Taxation revenue	52,527	-	-	(455)	52,072
Other sovereign revenue	1,419	5,424	-	(1,143)	5,700
Sales of goods and services	1,480	14,405	13,134	(13,428)	15,591
Interest revenue and dividends	2,128	1,075	859	(1,174)	2,888
Other revenue	892	13,269	1,023	(11,576)	3,608
Total Revenue (excluding gains)	**58,446**	**34,173**	**15,016**	**(27,776)**	**79,859**
Expenses					
Social assistance and official development assistance	22,465	-	-	(54)	22,411
Personnel expenses	5,979	10,318	2,651	(9)	18,939
Other operating expenses	39,654	23,336	10,371	(26,522)	46,839
Interest expenses	3,082	263	1,074	(1,031)	3,388
Forecast for future new spending and top down adjustment	(620)	-	-	-	(620)
Total Expenses (excluding losses)	**70,560**	**33,917**	**14,096**	**(27,616)**	**90,957**
Operating Balance before gains/(losses)	**(12,114)**	**256**	**920**	**(160)**	**(11,098)**
Total gains/(losses)	2,024	(231)	102	(225)	1,670
Net surplus/(deficit) from associates and joint ventures	72	209	37	(6)	312
Attributable to minority interest in Air NZ	-	-	-	-	-
Operating Balance	**(10,018)**	**234**	**1,059**	**(391)**	**(9,116)**
Expenses by functional classification					
Social security and welfare	22,052	4,290	-	(634)	25,708
Health	13,956	11,376	-	(12,024)	13,308
Education	12,048	9,152	24	(8,431)	12,793
Transport and communications	2,563	2,103	6,230	(2,432)	8,464
Other	17,479	6,733	6,768	(3,064)	27,916
Finance costs	3,082	263	1,074	(1,031)	3,388
Forecast for future new spending and top down adjustment	(620)	-	-	-	(620)
Total Crown Expenses (excluding losses)	**70,560**	**33,917**	**14,096**	**(27,616)**	**90,957**

STATEMENT OF FINANCIAL POSITION
as at 30 June 2011

	Core Crown 2011 Forecast $m	Crown Entities 2011 Forecast $m	State-owned Enterprises 2011 Forecast $m	Inter-segment eliminations 2011 Forecast $m	Total Crown 2011 Forecast $m
Assets					
Cash and cash equivalents	7,076	2,174	627	(190)	9,687
Receivables	8,848	5,411	2,137	(1,426)	14,970
Other financial assets	51,704	23,433	14,957	(14,373)	75,721
Property, plant & equipment	30,691	49,908	36,729	-	117,328
Equity accounted investments	30,332	7,992	260	(29,239)	9,345
Intangible assets and goodwill	1,244	459	665	1	2,369
Other assets	1,532	349	1,098	(29)	2,950
Forecast for new capital spending and top down adjustment	(58)	-	-	-	(58)
Total Assets	**131,369**	**89,726**	**56,473**	**(45,256)**	**232,312**
Liabilities					
Borrowings	73,001	5,449	21,727	(14,301)	85,876
Other liabilities	23,765	36,235	7,029	(6,402)	60,627
Total Liabilities	**96,766**	**41,684**	**28,756**	**(20,703)**	**146,503**
Total Assets less Total Liabilities	**34,603**	**48,042**	**27,717**	**(24,553)**	**85,809**
Net Worth					
Taxpayer funds	18,744	20,883	10,221	(27,838)	22,010
Reserves	15,859	27,159	17,053	3,326	63,397
Net worth attributable to minority interest in Air NZ	-	-	443	(41)	402
Total Net Worth	**34,603**	**48,042**	**27,717**	**(24,553)**	**85,809**

Forecast Statement of Segments (continued)

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2012

	Core Crown 2012 Forecast $m	Crown Entities 2012 Forecast $m	State-owned Enterprises 2012 Forecast $m	Inter-segment eliminations 2012 Forecast $m	Total Crown 2012 Forecast $m
Revenue					
Taxation revenue	57,215	-	-	(530)	56,685
Other sovereign revenue	1,542	5,653	-	(1,183)	6,012
Sales of goods and services	1,491	14,421	13,650	(13,414)	16,148
Interest revenue and dividends	2,508	1,093	918	(1,216)	3,303
Other revenue	682	12,686	907	(11,291)	2,984
Total Revenue (excluding gains)	**63,438**	**33,853**	**15,475**	**(27,634)**	**85,132**
Expenses					
Social assistance and official development assistance	23,252	-	-	(63)	23,189
Personnel expenses	6,017	10,454	2,695	(9)	19,157
Other operating expenses	37,160	21,437	10,865	(26,326)	43,136
Interest expenses	3,683	289	1,205	(855)	4,322
Forecast for future new spending and top down adjustment	1,292	-	-	-	1,292
Total Expenses (excluding losses)	**71,404**	**32,180**	**14,765**	**(27,253)**	**91,096**
Operating Balance before gains/(losses)	**(7,966)**	**1,673**	**710**	**(381)**	**(5,964)**
Total gains/(losses)	1,441	119	174	(204)	1,530
Net surplus/(deficit) from associates and joint ventures	84	206	22	2	314
Attributable to minority interest in Air NZ	-	-	-	-	-
Operating Balance	**(6,441)**	**1,998**	**906**	**(583)**	**(4,120)**
Expenses by functional classification					
Social security and welfare	22,792	4,708	-	(660)	26,840
Health	13,971	11,246	-	(12,031)	13,186
Education	12,019	9,174	24	(8,462)	12,755
Transport and communications	2,134	2,052	6,481	(2,293)	8,374
Other	15,513	4,711	7,055	(2,952)	24,327
Finance costs	3,683	289	1,205	(855)	4,322
Forecast for future new spending and top down adjustment	1,292	-	-	-	1,292
Total Crown Expenses (excluding losses)	**71,404**	**32,180**	**14,765**	**(27,253)**	**91,096**

STATEMENT OF FINANCIAL POSITION
as at 30 June 2012

	Core Crown 2012 Forecast $m	Crown Entities 2012 Forecast $m	State-owned Enterprises 2012 Forecast $m	Inter-segment eliminations 2012 Forecast $m	Total Crown 2012 Forecast $m
Assets					
Cash and cash equivalents	7,166	2,134	513	(189)	9,624
Receivables	8,163	5,078	2,231	(1,446)	14,026
Other financial assets	48,970	26,200	18,349	(14,579)	78,940
Property, plant & equipment	30,922	51,260	38,308	1	120,491
Equity accounted investments	31,442	8,198	278	(30,364)	9,554
Intangible assets and goodwill	1,301	494	669	-	2,464
Other assets	1,542	359	1,124	(29)	2,996
Forecast for new capital spending and top down adjustment	524	-	-	-	524
Total Assets	**130,030**	**93,723**	**61,472**	**(46,606)**	**238,619**
Liabilities					
Borrowings	78,198	5,587	25,951	(14,547)	95,189
Other liabilities	23,658	37,015	7,401	(6,348)	61,726
Total Liabilities	**101,856**	**42,602**	**33,352**	**(20,895)**	**156,915**
Total Assets less Total Liabilities	**28,174**	**51,121**	**28,120**	**(25,711)**	**81,704**
Net Worth					
Taxpayer funds	12,307	23,994	10,623	(28,999)	17,925
Reserves	15,867	27,127	17,054	3,329	63,377
Net worth attributable to minority interest in Air NZ	-	-	443	(41)	402
Total Net Worth	**28,174**	**51,121**	**28,120**	**(25,711)**	**81,704**

Forecast Statement of Segments (continued)

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2013

	Core Crown 2013 Forecast $m	Crown Entities 2013 Forecast $m	State-owned Enterprises 2013 Forecast $m	Inter-segment eliminations 2013 Forecast $m	Total Crown 2013 Forecast $m
Revenue					
Taxation revenue	60,989	-	-	(640)	60,349
Other sovereign revenue	1,848	5,837	-	(1,241)	6,444
Sales of goods and services	1,436	14,478	14,671	(13,387)	17,198
Interest revenue and dividends	2,862	1,226	961	(1,467)	3,582
Other revenue	679	12,814	791	(11,159)	3,125
Total Revenue (excluding gains)	**67,814**	**34,355**	**16,423**	**(27,894)**	**90,698**
Expenses					
Social assistance and official development assistance	23,999	-	-	(65)	23,934
Personnel expenses	6,045	10,700	2,742	(9)	19,478
Other operating expenses	37,481	21,733	11,434	(26,343)	44,305
Interest expenses	4,179	302	1,243	(901)	4,823
Forecast for future new spending and top down adjustment	2,529	-	-	-	2,529
Total Expenses (excluding losses)	**74,233**	**32,735**	**15,419**	**(27,318)**	**95,069**
Operating Balance before gains/(losses)	**(6,419)**	**1,620**	**1,004**	**(576)**	**(4,371)**
Total gains/(losses)	1,520	283	197	(216)	1,784
Net surplus/(deficit) from associates and joint ventures	87	205	40	(4)	328
Attributable to minority interest in Air NZ	-	-	-	-	-
Operating Balance	**(4,812)**	**2,108**	**1,241**	**(796)**	**(2,259)**
Expenses by functional classification					
Social security and welfare	23,659	5,028	-	(683)	28,004
Health	13,966	11,230	-	(12,045)	13,151
Education	12,061	9,313	24	(8,533)	12,865
Transport and communications	2,064	2,161	6,596	(2,212)	8,609
Other	15,775	4,701	7,556	(2,944)	25,088
Finance costs	4,179	302	1,243	(901)	4,823
Forecast for future new spending and top down adjustment	2,529	-	-	-	2,529
Total Crown Expenses (excluding losses)	**74,233**	**32,735**	**15,419**	**(27,318)**	**95,069**

STATEMENT OF FINANCIAL POSITION
as at 30 June 2013

	Core Crown 2013 Forecast $m	Crown Entities 2013 Forecast $m	State-owned Enterprises 2013 Forecast $m	Inter-segment eliminations 2013 Forecast $m	Total Crown 2013 Forecast $m
Assets					
Cash and cash equivalents	7,242	2,104	439	(188)	9,597
Receivables	7,528	5,245	2,316	(1,526)	13,563
Other financial assets	45,465	29,644	18,829	(15,748)	78,190
Property, plant & equipment	30,730	52,311	40,100	(1)	123,140
Equity accounted investments	32,593	8,404	312	(31,536)	9,773
Intangible assets and goodwill	1,312	473	644	-	2,429
Other assets	1,547	370	1,159	(29)	3,047
Forecast for new capital spending and top down adjustment	1,231	-	-	-	1,231
Total Assets	**127,648**	**98,551**	**63,799**	**(49,028)**	**240,970**
Liabilities					
Borrowings	80,727	5,660	27,316	(15,754)	97,949
Other liabilities	23,547	38,579	7,831	(6,397)	63,560
Total Liabilities	**104,274**	**44,239**	**35,147**	**(22,151)**	**161,509**
Total Assets less Total Liabilities	**23,374**	**54,312**	**28,652**	**(26,877)**	**79,461**
Net Worth					
Taxpayer funds	7,497	27,225	11,154	(30,166)	15,710
Reserves	15,877	27,087	17,055	3,330	63,349
Net worth attributable to minority interest in Air NZ	-	-	443	(41)	402
Total Net Worth	**23,374**	**54,312**	**28,652**	**(26,877)**	**79,461**

Forecast Statement of Segments (continued)

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2014

	Core Crown 2014 Forecast $m	Crown Entities 2014 Forecast $m	State-owned Enterprises 2014 Forecast $m	Inter-segment eliminations 2014 Forecast $m	Total Crown 2014 Forecast $m
Revenue					
Taxation revenue	64,931	-	-	(720)	64,211
Other sovereign revenue	2,182	6,004	-	(1,261)	6,925
Sales of goods and services	1,463	14,490	15,292	(13,373)	17,872
Interest revenue and dividends	3,025	1,368	964	(1,652)	3,705
Other revenue	679	12,707	780	(10,957)	3,209
Total Revenue (excluding gains)	**72,280**	**34,569**	**17,036**	**(27,963)**	**95,922**
Expenses					
Social assistance and official development assistance	24,947	-	-	(246)	24,701
Personnel expenses	6,100	10,552	2,793	(9)	19,436
Other operating expenses	36,682	22,161	11,702	(26,055)	44,490
Interest expenses	4,542	305	1,299	(984)	5,162
Forecast for future new spending and top down adjustment	3,634	-	-	-	3,634
Total Expenses (excluding losses)	**75,905**	**33,018**	**15,794**	**(27,294)**	**97,423**
Operating Balance before gains/(losses)	**(3,625)**	**1,551**	**1,242**	**(669)**	**(1,501)**
Total gains/(losses)	1,668	444	202	(228)	2,086
Net surplus/(deficit) from associates and joint ventures	84	206	36	(4)	322
Attributable to minority interest in Air NZ	-	-	-	-	-
Operating Balance	**(1,873)**	**2,201**	**1,480**	**(901)**	**907**
Expenses by functional classification					
Social security and welfare	24,780	5,377	-	(883)	29,274
Health	13,780	11,190	-	(11,843)	13,127
Education	11,875	9,209	24	(8,377)	12,731
Transport and communications	2,081	2,230	6,805	(2,246)	8,870
Other	15,213	4,707	7,666	(2,961)	24,625
Finance costs	4,542	305	1,299	(984)	5,162
Forecast for future new spending and top down adjustment	3,634	-	-	-	3,634
Total Crown Expenses (excluding losses)	**75,905**	**33,018**	**15,794**	**(27,294)**	**97,423**

STATEMENT OF FINANCIAL POSITION
as at 30 June 2014

	Core Crown 2014 Forecast $m	Crown Entities 2014 Forecast $m	State-owned Enterprises 2014 Forecast $m	Inter-segment eliminations 2014 Forecast $m	Total Crown 2014 Forecast $m
Assets					
Cash and cash equivalents	7,293	2,159	675	(189)	9,938
Receivables	7,125	5,489	2,461	(1,545)	13,530
Other financial assets	50,751	33,177	18,844	(17,016)	85,756
Property, plant & equipment	30,767	53,247	41,851	-	125,865
Equity accounted investments	33,626	8,609	337	(32,596)	9,976
Intangible assets and goodwill	1,317	435	618	1	2,371
Other assets	1,542	370	1,190	(28)	3,074
Forecast for new capital spending and top down adjustment	2,212	-	-	-	2,212
Total Assets	**134,633**	**103,486**	**65,976**	**(51,373)**	**252,722**
Liabilities					
Borrowings	90,145	5,768	28,416	(17,051)	107,278
Other liabilities	22,971	40,237	8,237	(6,385)	65,060
Total Liabilities	**113,116**	**46,005**	**36,653**	**(23,436)**	**172,338**
Total Assets less Total Liabilities	**21,517**	**57,481**	**29,323**	**(27,937)**	**80,384**
Net Worth					
Taxpayer funds	5,627	30,418	11,825	(31,226)	16,644
Reserves	15,890	27,063	17,055	3,330	63,338
Net worth attributable to minority interest in Air NZ	-	-	443	(41)	402
Total Net Worth	**21,517**	**57,481**	**29,323**	**(27,937)**	**80,384**

Forecast Statement of Segments (continued)

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2015

	Core Crown 2015 Forecast $m	Crown Entities 2015 Forecast $m	State-owned Enterprises 2015 Forecast $m	Inter-segment eliminations 2015 Forecast $m	Total Crown 2015 Forecast $m
Revenue					
Taxation revenue	68,545	-	-	(738)	67,807
Other sovereign revenue	2,733	6,156	-	(1,262)	7,627
Sales of goods and services	1,450	14,511	15,800	(13,365)	18,396
Interest revenue and dividends	3,179	1,512	971	(1,747)	3,915
Other revenue	683	12,937	819	(11,139)	3,300
Total Revenue (excluding gains)	**76,590**	**35,116**	**17,590**	**(28,251)**	**101,045**
Expenses					
Social assistance and official development assistance	25,914	-	-	(246)	25,668
Personnel expenses	6,154	10,685	2,843	(9)	19,673
Other operating expenses	36,820	22,646	12,002	(26,232)	45,236
Interest expenses	4,919	307	1,437	(1,053)	5,610
Forecast for future new spending and top down adjustment	4,819	-	-	-	4,819
Total Expenses (excluding losses)	**78,626**	**33,638**	**16,282**	**(27,540)**	**101,006**
Operating Balance before gains/(losses)	**(2,036)**	**1,478**	**1,308**	**(711)**	**39**
Total gains/(losses)	1,811	582	198	(232)	2,359
Net surplus/(deficit) from associates and joint ventures	81	206	37	(4)	320
Attributable to minority interest in Air NZ	-	-	-	-	-
Operating Balance	**(144)**	**2,266**	**1,543**	**(947)**	**2,718**
Expenses by functional classification					
Social security and welfare	25,739	5,734	-	(903)	30,570
Health	13,755	11,196	-	(11,836)	13,115
Education	12,018	9,390	24	(8,528)	12,904
Transport and communications	2,081	2,232	7,037	(2,245)	9,105
Other	15,295	4,779	7,784	(2,975)	24,883
Finance costs	4,919	307	1,437	(1,053)	5,610
Forecast for future new spending and top down adjustment	4,819	-	-	-	4,819
Total Crown Expenses (excluding losses)	**78,626**	**33,638**	**16,282**	**(27,540)**	**101,006**

STATEMENT OF FINANCIAL POSITION
as at 30 June 2015

	Core Crown 2015 Forecast $m	Crown Entities 2015 Forecast $m	State-owned Enterprises 2015 Forecast $m	Inter-segment eliminations 2015 Forecast $m	Total Crown 2015 Forecast $m
Assets					
Cash and cash equivalents	7,310	2,207	875	(191)	10,201
Receivables	6,988	5,886	2,532	(1,520)	13,886
Other financial assets	47,837	36,762	18,855	(18,004)	85,450
Property, plant & equipment	30,442	54,246	43,061	-	127,749
Equity accounted investments	34,753	8,814	363	(33,757)	10,173
Intangible assets and goodwill	1,317	405	586	-	2,308
Other assets	1,536	371	1,246	(29)	3,124
Forecast for new capital spending and top down adjustment	3,382	-	-	-	3,382
Total Assets	**133,565**	**108,691**	**67,518**	**(53,501)**	**256,273**
Liabilities					
Borrowings	90,035	5,785	28,891	(18,060)	106,651
Other liabilities	22,140	42,117	8,577	(6,336)	66,498
Total Liabilities	**112,175**	**47,902**	**37,468**	**(24,396)**	**173,149**
Total Assets less Total Liabilities	**21,390**	**60,789**	**30,050**	**(29,105)**	**83,124**
Net Worth					
Taxpayer funds	5,485	33,750	12,552	(32,394)	19,393
Reserves	15,905	27,039	17,055	3,330	63,329
Net worth attributable to minority interest in Air NZ	-	-	443	(41)	402
Total Net Worth	**21,390**	**60,789**	**30,050**	**(29,105)**	**83,124**

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Core Crown Expense Tables[14]

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Social security and welfare	15,598	16,768	17,877	19,382	21,185	22,052	22,792	23,659	24,780	25,739
GSF	761	645	690	655	328	304	362	414	450	480
Health	9,547	10,355	11,297	12,368	13,128	13,956	13,971	13,966	13,780	13,755
Education	9,914	9,269	9,551	11,455	11,724	12,048	12,019	12,061	11,875	12,018
Core government services	2,507	4,816	3,371	5,293	2,974	4,069	4,043	4,019	4,061	4,094
Law and order	2,235	2,699	2,894	3,089	3,191	3,481	3,429	3,404	3,401	3,400
Defence	1,383	1,517	1,562	1,757	1,814	1,972	1,872	1,867	1,867	1,867
Transport and communications	1,818	2,405	2,244	2,663	2,345	2,563	2,134	2,064	2,081	2,081
Economic and industrial services	1,592	1,595	2,889	2,960	2,839	2,989	2,652	2,520	2,484	2,512
Primary services	467	438	541	534	507	792	759	740	718	716
Heritage, culture and recreation	891	844	1,107	1,002	1,281	2,187	1,453	1,961	1,380	1,357
Housing and community development	202	255	260	297	306	1,073	365	373	377	394
Other	49	68	254	118	80	612	578	477	475	475
Finance costs	2,356	2,329	2,460	2,429	2,311	3,082	3,683	4,179	4,542	4,919
Forecast for future new spending	..	..	..	..		230	1,442	2,529	3,634	4,819
Top- down expense adjustment	..	..	..	..		(850)	(150)	..	..	..
Core Crown expenses	**49,320**	**54,003**	**56,997**	**64,002**	**64,013**	**70,560**	**71,404**	**74,233**	**75,905**	**78,626**

Source: The Treasury

Table 4.1 – Social security and welfare expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Welfare benefits	14,246	15,435	16,288	17,366	18,961	19,970	20,697	21,468	22,295	23,251
Social rehabilitation & compensation	145	163	199	336	331	120	133	141	314	314
Departmental expenses	858	845	850	1,092	1,130	1,153	1,090	1,074	1,073	1,073
Child support impairment	151	183	193	205	371	401	471	558	668	668
Other non-departmental expenses	198	142	347	383	392	408	401	418	430	433
Social security and welfare expenses	**15,598**	**16,768**	**17,877**	**19,382**	**21,185**	**22,052**	**22,792**	**23,659**	**24,780**	**25,739**

Source: The Treasury

14 Historical data contained in the expense tables have been restated on a NZ IFRS basis for material changes.

Table 4.2 – New Zealand superannuation and welfare benefit expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
New Zealand Superannuation	6,414	6,810	7,348	7,744	8,290	8,817	9,481	10,112	10,820	11,606
Domestic Purposes Benefit	1,493	1,468	1,478	1,530	1,693	1,771	1,861	1,921	1,980	2,040
Unemployment Benefit	712	613	458	586	930	980	990	921	867	817
Invalids Benefit	1,073	1,132	1,216	1,260	1,303	1,314	1,362	1,396	1,430	1,463
Family Tax Credit	1,285	1,699	1,897	2,062	2,168	2,219	2,193	2,207	2,169	2,237
Accommodation Supplement	843	877	891	989	1,154	1,214	1,254	1,273	1,296	1,321
Sickness Benefit	541	573	582	613	710	726	738	762	788	813
Disability Allowance	261	270	278	390	411	413	421	432	445	458
Income Related Rents	395	434	465	512	522	563	613	661	717	713
In Work Tax Credit	70	461	563	584	595	588	572	578	568	561
Child Tax Credit	154	44	11	6	4	3	2	2	1	1
Special Benefit	162	106	71	..	..	..	..	..	..	..
Benefits paid in Australia	80	71	58	50	45	40	37	22	19	16
Paid Parental Leave	96	122	135	143	154	159	169	177	188	198
Childcare Assistance	110	139	150	159	178	191	187	186	185	181
War Disablement Pensions	113	122	134	125	137	135	135	134	132	129
Veteran's Pension	128	143	161	176	179	178	180	179	179	180
Other benefits	316	351	392	437	488	659	502	505	511	517
Benefit expenses	**14,246**	**15,435**	**16,288**	**17,366**	**18,961**	**19,970**	**20,697**	**21,468**	**22,295**	**23,251**

Source: The Treasury

Table 4.3 – Beneficiary numbers

(Thousands)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
New Zealand Superannuation	482	495	508	522	540	561	582	606	627	649
Domestic Purposes Benefit	106	100	97	101	110	114	116	117	117	118
Unemployment Benefit	64	52	37	48	78	82	80	73	68	62
Accommodation Supplement	249	251	245	267	312	325	329	329	330	331
Invalids Benefit	76	78	82	86	88	88	89	89	90	90
Sickness Benefit	47	48	48	50	58	59	58	59	59	60

Source: Ministry of Social Development

Table 4.4 – GSF pension expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Pension expenses	761	645	690	655	328	304	362	414	450	480
Core Crown GSF	**761**	**645**	**690**	**655**	**328**	**304**	**362**	**414**	**450**	**480**

Source: The Treasury

Table 4.5 – Health expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Departmental outputs	174	180	206	206	211	204	205	205	204	204
Health service purchasing	8,805	9,614	10,503	11,354	12,077	12,760	12,709	12,688	12,646	12,652
Other non-departmental outputs	135	99	97	98	106	51	121	118	112	112
Health payments to ACC	372	425	463	667	691	882	878	907	754	742
Other expenses	61	37	28	43	43	59	58	48	64	45
Health expenses	**9,547**	**10,355**	**11,297**	**12,368**	**13,128**	**13,956**	**13,971**	**13,966**	**13,780**	**13,755**

Source: The Treasury

Table 4.6 – Health service purchasing

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Payments to District Health Boards	7,814	8,547	9,312	10,038	10,670	11,276	11,279	11,266	11,254	11,272
National Disability Support Services	699	755	834	889	930	973	966	961	961	961
Public Health Service Purchasing	292	312	357	427	477	511	464	461	431	419
Health service purchasing	**8,805**	**9,614**	**10,503**	**11,354**	**12,077**	**12,760**	**12,709**	**12,688**	**12,646**	**12,652**

Source: The Treasury

Table 4.7 – Education expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Early childhood education	555	617	860	1,030	1,184	1,392	1,379	1,439	1,470	1,499
Primary and secondary schools	4,153	4,325	4,552	4,936	5,157	5,315	5,366	5,432	5,262	5,389
Tertiary funding	4,047	3,322	3,266	4,564	4,465	4,244	4,234	4,183	4,140	4,127
Departmental expenses	821	875	828	888	898	1,023	989	967	966	966
Other education expenses	338	130	45	37	20	74	51	40	37	37
Education expenses	**9,914**	**9,269**	**9,551**	**11,455**	**11,724**	**12,048**	**12,019**	**12,061**	**11,875**	**12,018**

Places	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Early childhood education[1]	115,903	123,196	133,863	142,014	152,469	162,638	168,963	173,518	176,403	179,368

1 Full-time equivalent based on 1,000 funded child hours per year. From 2004, these have been restated and are now snapshots based as at 1 July

Sources: Ministry of Education, the Treasury

Table 4.8 – Primary and secondary education expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Primary	2,062	2,141	2,262	2,484	2,622	2,684	2,731	2,781	2,706	2,796
Secondary	1,618	1,682	1,761	1,898	1,972	2,061	2,064	2,073	1,977	2,002
School transport	118	125	131	152	160	162	169	174	182	189
Special needs support	245	263	278	290	297	306	308	310	303	309
Professional Development	101	104	108	101	95	92	87	87	87	86
Schooling Improvement	9	10	12	11	11	10	7	7	7	7
Primary and secondary education expenses	**4,153**	**4,325**	**4,552**	**4,936**	**5,157**	**5,315**	**5,366**	**5,432**	**5,262**	**5,389**

Places	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Primary[1]	481,007	479,230	475,820	474,630	475,141	477,173	482,842	488,361	494,289	502,562
Secondary[1]	275,869	277,619	277,582	280,062	283,024	285,225	283,723	279,759	274,899	270,089

1. From 1999, these have been restated and are now snapshots based as at 1 July for primary year-levels (years 1 to 8) and 1 March for secondary year-levels (years 9 to 15). These numbers include special school rolls but exclude health camps, hospital schools and home schooling.

Sources: Ministry of Education, the Treasury

Table 4.9 – Tertiary education expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Tuition	1,865	1,962	2,172	2,287	2,398	2,371	2,350	2,360	2,356	2,359
Other tertiary funding	110	339	358	522	489	433	441	419	420	418
Tertiary student allowances	354	382	386	444	570	624	622	574	524	501
Initial fair value change in student loans	1,415	..	..	..	..	..	..	..	..	..
Student loans	303	639	350	1,311	1,008	816	821	830	840	849
Tertiary education expenses	**4,047**	**3,322**	**3,266**	**4,564**	**4,465**	**4,244**	**4,234**	**4,183**	**4,140**	**4,127**

Places (year)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
EFT students[1]	226,891	230,319	229,340	246,239	240,215	239,628	238,119	236,884	236,964	236,984

1. Tertiary EFTS numbers from 2000 to 2009 include all delivered EFTS. EFTS in 2010 are enrolments up to August 2010. EFTS numbers from 2011 onwards have been estimated on the basis of funded EFTS. Note that historical EFTS numbers have been revised so will differ from previous published EFU numbers. EFTS numbers are based on calendar years rather than fiscal years.

Sources: Ministry of Education, the Treasury

Table 4.10 – Core Government service expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Official development assistance	330	330	362	458	435	493	509	559	559	559
Indemnity and guarantee expenses	..	..	..	992	7	60	59	58	58	58
Departmental expenses	1,403	1,402	1,557	1,668	1,324	1,614	1,597	1,563	1,572	1,583
Non-Departmental Expenses	..	237	277	117	236	214	326	311	345	366
Tax receivable write-down and impairments	338	2,479	701	1,654	590	1,154	1,170	1,159	1,160	1,160
Science expenses	157	163	168	179	191	181	184	183	184	184
Other expenses	279	205	306	225	191	353	198	186	183	184
Core Government service expenses	**2,507**	**4,816**	**3,371**	**5,293**	**2,974**	**4,069**	**4,043**	**4,019**	**4,061**	**4,094**

Source: The Treasury

Table 4.11 – Law and order expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Police	976	1,086	1,198	1,326	1,349	1,402	1,401	1,398	1,393	1,394
Ministry of Justice	299	454	367	379	372	418	401	401	401	401
Department of Corrections	572	662	787	829	903	1,009	997	1,012	1,013	1,013
Customs[1]	12	12	12	12	13	124	137	145	145	145
Other departments	64	48	79	80	102	100	82	83	84	84
Department expenses	**1,923**	**2,262**	**2,443**	**2,626**	**2,739**	**3,053**	**3,018**	**3,039**	**3,036**	**3,037**
Non-departmental outputs	262	354	326	380	399	352	318	313	313	311
Other expenses	50	83	125	83	53	76	93	52	52	52
Law and order expenses	**2,235**	**2,699**	**2,894**	**3,089**	**3,191**	**3,481**	**3,429**	**3,404**	**3,401**	**3,400**

[1] Previously the majority of Customs spending was classified as Core Government Services.

Source: The Treasury

Table 4.12 – Defence expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
NZDF Core expenses	1,306	1,459	1,517	1,697	1,747	1,892	1,814	1,808	1,808	1,808
Other expenses	77	58	45	60	67	80	58	59	59	59
Defence expenses	**1,383**	**1,517**	**1,562**	**1,757**	**1,814**	**1,972**	**1,872**	**1,867**	**1,867**	**1,867**

Source: The Treasury

Table 4.13 – Transport and communication expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
New Zealand Transport Agency[1]	1,482	1,874	1,966	1,562	1,778	1,736	1,716	1,838	1,902	1,902
Departmental outputs	101	113	137	83	63	68	64	63	63	63
Other non-departmental expenses	109	221	104	170	58	165	93	89	88	88
Asset impairments	47	47	..	320	..	..	..	..	..	..
Rail funding	77	142	24	507	418	564	231	49	3	3
Other expenses	2	8	13	21	28	30	30	25	25	25
Transport and communication expenses	**1,818**	**2,405**	**2,244**	**2,663**	**2,345**	**2,563**	**2,134**	**2,064**	**2,081**	**2,081**

[1] Since 2008/09 funding has been provided to New Zealand Transport Agency. From 2004/05 to 2007/08 funding was received by Land Transport NZ. Prior to this, funding was received by Transfund.

Prior to 2008/09 all NZTA funding was recognised as operating expenditure. However from 2008/09 some funding is now classified as capital resulting in a reduction to operating expenditure.

Source: The Treasury

Table 4.14 – Economic and industrial services expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Departmental outputs	549	546	603	389	382	447	411	407	411	409
Employment initiatives	202	207	186	185	220	265	197	196	197	197
Non-departmental outputs	751	873	822	809	927	871	729	654	615	614
Reserve Electricity Generation	26	16	81	20	23	112	11	..	..	..
Flood relief	8	..	..	..	..	..	..	..	..	..
KiwiSaver	..	..	1,102	1,281	1,024	1,066	1,102	1,084	1,071	1,106
Research & Development tax credits	..	..	37	154	..	..	..	..	..	..
Other expenses	56	(47)	58	122	263	228	202	179	190	186
Economic and industrial services expenses	**1,592**	**1,595**	**2,889**	**2,960**	**2,839**	**2,989**	**2,652**	**2,520**	**2,484**	**2,512**

Source: The Treasury

Table 4.15 – Employment initiatives

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Training incentive allowance	32	29	27	30	19	20	16	15	15	15
Subsidised work	84	88	67	63	109	154	90	90	90	90
Employment support for disabled	82	86	88	88	88	87	87	87	88	88
Other employment assistance schemes	4	4	4	4	4	4	4	4	4	4
Employment initiatives	**202**	**207**	**186**	**185**	**220**	**265**	**197**	**196**	**197**	**197**

Source: The Treasury

Table 4.16 – Primary service expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Departmental expenses	350	342	354	360	352	381	365	364	363	366
Non-departmental outputs	97	80	109	89	136	208	201	185	164	159
Biological research	..	..	..	..	..	171	173	173	173	173
Other expenses	20	16	78	85	19	32	20	18	18	18
Primary service expenses	**467**	**438**	**541**	**534**	**507**	**792**	**759**	**740**	**718**	**716**

Source: The Treasury

Table 4.17 – Heritage, culture and recreation expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Community grants	7	7	7	8	8	8	7	7	7	7
Kyoto protocol	42	..	..	..	..	..	..	..	..	..
Emissions Trading Scheme	..	..	..	17	80	1,016	360	932	398	399
Departmental outputs	322	357	392	426	415	461	424	429	419	411
Non-departmental outputs	351	411	469	467	637	468	477	464	466	469
Other expenses	169	69	239	84	141	234	185	129	90	71
Heritage, culture and recreation expenses	**891**	**844**	**1,107**	**1,002**	**1,281**	**2,187**	**1,453**	**1,961**	**1,380**	**1,357**

Source: The Treasury

Table 4.18 – Housing and community development expenses

($ million)	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Housing subsidies	23	25	28	37	44	71	65	57	50	54
Departmental outputs	117	134	141	148	140	173	160	158	157	157
Other non-departmental expenses	62	96	91	112	122	829	140	158	170	183
Housing and community development	**202**	**255**	**260**	**297**	**306**	**1,073**	**365**	**373**	**377**	**394**

Source: The Treasury

Glossary of Terms

ACC insurance liability

The ACC insurance liability is the gross liability of the future cost of ACC claims incurred prior to balance date. The net ACC liability is the gross liability less the asset reserves held to meet these claims.

Baselines

The level of funding approved for any given spending area (eg, Vote Education). All amounts within baselines are included in the forecasts.

Consumers Price Index (CPI)

Statistics New Zealand's official index to measure the rate of change in the prices of goods and services bought by households.

Contingent assets

Contingent assets are potential assets dependent on an uncertain event occurring.

Contingent liability

Contingent liabilities are costs, which the Crown will have to face if a particular uncertain and not probable event occurs. Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims, and uncalled capital.

Core Crown

The core Crown represents the revenues, expenses, assets and liabilities of the Crown, departments, Offices of Parliament, the Reserve Bank, and the NZS Fund.

Core Crown revenue

Core Crown revenue primarily consists of tax revenue collected by the Government, but also includes investment income, sales of goods and services and other revenue.

Core Crown expenses

The day-to-day spending (eg, public servants' salaries, welfare benefit payments, finance costs and maintaining national defence etc) that does not build physical assets for the Crown. This is an accrual measure of expenses and includes items such as depreciation on physical assets.

Corporate tax

The sum of net company tax, non-resident withholding tax (NRWT), foreign-source dividend withholding payments (FDWP).

Current account (Balance of Payments)

A measure of the flows of income between New Zealand and the rest of the world. A net inflow to New Zealand represents a current account surplus, a net outflow a deficit. The current account balance is commonly expressed as a percentage of GDP.

Cyclically adjusted or structural fiscal balance

An estimate of the fiscal balance (eg, operating balance [before gains and losses]) adjusted for short-term fluctuations of actual GDP around trend GDP. The estimate provides a picture of the underlying trend fiscal position and helps measure the effects of policy decisions. Because it is based on a number of assumptions and is sensitive to new information, the estimate is subject to some uncertainty.

Demographic changes

Changes to the structure of the population such as the age, gender or ethnic make-up.

Domestic bond programme

The amount and timing of additional government debt expected to be issued in the next financial year.

Excise duties

Tax levied on the domestic production of alcohol, tobacco and light petroleum products (CNG, LPG and petrol).

Financial assets

Cash or shares (equity), a right to receive cash or shares (equity), or a right to exchange a financial asset or liability on favourable terms.

Fiscal drag

In a tax system with multiple tax thresholds, as taxable incomes increase, tax revenues increase more than proportionately. This occurs because a higher proportion of an individual's income is taxed at the higher rate as their income increases. The additional increase in taxes is known as fiscal drag because it has the effect of removing aggregate demand from the economy.

Fiscal impulse

A summary measure of how changes in fiscal policy affect aggregate demand. To isolate discretionary changes, fiscal impulse is calculated on a cyclically-adjusted basis and excluding net interest payments. To better capture the role of capital spending the indicator is derived from cash flow information.

Fiscal intentions (short-term)

Under the Public Finance Act 1989, the Government is required to explicitly indicate its intentions for operating expenses and operating revenues, and the impact of its intentions on the operating balance, debt and net worth over (at least) the next three years.

Fiscal objectives (long-term)

The Government's long-term goals for operating expenses, operating revenue, the operating balance, debt and net worth, as required by the Public Finance Act 1989. The objectives must be consistent with the defined principles of responsible fiscal management as outlined in the Act and must cover a period of (at least) ten years.

Forecast new capital spending

An amount provided in the forecasts to represent the balance sheet impact of capital initiatives expected to be introduced over the forecast period.

Forecast new operating spending

An amount included in the forecasts to provide for the operating balance impact of policy initiatives and changes to demographics and other forecasting changes expected to occur over the forecast period.

Gains and Losses

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and GSF. Gains and losses are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the Statement of Financial Performance. The impact of gains and losses on the operating balance can be volatile, the operating balance (before gains and losses) indicator can provide a more useful measure of underlying stewardship.

Gross domestic product (GDP)

A measure of the value of all goods and services produced in New Zealand; changes in GDP measure growth or contraction in economic activity or output. GDP can be measured as the actual dollar value of goods and services measured at today's prices (nominal GDP), or excluding the effects of price changes over time (real GDP).

Gross domestic product (expenditure)

This is the sum of total final expenditures on goods and services in the economy.

Gross national expenditure (GNE)

Measures total expenditure on goods and services by New Zealand residents.

Gross sovereign-issued debt (GSID)

This includes all debt issued by the sovereign (the core Crown). It therefore includes Government stock held within the Crown (eg, by the NZS Fund, ACC and EQC).

Labour force participation rate

Measures the percentage of the working-age population in work or actively looking for and available for work.

Labour productivity

Measures output per input of labour (where labour inputs might be measured as hours worked or people).

Line-by-line consolidation

This is a term used to refer to the general approach to the presentation of the Crown financial statements. It means that the individual line items for revenues, expenses, assets and liabilities in the Crown financial statements include all departments, Offices of Parliament, the Reserve Bank, SOEs, Crown entities, and other entities controlled by the Government.

Marketable securities

Assets held with financial institutions. These assets are held for both cash flow and investment purposes, and include any funds the Government has invested in the International Monetary Fund.

Monetary conditions

Aggregate monetary conditions measure the degree to which short-term interest rates and the trade-weighted index are either supportive of, or restrictive to, economic growth.

Monetary policy

The Reserve Bank implements its monetary policy decisions by adjusting its' office cash rate (OCR) in an effort to maintain stability in the general level of prices within a defined annual CPI target range.

Tightening monetary policy means raising the level of the OCR in order to moderate aggregate demand pressures and to reduce inflationary pressures, while easing monetary policy has the reverse effect.

Net core Crown cash flow from operations

Operating balance (before gains and losses) less retained items (eg, net surplus of SOEs, CEs and NZS Fund net revenue) less non-cash items (eg, depreciation).

Net core Crown debt

Represents GSID less core Crown financial assets (excluding advances and financial assets held by the NZS Fund). Advances and financial assets held by the NZS Fund are excluded as these assets are less liquid and they are made for public policy reasons rather than for the purposes associated with government financing. Net core Crown debt provides information about the sustainability of the Government's accounts, and is used by some international rating agencies when determining the creditworthiness of a country

Net core Crown debt (incl NZS Fund)

Represents net core Crown debt plus the financial assets of the NZS Fund.

Net international investor position

The net international investment position measures the net value of New Zealand's international assets and liabilities at a point in time.

Net worth

Total assets less total liabilities (also referred to as the Crown balance). The change in net worth in any given forecast year is largely driven by the operating balance.

Net worth excluding social assets

Net worth excluding social assets provides the government with an idea of how its assets that earn a financial return match its liabilities. The measure consists of the financial assets of the core Crown and Crown Entities, all the assets of State-Owned Enterprises (excluding the physical assets of KiwiRail), and total liabilities.

NZ IFRS

New Zealand equivalents to International Financial Reporting Standards. These standards are approved by the Accounting Standards Review Board in New Zealand and are based on the requirements of the international financial reporting standards issued by the International Accounting Standards Board adjusted where appropriate for entities that are not profit oriented.

Operating balance

The operating balance is the residual of revenues less expenses plus surpluses from state-owned enterprises and Crown entities. It includes gains and losses not reported directly as a movement against net worth.

Operating balance before gains and losses

The operating balance (before gains and losses) is the operating balance excluding gains and losses. The impact of gains and losses on the operating balance can be volatile so the operating balance (before gains and losses) indicator (because it excludes gains and losses) can provide a more useful measure of underlying stewardship.

Productivity

The amount of output (eg, GDP) per unit of input.

Projections

Projections of the key fiscal indicators beyond the five-year forecast period. The projections are based on long-run economic and fiscal assumptions. For example, the projections assume no economic cycle and constant long-run interest, inflation and unemployment rates.

Public Private Partnership (PPP)

No single widely accepted definition for the term PPP exists. However, most descriptions characterise a PPP as an arrangement between a public sector entity to deliver a public sector asset (normally infrastructure or a public facility) and/or service. In this way, PPP arrangements offer an alternative to traditional public sector procurement methods used to accomplish a public duty or responsibility.

Residual cash

The level of money the Government has available to repay debt or, alternatively, needs to borrow in any given year. Residual cash is alternatively termed "Cash available/(shortfall to be funded)".

Residual cash is equal to net core Crown cash flow from operations excluding NZS Fund activity less core Crown capital commitments (eg, contributions to NZS Fund, purchase of assets, loans to others).

Settlement cash

This is the amount of money deposited with the Reserve Bank by registered banks. It is a liquidity mechanism used to settle wholesale obligations between registered banks and provides the basis for settling most of the retail banking transactions that occur every working day between corporate and individuals.

Specific fiscal risks

These are a category of Government decisions or circumstances which may have a material impact on the fiscal position. They are not included in the main forecasts because their fiscal impact cannot be reasonably quantified, the likelihood of realisation is uncertain and/or the timing is uncertain.

System of National Accounts (SNA)

SNA is a comprehensive, consistent and flexible set of macroeconomic accounts to meet the needs of government and private sector analysts, policy-makers, and decision-takers.

Tax revenue

The accrual, rather than the cash ("tax receipts") measure of taxation. It is a measure of tax due at a given point in time, regardless of whether or not it has actually been paid.

Tradable/non-tradable

There is no official definition of the tradable sector. In this document the tradable sector is the part of the economy particularly exposed to foreign competition. It includes primary, manufacturing and tourism industries. Non-tradable output is estimated as a residual with total real GDP.

Top-down adjustment

An adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) for their expenditure forecasts. As appropriations apply to the core Crown only, no adjustment is required to SOE or Crown Entity forecasts.

Total borrowings

Total borrowings represents the Government's debt obligations to external parties. Total borrowings can be split into sovereign-guaranteed debt and non-sovereign-guaranteed debt. Non-sovereign-guaranteed debt represents the debt obligations of SOEs and Crown entities that are not explicitly guaranteed by the Crown.

Trade weighted index (TWI)

A measure of movements in the New Zealand dollar against the currencies of our major trading partners. The currencies comprise the US dollar, the Australian dollar, the Japanese yen, the euro and the UK pound.

Unit labour costs

The wages and other costs associated with employment per unit of output.

Year ended

Graphs and tables use different expressions of the timeframe. For example, 2009/10 or 2010 will generally mean "year ended 30 June" unless otherwise stated.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June Years	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
$ millions																	
Revenue and Expenses																	
Core Crown revenue	32,880	34,946	37,842	39,945	43,440	46,219	51,045	55,735	58,211	61,819	59,482	56,216	58,446	63,438	67,814	72,280	76,590
Core Crown expenses	33,939	34,829	36,559	37,513	39,897	41,882	44,895	49,320	54,003	56,997	64,002	64,013	70,560	71,404	74,233	75,905	78,626
Surpluses																	
Total Crown OBEGAL	128	594	1,422	2,471	4,366	5,573	7,075	7,091	5,860	5,637	(3,893)	(6,315)	(11,098)	(5,964)	(4,371)	(1,501)	39
Total Crown operating balance	1,705	1,405	1,208	2,286	1,621	7,309	5,931	9,542	8,023	2,384	(10,505)	(4,509)	(9,116)	(4,120)	(2,259)	907	2,718
Cash Position																	
Core Crown residual cash	2,048	(386)	349	216	1,217	520	3,104	2,985	2,877	2,057	(8,639)	(9,000)	(15,602)	(9,693)	(8,135)	(6,112)	(4,877)
Debt																	
Gross debt[1]	37,307	36,580	37,194	36,650	36,617	36,017	35,478	33,903	30,647	31,390	43,356	53,591	67,400	72,551	75,077	84,472	84,321
Gross debt incl RB settlement cash and bank bills	37,307	36,580	37,194	36,650	36,617	36,017	35,478	35,867	36,805	37,745	50,973	58,891	73,059	78,210	80,736	90,131	89,980
Net core Crown debt (incl NZS Fund)[2]	25,923	25,895	24,908	24,773	22,647	19,902	13,324	6,302	1,620	(2,676)	5,633	12,549	26,293	34,532	41,048	45,650	48,697
Net core Crown debt[2]	25,923	25,895	24,908	25,388	24,531	23,858	19,879	16,163	13,380	10,258	17,119	26,738	42,078	51,664	59,624	65,758	70,469
Net Worth																	
Total Crown net worth	10,121	12,605	15,450	22,825	28,012	39,595	54,240	83,971	96,827	105,514	99,515	94,988	85,809	81,704	79,461	80,384	83,124
% GDP																	
Revenue and Expenses																	
Core Crown revenue	31.0	31.1	31.6	31.4	32.3	31.9	33.1	34.5	33.9	33.9	32.2	29.7	28.9	29.7	30.1	30.5	30.9
Core Crown expenses	32.0	31.0	30.6	29.5	29.7	28.9	29.1	30.5	31.5	31.2	34.7	33.8	34.9	33.4	33.0	32.1	31.7
Surpluses																	
Total Crown OBEGAL	0.1	0.5	1.2	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
Total Crown operating balance	1.6	1.3	1.0	1.8	1.2	5.0	3.8	5.9	4.7	1.3	(5.7)	(2.4)	(4.5)	(1.9)	(1.0)	0.4	1.1
Cash Position																	
Core Crown residual cash	1.9	(0.3)	0.3	0.2	0.9	0.4	2.0	1.8	1.7	1.1	(4.7)	(4.8)	(7.7)	(4.5)	(3.6)	(2.6)	(2.0)
Debt																	
Gross debt[1]	35.2	32.6	31.1	28.8	27.3	24.9	23.0	21.0	17.9	17.2	23.5	28.3	33.3	34.0	33.3	35.7	34.0
Gross debt incl RB settlement cash and bank bills	35.2	32.6	31.1	28.8	27.3	24.9	23.0	22.2	21.4	20.7	27.6	31.1	36.1	36.6	35.8	38.1	36.3
Net core Crown debt (incl NZS Fund)[2]	24.5	23.1	20.8	19.5	16.9	13.7	8.6	3.9	0.9	(1.5)	3.1	6.6	13.0	16.2	18.2	19.3	19.7
Net core Crown debt[2]	24.5	23.1	20.8	20.0	18.3	16.5	12.9	10.0	7.8	5.6	9.3	14.1	20.8	24.2	26.5	27.8	28.5
Net Worth																	
Total Crown net worth	9.6	11.2	12.9	18.0	20.9	27.3	35.2	52.0	56.4	57.8	53.9	50.2	42.4	38.3	35.3	34.0	33.6

1 Excludes Reserve Bank settlement cash and bank bills
2 Excludes advances

Economic Indicators

March Years	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	3.0	3.2	1.4	2.7	4.8	6.4	4.6	4.5	2.3	3.2	-1.2	0.6	2.0	2.2	2.5	2.5	2.5
Public consumption	-0.4	5.8	-2.1	4.1	1.3	4.9	4.2	4.9	4.5	4.9	4.3	1.1	2.2	0.8	0.7	0.8	1.0
TOTAL CONSUMPTION	2.2	3.8	0.6	3.0	4.0	6.0	4.5	4.6	2.8	3.6	0.1	0.7	2.0	1.9	2.1	2.1	2.2
Residential investment	-13.0	19.5	-13.3	2.0	23.6	14.9	2.6	-5.1	-1.4	3.8	-22.8	-11.5	12.2	29.2	7.9	3.6	0.7
Non-market investment	-4.8	13.0	-13.8	21.9	13.7	15.6	13.7	2.7	-5.4	-11.5	11.4	8.3	-11.2	-3.6	3.8	4.6	4.1
Market investment	2.6	6.9	8.0	6.9	2.3	12.2	11.6	11.1	-1.2	8.5	-1.7	-11.4	6.3	12.3	5.1	3.1	3.4
TOTAL INVESTMENT	-2.3	10.6	0.4	6.8	7.8	13.0	8.8	6.2	-2.0	5.6	-7.1	-9.7	7.0	16.0	6.1	3.6	3.2
Stock change (contribution to growth)	-0.3	1.2	-0.3	0.1	-0.1	0.2	0.3	-0.5	-0.7	0.7	0.0	-1.9	0.6	0.7	0.5	0.1	0.0
GROSS NATIONAL EXPENDITURE	0.9	6.3	0.3	3.8	4.7	7.6	5.8	4.5	1.1	4.7	-1.5	-3.3	3.2	5.9	3.6	2.6	2.4
Exports	2.9	7.4	6.3	3.0	7.8	1.1	4.8	-0.2	2.9	3.2	-3.0	3.2	1.8	4.5	3.0	2.8	2.9
Imports	2.1	11.3	-0.7	4.0	7.2	12.7	12.5	4.2	-1.6	10.1	-4.3	-9.5	6.0	10.5	5.0	2.4	2.0
EXPENDITURE ON GDP	1.2	5.1	2.4	3.5	4.9	3.9	3.6	3.3	2.3	2.6	-1.0	0.5	2.2	3.9	2.9	2.7	2.7
GDP (production measure)	0.5	5.3	2.4	3.5	4.9	4.3	3.7	3.2	0.8	2.9	-1.5	-0.4	2.2	3.4	2.9	2.7	2.7
- annual % change	2.6	6.3	0.7	4.5	4.6	5.2	2.4	2.4	1.7	2.1	-3.2	1.9	2.5	3.2	2.7	2.8	2.7
Real GDP per capita	-0.3	4.7	1.8	2.6	3.0	2.4	2.2	2.0	-0.4	1.8	-2.4	-1.6	1.1	2.4	2.0	1.8	1.8
Nominal GDP (expenditure basis)	1.7	6.0	5.6	7.4	5.2	7.0	7.1	5.7	5.0	7.6	1.7	1.7	6.4	5.7	5.5	5.2	4.7
GDP deflator	0.5	0.8	3.2	3.8	0.3	2.9	3.4	2.3	2.6	4.8	2.7	1.3	4.1	1.7	2.5	2.4	1.9
Output gap (% deviation, March year average)	-1.9	0.6	0.0	0.1	1.0	1.4	1.7	2.3	1.4	3.1	0.4	-1.5	-1.1	-0.1	-0.4	-0.5	-0.4
Employment	-0.6	1.9	2.0	2.9	2.8	3.0	3.6	2.8	2.2	1.3	0.9	-1.3	1.3	1.7	1.8	1.7	1.5
Unemployment (% March quarter s.a.)	7.5	6.5	5.5	5.3	5.0	4.3	3.9	4.0	3.9	3.9	5.1	6.0	6.1	5.2	4.9	4.6	4.5
Wages (average ordinary-time hourly, ann % change)	3.1	1.7	3.1	3.6	2.2	3.4	3.5	5.2	4.6	4.5	5.3	2.2	2.9	3.6	4.2	4.1	3.8
CPI inflation (ann % change)	-0.1	1.5	3.1	2.6	2.5	1.5	2.8	3.3	2.5	3.4	3.0	2.0	4.5	2.9	2.6	2.2	2.0
Merchandise terms of trade (SNA basis)	0.9	0.2	3.4	4.0	-5.6	4.3	3.5	-2.0	-1.1	8.5	-0.6	-6.3	7.0	-2.7	1.8	1.9	1.3
Current account balance - $billion	-4.0	-6.9	-4.4	-3.4	-4.1	-6.1	-9.3	-13.9	-13.3	-14.4	-14.7	-4.5	-3.9	-10.1	-15.1	-15.3	-14.2
Current account balance - % of GDP	-3.8	-6.2	-3.7	-2.7	-3.1	-4.3	-6.2	-8.7	-7.9	-7.9	-8.0	-2.4	-2.0	-4.8	-6.8	-6.6	-5.8
TWI (March quarter)	57.6	54.1	50.5	51.6	60.6	66.9	69.6	68.3	68.8	71.9	53.7	65.3	68.7	63.1	59.1	55.6	53.0
90-day bank bill rate (March quarter)	4.5	6.0	6.4	5.0	5.8	5.5	6.9	7.6	7.8	8.8	3.7	2.7	3.3	4.5	5.0	5.0	5.0
10-year bond rate (March quarter)	5.7	7.3	6.0	6.7	6.0	5.9	6.0	5.7	5.9	6.3	4.6	5.9	5.2	5.3	5.4	5.4	5.5