
Half Year Economic and Fiscal Update 2014

Additional Information

The following information forms part of the *Half Year Economic and Fiscal Update 2014 (Half Year Update)* released by the Treasury on 16 December 2014. This information provides further details on the *Half Year Update* and should be read in conjunction with the published document. The additional information includes:

- **Detailed economic forecast information** – tables providing breakdowns of the economic forecasts.
- **Treasury and Inland Revenue tax forecasts** – detailed tax revenue and receipts tables comparing Treasury’s forecasts with IRD’s forecasts.
- **Additional fiscal indicators** – estimates of the cyclically-adjusted balance and fiscal impulse.
- **Government Finance Statistics (GFS) for central government** – fiscal tables presented under a GFS presentation framework to help with cross-country comparisons.
- **Accounting policies** – outline of the specific Crown accounting policies.

Detailed Economic Forecast Information

This section includes a series of tables to provide additional detail on the economic forecasts presented in the Half Year Update.

The economic numbers and forecasts in this document pre-date the release of annual national accounts data for the March 2014 year by Statistics New Zealand on 21 November 2014. These new data incorporated revisions and measurement changes which resulted in GDP in current prices for the March 2014 year being revised higher by \$5.1 billion (2.2%). The revised data will be fully incorporated into the 2015 *Budget Update*.

To reflect best practice, however, the revised nominal GDP data have been used in the calculation of the fiscal ratios to GDP (eg, tax-to-GDP).

Table 1	Real Gross Domestic Product
Table 2	Consumers Price Index and Exchange Rates
Table 3	Expenditure on Gross Domestic Product and Gross Domestic Product (income) in current prices
Table 4	Labour Market Indicators
Table 5	Exports – SNA basis
Table 6	Imports – SNA basis
Table 7	Balance of Payments – Current Account

Table 1 – Real Gross Domestic Product (production measure)

Table 1: Real Gross Domestic Product

Chain-volume series expressed in 1995/96 prices
Seasonally Adjusted

	\$ million	Quarterly % change	Annual % change	Annual Average % change
2012Q1	36,550	0.8	3.2	2.4
2012Q2	36,646	0.3	2.6	2.8
2012Q3	36,726	0.2	1.9	2.7
2012Q4	37,148	1.1	2.4	2.5
2013Q1	37,317	0.5	2.1	2.3
2013Q2	37,548	0.6	2.5	2.2
2013Q3	37,956	1.1	3.3	2.6
2013Q4	38,337	1.0	3.2	2.8
2014Q1	38,722	1.0	3.8	3.2
2014Q2	39,004	0.7	3.9	3.5
2014Q3	39,277	0.7	3.5	3.6
2014Q4	39,591	0.8	3.3	3.6
2015Q1	39,984	1.0	3.3	3.5
2015Q2	40,354	0.9	3.5	3.4
2015Q3	40,657	0.8	3.5	3.4
2015Q4	40,964	0.8	3.5	3.4
2016Q1	41,270	0.7	3.2	3.4
2016Q2	41,551	0.7	3.0	3.3
2016Q3	41,882	0.8	3.0	3.2
2016Q4	42,108	0.5	2.8	3.0
2017Q1	42,319	0.5	2.5	2.8
2017Q2	42,536	0.5	2.4	2.7
2017Q3	42,807	0.6	2.2	2.5
2017Q4	43,053	0.6	2.2	2.3
2018Q1	43,291	0.6	2.3	2.3
2018Q2	43,543	0.6	2.4	2.3
2018Q3	43,747	0.5	2.2	2.3
2018Q4	43,948	0.5	2.1	2.2
2019Q1	44,168	0.5	2.0	2.2
2019Q2	44,408	0.5	2.0	2.1

Source: Statistics New Zealand, the Treasury

Table 2 – Consumers Price Index and Exchange Rates**Table 2: Consumers Price Index and Exchange Rates**

	Consumers Price Index			Exchange rates	
	Index	Quarterly % change	Annual % change	TWI	USD
2012Q1	1164	0.5	1.6	72.5	0.82
2012Q2	1168	0.3	1.0	71.3	0.79
2012Q3	1171	0.3	0.8	72.7	0.81
2012Q4	1169	-0.2	0.9	73.6	0.82
2013Q1	1174	0.4	0.9	75.9	0.83
2013Q2	1176	0.2	0.7	76.4	0.82
2013Q3	1187	0.9	1.4	75.3	0.80
2013Q4	1188	0.1	1.6	77.3	0.83
2014Q1	1192	0.3	1.5	78.7	0.84
2014Q2	1195	0.3	1.6	80.2	0.86
2014Q3	1199	0.3	1.0	79.5	0.84
2014Q4	1200	0.1	1.0	76.6	0.78
2015Q1	1208	0.7	1.3	76.5	0.78
2015Q2	1214	0.5	1.6	76.6	0.77
2015Q3	1220	0.5	1.8	76.6	0.77
2015Q4	1222	0.2	1.9	76.5	0.77
2016Q1	1232	0.8	2.0	76.5	0.77
2016Q2	1238	0.5	2.0	76.6	0.77
2016Q3	1247	0.7	2.2	76.6	0.77
2016Q4	1249	0.1	2.2	76.7	0.77
2017Q1	1257	0.7	2.1	76.6	0.77
2017Q2	1263	0.5	2.0	76.4	0.76
2017Q3	1272	0.7	2.0	76.2	0.76
2017Q4	1274	0.1	2.0	75.9	0.76
2018Q1	1282	0.7	2.0	75.6	0.75
2018Q2	1289	0.5	2.0	75.1	0.75
2018Q3	1298	0.7	2.0	74.7	0.74
2018Q4	1300	0.1	2.0	74.2	0.74
2019Q1	1308	0.7	2.0	73.6	0.73
2019Q2	1315	0.5	2.0	73.0	0.72

Source: RBNZ, Statistics New Zealand, the Treasury

Table 3 – Expenditure on Gross Domestic Product and Gross Domestic Product (income) in current prices

March Year	2014			2015			2016			2017			2018			2019		
	Actual	Forecast		Actual	Forecast		Actual	Forecast		Actual	Forecast		Actual	Forecast		Actual	Forecast	
	\$million	%volume	%price	\$million	%volume	%price	\$million	%volume	%price	\$million	%volume	%price	\$million	%volume	%price	\$million	%volume	%price
Consumption:																		
- Private	131,293	3.6	1.0	137,316	3.4	1.6	144,203	3.1	1.8	151,323	1.7	1.8	156,670	1.6	1.8	161,995		
- Public	42,219	1.6	1.6	43,585	-0.5	2.7	44,537	0.1	2.5	45,682	2.8	2.1	47,988	2.5	2.0	50,178		
Gross Fixed Capital Formation:																		
- Residential	13,426	15.3	4.8	16,215	12.2	4.1	18,932	4.5	3.8	20,525	0.9	4.2	21,561	-2.6	4.3	21,897		
- Market *	30,467	6.2	2.2	33,103	7.1	1.5	35,992	6.7	1.5	38,988	4.4	1.7	41,418	2.9	1.9	43,425		
- Non-market **	2,730	-2.0	3.8	2,782	5.1	0.2	2,933	2.4	2.4	3,077	2.4	2.4	3,228	2.4	2.4	3,386		
- Total all sectors	46,622	8.2	1.4	51,155	8.4	3.3	57,290	6.5	2.2	62,357	3.9	2.1	66,112	2.0	1.9	68,669		
Change in Stocks	1,586			783			1,107			843			448			500		
Gross National Expenditure	221,667	4.9	0.5	233,652	3.3	2.6	247,542	3.4	1.7	260,371	2.4	1.8	271,286	1.9	1.8	281,370		
Exports	67,143	0.5	-4.9	64,178	1.8	0.1	65,420	3.5	3.3	69,895	3.1	2.7	74,047	2.5	5.7	80,237		
Imports	63,220	5.9	-2.2	65,488	1.7	3.2	68,748	5.0	0.4	72,434	3.2	2.9	76,923	1.7	6.7	83,454		
Expenditure on GDP	225,487	3.3	-0.2	232,340	3.4	1.5	243,807	2.8	2.8	257,659	2.3	1.8	268,315	2.1	1.5	278,072		
Statistical Discrepancy	259			268			283			301			315			328		
Gross Domestic Product	225,746			232,607			244,090			257,960			268,630			278,400		
Compensation of employees	101,115			106,376			110,750			115,471			120,560			125,844		
Operating Surplus, net:																		
- Agriculture	7,994			6,220			5,657			7,485			7,895			7,951		
- Other	58,343			58,640			63,100			67,235			69,315			70,690		
- Total all sectors	66,337			64,860			68,757			74,720			77,209			78,641		
Consumption of fixed capital	30,608			32,138			33,745			35,432			37,204			39,064		
Indirect Taxes	28,415			29,962			31,566			33,065			34,385			35,579		
Less subsidies	728			728			728			728			728			728		
Gross Domestic Product	225,746			232,607			244,090			257,960			268,630			278,400		

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

Source: Statistics New Zealand, the Treasury

Table 4 – Labour Market Indicators

Annual Average Percentage Change						
March Year	2014	2015	2016	2017	2018	2019
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP (production basis)	3.2	3.5	3.4	2.8	2.3	2.2
Working Age Population	1.2	1.8	1.7	1.2	1.0	1.0
Labour Force	1.8	2.1	1.5	1.2	1.0	1.0
Employment	2.5	2.9	1.7	1.6	1.3	1.1
Labour Productivity*	0.7	0.2	2.2	1.6	1.1	1.2
CPI (annual percentage change)	1.5	1.3	2.0	2.1	2.0	2.0
Average Ordinary Time Hourly Wages	2.5	2.4	3.0	3.0	3.2	3.4
Average Weekly Earnings	2.8	2.0	2.5	2.6	3.0	3.3
Real Wages	1.2	1.2	1.1	0.9	1.2	1.3
Compensation of Employees	5.6	5.2	4.1	4.3	4.4	4.4
Unit Labour Costs (Hours worked basis)	1.8	2.3	0.7	1.4	2.1	2.2
Real Unit Labour Costs	0.5	1.0	-1.0	-0.7	0.1	0.1

* Hours worked basis

Number (000's)						
As at March Quarter	2014	2015	2016	2017	2018	2019
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Total Population	4,496	4,571	4,630	4,675	4,717	4,760
Natural Increase	29	22	31	32	30	30
Net Migration	31	52	28	13	12	12
Annual Change	60	75	59	45	42	42
Working Age Population	3,561	3,631	3,685	3,725	3,761	3,799
Annual Change	49	70	54	40	37	38
Not in the labour force (s.a.)	1,097	1,129	1,152	1,163	1,174	1,187
Annual Change	-33	33	23	11	11	12
Labour Force (s.a.)	2,464	2,502	2,533	2,562	2,587	2,613
Annual Change	82	38	31	29	26	25
Total Employment (s.a.)	2,317	2,367	2,404	2,442	2,471	2,495
Annual Change	83	50	37	38	29	24
Unemployment (s.a.)	147	135	129	120	117	118
Annual Change	-1	-12	-6	-9	-3	1
Participation Rate (%sa)	69.2	68.9	68.7	68.8	68.8	68.8
Unemployment Rate (%sa)	6.0	5.4	5.1	4.7	4.5	4.5

Source: Statistics New Zealand, the Treasury

Table 5 – Exports – SNA basis

Breakdown of Exports

March Years	Dairy Products			Meat and Meat Products			Non-Commodity*		
	%volume	%price	\$million	%volume	%price	\$million	%volume	%price	\$million
2011	-0.8	29.6	11,659	-2.6	6.4	5,482	6.7	2.5	14,481
2012	9.0	0.5	12,770	-5.2	10.4	5,746	3.5	2.2	15,323
2013	18.2	-16.4	12,587	10.0	-8.9	5,740	-2.2	-4.8	14,268
2014	-6.7	32.8	15,704	3.7	-0.9	5,914	1.1	-0.1	14,422
2015	6.4	-17.1	13,743	-1.5	6.1	6,176	-2.2	-4.4	13,474
2016	4.9	-13.6	12,503	0.7	-2.4	6,067	2.5	11.9	15,454
2017	3.4	9.8	14,186	1.2	-3.0	5,954	4.5	3.6	16,726
2018	3.2	2.1	14,960	1.2	2.3	6,164	3.6	4.5	18,104
2019	3.2	5.5	16,302	1.2	6.0	6,611	3.1	8.3	20,212

March Years	Total Goods**			Services			Total Exports		
	%volume	%price	\$million	%volume	%price	\$million	%volume	%price	\$million
2011	3.3	10.2	45,544	1.5	-0.4	15,949	2.8	7.2	61,493
2012	2.7	3.2	48,283	1.2	1.7	16,424	2.3	2.9	64,705
2013	5.3	-8.0	46,761	-3.5	0.8	15,986	3.0	-5.9	62,747
2014	-0.1	8.4	50,739	1.4	1.2	16,403	0.3	6.6	67,143
2015	0.5	-7.1	47,306	1.5	1.3	16,869	0.5	-4.9	64,178
2016	2.5	-0.9	48,089	-0.6	3.3	17,327	1.8	0.1	65,420
2017	3.1	3.9	51,487	5.0	1.1	18,405	3.5	3.3	69,895
2018	2.7	3.3	54,671	4.5	0.7	19,372	3.1	2.7	74,047
2019	2.6	7.0	60,025	2.2	2.0	20,208	2.5	5.7	80,237

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

** Note that Statistics NZ withholds data for some components of exports for confidentiality reasons. As a result we have not published the 'Wood and Wood Products' and 'Other Goods' components of exports.

Source: Statistics New Zealand, the Treasury

Table 6 – Imports – SNA basis

Breakdown of Imports

March Years	Capital Goods (Value for Duty)			Mineral Fuel* (VFD)			Intermediate Goods** (VFD)			Consumption Goods (VFD)		
	%volume	%price	\$million	%volume	%price	\$million	%volume	%price	\$million	%volume	%price	\$million
2011	26.7	-5.2	7,433	-1.7	16.4	6,945	13.4	0.5	16,932	7.5	-4.7	11,117
2012	14.8	-6.5	7,979	5.8	19.5	8,795	6.4	0.4	18,068	5.7	-2.1	11,503
2013	7.3	-6.3	8,043	-3.0	0.5	8,537	0.8	-2.4	17,778	4.1	-1.4	11,800
2014	20.2	-6.5	9,036	0.5	-5.5	8,139	7.3	-3.2	18,495	6.1	-3.0	12,142
2015	12.3	-1.8	9,966	0.8	-14.7	6,983	7.2	-0.2	19,791	6.5	-0.7	12,855
2016	-3.9	1.3	9,705	8.9	-8.2	6,989	2.0	4.6	21,125	4.0	4.0	13,893
2017	6.8	-1.4	10,222	4.7	-0.1	7,305	2.9	2.2	22,223	6.5	1.5	15,013
2018	3.6	0.4	10,637	3.2	2.0	7,692	2.5	4.4	23,770	3.7	3.8	16,158
2019	2.6	3.8	11,334	1.2	5.9	8,239	0.6	8.1	25,854	1.8	8.5	17,850

March Years	Total Goods (VFD)			Services			Total		
	%volume	%price	\$million	%volume	%price	\$million	%volume	%price	\$million
2011	12.4	-0.4	42,632	8.3	-1.1	14,252	11.3	-0.6	56,885
2012	6.9	1.8	46,398	5.9	-0.1	15,077	6.7	1.3	61,474
2013	1.8	-2.2	46,202	-0.3	-0.1	15,019	1.3	-1.7	61,221
2014	8.4	-4.4	47,880	6.8	-4.3	15,340	8.0	-4.4	63,220
2015	7.3	-3.3	49,651	2.3	0.9	15,837	5.9	-2.2	65,488
2016	1.6	2.7	51,825	2.1	4.7	16,923	1.7	3.2	68,748
2017	5.6	0.1	54,828	2.4	1.6	17,606	5.0	0.4	72,434
2018	3.5	2.8	58,320	2.1	3.4	18,603	3.2	2.9	76,923
2019	1.9	6.6	63,342	0.9	7.2	20,113	1.7	6.7	83,454

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

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

Source: Statistics New Zealand, the Treasury

Table 7 – Balance of Payments – Current Account

\$NZ Million						
Year ended March	2014	2015	2016	2017	2018	2019
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Exports Goods	50,739	47,306	48,089	51,487	54,671	60,025
<i>annual % change</i>	8.5	-6.8	1.7	7.1	6.2	9.8
Imports Goods	47,880	49,651	51,825	54,828	58,320	63,342
<i>annual % change</i>	3.6	3.7	4.4	5.8	6.4	8.6
Balance on Goods	2,859	-2,345	-3,736	-3,341	-3,649	-3,317
<i>% of nominal GDP</i>	1.3	-1.0	-1.5	-1.3	-1.4	-1.2
Exports Services	16,403	16,869	17,327	18,405	19,372	20,208
<i>annual % change</i>	2.6	2.8	2.7	6.2	5.3	4.3
Imports Services	15,340	15,837	16,923	17,606	18,603	20,113
<i>annual % change</i>	2.1	3.2	6.9	4.0	5.7	8.1
Balance on services	1,063	1,032	404	798	769	95
<i>% of nominal GDP</i>	0.5	0.4	0.2	0.3	0.3	0.0
Balance on goods & services	3,922	-1,313	-3,332	-2,543	-2,880	-3,221
<i>% of nominal GDP</i>	1.7	-0.6	-1.4	-1.0	-1.1	-1.2
Int'l investment income and transfers balance	-9,951	-11,195	-11,878	-12,284	-12,513	-13,162
<i>% of nominal GDP</i>	-4.4	-4.8	-4.9	-4.8	-4.7	-4.7
Current account balance	-6,004	-12,400	-15,210	-14,826	-15,393	-16,383
<i>% of nominal GDP</i>	-2.7	-5.3	-6.2	-5.8	-5.7	-5.9

Source: Statistics New Zealand, the Treasury

Treasury and Inland Revenue Tax Forecasts

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

The following two tables detail the respective forecasts by the Treasury and Inland Revenue for tax revenue and receipts across each of the various sources:

Table 8 Treasury and IRD forecasts of tax revenue (accrual)

Table 9 Treasury and IRD forecasts of tax receipts (cash)

Table 8 – Treasury and IRD forecasts of tax revenue (accrual)

	2013/14 Actual		2014/15 Forecast		2015/16 Forecast		2016/17 Forecast		2017/18 Forecast		2018/19 Forecast	
	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD
Direct tax												
Individuals												
Source deductions	24,204	25,491	26,780	26,948	26,948	28,187	28,412	(225)	29,706	29,963	31,350	31,587
Other persons tax	5,216	5,347	5,369	5,501	5,501	5,885	5,866	(181)	5,923	5,964	6,015	6,012
Refunds	(1,573)	(1,517)	(1,467)	(1,693)	(1,693)	(1,484)	(1,595)	111	(1,466)	(1,557)	(1,499)	(1,533)
Fringe benefit tax	489	505	526	525	525	549	544	5	573	565	598	574
Subtotal: Individuals	28,336	29,826	31,208	31,281	31,281	32,937	33,227	(290)	34,736	34,935	36,464	36,640
Company tax (net)	10,453	10,735	11,356	11,278	11,278	12,103	11,817	286	12,555	12,180	12,929	12,475
Withholding taxes on:												
Resident interest income	1,644	1,813	2,088	2,174	2,174	2,423	2,466	(43)	2,862	2,914	3,280	3,415
Non-resident income	428	467	526	525	525	552	559	(7)	579	577	605	591
Foreign-source dividends	8	(3)	2	1	1	2	1	1	2	1	2	1
Resident dividend income	446	494	535	521	521	568	554	14	586	570	599	581
Subtotal: Withholding tax	2,526	2,771	3,151	3,221	3,221	3,545	3,580	(35)	4,029	4,062	4,486	4,588
Total direct tax	41,315	43,332	45,715	45,780	45,780	48,585	48,624	(39)	51,320	51,177	53,879	53,703
Indirect tax												
GST (net)	22,417	23,881	24,996	25,040	25,040	25,988	26,105	(117)	27,252	27,095	28,006	28,049
Excise duties on:												
Alcoholic drinks	650	674	697	730	730	725	770	(45)	755	800	785	815
Tobacco products	273	285	295	320	320	300	325	(25)	299	330	299	335
Petroleum fuels	865	940	1,084	1,091	1,091	1,199	1,189	(10)	1,221	1,209	1,242	1,235
Subtotal: excise duties	1,788	1,999	2,076	2,141	2,141	2,224	2,284	(60)	2,275	2,339	2,326	2,385
Other indirect tax												
Customs duty	2,160	2,248	2,274	2,265	2,265	2,254	2,255	(1)	2,265	2,265	2,280	2,290
Road user charges	1,205	1,246	1,321	1,395	1,395	1,385	1,460	(75)	1,457	1,520	1,520	1,575
Gaming duties	267	269	273	266	266	276	270	6	285	273	285	276
Motor vehicle fees	187	199	200	200	200	203	205	(2)	205	210	208	215
Exhaustible resource levy	35	33	34	35	35	34	33	1	34	32	34	32
Approved issuer levy, cheque duty & other	96	100	101	100	100	106	106	..	106	106	106	108
Subtotal: Other indirect tax	3,950	4,095	4,203	4,261	4,261	4,258	4,329	(71)	4,348	4,406	4,433	4,496
Total indirect tax	28,155	29,875	31,275	31,442	31,442	32,470	32,718	(248)	33,875	33,840	34,765	34,930
Total tax	69,470	73,207	76,990	77,222	77,222	81,055	81,342	(287)	85,195	85,017	88,644	88,633
Total tax (% of GDP)	29.7%	30.6%	30.4%	30.5%	30.5%	30.4%	30.6%	-0.2%	30.8%	30.7%	30.9%	30.9%
less Core Crown tax eliminations												
Core Crown income tax	1,102	576	662	662	662	715	715		773	773	835	835
GST on Crown expenses and departmental outputs	6,400	6,510	6,658	6,658	6,658	6,764	6,764		7,088	7,088	7,312	7,312
Crown ESCR	448	446	442	442	442	448	448		454	454	459	459
Crown AIL	43	50	50	50	50	55	55		55	55	55	55
Core Crown taxation	61,474	65,626	69,178	69,410	69,410	73,072	73,360	(287)	76,825	76,647	79,981	79,972
Core Crown tax (% of GDP)	26.3%	27.4%	27.3%	27.4%	27.4%	27.4%	27.8%	-0.2%	27.7%	27.7%	27.9%	27.9%
less Total Crown tax eliminations												
Income tax from SOEs and CEs	523	517	618	618	618	695	695		758	758	800	800
Other Crown GST	..	..	..	..	..	..	..		..	..	..	..
ESCR from SOEs and CEs	18	11	11	11	11	12	12		12	12	12	12
Lottery duty	56	56	59	59	59	62	62		66	66	69	69
Total Crown taxation	60,879	65,041	68,490	68,722	68,722	72,304	72,591	(287)	75,989	75,811	79,102	79,091
Total Crown tax (% of GDP)	26.0%	27.2%	27.1%	27.2%	27.2%	27.3%	27.3%	-0.1%	27.4%	27.4%	27.6%	27.6%
Nominal GDP	234,158	239,188	253,108	253,108	253,108	266,238	266,238		276,967	276,967	286,573	286,573

Table 9 – Treasury and IRD forecasts of tax receipts (cash)

	2013/14 Actual		2014/15 Forecast		2015/16 Forecast		2016/17 Forecast		2017/18 Forecast		2018/19 Forecast	
	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD	Treasury	IRD
Direct tax												
Individuals												
Source deductions	24,078	25,339	26,622	26,788	28,029	28,254	29,540	29,797	31,184	31,422	(238)	
Other persons tax	5,466	5,900	5,804	5,908	6,112	6,275	6,477	6,392	6,599	6,474	125	
Refunds	(2,276)	(2,293)	(2,212)	(2,436)	(2,241)	(2,338)	(2,314)	(2,300)	(2,378)	(2,317)	(61)	
Fringe benefit tax	482	503	524	520	547	542	571	560	596	572	24	
Subtotal: Individuals	27,750	29,582	30,738	30,780	32,447	32,733	34,274	34,449	36,001	36,151	(150)	
Company tax (net)	10,204	10,700	11,025	10,952	11,896	11,634	12,346	12,000	12,686	12,270	416	
Withholding taxes on:												
Resident interest income	1,629	1,811	2,086	2,172	2,421	2,464	2,860	2,912	3,278	3,413	(135)	
Non-resident income	405	491	525	524	551	558	578	576	604	590	14	
Foreign-source dividends	..	(3)	1	2	2	1	2	1	2	1	1	
Resident dividend income	449	494	535	521	568	554	596	570	616	581	18	
Subtotal: Withholding tax	2,483	2,793	3,148	3,218	3,542	3,577	4,026	4,059	4,483	4,585	(102)	
Total direct tax	40,437	42,942	44,911	44,950	47,885	47,944	50,646	50,508	53,170	53,006	164	
Indirect tax												
GST (net)	22,045	23,513	24,612	24,644	25,604	25,709	26,853	26,684	27,608	27,639	(31)	
Excise duties on:												
Alcoholic drinks	651	674	697	730	725	770	755	800	785	815	(30)	
Tobacco products	268	285	295	320	300	325	299	330	299	335	(36)	
Petroleum fuels	861	940	1,084	1,091	1,199	1,189	1,221	1,209	1,242	1,235	7	
Subtotal: Excise duties	1,780	1,899	2,076	2,141	2,224	2,284	2,275	2,339	2,326	2,385	(59)	
Other indirect tax												
Customs duty	2,179	2,248	2,274	2,265	2,254	2,255	2,265	2,265	2,280	2,290	(10)	
Road user charges	1,187	1,246	1,321	1,395	1,385	1,460	1,457	1,520	1,520	1,575	(55)	
Gaming duties	264	269	276	266	276	273	276	273	285	276	9	
Motor vehicle fees	178	199	200	200	203	205	205	210	208	215	(7)	
Exhaustible resource levy	35	33	34	35	34	33	34	32	34	32	2	
Approved issuer levy, cheque duty & other	97	102	101	100	106	106	106	106	106	108	(2)	
Subtotal: Other indirect tax	3,940	4,097	4,203	4,261	4,258	4,329	4,348	4,406	4,433	4,496	(63)	
Total indirect tax	27,765	29,509	30,891	31,046	32,086	32,322	33,476	33,429	34,367	34,520	(153)	
Total tax	68,202	72,451	75,802	75,996	79,971	80,266	84,122	83,937	87,537	87,526	11	
Total tax (% of GDP)	29.1%	30.3%	29.9%	30.0%	30.0%	30.1%	30.4%	30.3%	30.5%	30.5%	0.0%	
less Core Crown tax eliminations												
Core Crown income tax	912	735	663	663	704	704	761	761	823	823		
GST on Crown expenses and departmental outputs	6,392	6,512	6,622	6,622	6,752	6,752	7,091	7,091	7,315	7,315		
Crown ESCR	444	443	440	440	446	446	452	452	457	457		
Crown All	45	50	50	50	55	55	55	55	55	55		
Core Crown taxation	60,409	64,712	68,027	68,221	72,014	72,309	75,763	75,578	78,885	78,876	11	
Core Crown tax (% of GDP)	25.8%	27.1%	26.9%	27.0%	27.0%	27.2%	27.4%	27.3%	27.5%	27.5%	0.0%	
less Total Crown tax eliminations												
Income tax from SOEs and CEs	481	521	571	571	636	636	730	730	787	787		
Other Crown GST	5	(5)	(1)	(1)	8	8	3	3	(15)	(15)		
ESCT from SOEs and CEs	13	10	11	11	12	12	12	12	11	11		
Lottery duty	57	56	59	59	62	62	66	66	69	69		
Total Crown taxation	59,853	64,129	67,387	67,581	71,296	71,591	74,952	74,767	78,035	78,024	11	
Total Crown tax (% of GDP)	25.6%	26.9%	26.6%	26.7%	26.8%	26.9%	27.1%	27.0%	27.2%	27.2%	0.0%	

Additional Fiscal Indicators

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

The Treasury calculates two summary fiscal indicators: the cyclically-adjusted balance (CAB) and the fiscal impulse indicator.

- The cyclically-adjusted balance adjusts the operating balance before gains and losses (OBEGAL) for the cyclical position of the economy. The CAB is subject to uncertainty because it uses estimated variables and is sensitive to new information, particularly regarding the output gap.
- The fiscal impulse indicator uses the change in a cash-based version of the fiscal balance (a cyclically-adjusted balance supplemented by capital expenditure).

Further information on the methodology behind the indicators can be found in Treasury Working Papers 02/30 and 10/08.²

Central estimate

This section discusses the Treasury's central estimates of the cyclically-adjusted balance and fiscal impulse. Detailed tables of data can be found at the end of the Additional Fiscal Indicators section.

The significant "one-off" impact on expenses of the Canterbury earthquake is removed from estimates of the cyclically-adjusted balance. This is to give a better indication of the underlying fiscal performance. Similarly for one measure of the fiscal impulse, some earthquake expenditures that are more of a financial nature are removed as the demand effects arising from such flows (eg, EQC payments to households) will show up in other parts of the economy.

Cyclically-adjusted balance

Figure 1 shows the operating balance (before gains and losses) and the cyclically-adjusted balance. They are broadly similar to those estimated in the *Pre-election Update*. The headline OBEGAL is forecast to be a surplus of 0.2% of GDP in the year ended June 2016 (*Pre-election Update*: 0.3% of GDP). The cyclically-adjusted balance, excluding earthquake expenses, is estimated to be a deficit of 0.2% of GDP for the year ended June 2015 (consistent with the *Pre-election Update*). The difference between the headline and cyclically-adjusted balance comprises the impact of the automatic stabilisers and the earthquake adjustment.

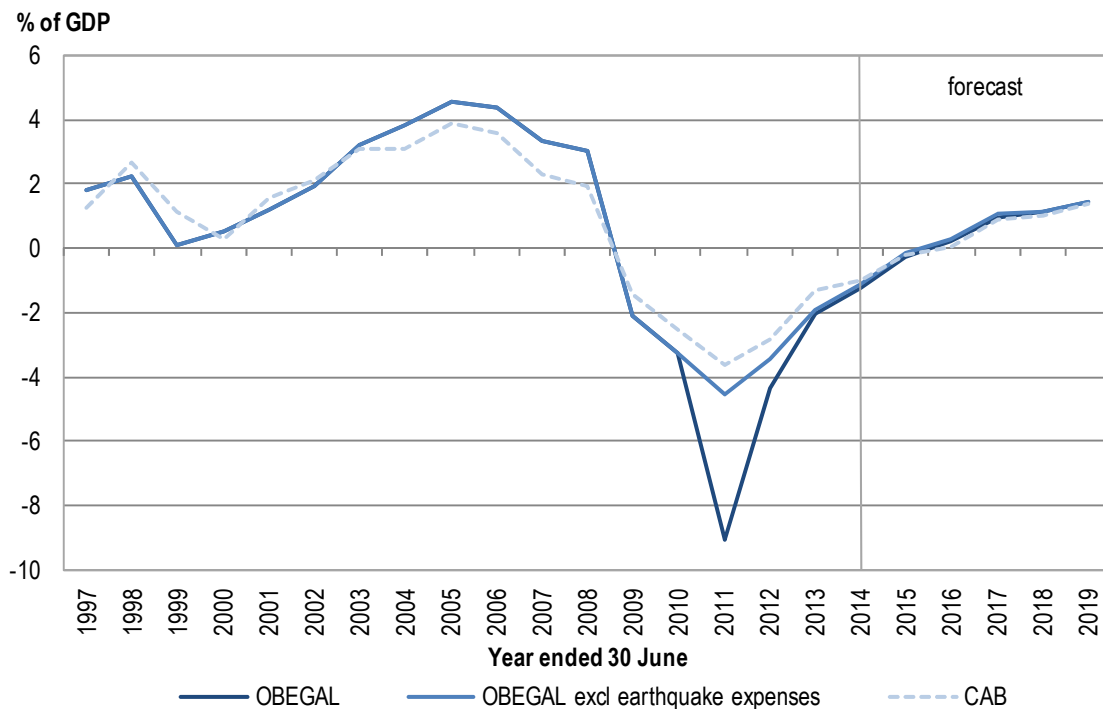
¹ Available at <http://www.treasury.govt.nz/budget/forecasts/befu2010/befu10-pt6of6.pdf>

² Renee Philip and John Janssen (2002) "Indicators of Fiscal Impulse for New Zealand" New Zealand Treasury Working Paper 02/30, December 2002 <http://www.treasury.govt.nz/publications/research-policy/wp/2002/02-30/>

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

Cyclically-adjusted revenue and expenses are forecast to be broadly balanced in the years ended June 2015 and 2016. Over the forecast period, the cyclically-adjusted balance is lower than the headline OBEGAL owing to the forecast assumption that the economy will be operating above capacity (ie, a positive output gap). However, this is to a lesser extent than at the *Pre-election Update* as the forecast output gap has been revised lower (less positive) in the forecast. The cyclically-adjusted balance increases over the forecast period, reaching a surplus of 0.9% of GDP in the year ended June 2017, growing to 1.4% of GDP in 2019.

Figure 1 – Cyclically-adjusted balance



Source: The Treasury

Fiscal impulse

The fiscal impulse indicator is shown in Figure 2. As has been noted in previous *Economic and Fiscal Updates*, capital expenditure on defence, KiwiSaver subsidies and Deposit Guarantee Scheme payments are excluded from the measure of fiscal impulse since these are expected to have a limited direct impact on aggregate demand. Purchases and sales of investments are also excluded from the measure. As a result, any sale proceeds from the Government’s share offer programme do not impact on the fiscal impulse indicator.

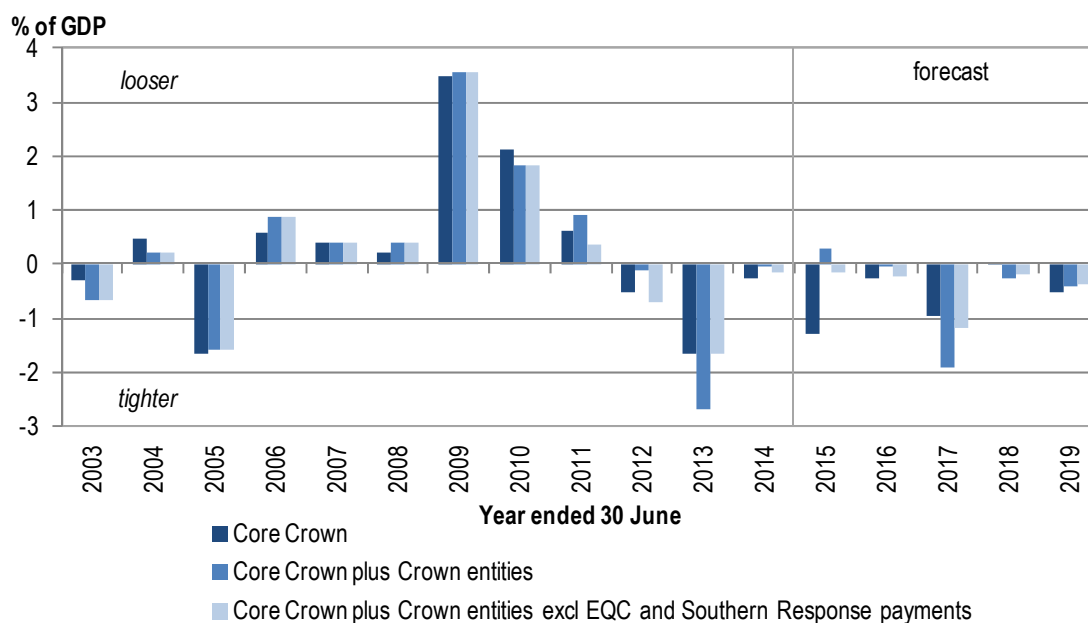
The fiscal impulse is shown for both the core Crown and combined core Crown and Crown entity segments. The core Crown indicator mostly reflects changes in receipts and expenditure impacted by Budget decisions, whereas the core Crown plus Crown entity indicator provides a better indication of the total impact of central government activities (ie, excluding State-Owned Enterprises). A measure of the fiscal impulse that excludes Canterbury-related financial transactions is also shown, which adjusts for EQC and Southern Response payments and receipts. EQC and Southern Response payments and receipts account for much of the difference between the core Crown fiscal impulse and the indicator for the core Crown plus Crown entities.

It is worth noting that summary indicators such as fiscal impulse do not take account of the composition of fiscal policy changes or how a change in fiscal policy will be transmitted through the economy. Treasury research using time series statistical analysis indicates that spending and taxes have different effects on New Zealand GDP.³ Therefore the fiscal impulse indicator is only a very imprecise guide to the impact of fiscal policy on the economy.

The fiscal impulse shows that fiscal policy is expected to have a contractionary impact on demand in almost every year of the forecast horizon. The estimates of the fiscal impulse are broadly unchanged from the *Pre-election Update*. Fiscal policy is expected to withdraw 0.4% of GDP from aggregate demand on average in each year over the five years to June 2019. The fiscal impulse for the year ended June 2015 is -0.1% of GDP (*Pre-election Update*: -0.2% of GDP).

It is also worth noting the difference in 2015 between the unadjusted and earthquake-adjusted fiscal impulses. The fiscal impulse is affected by large payments and receipts by EQC and Southern Response. The one-off positive impulse in the unadjusted measure is due to the timing of reinsurance inflows. As these reinsurance flows do not reflect the impact of discretionary fiscal policy on the domestic economy, the adjusted measure gives a better estimate of the impact of fiscal policy in these years.

Figure 2 – Estimates of the fiscal impulse



Source: The Treasury

³ Parkyn and Vehbi (2013) "The Effects of Fiscal Policy in New Zealand: Evidence from a VAR Model with Debt Constraints" New Zealand Treasury Working Paper 13/02. The degree to which the fiscal impulse indicator matches the time series estimates depends on the exact form of the latter. In neither of the time series specifications does the summary indicator match the time series estimate across the entire sample period.

Sensitivity analysis

There is much uncertainty about the summary indicator estimates. There are two broad sources of that uncertainty which can lead to revisions in the indicator estimates:

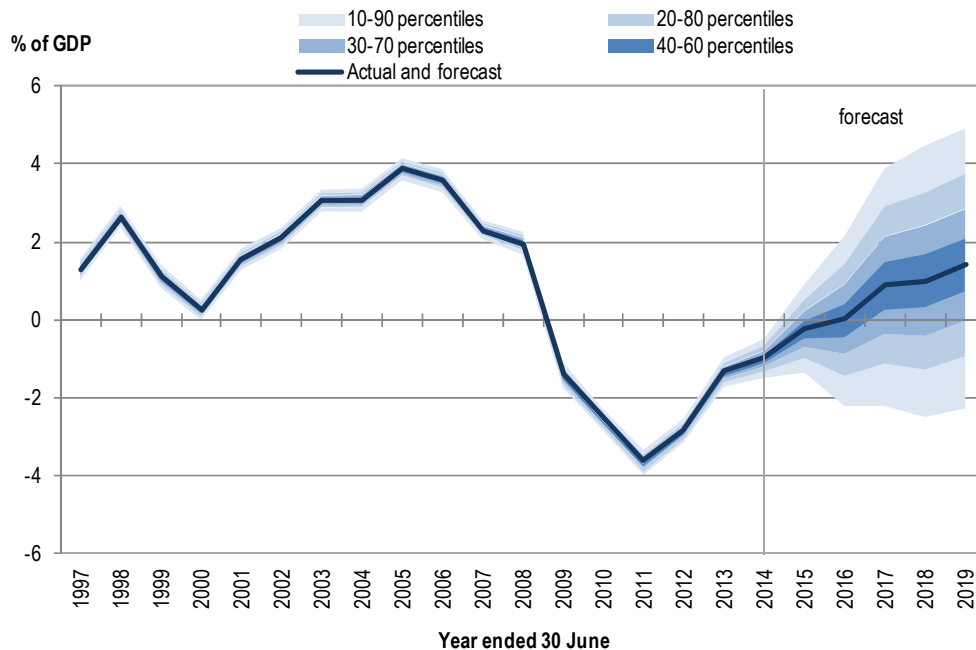
- estimation uncertainty of the key model parameters (ie, the output gap and the average sensitivity of tax revenues to changes in the output gap), and
- forecast uncertainty relating to future fiscal and economic developments.

Sensitivity analysis is performed by calculating the indicators using alternative output gaps (from the RBNZ, IMF and OECD) and values for the elasticity of tax revenues with respect to the output gap which are half and twice the magnitude of the baseline estimate. The range of alternative estimates is plotted in Figures 4 to 6 (with data reported in Tables 14 and 15). Differences in the output gap estimates are mainly the result of differences in estimation technique, although it also reflects different institutions' judgements about the forecast outlook and the availability of data at the time of forecast finalisation. Accordingly, it provides an indication of uncertainty due to model specification but it does not capture total forecast uncertainty.

An alternative means of illustrating uncertainty is to show a probability distribution around the central forecast. A probability distribution requires making some assumptions about future forecast errors based on historical forecast errors of observable economic and fiscal variables and historical revisions to the Treasury's output gap estimates. In Figure 3, a fan chart of the cyclically-adjusted balance indicator is shown. The probability intervals calculated are conditional on current policy and reflect historical revisions to the Treasury's official output gap estimate, rather than the full uncertainty implied by different estimation techniques. Details of the methodology and parameter values for the confidence intervals are reported in Treasury Working Paper 10/08.⁴ This analysis shows that the central estimate of the cyclically-adjusted balance is expected to reach a surplus over the forecast period but there is considerable forecast uncertainty around this.

⁴ Oscar Parkyn (2010) "Estimating New Zealand's Structural Budget Balance." New Zealand Treasury Working Paper 10/08 <http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/>

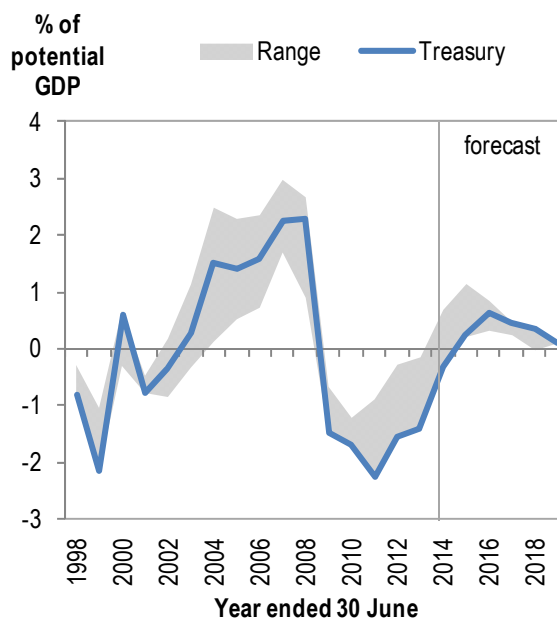
Figure 3 – Fan chart for cyclically-adjusted balance



Source: The Treasury

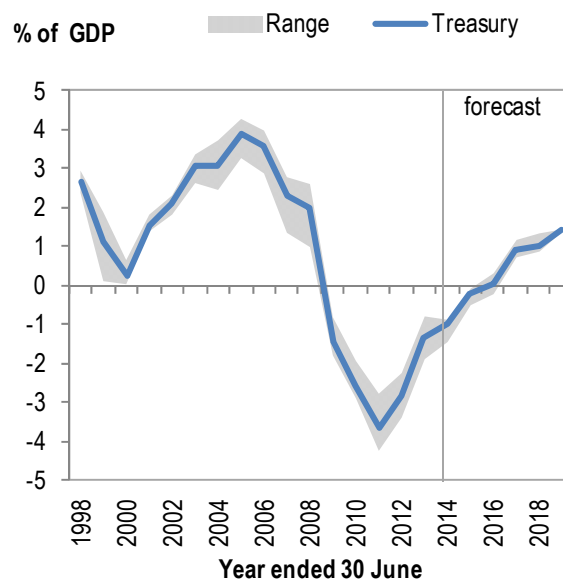
Note: the bands represent sequential deciles such that the difference between the 10th and 90th percentiles represents an 80% confidence interval.

Figure 4 – Output gap range



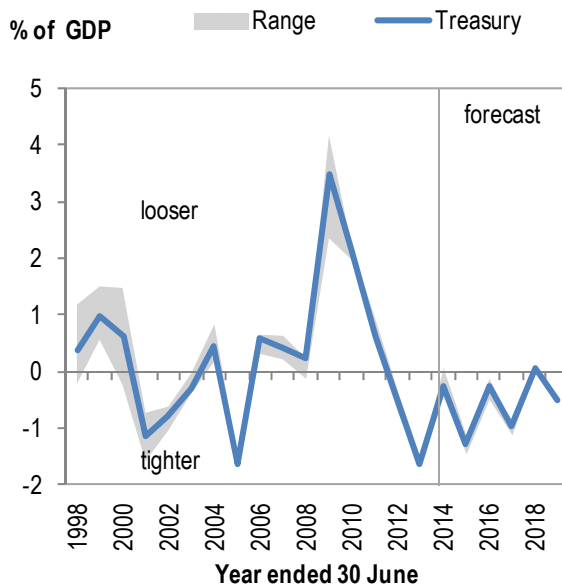
Source: The Treasury

Figure 5 – Cyclically-adjusted balance range



Source: The Treasury

Figure 6 – Core Crown fiscal impulse range



Source: The Treasury

Terms-of-trade adjustment

The Treasury produces regular estimates of the terms-of-trade effect on the budget balance following the methodology outlined in Treasury Working Paper 10/08.⁵

Estimating the terms-of-trade effect means calculating the approximate amount of tax revenue that is due to deviations in the terms of trade from some specified structural, or long-run, level. Although the terms of trade has recently fallen from a 40-year high, it is forecast to remain elevated relative to long-term historical averages. The central forecast has the terms of trade remaining at a relatively elevated level throughout the forecast horizon. A terms-of-trade adjustment to the fiscal balance is made to understand what the underlying fiscal position may be under different assumptions (ie, scenarios) about the long-run level of the terms of trade. The purpose is to produce information that helps to make judgements about the fiscal position from a medium-term perspective, without compromising the forecasts' role of presenting the most likely near-term outcome.

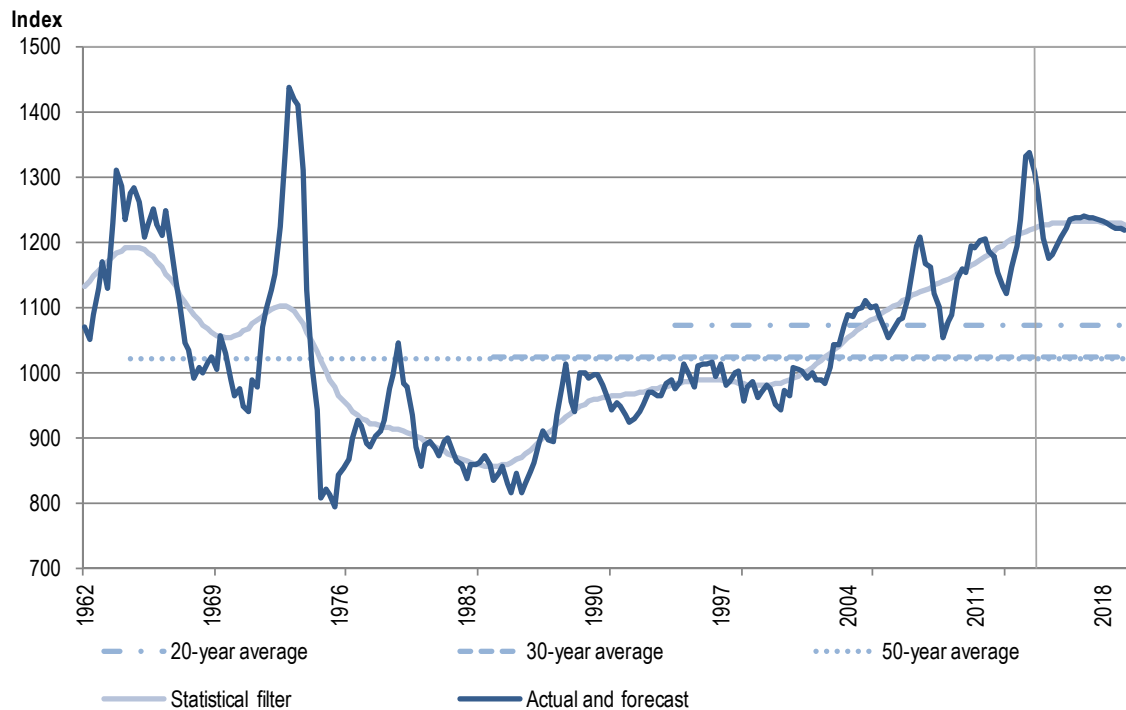
Figure 7 shows New Zealand's terms of trade and historical average levels (50-, 30- and 20-year averages) and a time-varying trend using a statistical filter.⁶ The historical average and trend estimates are used as estimates of the structural level of the terms of trade. Using the statistical filter runs the risk of interpreting long cycles as structural shifts in real time, whereas using an historical average suffers from the opposite risk.

⁵ Oscar Parkyn (2010) "Estimating New Zealand's Structural Budget Balance." New Zealand Treasury Working Paper 10/08 <http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/>

⁶ A Hodrick-Prescott filter is used on quarterly data with a smoothing parameter of 1600.

A terms-of-trade adjustment, for each alternative assumption, is reported in Table 16. The adjusted cyclically-adjusted balance estimate is plotted in Figure 8. Using the 30-year average, this analysis suggests that a terms-of-trade adjustment would subtract 1.9% of GDP from structural tax revenues for the year ended June 2015. This implies a structural budget deficit of 2.1% of GDP with the terms-of-trade adjustment. Alternatively, a terms-of-trade adjustment using a statistical filter, which smoothes out fluctuations around a time-varying trend, would add 0.1% of GDP to the structural budget balance in the 2015 June year. This reflects the impact a smoothing filter has following recent terms-of-trade developments.

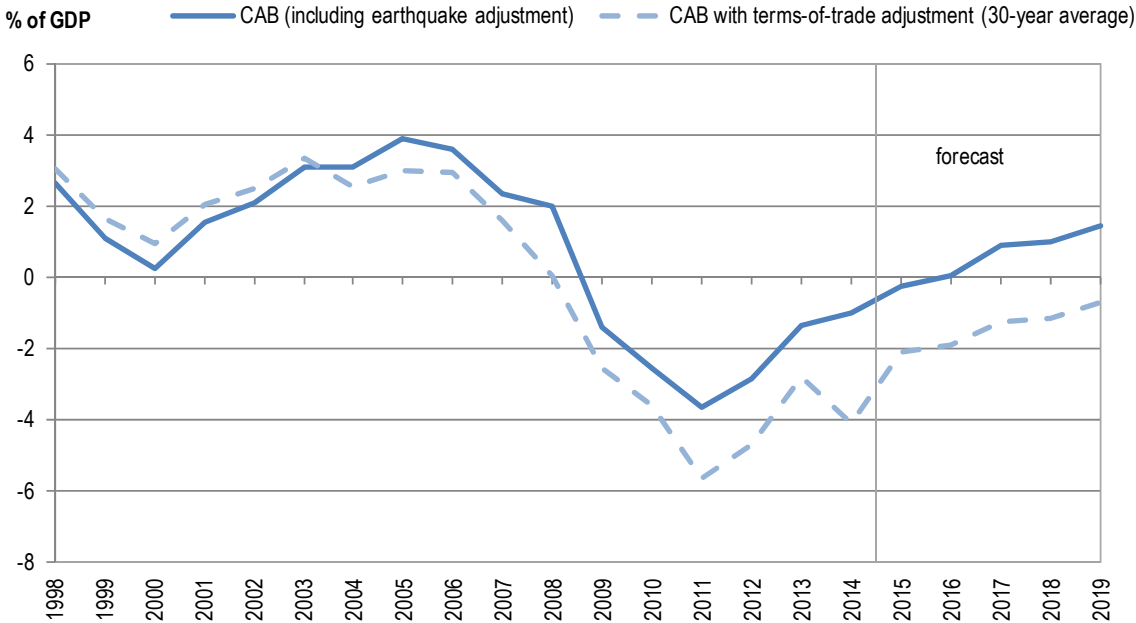
Figure 7 – Terms of trade with historical average and time-varying trend



Sources: Statistics New Zealand, the Treasury

Note: Due to data availability, this uses the goods and services terms of trade spliced with the goods terms of trade for the period prior to 1987.

Figure 8 – Cyclically-adjusted balance with terms-of-trade adjustment



Source: The Treasury

Data tables for summary fiscal indicators**Table 10** – Central estimates of output gap, cyclically-adjusted balance and fiscal impulse (% of GDP)

June year	Output gap	OBEGAL	OBEGAL excl earthquake expenses	CAB	Fiscal impulse (core Crown)	Fiscal impulse (core Crown plus Crown entity)	Fiscal impulse (core Crown plus CE) excluding EQC & Southern Response payouts
1997	1.0	1.8		1.3	2.3		
1998	-0.8	2.3		2.7	0.4		
1999	-2.2	0.1		1.1	1.0		
2000	0.6	0.5		0.3	0.6		
2001	-0.8	1.2		1.5	-1.2		
2002	-0.4	1.9		2.1	-0.8		
2003	0.3	3.2		3.1	-0.3	-0.7	-0.7
2004	1.5	3.8		3.1	0.5	0.2	0.2
2005	1.4	4.6		3.9	-1.6	-1.6	-1.6
2006	1.6	4.3		3.6	0.6	0.9	0.9
2007	2.3	3.3		2.3	0.4	0.4	0.4
2008	2.3	3.0		2.0	0.2	0.4	0.4
2009	-1.5	-2.1		-1.4	3.5	3.6	3.6
2010	-1.7	-3.2		-2.5	2.1	1.8	1.8
2011	-2.2	-9.0	-4.6	-3.6	0.6	0.9	0.4
2012	-1.6	-4.3	-3.4	-2.8	-0.5	-0.1	-0.7
2013	-1.4	-2.0	-1.9	-1.3	-1.6	-2.7	-1.7
2014	-0.3	-1.3	-1.1	-1.0	-0.3	0.0	-0.2
2015	0.2	-0.2	-0.1	-0.2	-1.3	0.3	-0.1
2016	0.6	0.2	0.3	0.0	-0.2	-0.1	-0.2
2017	0.5	1.0	1.1	0.9	-1.0	-1.9	-1.2
2018	0.3	1.1	1.1	1.0	0.0	-0.3	-0.2
2019	0.1	1.4	1.4	1.4	-0.5	-0.4	-0.4

Source: The Treasury

Table 11 – Sources for alternative output gaps

Institution	Source	Publication date
The Treasury	<i>Half Year Economic and Fiscal Update</i>	November 2014
RBNZ	<i>Monetary Policy Statement</i>	September 2014
IMF	<i>World Economic Outlook</i>	October 2014
OECD	<i>Economic Outlook</i>	November 2014

Table 12 – Elasticity values used in sensitivity analysis

Elasticities	Base case	Low	High
Individual income tax	0.9	0.5	1.8
Company tax	1.4	0.7	2.8
GST	1.0	0.5	2.0
Excise duties	1.0	0.5	2.0
Other indirect tax	1.0	0.5	2.0
Interest, profits and dividends	0.0	0.0	0.0
Other receipts	1.0	0.5	2.0

Source: The Treasury

Table 13 – Output gap estimates used in sensitivity analysis (% of potential GDP)

June year	The Treasury	RBNZ	IMF	OECD
1997	1.0	1.6	1.6	0.6
1998	-0.8	-0.7	-0.3	-0.6
1999	-2.2	-2.1	-1.2	-1.0
2000	0.6	0.7	-0.3	-0.1
2001	-0.8	-0.6	-0.6	-0.5
2002	-0.4	0.2	-0.9	-0.4
2003	0.3	1.1	-0.3	0.9
2004	1.5	2.5	0.1	2.0
2005	1.4	2.3	0.5	2.3
2006	1.6	2.4	0.7	1.8
2007	2.3	3.0	1.7	1.9
2008	2.3	2.7	1.5	0.9
2009	-1.5	-1.2	-0.7	-1.0
2010	-1.7	-1.3	-1.4	-1.2
2011	-2.2	-1.3	-0.9	-1.4
2012	-1.6	-0.3	-0.6	-1.3
2013	-1.4	-0.3	-0.1	-0.8
2014	-0.3	0.7	0.5	-0.3
2015	0.2	1.1	0.6	0.2
2016	0.6	0.9		0.3
2017	0.5	0.2		
2018	0.3	0.0		
2019	0.1			

Sources: The Treasury, RBNZ, IMF, OECD

Table 14 – Cyclically-adjusted balance with alternative output gap and elasticity values (% of GDP)

June year	OBEGAL	Baseline CAB	CAB using alternative output gaps			CAB using alternative elasticities	
			RBNZ	IMF	OECD	Low	High
1997	1.8	1.3	1.0	1.0	1.5	1.5	0.9
1998	2.3	2.7	2.6	2.4	2.5	2.5	3.0
1999	0.1	1.1	0.1	0.7	0.6	0.7	1.9
2000	0.5	0.3	0.2	0.7	0.6	0.4	0.0
2001	1.2	1.5	1.5	1.5	1.4	1.4	1.8
2002	1.9	2.1	1.8	2.3	2.1	2.0	2.2
2003	3.2	3.1	2.6	3.4	2.8	3.1	2.9
2004	3.8	3.1	2.6	3.7	2.8	3.4	2.5
2005	4.6	3.9	3.5	4.3	3.4	4.2	3.3
2006	4.3	3.6	3.2	4.0	3.5	3.9	2.9
2007	3.3	2.3	2.0	2.6	2.4	2.8	1.3
2008	3.0	2.0	1.8	2.3	2.6	2.4	1.0
2009	-2.1	-1.4	-1.5	-1.8	-1.6	-1.7	-0.8
2010	-3.2	-2.5	-2.7	-2.7	-2.7	-2.9	-1.9
2011	-9.0	-3.6	-4.0	-4.2	-4.0	-4.1	-2.7
2012	-4.3	-2.8	-3.3	-3.2	-2.9	-3.1	-2.2
2013	-2.0	-1.3	-1.8	-1.8	-1.6	-1.6	-0.8
2014	-1.3	-1.0	-1.4	-1.3	-1.0	-1.0	-0.9
2015	-0.2	-0.2	-0.5	-0.2	-0.1	-0.2	-0.3
2016	0.2	0.0	0.1		0.3	0.1	-0.2
2017	1.0	0.9	1.2			1.0	0.7
2018	1.1	1.0	1.3			1.1	0.9
2019	1.4	1.4				1.4	1.4

Source: The Treasury

Table 15 – Core Crown fiscal impulse with alternative output gap and elasticity values (% of GDP)

June year	Fiscal impulse	Fiscal impulse using alternative output gaps			Fiscal impulse using alternative elasticities	
		RBNZ	IMF	OECD	Low	High
1997	2.3	2.1	2.0	2.4	2.2	2.4
1998	0.4	1.2	0.4	0.7	0.7	-0.2
1999	1.0	1.5	1.1	1.3	1.2	0.6
2000	0.6	-0.2	-0.2	-0.1	0.2	1.5
2001	-1.2	-1.1	-0.7	-0.7	-0.9	-1.6
2002	-0.8	-0.6	-1.0	-0.9	-0.8	-0.6
2003	-0.3	-0.2	-0.3	0.0	-0.4	-0.1
2004	0.5	0.5	0.2	0.4	0.3	0.8
2005	-1.6	-1.7	-1.5	-1.5	-1.6	-1.6
2006	0.6	0.5	0.6	0.3	0.5	0.6
2007	0.4	0.4	0.5	0.2	0.3	0.6
2008	0.2	0.1	0.2	-0.1	0.2	0.2
2009	3.5	3.5	4.0	4.1	4.1	2.3
2010	2.1	2.2	2.0	2.1	2.2	2.1
2011	0.6	0.8	1.0	0.7	0.7	0.5
2012	-0.5	-0.4	-0.7	-0.7	-0.6	-0.3
2013	-1.6	-1.7	-1.5	-1.5	-1.6	-1.6
2014	-0.3	-0.3	-0.4	-0.4	-0.4	0.1
2015	-1.3	-1.3	-1.5	-1.3	-1.4	-1.1
2016	-0.2	-0.5		-0.3	-0.3	-0.1
2017	-1.0	-1.1			-0.9	-1.0
2018	0.0	0.0			0.1	0.0
2019	-0.5				-0.5	-0.6

Source: The Treasury

Table 16 – Terms-of-trade adjustment to the cyclically-adjusted balance (% of GDP)

June year	Baseline CAB	Terms-of-trade adjustment (impact on CAB)				CAB with terms-of-trade adjustment			
		50-year average	30-year average	20-year average	Statistical filter	50-year average	30-year average	20-year average	Statistical filter
1997	1.3	0.2	0.2	0.7	-0.1	1.5	1.5	2.0	1.1
1998	2.7	0.4	0.4	0.9	0.0	3.0	3.1	3.6	2.6
1999	1.1	0.5	0.6	1.0	0.1	1.6	1.7	2.1	1.2
2000	0.3	0.7	0.7	1.2	0.2	0.9	1.0	1.4	0.5
2001	1.5	0.4	0.5	1.1	0.0	2.0	2.0	2.6	1.6
2002	2.1	0.3	0.4	1.0	0.1	2.4	2.5	3.1	2.2
2003	3.1	0.2	0.3	0.8	0.3	3.3	3.3	3.9	3.3
2004	3.1	-0.6	-0.6	0.0	-0.3	2.5	2.5	3.1	2.8
2005	3.9	-0.9	-0.9	-0.3	-0.3	2.9	3.0	3.6	3.5
2006	3.6	-0.7	-0.6	0.0	0.2	2.9	3.0	3.5	3.7
2007	2.3	-0.8	-0.7	-0.1	0.2	1.5	1.6	2.2	2.5
2008	2.0	-2.0	-1.9	-1.2	-0.6	0.0	0.1	0.7	1.3
2009	-1.4	-1.2	-1.1	-0.5	0.3	-2.6	-2.5	-1.9	-1.1
2010	-2.5	-1.1	-1.0	-0.5	0.3	-3.6	-3.6	-3.0	-2.2
2011	-3.6	-2.0	-2.0	-1.3	-0.2	-5.6	-5.6	-4.9	-3.8
2012	-2.8	-1.9	-1.8	-1.2	0.0	-4.7	-4.6	-4.0	-2.8
2013	-1.3	-1.5	-1.4	-0.8	0.5	-2.8	-2.8	-2.2	-0.8
2014	-1.0	-3.1	-3.0	-2.4	-0.8	-4.1	-4.0	-3.4	-1.8
2015	-0.2	-1.9	-1.9	-1.3	0.1	-2.1	-2.1	-1.5	-0.1
2016	0.0	-1.9	-1.9	-1.3	0.1	-1.9	-1.9	-1.3	0.1
2017	0.9	-2.2	-2.1	-1.6	-0.1	-1.3	-1.2	-0.7	0.8
2018	1.0	-2.2	-2.1	-1.5	0.0	-1.2	-1.1	-0.6	1.0
2019	1.4	-2.2	-2.1	-1.5	0.1	-0.8	-0.7	-0.1	1.5

Source: The Treasury

Government Finance Statistics for Central Government

Government Finance Statistics (GFS) is a fiscal reporting framework developed by the International Monetary Fund (IMF) and is specifically designed for government reporting.

The main purpose for having a common government reporting framework is to more easily enable cross-country comparisons of fiscal data and assessment of fiscal policy (eg, as in the case of the IMF’s Article IV consultation with New Zealand).

It is important to note that even though the GFS framework provides a consistent presentation format there are underlying differences between countries in measurement and recognition. These differences mean that it can be difficult to make meaningful cross-country comparisons.

Further information on GFS can be found on the IMF’s website⁷.

New Zealand’s GFS accounts

The following section provides fiscal forecasts for central Government on a GFS basis. These are prepared by applying top-down adjustments to the Forecast Financial Statements presented in the *Half Year Update*, which were prepared on a Generally Accepted Accounting Practice (GAAP) basis. The major differences between the forecasts are:

Coverage	The Central Government entity is defined here as the consolidation of core Crown (excluding Reserve Bank) and Crown entities, as opposed to the emphasis on the total Crown in the <i>Half Year Update</i> document. As a result, the Government’s interest in the Reserve Bank and State-Owned Enterprises is equity accounted rather than consolidated line-by-line.
Other economic flows	The GFS operating balance excludes valuation changes on assets and liabilities, which are instead reported in a Statement of other economic flows.
Transactions	Defence weapons are treated as being expensed at the time of purchase. In addition there are some reclassifications of transactions (eg, some levies move to taxation revenue).

The GFS data presented in this section is provisional. Statistics New Zealand is working towards an official GFS series, which will also include local government. Table 17 outlines some of the key indicators for the central government under a GFS presentation.

⁷ <http://www.imf.org/external/np/sta/gfsm/index.htm>

Table 17 – Summary indicators for central government

	2014	2015	2016	2017	2018	2019
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
\$million						
Net operating balance	67	2,108	3,577	5,057	5,552	6,514
Fiscal Balance (Net lending/borrowing)	(2,132)	(931)	163	2,038	3,108	4,074
Cash surplus/(deficit)	(3,506)	(4,492)	(3,254)	1,668	2,408	3,752
Net worth	73,251	75,151	78,626	84,244	90,465	97,885
Net financial worth	20,640	21,779	21,718	19,119	15,342	10,362
Borrowing	70,937	70,299	74,627	81,464	76,985	72,235
%GDP						
Net operating balance	0.0	0.9	1.4	1.9	2.0	2.3
Fiscal Balance (Net lending/borrowing)	(0.9)	(0.4)	0.1	0.8	1.1	1.4
Cash surplus/(deficit)	(1.5)	(1.9)	(1.3)	0.6	0.9	1.3
Net worth	31.3	31.4	31.1	31.6	32.7	34.2
Net financial worth	8.8	9.1	8.6	7.2	5.5	3.6
Borrowing	30.3	29.4	29.5	30.6	27.8	25.2

The following tables provide additional detail around the calculation of the key indicators.

Table	Name of the statement	What the statement shows
18	Statement of operations	A summary of the results of all transactions during an accounting period.
19	Statement of other economic flows	Changes to stocks of assets, liabilities and net worth that come about from sources other than transactions.
20	Balance sheet	Stocks of assets and liabilities and the corresponding net worth.
21	Statement of sources and uses of cash	A summary of all cash flows presented using classifications similar to the Statement of operations.
22	Statement of stocks and flows	How the operating balance is applied to capital investment and debt repayment at a component level.
23	Reconciliation between GAAP and GFS operating balance	The adjustments between the GAAP and GFS operating balance.
24	Reconciliation between GAAP residual cash and GFS cash surplus/(deficit)	The adjustments between the GAAP and GFS cash indicators.

The GFS manual (on the IMF's website) includes additional explanations on definitions for some of the terminology used in this section.

**Table 18 – Statement of operations
for the years ended 30 June**

	2014	2015	2016	2017	2018	2019
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue						
Taxation revenue	65,540	69,337	72,640	76,481	80,299	83,526
Interest revenue and dividends	3,257	3,229	3,746	3,943	4,224	4,500
Sale of goods and services and other revenue	9,567	9,735	9,873	9,732	9,888	10,064
Total revenue	78,364	82,301	86,259	90,156	94,411	98,090
Expenses						
Compensation of employees	17,873	18,507	18,764	18,896	19,072	19,170
Consumption of capital	3,315	3,359	3,489	3,557	3,585	3,587
Social benefits	22,827	23,359	23,938	24,673	25,615	26,516
Grants and subsidies	5,514	5,319	5,631	5,727	5,748	5,766
Finance costs	3,246	3,289	3,368	3,698	3,717	3,687
Other expenses	25,522	27,187	26,931	26,832	26,896	27,047
Forecast for new operating spending and top-down adjustment	-	(827)	561	1,716	4,226	5,803
Total expenses	78,297	80,193	82,682	85,099	88,859	91,576
Net operating balance	67	2,108	3,577	5,057	5,552	6,514
Net acquisition of non-financial assets						
Acquisition of non-financial assets	5,882	7,575	7,482	6,600	5,982	5,928
Disposal of non-financial assets	(358)	(689)	(755)	(642)	(697)	(652)
Consumption of fixed assets	(3,315)	(3,359)	(3,489)	(3,557)	(3,585)	(3,587)
Change in inventories	(10)	(26)	5	10	(6)	(4)
Forecast for new capital spending and top-down adjustment	-	(462)	171	608	750	755
Fiscal Balance (Net lending/borrowing)	(2,132)	(931)	163	2,038	3,108	4,074
Net acquisition of financial assets						
Receivables	(523)	1,368	1,471	1,674	2,018	1,979
Advances	1,438	1,710	1,127	1,103	1,067	1,097
Other financial assets	1,500	(7,246)	(244)	7,597	(2,909)	(1,772)
Other assets	(3,290)	572	(87)	30	(92)	(44)
	(875)	(3,596)	2,267	10,404	84	1,260
Net incurrence of liabilities						
Borrowings	3,282	(1,709)	4,385	6,847	(4,508)	(4,803)
Accounts payable	443	792	56	855	367	832
Other liabilities	(2,468)	(1,748)	(2,337)	664	1,117	1,157
	1,257	(2,665)	2,104	8,366	(3,024)	(2,814)
Difference between net lending/borrowing and financing	-	-	-	-	-	-

**Table 19 – Statement of other economic flows
for the years ended 30 June**

	2013	2014	2015	2016	2017	2018	2019
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Other Economic Flows							
Impairments and write-offs of financial assets	(2,433)	(2,175)	(2,430)	(2,512)	(2,334)	(2,445)	(2,472)
GSF valuations changes	1,251	577	(405)	-	-	-	-
Other gains/(losses) on non financial instruments	2,302	75	(1,446)	(117)	(120)	(125)	(128)
Derivatives gains	3,414	3,802	818	739	794	828	864
Derivatives losses	70	440	(707)	44	28	23	22
Gains/(losses) on financial assets	2,986	51	3,821	1,767	1,998	2,222	2,443
Gains/(losses) on financial liabilities	168	303	(364)	13	(18)	(52)	(75)
Expenses relating to earthquake provisions	-	-	-	-	-	-	-
Reserve Bank equity accounted	308	56	359	182	223	274	316
SOEs equity accounted	(82)	(324)	69	40	64	65	103
Other items	(5)	(64)	77	(258)	(74)	(121)	(167)
Total other economic flows	7,979	2,741	(208)	(102)	561	669	906

**Table 20 – Balance sheet
as at 30 June**

	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
	\$m	\$m	\$m	\$m	\$m	\$m
Assets						
Cash and cash equivalents	12,451	10,182	9,409	9,970	10,503	11,055
Receivables	16,501	16,337	16,192	16,447	16,957	17,416
Marketable securities, deposits and derivatives in gain	28,748	26,159	27,666	35,806	33,617	32,692
Share investments	20,423	22,555	23,972	25,549	27,234	29,028
Advances	12,546	13,477	13,819	14,118	14,360	14,619
Inventory	539	513	518	528	522	518
Other assets	1,701	1,634	1,603	1,643	1,643	1,720
Property, plant & equipment	93,352	96,879	100,117	102,518	104,218	105,907
Equity accounted investments	21,018	21,994	21,860	22,021	22,198	22,376
Intangible assets and goodwill	1,721	1,889	1,931	1,973	1,922	1,875
Forecast for new capital spending and top-down adjustment	-	(462)	(291)	317	1,067	1,822
Total assets	209,000	211,157	216,796	230,890	234,241	239,028
Liabilities						
Payables	10,342	11,163	11,253	12,136	12,527	13,381
Deferred revenue	1,564	1,535	1,501	1,473	1,449	1,427
Borrowings	70,937	70,299	74,627	81,464	76,985	72,235
Insurance liabilities	35,818	36,165	34,585	35,881	37,539	39,277
Retirement plan liabilities	10,890	10,904	10,567	10,225	9,866	9,488
Provisions	6,198	5,940	5,637	5,467	5,410	5,335
Total liabilities	135,749	136,006	138,170	146,646	143,776	141,143
Net Worth	73,251	75,151	78,626	84,244	90,465	97,885

**Table 21 – Statement of sources and uses of cash
for the years ended 30 June**

	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
	\$m	\$m	\$m	\$m	\$m	\$m
Cash receipts from operating activities						
Total tax receipt	64,475	68,407	71,236	75,300	79,115	82,332
Interest and dividends	2,756	2,944	3,495	3,696	4,015	4,317
Sale of goods and services and other receipts	11,325	10,058	10,122	9,750	9,490	9,628
Total receipts	78,556	81,409	84,853	88,746	92,620	96,277
Cash payments from operating activities						
Compensation of employees and other payments	(43,831)	(46,145)	(46,177)	(43,016)	(42,708)	(43,054)
Social benefits	(23,447)	(24,015)	(24,509)	(25,241)	(26,172)	(27,082)
Grants and subsidies	(6,990)	(7,220)	(7,045)	(7,188)	(7,911)	(7,198)
Finance costs	(3,190)	(3,564)	(3,411)	(3,717)	(3,740)	(3,762)
Forecast for new operating spending and top-down adjustment	-	827	(560)	(1,715)	(4,226)	(5,803)
Total payments	(77,458)	(80,117)	(81,702)	(80,877)	(84,757)	(86,899)
Net cash inflow/(outflow) from operating activities	1,098	1,292	3,151	7,869	7,863	9,378
Net cash outflow from investments in non-financial assets						
Acquisition of non-financial assets	(4,962)	(6,935)	(6,989)	(6,236)	(5,402)	(5,523)
Disposal of non-financial assets	358	689	755	642	697	652
Forecast for new capital spending and top-down adjustment	-	462	(171)	(607)	(750)	(755)
Cash surplus/(deficit)	(3,506)	(4,492)	(3,254)	1,668	2,408	3,752
Net acquisition of financial assets						
Advances	(609)	(652)	(508)	(457)	(406)	(420)
Share investments	(3,341)	2,490	(2,006)	(7,761)	2,652	1,608
Net purchase of investments	(125)	(367)	(24)	21	16	37
Capital contributions	15	117	100	-	-	-
Net incurrence of liabilities						
New Zealand dollar borrowings	(1,564)	1,934	466	64	784	(4)
Foreign currency borrowings	1,073	(965)	(955)	(437)	(97)	141
Government stock	5,673	(458)	5,408	7,463	(4,824)	(4,562)
Net cash inflows from financing activities	1,122	2,099	2,481	(1,107)	(1,875)	(3,200)
Foreign-exchange gains/(losses) on opening cash	(158)	124	-	-	-	-
Net change in the stock of cash	(2,542)	(2,269)	(773)	561	533	552

Table 22 – Statement of stocks and flows

for the year ended 30 June 2014

Opening balance statement	\$million	Statement of operations	\$million	Other economic flows	\$million	Closing balance sheet	\$million
Opening net worth	65,647	Operating balance	67	Holding gains	7,537	Closing net worth	73,251
<i>Equals</i>		<i>Equals</i>					
Non-financial assets	86,896	Transactions	2,199	Valuation changes	4,796	Non-financial assets	93,891
<i>plus</i>		<i>plus</i>		<i>plus</i>		<i>plus</i>	
Net financial worth	(21,249)	Net lending	(2,132)	Change in net financial worth	2,741	Net financial worth	(20,640)
<i>Equals</i>		<i>Equals</i>					
Financial assets	114,638	Transactions in financial assets	(875)	Changes in financial assets	1,346	Closing financial assets	115,109
<i>less</i>		<i>less</i>		<i>less</i>		<i>less</i>	
Opening liabilities	135,887	Transactions in liabilities	1,257	Changes in liabilities	(1,395)	Closing liabilities	135,749

for the year ended 30 June 2015

Opening balance statement	\$million	Statement of operations	\$million	Other economic flows	\$million	Closing balance sheet	\$million
Opening net worth	73,251	Operating balance	2,108	Holding gains	(208)	Closing net worth	75,151
<i>Equals</i>		<i>Equals</i>					
Non-financial assets	93,891	Transactions	3,039	Valuation changes	-	Non-financial assets	96,930
<i>plus</i>		<i>plus</i>		<i>plus</i>		<i>plus</i>	
Net financial worth	(20,640)	Net lending	(931)	Change in net financial worth	(208)	Net financial worth	(21,779)
<i>Equals</i>		<i>Equals</i>					
Financial assets	115,109	Transactions in financial assets	(3,596)	Changes in financial assets	2,714	Closing financial assets	114,227
<i>less</i>		<i>less</i>		<i>less</i>		<i>less</i>	
Opening liabilities	135,749	Transactions in liabilities	(2,665)	Changes in liabilities	2,922	Closing liabilities	136,006

for the year ended 30 June 2016

Opening balance statement	\$million	Statement of operations	\$million	Other economic flows	\$million	Closing balance sheet	\$million
Opening net worth	75,151	Operating balance	3,577	Holding gains	(102)	Closing net worth	78,626
<i>Equals</i>		<i>Equals</i>					
Non-financial assets	96,930	Transactions	3,414	Valuation changes	-	Non-financial assets	100,344
<i>plus</i>		<i>plus</i>		<i>plus</i>		<i>plus</i>	
Net financial worth	(21,779)	Net lending	163	Change in net financial worth	(102)	Net financial worth	(21,718)
<i>Equals</i>		<i>Equals</i>					
Financial assets	114,227	Transactions in financial assets	2,267	Changes in financial assets	(42)	Closing financial assets	116,452
<i>less</i>		<i>less</i>		<i>less</i>		<i>less</i>	
Opening liabilities	136,006	Transactions in liabilities	2,104	Changes in liabilities	60	Closing liabilities	138,170

for the year ended 30 June 2017

Opening balance statement	\$million	Statement of operations	\$million	Other economic flows	\$million	Closing balance sheet	\$million
Opening net worth	78,626	Operating balance	5,057	Holding gains	561	Closing net worth	84,244
<i>Equals</i>		<i>Equals</i>					
Non-financial assets	100,344	Transactions	3,019	Valuation changes	-	Non-financial assets	103,363
<i>plus</i>		<i>plus</i>		<i>plus</i>		<i>plus</i>	
Net financial worth	(21,718)	Net lending	2,038	Change in net financial worth	561	Net financial worth	(19,119)
<i>Equals</i>		<i>Equals</i>					
Financial assets	116,452	Transactions in financial assets	10,404	Changes in financial assets	671	Closing financial assets	127,527
<i>less</i>		<i>less</i>		<i>less</i>		<i>less</i>	
Opening liabilities	138,170	Transactions in liabilities	8,366	Changes in liabilities	110	Closing liabilities	146,646

for the year ended 30 June 2018

Opening balance statement	\$million	Statement of operations	\$million	Other economic flows	\$million	Closing balance sheet	\$million
Opening net worth	84,244	Operating balance	5,552	Holding gains	669	Closing net worth	90,465
<i>Equals</i>		<i>Equals</i>					
Non-financial assets	103,363	Transactions	2,444	Valuation changes	-	Non-financial assets	105,807
<i>plus</i>		<i>plus</i>		<i>plus</i>		<i>plus</i>	
Net financial worth	(19,119)	Net lending	3,108	Change in net financial worth	669	Net financial worth	(15,342)
<i>Equals</i>		<i>Equals</i>					
Financial assets	127,527	Transactions in financial assets	84	Changes in financial assets	823	Closing financial assets	128,434
<i>less</i>		<i>less</i>		<i>less</i>		<i>less</i>	
Opening liabilities	146,646	Transactions in liabilities	(3,024)	Changes in liabilities	154	Closing liabilities	143,776

for the year ended 30 June 2019

Opening balance statement	\$million	Statement of operations	\$million	Other economic flows	\$million	Closing balance sheet	\$million
Opening net worth	90,465	Operating balance	6,514	Holding gains	906	Closing net worth	97,885
<i>Equals</i>		<i>Equals</i>					
Non-financial assets	105,807	Transactions	2,440	Valuation changes	-	Non-financial assets	108,247
<i>plus</i>		<i>plus</i>		<i>plus</i>		<i>plus</i>	
Net financial worth	(15,342)	Net lending	4,074	Change in net financial worth	906	Net financial worth	(10,362)
<i>Equals</i>		<i>Equals</i>					
Financial assets	128,434	Transactions in financial assets	1,260	Changes in financial assets	1,087	Closing financial assets	130,781
<i>less</i>		<i>less</i>		<i>less</i>		<i>less</i>	
Opening liabilities	143,776	Transactions in liabilities	(2,814)	Changes in liabilities	181	Closing liabilities	141,143

Table 23 – Reconciliation between GAAP and GFS operating balance

	2014	2015	2016	2017	2018	2019
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m
Operating balance per GAAP	2,808	1,900	3,475	5,618	6,221	7,420
Remove gains/losses and net surpluses from associates and joint ventures	(5,741)	(2,472)	(2,910)	(3,016)	(3,147)	(3,319)
Operating balance before gains and losses (OBEGAL)	(2,933)	(572)	565	2,602	3,074	4,101
Remove SOE portion of OBEGAL (incl. eliminations)	312	(66)	(49)	(42)	(59)	(118)
Remove ETS expenses	46	73	76	79	82	84
Remove impairments and write-offs on financial assets	2,175	2,430	2,512	2,334	2,445	2,472
Tertiary institutions included on a line-by-line basis	242	245	247	247	247	247
Reserve Bank (equity accounted)	240	29	244	(95)	(176)	(206)
Other adjustments	(15)	(31)	(18)	(68)	(61)	(66)
Net operating balance per GFS	67	2,108	3,577	5,057	5,552	6,514

Table 24 – Reconciliation between GAAP residual cash and GFS cash surplus/(deficit)

	2014	2015	2016	2017	2018	2019
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m
Residual cash per GAAP	(4,109)	(4,009)	(3,528)	(125)	552	1,841
Back out advances	716	890	1,125	578	311	323
Back out investments	865	1,661	1,670	1,539	1,283	1,364
Add in cash flows from Crown entities	1,623	(2,045)	(2,643)	(238)	380	322
Remove cash flows from the Reserve Bank	(33)	(190)	198	(19)	(57)	(39)
Back out proceeds from government share offer	(2,325)	(628)	-	-	-	-
Add in NZSF cash flows	(316)	(241)	(99)	(76)	(72)	(60)
Other adjustments	73	70	23	9	11	1
Cash surplus/(deficit)	(3,506)	(4,492)	(3,254)	1,668	2,408	3,752

Accounting Policies

The forecast financial statements contained in the published *Half Year Economic and Fiscal Update 2014* are based on the following accounting policies:

Statement of compliance

These forecast financial statements have been prepared in accordance with the Public Finance Act 1989 and with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as defined in the Financial Reporting Act 2013.

Forecasts have been prepared in accordance with Public Sector PBE Accounting Standards (PBE Standards). The actual for the 2013/14 year has been prepared in accordance with NZ equivalents to International Financial Reporting Standards as appropriate for public benefit entities (NZ IFRS (PBE)). The impact of moving from NZ IFRS (PBE) to PBE Standards is not significant. This is due to a strong degree of convergence between the two suites of standards.

For the purposes of these forecast financial statements, the government reporting entity has been designated as a public benefit entity (PBE). Public benefit entities (PBEs) are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders. The forecast financial statements comply with PBE FRS-42: *Prospective Financial Statements* and NZ GAAP as it relates to prospective financial statements.

Reporting entity

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

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

The description “consolidated financial statements for the Government reporting entity” and the description “financial statements for the Government of New Zealand” have the same meaning and can be used interchangeably.

Basis of preparation

These forecast financial statements have been prepared on the basis of historic cost modified by the revaluation of certain assets and liabilities, and prepared on an accrual basis, unless otherwise specified (for example, the statement of cash flows).

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

Judgements and estimations

The preparation of these forecast financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows

that are predicted to occur a long time into the future, as with the settlement of ACC outstanding claim obligations and Government Superannuation retirement benefits, depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values. A further area of uncertainty relates to the estimation of the claims and provisions arising from the Canterbury earthquakes.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

Where these judgements significantly affect the amounts recognised in the forecast financial statements they are described below.

Early adoption of standards and interpretations

The New Zealand Accounting Standards Board has issued a new suite of accounting standards (called Public Sector PBE Accounting Standards) that apply to the Financial Statements of Government for the financial year beginning 1 July 2014.

The Government has adopted all Public Sector PBE standards and interpretations issued to date for the 2014/15 year.

Reporting and forecast period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2015 to 30 June 2019.

The “2014 Actual” figures reported in the statements are the audited results reported in the Financial Statements of Government for the year ended 30 June 2014. The “2015 Previous Budget” figures are the original forecasts to 30 June 2015 as presented in the 2014 Budget.

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

Basis of combination

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

Core entities

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

Other entities

- State-owned Enterprises
- Crown entities (excluding tertiary education institutions)
- Air New Zealand Limited
- Organisations listed in Schedule 4 and 4A of the Public Finance Act 1989
- Organisations listed in Schedule 5 of the Public Finance Act 1989
- Legal entities listed in Schedule 6 of the Public Finance Act 1989

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

Tertiary education institutions are equity-accounted for the reasons explained in the notes to the Government's financial statements for the period ended 30 June 2014. This treatment recognises these entities' net assets, including asset revaluation movements, surpluses and deficits.

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

Accounting policies

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

Income

Taxation revenue levied through the Crown's sovereign power

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

Tax revenue is recognised when a taxable event has occurred and the tax revenue can be reliably measured. The taxable event is defined as follows:

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

The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. Inland Revenue has implemented systems and controls (eg, performing audits of taxpayer records) in order to detect and correct situations where taxpayers are not complying with the various acts it administers.

Revenue earned through operations

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

Interest income

Interest income is accrued using the effective interest rate method.

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

Dividend income

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

Rental income

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

Donated or subsidised assets

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

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits and entitlements

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

Grants and subsidies

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

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Foreign currency

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

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

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

Sovereign receivables and taxes repayable

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

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

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

Financial Instruments – forecasting policies

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

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

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

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

Financial instruments – Accounting Policies***Financial assets***

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

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

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

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

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

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

Available-for-sale financial assets are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised in the statement of comprehensive income with some exceptions. Those exceptions are for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses resulting from translation differences due to changes in amortised cost of the asset. These latter items are recognised in the statement of financial performance. For non-monetary available-for-sale financial assets (e.g. some unlisted equity instruments) the fair value movements recognised in the statement of comprehensive income include any related foreign exchange component. At derecognition, the cumulative fair value gain or loss previously recognised in the statement of comprehensive income, is recognised in the statement of financial performance.

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

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

Financial liabilities

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

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

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

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

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

Derivative Financial Instruments

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

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

Hedging

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

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

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

(a) Cash flow hedge

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

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

(b) *Fair value hedge*

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in the statement of financial performance together with any changes in the fair value of the hedged asset or liability. The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged.

Inventories

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

Inventories include unissued currency and harvested agricultural produce (e.g. logs, wool). The cost of harvested agricultural produce is measured at fair value less estimated point-of-sale costs at the point of harvest.

Property, plant and equipment – Forecasting Policy

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

Property, plant and equipment – Accounting Policies

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

Revaluations are carried out for a number of classes of PPE to reflect the service potential or economic benefit obtained through control of the asset. Revaluation is based on the fair value of the asset, with changes reported by class of asset. Subsequent to initial recognition, classes of PPE are accounted for as set out below.

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

Classes of PPE that are revalued are revalued at least every five years or whenever the carrying amount differs materially to fair value.

Items of PPE are revalued to fair value for the highest and best use of the item on the basis of the market value of the item, or on the basis of market evidence, such as discounted cash flow calculations. If no market evidence of fair value exists, an optimised depreciated replacement cost approach is used as the best proxy for fair value. Where an item of PPE is recorded at its optimised depreciated replacement cost, this cost is based on the estimated present cost of constructing the existing item of PPE by the most appropriate method of construction, less allowances for physical deterioration and optimisation for obsolescence and relevant surplus capacity. Where an item of PPE is recorded at its optimised depreciated replacement cost, the cost does not include any borrowing costs.

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

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

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

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

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

Typically, the estimated useful lives of different classes of PPE are as follows:

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

Specified heritage and cultural assets are generally not depreciated.

Public private partnerships

A public private partnership (also known as a service concession arrangement) is an arrangement between the Government and a private sector partner in which the private sector partner uses specified assets to supply a public service on behalf of the Government for a specified period of time and is compensated for its services over the period of the arrangement. The costs of the specified assets are financed by the private sector partner, except where existing assets of the Government (generally land) are allocated to the arrangement. Payments made by the Government to a private sector partner over the period of a service concession arrangement cover the costs of the provision of services, interest expenses and repayment of the liability incurred to acquire the specified assets.

The assets in a public private partnership are recognised as assets of the Government. If the assets are progressively constructed, the Government progressively recognises work-in-progress at cost and a financial liability of the same value is also recognised. When the assets are fully constructed, the total asset cost and the matching financial liability reflect the value of the future compensation to be provided to the private-sector partner for the assets.

Subsequent to initial recognition:

- the assets are accounted for in accordance with Government accounting policy applicable to the classes of property, plant and equipment that the specified assets comprise, and
- the financial liabilities are measured at amortised cost.

Equity accounted investments

Generally accepted accounting practice (GAAP) determines the combination bases for entities that make up the Government reporting entity and is used by public benefit entities to determine whether they control another entity.

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

Biological assets

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

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

Intangible assets

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

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

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

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

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

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

Goodwill is tested for impairment annually.

Non-current assets held for sale and discontinued operations

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

Investment property

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

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

Employee benefits

Pension liabilities

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

Other employee entitlements

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

Termination benefits

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

Insurance contracts

The future cost of outstanding insurance claims liabilities are valued based on the latest actuarial information. The estimate includes estimated payments associated with claims reported and accepted, claims incurred but not reported, claims that may be re-opened, and the costs of managing these claims. Movements of the claims liabilities are reflected in the statement of financial performance. Financial assets backing these liabilities are designated at fair value through profit and loss.

Reinsurance

Premiums paid to reinsurers are recognised as reinsurance expense in the statement of financial performance. Premiums are measured from the attachment date over the period of indemnity of the reinsurance contract, in accordance with the expected pattern of the incidence of risk. Prepaid reinsurance premiums are included in prepayments in the statement of financial position.

Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims and outstanding claims, are recognised as income in the statement of financial performance.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims and are measured as the present value of the expected future receipts.

Deferred acquisition costs

Accident compensation and earthquake commission levies are imposed through regulation and do not attract acquisition costs. Costs incurred in obtaining other insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the statement of comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. Risks under the Group's general insurance contracts cover a period of up to 12 months, therefore, deferred acquisition costs are amortised within one year.

Leases

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

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

Other liabilities and provisions

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

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Commitments

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

Commitments are classified as:

- capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date; and
- lease commitments: non-cancellable operating leases with a lease term exceeding one year.

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

Interest commitments on debts, commitments for funding, and commitments relating to employment contracts are not included in the statement of commitments.

Comparatives

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

Comparatives referred to as Previous Budget were forecasts published in the *2014 Budget Economic and Fiscal Update*. These forecasts include budget adjustments for new unallocated spending during the year (both operating and capital) and top-down adjustments which reduce the bias for forecast expenditure by departments to reflect maximum spending limits instead of mid-point estimates.

Segment analysis

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

- **Core Crown:** This group, which includes Ministers, government departments, Offices of Parliament, the Reserve Bank of New Zealand and the New Zealand Superannuation Fund most closely represents the budget sector and provides information that is useful for fiscal analysis purposes.
- **State-owned enterprises:** This group includes entities governed by the State-Owned Enterprises Act 1986, and (for the purposes of these statements) also includes Air New Zealand, Mighty River Power, Meridian and Genesis, represents entities that undertake commercial activity.
- **Crown entities:** This group includes entities governed by the Crown Entities Act 2004. These entities have separate legal form and specified governance frameworks (including the degree to which each Crown entity is required to give effect to, or be independent of, government policy).

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