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TE TAI ŌHANGA
THE TREASURY

Pre-election Economic and Fiscal Update 2020

16 September 2020

ISBN: 978-1-98-858098-2 (print) 978-1-98-858099-9 (online)

An introduction to the *Pre-election Economic and Fiscal Update*

The Treasury is New Zealand's economics and finance ministry. We advise on the direction of New Zealand's economic policy with the aim of achieving a strong and sustainable economy, and raising New Zealand living standards. This includes reporting on the expenditure of government (fiscal) revenue, and assisting to ensure spending is fit for purpose and can improve outcomes for New Zealanders.

Sharing what we do

As the government's lead economic and financial adviser, we forecast the economic outlook for New Zealand and the Government's fiscal outlook. This *Pre-election Economic and Fiscal Update (Update)* is part of a suite of documents we release as required by the Public Finance Act 1989.

This *Update* primarily outlines what the Treasury observes in our current economic and fiscal climate, what we might see in the future, and what risks we may face over the next four years (our forecast period). This gives an indication of what the economy is most likely to do to inform decision-making.

Making it New Zealander-centric

Our advice is not just based on facts and figures. Improving outcomes means we need to understand which outcomes to improve and what is important to New Zealanders. We use the Treasury's Living Standards Framework to recognise the different aspects of New Zealanders' living standards and wellbeing. Our framework builds on 30 years of New Zealand and international evidence on wellbeing and provides a high-level framework on intergenerational wellbeing.

Understanding our path

The Treasury is in a unique position to focus on improving the way our economy can raise New Zealand living standards. Along with delivering first-rate economic and financial advice, we are committed to providing it in a way so New Zealanders understand how we work to achieve our goals. If you would like to know more about who we are and what we do, please go to our website at https://treasury.govt.nz

Internet

The URL for this document on the Treasury's website at September 2020 is
https://treasury.govt.nz/publications/efu/pre-election-economic-and-fiscal-update-2020

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Statement of Responsibility

I make this statement in accordance with section 26W of the Public Finance Act 1989.

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in preparing, and supplying the Minister of Finance with, this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications of both government decisions and other circumstances as at 7 September 2020 that were communicated to me by the Minister of Finance in accordance with the requirements of the Public Finance Act 1989 and of other economic and fiscal information available to the Treasury as at 7 September 2020. This *Update* does not incorporate any decisions, circumstances or statements that the Minister of Finance has determined, in accordance with section 26V of the Public Finance Act 1989, should not be incorporated in this *Update*.

Caralee McLiesh
Secretary to the Treasury

10 September 2020

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured all government decisions and other circumstances as at 7 September 2020 of which I was aware and that had material economic or fiscal implications have been communicated to the Secretary to the Treasury, in accordance with the requirements of the Public Finance Act 1989.

In accordance with section 26W of the Public Finance Act 1989, I accept responsibility for the integrity of the disclosures contained in the *Update,* responsibility for the consistency and completeness of the *Update* information with the requirements of Part 2 (Fiscal responsibility) of the Public Finance Act 1989 and responsibility for the omission from the *Update* under section 26V of the Public Finance Act 1989 of any decisions, circumstances or statements not incorporated in it.

Hon Grant Robertson
Minister of Finance

9 September 2020

Executive Summary

June years	2019 Actual	2020 Forecast[1]	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Real production GDP (annual average % change)	2.8	-3.1	-0.5	3.6	3.9	4.1
Unemployment rate (June quarter)	4.0	4.0	7.7	7.6	6.6	5.3
CPI inflation (annual % change)	1.7	1.5	1.2	1.2	1.4	1.9
Current account (annual, % of GDP)	-3.4	-2.4	-5.1	-5.2	-4.1	-3.8
Fiscal measures ($billions)						
Core Crown tax revenue	86.5	84.9	84.7	84.3	92.5	98.5
Core Crown expenses	87.0	108.8	119.5	109.9	111.7	116.1
Total Crown operating balance before gains and losses	7.4	-23.4	-31.7	-22.1	-14.2	-12.4
Core Crown residual cash	-0.7	-23.7	-41.0	-28.6	-22.3	-18.9
Net core Crown debt	57.7	83.4	130.2	160.1	182.2	201.1
as a percentage of GDP	*19.0%*	*27.6%*	*43.0%*	*49.9%*	*53.5%*	*55.3%*
Net worth	143.3	115.7	80.4	60.6	50.9	43.5

Note: 1 The fiscal measures for the 2020 fiscal year represent the unaudited actual results.

Sources: Stats NZ, the Treasury

- The COVID-19 pandemic continues to cause widespread economic and social disruption around the world. Infection rates are still rising in many parts of the world and the timeline for the development of a vaccine or effective treatment is still very uncertain. Community transmission re-emerged in New Zealand in August following a 102-day period during which there was no evidence of transmission, and the country returned to higher alert levels. These developments highlight the continued uncertainty about New Zealand's economic outlook.

- In addition to our main forecast, this *Update* provides three alternative forecast scenarios for the economy to reflect the continued uncertainties about the outlook. These scenarios include an earlier recovery in exports of services than assumed in our main forecast, an extended period of border controls and a resurgence in community transmission. The scenarios help illustrate the nature of the economic challenges ahead and the potential range of outcomes against which the public finances can be assessed.

- When the country moved down to Alert Level 1 in June, spending picked up, providing a boost to the domestic economy; however, a return to higher alert levels following the re-emergence of community transmission in Auckland in mid-August has slowed the pace of economic recovery, and the country's borders look likely to remain closed to travellers for an extended period of time.

- Our main economic forecasts include \$58.5 billion of discretionary COVID-19 fiscal support over the forecast period, more than the \$35 billion included in the main *Budget Economic and Fiscal Update (Budget Update).*[1] Border restrictions are assumed to be lifted on 1 January 2022, with all international travel allowed from then. This forecast also allows for limited international travel to resume in mid-2021, reflecting the possible emergence of safe travel zones or a resumption in international education.

- The initial economic impact of COVID-19, while still large, has been less severe than anticipated in the *Budget Update,* with a faster-than-expected move down alert levels, and high-frequency activity indicators suggesting activity has picked up sooner than expected. Annual average GDP growth is now expected to fall to -3.1% in the June 2020 quarter, compared to -4.6% forecast in the *Budget Update*. Despite this improvement, the forecast contraction in GDP of 16.0% in the June 2020 quarter will far exceed previous records.

- Despite a less negative near-term outlook, the medium-term outlook has deteriorated owing to a deterioration in the global economic outlook, and to the fact that the effects of the COVID-19 pandemic are now expected to be more persistent. Annual growth averages 2.8% over the forecast period compared to 3.9% in the *Budget Update*, with real GDP at the end of the forecast period 2.5% below the *Budget Update*.

- Weaker real activity is the main driver of lower nominal GDP, with cumulative nominal GDP over the five years to June 2024 forecast to be almost \$13 billion lower than in the *Budget Update*.

- Government support, and a faster move to lower alert levels, has helped to cushion the initial impact on unemployment. However, unemployment is expected to rise over the coming quarters as border restrictions weigh on activity and fiscal support is eased. We expect the unemployment rate to peak at 7.8% in the March 2022 quarter, lower and later than the peak of 9.8% in the September 2020 quarter forecast in the *Budget Update*.

- A slower domestic recovery in the medium term, together with weaker commodity prices and a higher exchange rate, is expected to result in lower inflation compared to the *Budget Update* over much of the forecast period. However, continued accommodative monetary policy support measures are expected to contribute to raising inflation towards 2.0%, the midpoint of the Reserve Bank's inflation target, by the end of the forecast period.

- A more negative outlook for the global economy is expected to slow the pace of economic recovery through several channels. Border restrictions lower export earnings, particularly in the tourism and education export sectors. The resulting impact on incomes, together with lower confidence, ultimately drives weaker consumption and investment. The loss of services exports associated with border restrictions contributes to the widening of the current account deficit to 5.6% of GDP by the September 2021 quarter.

[1] The \$35 billion of fiscal support assumed in the main *Budget Update* reflected uncertainty about the timing and nature of further fiscal support on 17 April 2020 when the economic forecasts were finalised.

- The economic impact of COVID-19, together with the Government's response, has had a significant impact on the Government's fiscal position. The 2019/20 and 2020/21 fiscal years show the biggest deterioration as tax revenue falls and the impact of the Government's COVID-19 fiscal support measures takes effect. As economic activity picks up, the forecast shows an uplift in tax revenue and at the same time some of the temporary fiscal support measures start to unwind, leading to the operating balance before gains and losses (OBEGAL) deficits narrowing from $31.7 billion in 2020/21 to $12.4 billion by 2023/24.

- Total core Crown tax revenue fell in the 2019/20 fiscal year and this trend is expected to continue over the next two years, primarily owing to the economic slowdown. The tax revenue forecasts then start to recover as economic activity starts to pick up. Compared to the *Budget Update*, the fall in tax revenue in 2019/20 and 2020/21 is smaller, with core Crown tax revenue falling to $84.7 billion in 2020/21 (*Budget Update*: $80.1 billion), and the recovery is slower over the remainder of the forecast period.

- Core Crown expenses have significantly increased in the 2019/20 fiscal year as a result of the Government's COVID-19 fiscal support measures. It is expected that core Crown expenses will continue to increase in the 2020/21 fiscal year, reaching $119.5 billion, then reduce as the Government's COVID-19 temporary fiscal support measures fall away.

- In the 2019/20 fiscal year, the Government has recorded an OBEGAL deficit of $23.4 billion, while net core Crown debt increased by $25.7 billion to be $83.4 billion. The OBEGAL deficit is expected to worsen to $31.7 billion in 2020/21, then start to recover. Over the forecast period (2020/21 to 2023/24), the Government's cash shortfall averages around $28 billion per year.

- The Government's strong balance sheet position prior to the COVID-19 pandemic has enabled the Government to absorb the fiscal impact from COVID-19 by increasing debt and running down net worth. From the start of the 2019/20 fiscal year, net core Crown debt increases by around $143 billion by 2023/24 to be $201.1 billion. Over the same period, net worth decreases by around $100 billion to be $43.5 billion in 2023/24. As a share of GDP, net core Crown debt continues to rise and reaches 55.3% by 2023/24.

- The weaker outlook in the 2023/24 fiscal year will mean the fiscal outlook over the projection period (2024/25 to 2033/34) will also be weaker compared to the *Budget Update*.

Finalisation dates for the *Pre-election Update*

Economic forecasts – 21 August 2020

Tax revenue forecasts – 26 August 2020

Fiscal forecasts – 7 September 2020

Risks to the Fiscal Forecasts – 7 September 2020

Text finalised – 9 September 2020

The impacts of the response to COVID-19 on the economic and fiscal outlook

This box explains the approach and assumptions the Treasury has taken to incorporate the impacts of the Government's response to COVID-19 into the economic and fiscal forecasts. At the *Budget Update*, the Government signalled $62.1 billion of funding to support the COVID-19 response and economic recovery, which consists of the $12.1 billion initial package to support New Zealanders (17 March Support Package) and $50 billion in the COVID-19 Response and Recovery Fund (CRRF).

Since the completion of the fiscal forecasts for inclusion in the *Budget Update* the Government has made a number of specific decisions in relation to the response and recovery from COVID-19. The fiscal impact of the estimated costs for some of the decisions managed against the CRRF have been revised down to reflect new information (eg, the Wage Subsidy Scheme). In addition, it is assumed that $1 billion of the downward revisions in funding is added back to the CRRF. As a result of these changes, there is an overall difference of around $4 billion between the fiscal impact reflected in the Forecast Financial Statements and the funding signalled by the Government. The Forecast Financial Statements include $58.5 billion[2] of Government support.

Funding of the Government's fiscal support measures

Table 1 shows the allocation of funding to date across different funding rounds.

Table 1 – Funding of fiscal support measures

Package		Package size, $billions
17 March Support Package		12.1
COVID-19 Response and Recovery Fund		50.0
Total COVID-19 fiscal support measures		62.1
Split between allocated and unallocated funding		
Allocated COVID-19 funding		
• *17 March Support Package*	12.1 allocated	
• *CRRF Foundational Package (11 May)*[3]	15.9 allocated	
• *CRRF 6 July Package*[4]	3.1 allocated	
• *Other CRRF decisions*	17.9 allocated	
Total allocated funding		49.0
• *Funding returned to the CRRF*		(1.0)
Unallocated COVID-19 funding		14.1
Total COVID-19 fiscal support measures		62.1

Overall, as of 7 September 2020, it is assumed the Government has made funding decisions totalling $49.0 billion in the response to and the recovery from COVID-19.

[2] This represents the impact over the period (2019/20 to 2023/24), so excludes the impact in the 2024/25 year outlined in Table 2.

[3] The *Summary of Initiatives in the COVID-19 Response and Recovery Fund (CRRF) Foundational Package* published on 29 May 2020 provides further details of individual decisions that make up this package.

[4] The *Summary of Initiatives in the COVID-19 Response and Recovery Fund (CRRF) 6 July Package* published on 14 August 2020 provides further details of individual decisions that make up this package.

The funding decisions include $36.9 billion that has been managed against the CRRF. The Government has run two substantive funding rounds, on 11 May 2020 and 6 July 2020 to allocate funding from the CRRF. In addition, given the evolving situation, the Government has made decisions outside of these funding rounds as the need arose. Once the $1 billion of funding returned to the CRRF is added back, the Government has used $35.9 billion of the CRRF, leaving $14.1 billion available to allocate in the future.

Forecasting the fiscal impact of COVID-19 fiscal support measures

COVID-19-related funding decisions have been incorporated in the Forecast Financial Statements. The impact of the funding decisions outlined in Table 1 will not have the same impact to what has been included in the Forecast Financial Statements, due to revisions in the estimated costs of some initiatives. Figure 1 outlines how the Government's signalled funding translates to what has been included in the Forecast Financial Statements. Overall, the fiscal impact of the Government's response to and recovery from COVID-19 is expected to be $58.1 billion[5], $4 billion lower than the funding signalled by the Government at the *Budget Update.* The difference comprises the downward revisions in the estimated costs of initiatives of around $5 billion, offset by the $1 billion of funding returned to the CRRF. Table 2 provides a breakdown of the fiscal impact of COVID-19 support measures, compared to the *Budget Update.*

Figure 1 – Fiscal impact of funding decisions on the fiscal forecasts

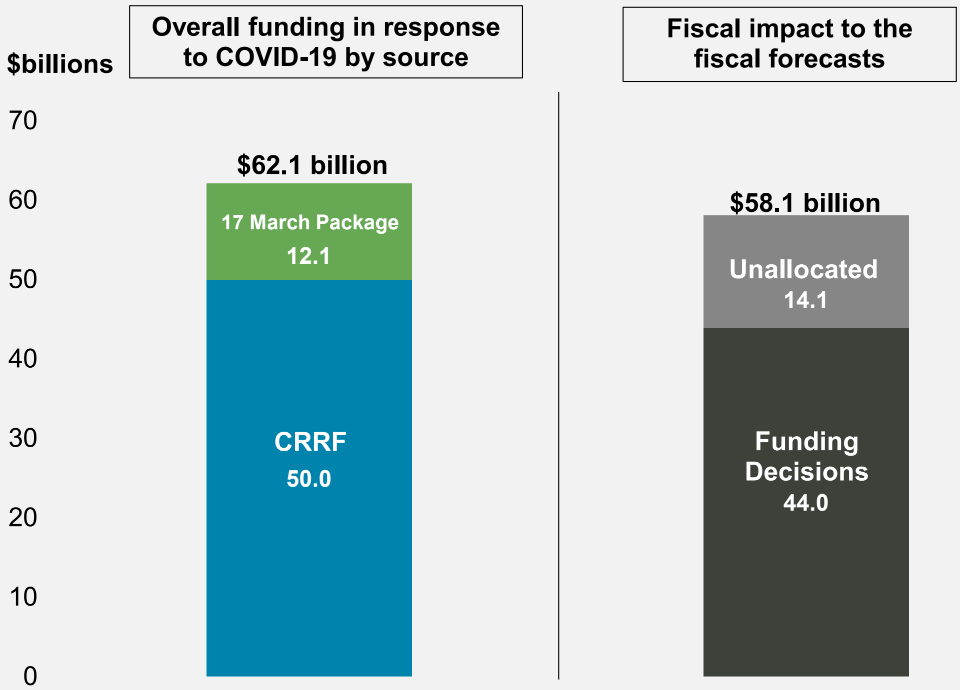


Table 2 – Fiscal impact of the Government's COVID-19 support measures

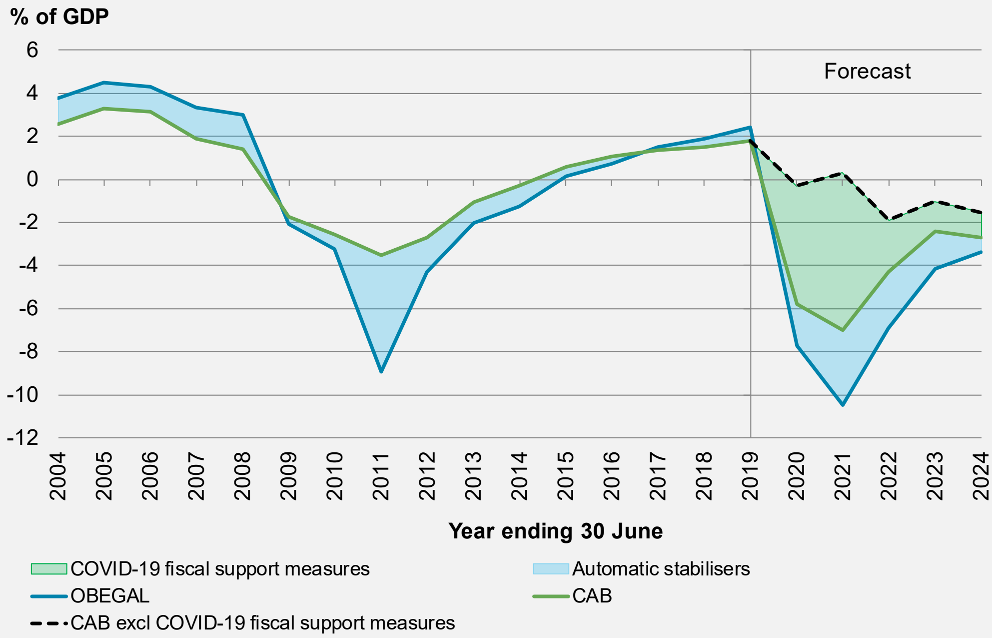
Year ending 30 June $billions	2020	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Post-2024	Total
Total COVID-19 fiscal impact - *Pre-election Update*	17.8	23.7	8.6	4.5	3.9	(0.4)	**58.1**
Total COVID-19 fiscal impact - *Budget Update*	21.0	13.5	15.6	10.7	1.3	-	**62.1**
Change	**3.2**	**(10.2)**	**7.0**	**6.2**	**(2.6)**	**0.4**	**4.0**

Source: The Treasury

5 Includes the fiscal impact beyond the 2023/24 fiscal year.

The $58.5 billion over the period of 2019/20 to 2023/24, only includes the fiscal support as a result of the Government's decisions. In addition to the fiscal support measures outlined above, the COVID-19 shock will have a significant impact on the Government's fiscal position through a reduction in tax revenues and increased benefit expenses that happen automatically as the economy weakens (known as automatic stabilisers). The estimated cyclically-adjusted balance (CAB) in Figure 2 shows the automatic stabilisers are expected to have a significant impact on the deficit across the forecast period.[6] Most of the forecast deficit can be explained by either the automatic stabilisers (shaded blue) or the effects of the COVID-19 fiscal support measures (shaded green), of which most are assumed to be temporary.[7] After removing the automatic and discretionary components, a -1.5% of GDP structural deficit remains at the end of the forecast period. This deficit is larger than forecast in the *Budget Update*, predominantly driven by the softer medium-term outlook for nominal GDP weakening structural tax revenue over the latter years of the forecast period.[8]

Figure 2 – OBEGAL and cyclically-adjusted balance (CAB)



Economic impacts

In the economic forecasts, we assumed that around $18 billion in fiscal support was allocated during the year to June 2020, much of this in the June quarter. Additional fiscal support measures are assumed to be introduced to support the economic recovery. In total, the main economic forecasts assume $58.5 billion of fiscal support over the forecast period. This is consistent with what was assumed in the fiscal forecasts. The fiscal support measures outlined above have provided, and will continue to provide, substantial stimulus to the New Zealand economy by supporting firms with employment and managing cash flow during the response phase.

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6 Across the forecast period, the economy is forecast to operate below its potential level, resulting in a CAB higher than OBEGAL. Note, these CAB estimates are highly uncertain due to estimation uncertainty of the output gap and forecast uncertainty relating to future fiscal and economic developments.

7 Approximately $1 billion of spending from the CRRF is expected to continue beyond the forecast period and will therefore have a structural impact.

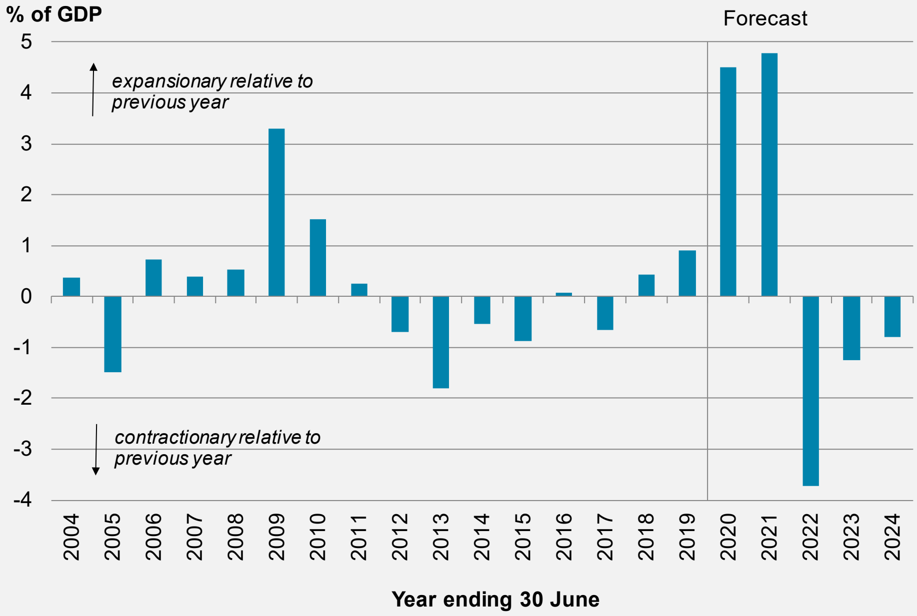
8 The softer medium-term outlook for nominal GDP and tax revenues is partly due to our current forecasts incorporating lower potential output compared to the *Budget Update* forecasts. See box on revising potential output on page 20.

We have also made several assumptions around activity levels and the pace of recovery in New Zealand that underpin our main economic forecasts including:

- Alert Level 4 restrictions lasted for approximately one month, and Alert Level 3 restrictions were in place for approximately two weeks in the June 2020 quarter. A combination of Alert Level 3 and 2 restrictions lasting four weeks has been assumed in the September 2020 quarter. Alert Level 1 restrictions are then assumed to apply until 31 December 2021.
- Workers receiving the Wage Subsidy were classified as being employed since they still received income from their employers. The divergence between the number of hours worked and the number of hours paid will persist in the September quarter, as many in the workforce are unable to contribute to economic output at higher alert levels.
- Border restrictions are assumed to be lifted on 1 January 2022, nine months later than in the *Budget Update*, but travel services exports, including tourism and international education services, are assumed to start recovering from the September 2021 quarter onwards, reflecting the possibility of safe travel arrangements being agreed. This will allow some services exports and non-New Zealander net migration to resume. However, the effects of COVID-19 will continue to be far-reaching and the pace at which services exports such as tourism and international education will recover remains uncertain.

The magnitude of the fiscal support can be illustrated by the fiscal impulse, which shows whether the stance of discretionary fiscal policy is becoming more expansionary or contractionary relative to the previous year. The fiscal impulse is particularly large in 2019/20 and 2020/21. Compared to the *Budget Update*, the fiscal impulse is slightly lower in 2019/20, but higher in 2020/21. This is predominantly driven by some expenditure previously expected at the end of 2019/20 now taking place in 2020/21.

Figure 3 – Fiscal impulse



A positive fiscal impulse implies that the cyclically-adjusted cash balance is declining.[9] Fiscal policy remains stimulatory across the forecast period, but the fiscal impulse shows that fiscal support reduces from 2021/22 onwards. The fiscal impulse is a simple indicator that does not measure the broader impacts of fiscal policy on GDP. In particular, it does not consider the second-round effects of fiscal policy on employment, private economic activity or household consumption which can benefit GDP in subsequent years.

[9] There is considerable uncertainty around estimates of the fiscal impulse in the current environment reflecting unprecedented swings in the output gap and other forecast variables. Further information on the methodology, interpretation and limitations behind the indicators can be found in Treasury Working Papers 02/30 and 10/08.

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Economic Outlook

Summary

- The COVID-19 pandemic continues to cause major disruption to life and economic activity around the world. The recent re-emergence of community transmission of COVID-19 in Auckland, which was placed under Alert Level 3 restrictions while the rest of the country moved to Alert Level 2 in mid-August, highlights the continued uncertainty about New Zealand's economic outlook. Intermittent restrictions on gatherings and activities here and in other parts of the world indicate that the path of the pandemic remains uncertain, but it is likely that the pandemic will continue to impact economic activity for some time. The continued pervasiveness of COVID-19 since May is a major factor in a weaker world economic outlook compared to the *Budget Update*.

- New Zealand experienced 102 days without evidence of community transmission of COVID-19 after successfully eliminating the disease in May. The swifter move to lower alert levels than had been assumed in the *Budget Update* has been associated with an earlier and stronger rebound in activity levels prior to the renewed restrictions in mid-August. Early indicators of activity from higher-frequency data suggest the economy bounced back to, or near, pre-COVID-19 levels by July 2020. This could suggest that the economic impact of each alert level has been less than initially assumed. While the impacts remain uncertain, we have revised down the assumed impact of the alert levels relative to the assumptions used in the *Budget Update.*

- The impact of COVID-19 remains substantial, particularly for those industries dependent on international tourism and education, and the contraction in GDP in the June 2020 quarter will far exceed previous records. The return of Alert Level 3 restrictions in Auckland and Alert Level 2 for the rest of the country is expected to dampen the rebound in GDP in the September 2020 quarter.

- Overall, the near-term economic outlook is less negative than that contained in the *Budget Update*, while the medium-term outlook is weaker. We now anticipate that real GDP declined by 16% in the June 2020 quarter, a historically large decline, but smaller than the near 24% decline forecast in the *Budget Update*. Annual average growth now reaches -3.1% in the June 2020 quarter compared to -4.6% forecast in the *Budget Update*. GDP falls a further 0.5% in the year to June 2021, with annual growth then averaging 3.9% over the final three forecast years. Persistent impacts of the pandemic are expected to reduce New Zealand's potential output, slowing the pace of recovery.

- We have assumed the government provides $58.5 billion of fiscal support over the forecast period, higher than the $35 billion included in the main *Budget Update* forecast. Much of the support is expected to take place in the 2019/20 and 2020/21 years, and the level of expenditure is consistent with the fiscal forecasts.

- The bounce-back in activity since the Alert Level 4 and 3 restrictions were lifted in May, along with extended fiscal support, is expected to have promoted worker retention, and prevented a sharper rise in the unemployment rate in the near term. However, extended border restrictions together with weaker world growth compared to the *Budget Update* are expected to slow the economic recovery. Unemployment peaks at 7.8% in the March 2022 quarter before easing to 5.3% by June 2024.

- The Treasury's working assumption is that border restrictions are lifted on 1 January 2022, nine months later than in the *Budget Update*. Border restrictions reduce export earnings, particularly in the tourism and education sectors. Border restrictions are assumed to begin easing from the September 2021 quarter onwards, allowing for a partial resumption of some services exports, possibly as a result of safe travel zones. The extended border restrictions, combined with a judgement that international tourism will take time to recover, see lower services exports throughout the forecast period.

- Weaker world growth affects export demand more generally and has a negative impact on the terms of trade. The impact on incomes, together with lower confidence, ultimately drives weaker consumption and investment than in the *Budget Update* over the medium term. Lower export revenue also widens the current account deficit to 5.6% of GDP by the September 2021 quarter.

- Weaker commodity prices, a higher exchange rate and a slower domestic recovery are expected to keep inflation lower than forecast in the *Budget Update* in the medium term before rising towards 2.0%, the mid-point of the Reserve Bank's inflation target, by the end of the forecast period, supported by accommodative monetary policy.

- Weaker confidence levels are forecast to dampen residential and investment activity over the forecast period after rebounding when the country moved down from Alert Levels 4 and 3. With net migration only beginning to make a sustained contribution to population growth after border restrictions are eased, total investment is over 3% lower by June 2024 compared to the *Budget Update.*

- Cumulatively, nominal expenditure GDP is forecast to be around $13 billion lower over the forecast period compared to the main *Budget Update* forecast. Stronger near-term activity is more than offset by a weaker global and domestic recovery, leading to a lower level of real GDP, while overall price pressures are broadly similar. Lower aggregate income in the economy is a major contributor to the deterioration in the fiscal outlook presented in the Fiscal Outlook chapter.

- This chapter provides several alternative paths the economy may take to reflect the continued uncertainties around how the pandemic may evolve. The alternative forecast scenarios illustrate the possible impacts if several COVID-19-related assumptions were altered. In particular, the following three scenarios are explored:

  - an earlier recovery in exports of services, which might reflect more effective safe travel zones or a stronger resumption in international education

  - an extended period of border controls as a result of a delay in the development of a vaccine or another form of effective treatment, and continued global transmission of COVID-19, and

  - a resurgence in community transmission that would require a return to higher alert levels in New Zealand.

Table 1.1 – Key economic variables

June years	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Real GDP (annual average % change)						
Main forecast (Pre-election Update 2020)	**2.8**	**-3.1**	**-0.5**	**3.6**	**3.9**	**4.1**
Earlier recovery in services exports	2.8	-3.1	-0.5	5.2	4.3	3.2
Extended border controls	2.8	-3.1	-0.6	3.1	2.6	3.4
Resurgence in community transmission	2.8	-3.1	-3.0	4.9	4.0	4.4
Unemployment rate (June quarter)						
Main forecast (Pre-election Update 2020)	**4.0**	**4.0**	**7.7**	**7.6**	**6.6**	**5.3**
Earlier recovery in services exports	4.0	4.0	7.7	6.4	5.5	4.8
Extended border controls	4.0	4.0	9.0	8.5	7.3	5.8
Resurgence in community transmission	4.0	4.0	9.0	8.5	7.3	5.8
CPI inflation (annual % change)						
Main forecast (Pre-election Update 2020)	**1.7**	**1.5**	**1.2**	**1.2**	**1.4**	**1.9**
Earlier recovery in services exports	1.7	1.5	1.2	1.6	2.0	2.1
Extended border controls	1.7	1.5	1.2	1.1	1.3	1.8
Resurgence in community transmission	1.7	1.5	0.9	1.1	1.3	1.8
Nominal GDP ($billions)						
Main forecast (Pre-election Update 2020)	**303**	**302**	**303**	**321**	**341**	**364**
Earlier recovery in services exports	303	302	303	326	350	371
Extended border controls	303	302	303	318	332	353
Resurgence in community transmission	303	302	295	315	335	359
Current account (annual, % of GDP)						
Main forecast (Pre-election Update 2020)	**-3.4**	**-2.4**	**-5.1**	**-5.2**	**-4.1**	**-3.8**
Earlier recovery in services exports	-3.4	-2.4	-5.1	-5.0	-3.9	-3.2
Extended border controls	-3.4	-2.4	-5.1	-5.6	-5.3	-5.4
Resurgence in community transmission	-3.4	-2.4	-3.8	-4.5	-3.6	-3.5

Sources: Stats NZ, the Treasury

Key economic forecast judgements and assumptions

These forecasts cover the period through to June 2024 and include the following judgements and assumptions:

- COVID-19 alert level restrictions are assumed to have significant impacts on activity. The assumed negative impacts are smaller than in the *Budget Update* (See Economic Activity box for further discussion), but remain highly uncertain:
  - 35% at level 4 (previously 40%)
  - 20% at level 3 (previously 25%)
  - 10% at level 2 (previously 10% to 15%)
  - 5% at level 1 (previously 5% to 10%).
- A combination of Alert Level 3 and 2 restrictions lasting approximately four weeks has been assumed in the September 2020 quarter. Alert Level 1 restrictions are then assumed to apply until 1 January 2022.
- The Treasury's working assumption is that border restrictions are in place until 1 January 2022, but some easing of restrictions from the September 2021 quarter enables services exports to gradually recover.
- Fiscal support measures totalling $58.5 billion are assumed over the forecast period, with much of the expenditure taking place in the 2019/20 and 2020/21 fiscal years.
- Significant monetary policy support is provided throughout the forecast period. This is delivered through both traditional and alternative mechanisms, including Large Scale Asset Purchases.
- Net migration falls on an annual basis from 86,000 in the March 2020 quarter to 5,000 by June 2021. As international travel restrictions are lifted throughout the world, net migration gradually increases to 35,000 by June 2024, the same endpoint as in the *Budget Update*.
- The trade-weighted index (TWI) is assumed to be steady at 70.0 from the December 2020 quarter through to the end of the forecast period, which is higher than assumed in the *Budget Update*.
- Oil prices fell to US$28 per barrel in the June quarter and are assumed to rise to a little under US$54 by June 2024.
- Economic activity in our top 16 trading partners is assumed to contract by 3.3% in the year to December 2020 before rebounding 5.5% in 2021. This is a further downgrade in the international growth outlook from the *Budget Update*, reflecting the larger impacts COVID-19 is expected to have on the global economy, and entails a weaker level of global activity throughout the forecast period compared to the *Budget Update*.

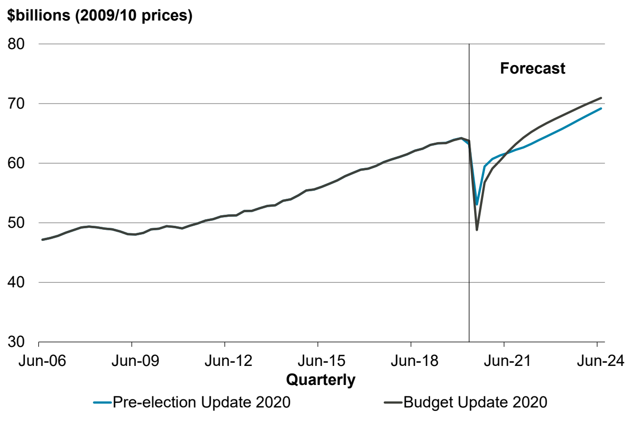
Economic Outlook

Activity rebounded after Alert Level 4 and 3 restrictions were eased, but COVID-19 is expected to dampen September 2020 quarter growth and the economic recovery…

The New Zealand economy benefited from earlier than expected downward movements through the alert levels, following the successful elimination of COVID-19 in the community in the first half of the year. This has paved the way for a shallower contraction and an earlier resumption in economic activity than had been previously assumed in the near term. However, the move to higher alert levels in mid-August is expected to have dampened the rebound in domestic activity in the September 2020 quarter. Elsewhere around the world, the course of the virus since the *Budget Update* has meant the global economic outlook has deteriorated. We now forecast a slower economic recovery over the medium term with the effects of the pandemic more persistent than assumed in the *Budget Update*.

There was a sharp recovery in high-frequency indicators of economic activity (such as traffic movements, electricity use and the New Zealand Activity Index (NZAC)) after the country moved down from Alert Levels 4 and 3, which possibly reflects that the economic impact of higher alert levels has been lower than first anticipated. These factors have led to an upward revision to forecasts of near-term economic growth. GDP is now expected to contract by 3.1% on an annual average basis in the June 2020 quarter, compared with 4.6% in the *Budget Update*. Much of the expected contraction will have occurred in the June 2020 quarter, continuing the smaller fall in economic activity in the March 2020 quarter. However, the earlier reopening of the domestic economy and the aforementioned indicators of economic activity suggest a shallower quarterly fall of 16%, less of a decline than the near 24% fall forecast in the *Budget Update*. The near-term economic activity box below explores recent developments and impacts of COVID-19 in more detail.

Figure 1.1 – Real production GDP



Sources: Stats NZ, the Treasury

COVID-19 infections continue to rise around the world, and a weaker global economic recovery is expected, once a vaccine or another effective form of treatment is found. As world incomes fall, so too does demand for our exports. Weaker global activity is expected to reduce commodity prices and border restrictions will curtail services exports earnings. Even when borders are reopened, the pace of the recovery in New Zealand is expected to be slower than forecast in the *Budget Update*. This reflects economic scarring and the greater degree of uncertainty in the world economy, which in New Zealand will be felt particularly in communities for which international tourism is an important source of jobs. However, as the effects of the pandemic dissipate and the domestic economy is able to begin recovering in earnest, annual average growth rises to a peak of 6.5% in the March 2022 quarter before easing to 4.1% by June 2024, supported by continued accommodative monetary policy. Nevertheless, real GDP is expected to remain 2.5% lower than forecast in the June 2024 quarter compared to the *Budget Update* (Figure 1.1).

Table 1.2 and the economic assumptions box provide additional detail on the main forecasts, consistent with the requirements of the Public Finance Act 1989.

Table 1.2 – Economic forecasts

Year Ending June Annual average % change	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Private consumption	3.0	-2.4	1.2	3.6	2.6	3.7
Public consumption	3.6	5.3	4.8	1.6	1.5	1.1
Residential investment	2.2	-12.5	-5	7.5	10.3	11.1
Business investment[1]	2.5	-10.1	-0.6	5.3	5.0	7.8
Exports	2.7	-7.0	-15.4	8.0	10.9	6.9
Imports	1.7	-5.7	-7.7	6.7	6.6	6.7
GDP (expenditure measure)	**2.5**	**-3.2**	**-0.4**	**3.7**	**4.0**	**4.2**
GDP (production measure)	**2.8**	**-3.1**	**-0.5**	**3.6**	**3.9**	**4.1**
Real GDP per capita (production basis)	1.2	-4.8	-2.0	2.9	2.9	3.0
Employment	1.7	1.3	-3.2	1.2	2.6	3.2
Unemployment rate[2]	4.0	4.0	7.7	7.6	6.6	5.3
CPI inflation (annual % change)	1.7	1.5	1.2	1.2	1.4	1.9
Current account balance (% of GDP)	-3.4	-2.4	-5.1	-5.2	-4.1	-3.8
Exchange rate (TWI) [3]	72.7	69.7	70.0	70.0	70.0	70.0
90-day bank bill rate[4]	1.7	0.3	0.1	0.1	0.1	0.1

Sources: Reserve Bank of New Zealand (RBNZ), Stats NZ, the Treasury

Economic forecasts are presented on a June year basis for consistency with the fiscal forecasts.

Notes:
1 Business investment is the total of all investment types. It includes public investment but excludes residential investment.
2 Percent of the labour force, June quarter, seasonally adjusted.
3 Trade-weighted index, average for the June quarter.
4 Average for the June quarter.

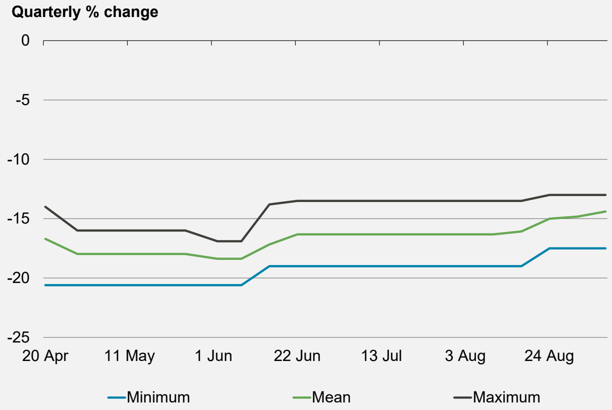
Economic activity

Economic activity has been severely impacted by measures to control the spread of COVID-19. In New Zealand, the fall in March quarter GDP provided a precursor to what will be a much larger fall in the June quarter. More timely indicators, including those available on Stats NZ's data portal, provide additional, albeit still partial, insights into the magnitude of the overall impact on activity.[10]

Record June quarter fall expected…

Reflecting the extent of uncertainty, there is a wide range of forecasts for June quarter GDP among New Zealand's major private banks. However, they share several similar features. First, expectations of the fall in GDP, which range from 13% to 17.5%, dwarf anything present in historical quarterly GDP data. Second, most forecasters have become slightly less negative in their June quarter predictions since earlier in the year (Figure 1.2). This reflects a mix of factors, including New Zealand's move to lower alert levels earlier than previously assumed, the considerable policy support available during the quarter, and the observation that some partial data has held up better than originally feared.

Figure 1.2 – Movements in June quarter GDP forecasts



Sources: ANZ, ASB, BNZ, Westpac

The *Pre-election Update* forecast for June quarter GDP growth, at -16.0%, is within the range of the major private banks' forecasts. While a range of nearly five percentage points of GDP is wide for a quarterly observation, each forecast seems credible given the information available and the unique nature of the shock. If anything, the range of forecasts does not fully capture the extent of uncertainty.

Assumptions about the economic impact of the different COVID-19 alert levels remain necessary. Such estimates involve considerable judgement about which industries are most affected and the scale of those effects. From a predictive perspective, the assumption is that the various over and under estimates at an industry level largely cancel out, while from a welfare perspective clearly the preference is that actual outcomes are not as bad as expected.

…but possibly not quite as severe as earlier predicted

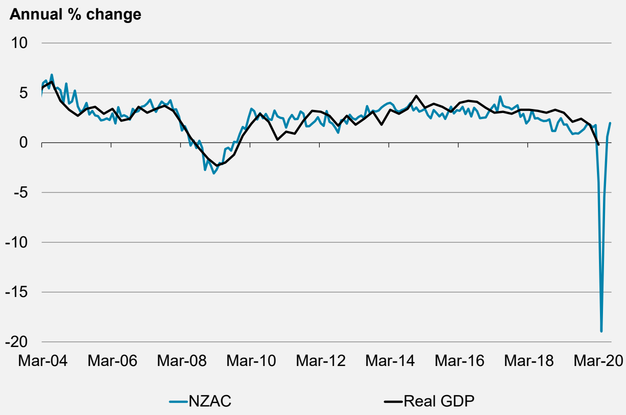
Tentative estimates of Alert Level 4 impacts can be derived from the March quarter GDP data, although that data may be particularly volatile and prone to revision over the next few years. The March quarter included six days at Alert Level 4. As a first approximation the impact of the time in Alert Level 4 can be inferred by comparing March quarter results to growth in a more typical average quarter. With only six days spent at Alert Level 4, the estimates are unlikely to be precise and will be influenced by volatility in the data, including the impact of other factors such as drought. They may, however, indicate a degree of upside risk (with a negative impact closer to 30% than 40%).

[10] See https://www.stats.govt.nz/experimental/covid-19-data-portal for more details.

The largest March quarter impacts came in the transport, postal and warehousing industry as well as the construction industry. Retail trade and accommodation, and manufacturing, also registered large declines. The implied 40% decline in the arts, recreation, and other services industry during Alert Level 4 was less severe than anticipated, possibly reflecting increased online provision. The implied fall in the primary industries was larger than anticipated, but probably reflects drought impacts.

Several other indicators of activity support an upward revision to near-term GDP relative to the *Budget Update*. The NZAC is a composite index that tracks activity in a number of economic measures, combining indicators of consumer spending, unemployment, job vacancies, traffic volumes, electricity generation, business outlook and manufacturing activity into a single indicator.[11] The NZAC fell sharply in April to be 19.0% below its April 2019 level. By May New Zealand was operating at Alert Level 3, and shifted to Alert Level 2 on 13 May. With the easing in restrictions, the NZAC rebounded considerably in May but was still 5.5% below its May 2019 level. However, by June activity had recovered to levels seen a year ago and was 2.0% higher in July than in July 2019 (Figure 1.3).

Figure 1.3 – NZAC and GDP



Sources: Stats NZ, the Treasury, RBNZ

On balance, the combination of the tentative assessment of Alert Level 4 impacts and continued relative robustness of a number of shorter-term indicators has meant that we have reduced the assumed impact of the different alert levels on economic activity. Alert Level 1 is assumed to have an approximate (negative) 5% impact on activity, with the approximate impacts for Alert Levels 2, 3 and 4 assumed at 10%, 20% and 35% respectively. These assumptions imply a fall in June quarter GDP of 16% versus a near 20% fall under the *Budget Update* assumptions.

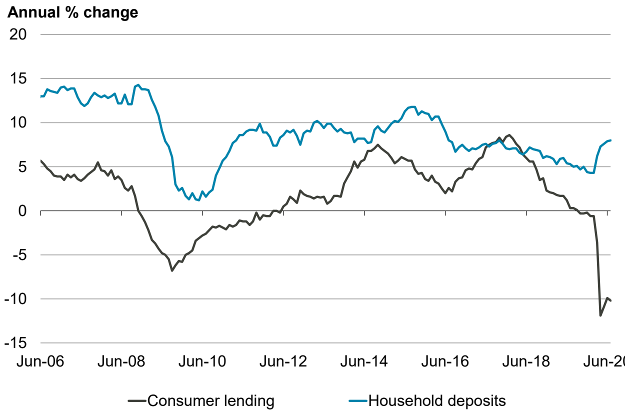
The release of June 2020 quarter GDP data will provide additional information for re-examining these assumptions, although data volatility and the potential for sizeable data revisions mean uncertainty about the impacts will likely remain for some time. The reintroduction of Alert Levels 2 and 3 in mid-August is estimated to reduce September quarter GDP growth to 12%, a little over two percentage points less than we anticipated had Alert Level 1 continued.

Alert Level 1 public health restrictions are assumed to be in place from late in the September quarter and reduce economic activity by roughly 5% relative to normal. This reflects the direct impacts of reduced international travel, the effects on other sectors from lower aggregate demand in the economy, and the lingering effects of the pandemic on business and consumer confidence. Over time, as some resources are re-allocated away from tourism-facing sectors to other sectors of the economy, the direct impact of Alert Level 1 on economic activity levels is expected to decline. When border restrictions are removed, we anticipate only a gradual recovery in international travel, reflecting negative income effects, changed travel preferences and lingering airline capacity effects.

[11] NZAC was jointly produced by the Treasury, RBNZ and Stats NZ (see https://treasury.govt.nz/publications/nzac/nzac-technical-note for more details).

…with consumption activity likely to be lower over the forecast period

Figure 1.4 – Consumer lending and household deposits

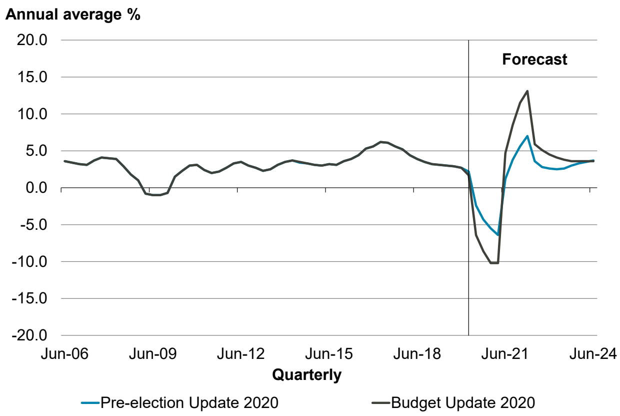


Source: RBNZ

Consumption activity rebounded after Alert Levels 4 and 3 restrictions were eased in the first half of the year, with households possibly using involuntary savings accumulated during Alert Levels 4 and 3 to satisfy pent-up demand. Households that had international travel plans were likely to have re-evaluated them, given the current international travel restrictions and advice from the Ministry of Foreign Affairs and Trade. Government support during and since the Alert Levels 4 and 3 restrictions period will also have assisted in cushioning the impact on household incomes during the initial phases of the economic recovery. The renewed restrictions in mid-August are expected to dampen the rebound in consumption in the September 2020 quarter and may put additional pressure on household balance sheets.

As fiscal support eases over this half of the year and into 2021 however, consumption growth is forecast to ease, with annual average consumption growth contracting 6.4% in the March 2021 quarter. Some households will continue to experience reduced work hours or shift to Jobseeker Support once the Wage Subsidy Scheme and COVID-19 Income Relief Payment (CIRP) comes to an end, while others may decide to increase precautionary savings as a result of the heightened uncertainties about future finances. The increase in term deposits since March may in part be attributable to such behaviour (Figure 1.4).

Figure 1.5 – Real private consumption



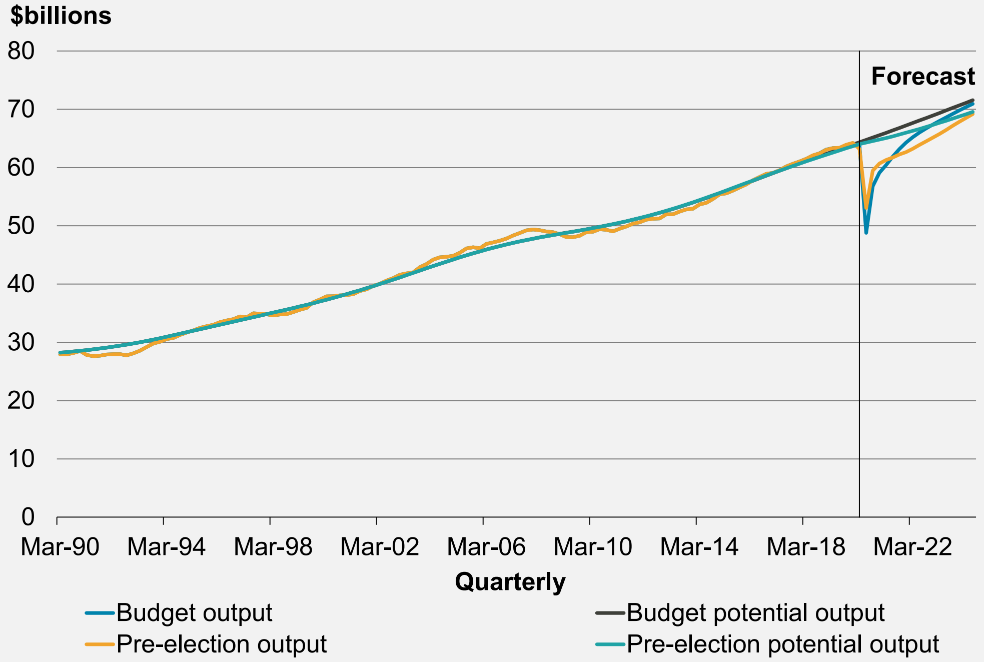
Sources: Stats NZ, the Treasury

Consumption activity remains softer than forecast in the *Budget Update*, reflecting the weaker medium-term economic outlook and lower household incomes. Annual average consumption growth peaks at 7.0% in the March 2022 quarter, rather than 13.1% as forecast in the *Budget Update* (Figure 1.5). More persistent scarring effects from Alert Levels 4 and 3 restrictions, extended border closures and a weaker world recovery lead to a slower overall economic recovery in New Zealand via lower growth in labour market participation, a higher rate of structural unemployment and a lower rate of capital accumulation, which are discussed in more detail in the box below. The effects of a slower economic recovery are expected to be particularly felt in regions that have been reliant on international tourism spending.

Revising potential output

The *Budget Update* forecasts assumed the shock due to the pandemic, while persistent, would ultimately have limited impact on longer-run structural variables such as potential output (cyclically adjusted aggregate supply). Potential output can be thought of as the maximum amount of goods and services that can be sustainably supplied in an economy without increasing inflation. It is a function of the supply of labour and capital and 'multi-factor productivity (MFP)', where the latter is a measure of how efficiently labour and capital are utilised.

Figure 1.6 – Real output (GDP) and potential output



While all forecasts are uncertain, unobservable variables, such as potential output, are particularly so as they are more difficult to estimate. For this reason, forecasting potential output involves a great deal of judgement.

Recent developments across the globe indicate a greater risk that the impacts of COVID-19 may prove more persistent and therefore ultimately impinge on longer-run prospects. The current forecasts incorporate lower potential output compared to the *Budget Update* forecasts. Quarterly potential output in the June 2024 quarter is nearly 3% lower than in the *Budget Update* (Figure 1.6) and reflects lower forecast levels of labour supply, the capital stock, and how efficiently the two are used (ie, MFP).

The sustainable level of labour supply is forecast to be lower than in the *Budget Update* for two reasons. First, the pandemic and the decline in future demand for labour may discourage people from participating in the labour market. To reflect this, we have made a small downward adjustment to trend labour force participation, which ends the forecast period at 71.1% compared to 71.6% in the *Budget Update*.

Second, as the pandemic persists globally, the share of employees with less-needed skills is forecast to increase, rendering them ‘structurally unemployed’ and raising the non-accelerating inflation rate of unemployment (NAIRU). This is likely to be the case for some tourism sector employees who may have firm- or industry-specific skills that may not be readily transferable elsewhere in the economy. Over the long run, as the economy recovers, or people reskill, the NAIRU may return towards our long-run assumption of 4.25%. However, as of the June 2024 quarter, the NAIRU is assumed to be 4.8%, compared with 4.5% in the *Budget Update*.

Potential output is also forecast to grow at a slower rate owing to the slowdown in capital accumulation reflecting the reduction in investment (both residential and business investment are lower).

On average we also expect lower productivity growth. Initially this reflects additional constraints and costs associated with providing goods and services in order to contain the virus. Shifts in demand may mean that some capital assets (including physical, human and intangible capital) may be used less intensely than was the case before the pandemic.

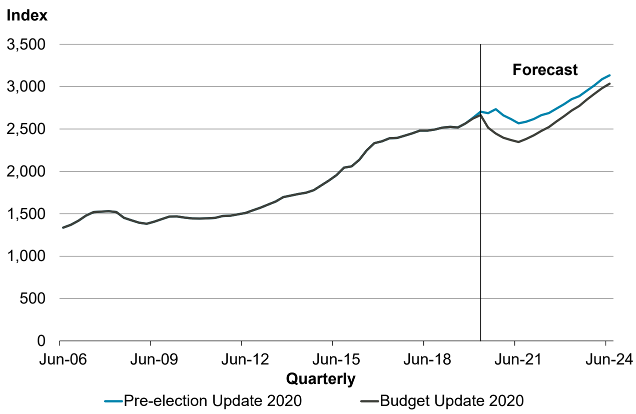
The economic scarring reflected in lowering the components of potential output contributes to the slower pace of economic recovery from the pandemic (Figure 1.6).

Rising house prices over the medium term support the recovery in consumption growth…

Household wealth is an important influence on the macro economy, particularly via its impacts on consumer spending as growth in private consumption in New Zealand follows house price growth quite closely.

Housing market activity has been more resilient than expected in the *Budget Update*, supported by pent-up demand, involuntary savings during Alert Levels 4 and 3 and looser monetary conditions. However, various competing forces make the outlook for house prices particularly uncertain.

Figure 1.7 – House prices



Sources: CoreLogic, the Treasury

Border restrictions are likely to constrain net migration in the short term and heightened uncertainty around the economic outlook constrain demand for housing. Low interest rates and the temporary removal of the Reserve Bank’s loan to value ratio restrictions are expected to provide some offset. On balance, we forecast a period of weaker house prices over the year to June 2021, with prices falling 5.1% from their March 2020 levels, dampening consumption growth (Figure 1.7). House prices then recover as net-migration rises, economic confidence recovers and monetary policy remains accommodative throughout the forecast period. Rising housing wealth is then expected to support the recovery in consumption growth over the final three years of the forecast period. However, given the recent resilience in the housing market, there are upside risks to our forecasts if current sentiment is maintained.

…along with higher net migration when borders are reopened

Net migration is expected to be substantially lower in the year ahead given the continued border restrictions. While many New Zealanders and permanent residents have returned to the country in recent months, the departure of temporary visa holders is expected to broadly offset arrivals. Extended border restrictions raise the risk of labour shortages, particularly in sectors that have previously been reliant on temporary visa holders, such as accommodation and food services; agriculture, forestry and fishing; and construction. Growth in these sectors may be held back by limited labour supply.

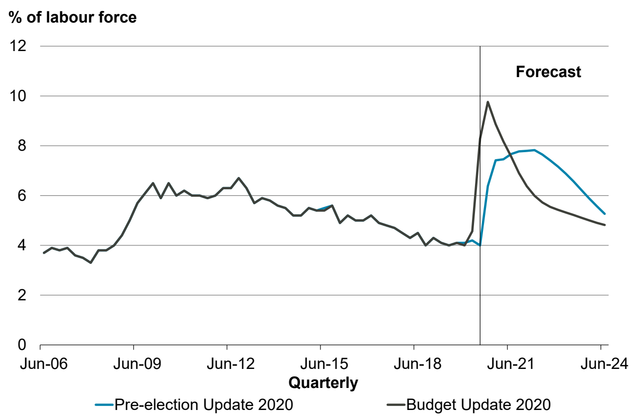
As border restrictions partially ease from the September 2021 quarter, net migration flows gradually rise to reach 35,000 by June 2024, the same end-point as assumed in the *Budget Update*. Rising net migration increases population growth and stimulates demand, supporting overall economic growth.

The weaker economic outlook raises unemployment despite early fiscal support…

Unemployment unexpectedly fell from 4.2% in the March 2020 quarter to 4.0% in the June quarter, which was partly attributable to measurement challenges encountered by Stats NZ during Alert Levels 4 and 3 in the first half of the quarter. However, extensive fiscal support measures are also expected to have played a large role in supporting household incomes and labour market attachment. The impacts COVID-19 and fiscal support have had on the labour market to date are explored in more detail in the box below.

An experimental weekly breakdown of the unemployment rate released by Stats NZ showed a clear upward trend over the June quarter, which was more in line with expectations and rising income support (such as Jobseeker Support) recipient numbers. Renewed restrictions on gatherings and social activity as a result of the move to Alert Level 3 in Auckland and Alert Level 2 elsewhere are expected to put further strain on businesses and firm viability remains a key uncertainty for the outlook.

Figure 1.8 – Unemployment



Sources: Stats NZ, the Treasury

As fiscal support measures ease over the year ahead and extended border closures prolong a period of reduced tourism and international education activity, unemployment is forecast to rise, peaking at 7.8% in the March 2022 quarter. This is both lower and later than the forecast peak in the *Budget Update* of 9.8% in the September 2020 quarter (Figure 1.8). The stronger than expected rebound in near-term activity after Alert Level 4 and 3 restrictions were eased in the first half of the year has led to a smaller rise in income support recipients than had been forecast. A higher level of fiscal support than had been assumed in the *Budget Update* is also expected to have supported aggregate demand in the months after the earlier restrictions on activity were lifted.

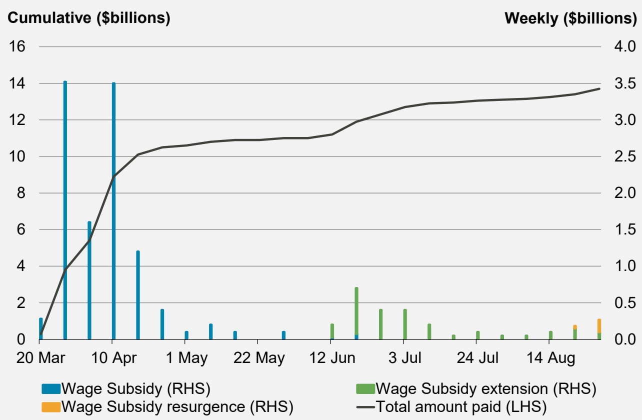
Over the medium term, weaker domestic demand stemming from reduced earnings from goods exports, and a slower recovery in tourism spending lowers employment growth. Unemployment remains persistently higher than forecast in the *Budget Update* from the June 2021 quarter onwards, trending down to 5.3% by June 2024. Even when borders are reopened fully in early 2022, demand for labour remains subdued, particularly if travel behaviours and preferences change in the aftermath of the pandemic. The persistent effects of the COVID-19 pandemic are expected to lead to a degree of economic scarring, leading to structurally higher unemployment as discussed in the Revising Potential Output box on page 20. Elevated levels of unemployment are expected to result in reduced wage inflation pressures over the medium term and contribute to slightly weaker inflation compared to the *Budget Update*.

Labour market activity

As the June 2020 quarter Household Labour Force Survey (HLFS) results demonstrated, there is considerable uncertainty surrounding the impact of COVID-19 on the official New Zealand labour market statistics. Factors that have contributed to this uncertainty include the impact of fiscal support measures (such as the Wage Subsidy Scheme) in maintaining employment, and the classification of people to various labour force statuses, along with the behavioural response of people in their decision to remain part of the labour force.

The June 2020 quarter HLFS result was surprising on two fronts. Firstly the 0.4% decline in the number of people employed was considerably smaller than the 6.8% fall forecast in the *Budget Update*. By the end of the June quarter, around $12.1 billion in Wage Subsidy Scheme and Wage Subsidy Extension support payments had been made to around 575,000 businesses, supporting approximately 1.7 million workers – just over 60% of the workforce (Figure 1.9). The Wage Subsidy payments were more effective than we had forecast in maintaining people in jobs, although the number of hours worked fell by a record 10.3% in the June quarter, with the retail, accommodation and food service industries most affected. This contrasted with only a 3.4% fall in the number of hours paid from the Quarterly Employment Survey, with hours paid being supported by the wage subsidies. While these fiscal support measures will have helped in the short term to maintain the connection of employees to the labour market (as well as supporting household spending), further job losses are expected as the scheme extension comes to a close in early September.

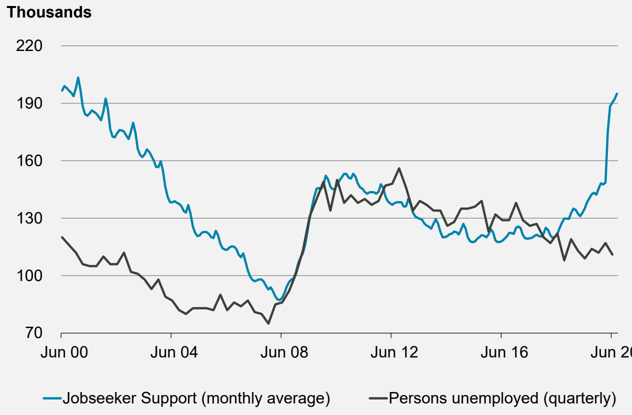
Figure 1.9 – Wage Subsidy payments



Source: Ministry of Social Development

The second area of surprise was the 6,000 fall in the number of people classified as unemployed, at odds with the additional 39,000 people who registered for Jobseeker Support over this period. The gap between the number of officially unemployed persons and Jobseeker Support recipients has therefore widened considerably (Figure 1.10). Measurement and classification of employment status was always going to be an issue for the June quarter, where much of the quarter was impacted by the economy being in various levels of lockdown. In order to be classified as unemployed, a respondent must report as being 'actively seeking' work as well as being 'available to start' employment. If either of these conditions are not met, then the person is classified as being 'not in the labour force' (NILF) and is not included in the calculation of the official unemployment rate.

Figure 1.10 – Jobseeker Support and unemployment



Sources: Ministry of Social Development, Stats NZ

The impacts of COVID-19 on measurement of this quarter's numbers are readily apparent, with an 'extended' measure of unemployment rising to 4.6% compared with the official measure of 4.0%. This extended measure took advantage of additional questions that were asked in the HLFS this quarter, and includes both the officially unemployed and those who did not meet the classification for official unemployment for reasons related to COVID-19.

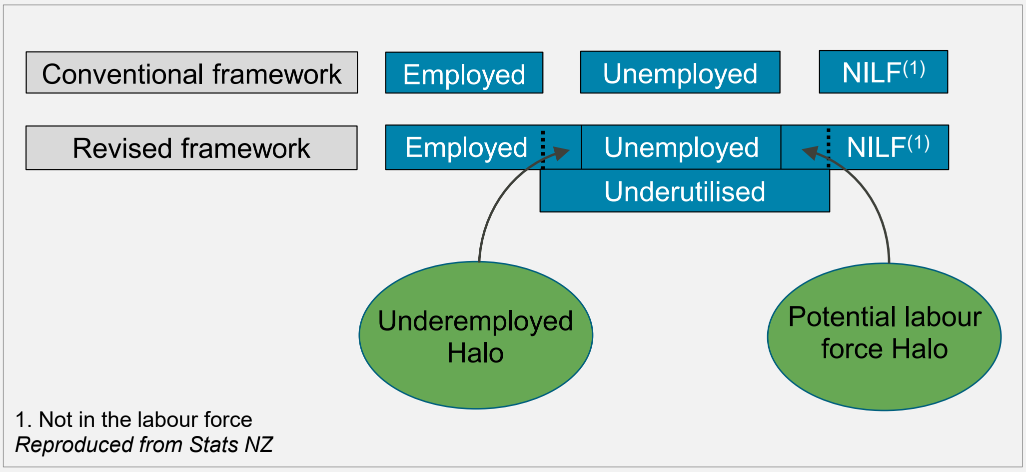
Stats NZ also released a weekly breakdown of the unemployment rate over the quarter, which showed both the extended and the official rates trending upwards (Figure 1.11). These weekly estimates are prone to considerable sample error due to the small sample sizes associated with the weekly panels. However there is a clear signal that as the impacts from COVID-19 on classification and measurement waned over the course of the quarter, the unemployment rate was trending towards our *Budget Update* forecast of 8.3%.

Figure 1.11 – Unemployment rates during the quarter

Source: Stats NZ

Given the classification difficulties brought about by alert level restrictions and the support of employment from the wage subsidies, broader measures of the labour market become more relevant, in particular measures of underutilisation (Figure 1.12), which look beyond the traditional unemployment measure to include people who are technically employed, but would like to work more hours (the underemployed) as well as those who are technically NILF, but are only temporarily detached (the potential labour force).

Figure 1.12 – Classification of labour force status

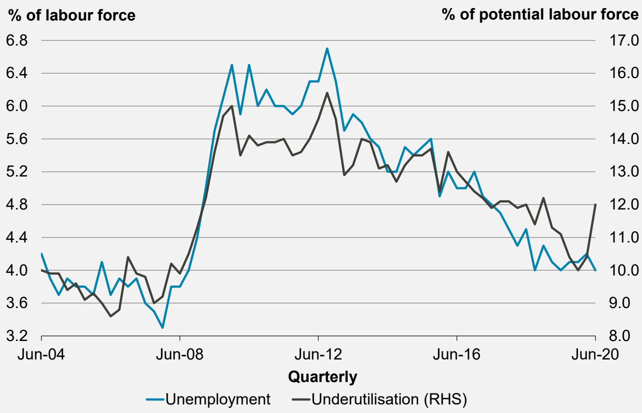


Source: Stats NZ

These broader measures and the flows of people between the various labour force states assist in better understanding the impacts of COVID-19 on the New Zealand labour market. The underutilisation rate increased to 12.0% in the June quarter, up from 10.4% in March (Figure 1.13). This is the largest recorded increase in the underutilisation rate since the series began in 2004, and was driven by:

- an additional 33,000 people recorded as underemployed (people who would like to have worked more hours), and
- an additional 19,000 potential jobseekers (people who would like a job but were not actively seeking).

Figure 1.13 – Unemployment and utilisation rates



Source: Stats NZ

These were partly offset by the reduction by 6,000 in the number of unemployed people.

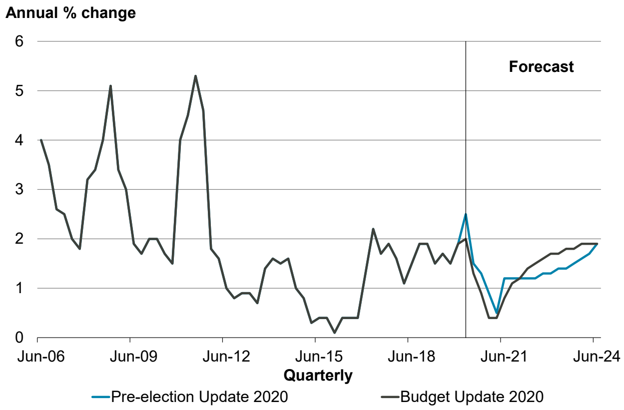
The underutilisation rate provides a measure of the degree of spare capacity in the labour market, and generally moves in line with the unemployment rate. This relationship has clearly been dislocated this quarter, as the Wage Subsidy Scheme has been successful in keeping people attached to the labour force, albeit wanting to work more. The underutilisation rate is expected to increase further in the September quarter due to:

- the numbers of people unemployed increasing as a result of further layoffs as the Wage Subsidy winds down
- underemployment remaining elevated as people’s hours have been reduced and they would like to work more hours, and
- the potential labour force increasing as the number of temporarily unavailable and discouraged workers increases.

…and the slower recovery keeps inflation subdued for longer

Inflation was stronger than forecast in the *Budget Update* in the March and June 2020 quarters. However, weaker commodity prices, a higher exchange rate and weaker recovery in demand are expected to cause inflation to fall, with annual inflation reaching a trough of 0.5% in the March 2021 quarter. A weaker world recovery combined with extended border restrictions then keeps annual inflation below the main *Budget Update* forecast scenario from the December 2021 quarter onwards (Figure 1.14). However, as the economy recovers and monetary policy continues to provide support, inflation gradually rises towards the Reserve Bank's 2.0% target midpoint by the June 2024 quarter.

Figure 1.14 – Consumers Price Index



Sources: Stats NZ, the Treasury

Weaker global activity is likely to constrain investment growth…

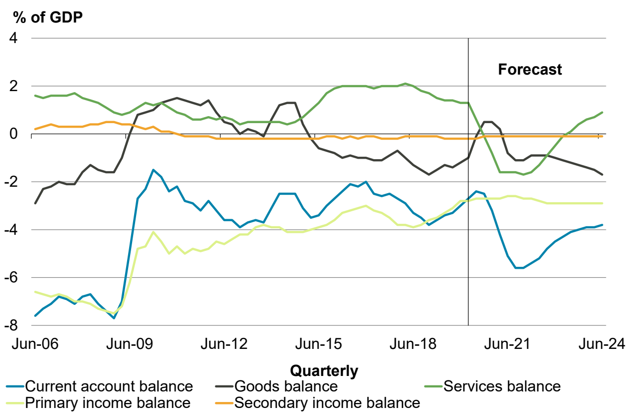
Construction activity has resumed since Alert Level 4 and 3 restrictions were eased and the number of consents issued over the past year to July has largely recovered to levels recorded prior to the pandemic, which should indicate a strong pipeline of activity lies ahead. However, lower aggregate demand as a result of lower household incomes and population growth may lead to an increase in the number of projects facing delays or cancellations, a view corroborated by our discussions with industry representatives in June, where concerns were raised about their forward order books beyond December 2020.

Depressed levels of business confidence and lower aggregate demand over the forecast period are expected to slow the pace of recovery in investment compared to the *Budget Update*. The weaker global outlook is likely to lower export volumes and prices, reducing incomes. We now forecast business investment will remain below pre-COVID-19 levels until the March 2023 quarter, a year longer than expected in the *Budget Update*.

…and while New Zealand's export prices have been supported recently, the goods balance is forecast to return to a deficit…

The goods balance of the current account is expected to improve in the near term as imports decline, reflecting weaker overall domestic demand. Meanwhile, New Zealand's exports of goods have been fairly resilient and prices have fared reasonably well so far, which is expected to keep the annual trade balance in surplus over the remainder of 2020 (Figure 1.15). However, as the world economy slows, lower global demand is expected to put downward pressure on commodity prices, lowering the terms of trade and exporter incomes in the second half

Figure 1.15 – Current account balance and its components



Sources: Stats NZ, the Treasury

of 2020. The goods balance is therefore forecast to return to deficit from the June 2021 quarter and remain there through to the end of the forecast period. The deficit in the goods balance is expected to widen over time from a combination of goods exports growth being constrained by the world outlook, and rising domestic demand for imports as household incomes rise.

…leading to a widening current account deficit as services exports will also be constrained by extended border restrictions

While New Zealand's goods balance deficit is usually at least partially offset by a positive services balance, extended border restrictions compared with the *Budget Update* mean that international tourism and education activities are reduced substantially in the year ahead. Some of the reduced international tourism activity will be offset by an increase in domestic tourism activity. However, increased domestic tourism will show up as increased consumption rather than services exports in the national accounts. The magnitude of the increase is also unlikely to fully offset the reduction in international spending.

The services balance is therefore forecast to fall into deficit for the first time since 1998, where it is forecast to remain until the June 2023 quarter, well after the borders restrictions are assumed to ease. This reflects negative impacts on household income globally and a possible change in traveller behaviours in the aftermath of the pandemic. Capacity on international air routes may also take some time to be fully re-established. Global travel is therefore expected to require some time to return to previous levels.

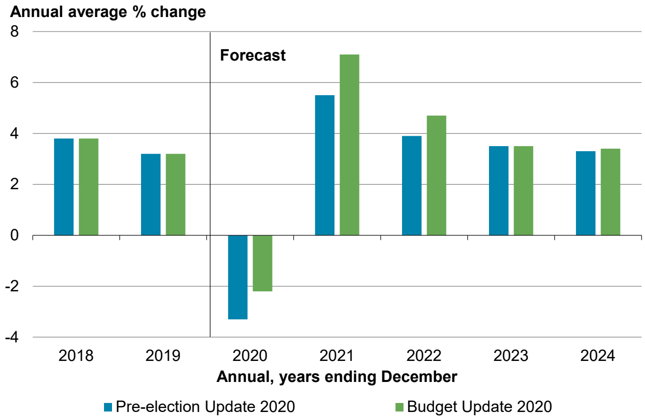
Combined with the weaker outlook for the exports of goods, this services deficit means that the annual current account deficit is forecast to widen to a peak of 5.6% of GDP by the September 2021 quarter, which is narrower and later than the 5.7% deficit forecast in the June 2021 quarter in the *Budget Update*.

The global economy is expected to take longer to recover…

The COVID-19 pandemic continues to take a severe toll on human health around the world. Total COVID-19 cases exceeded 25 million and over 900,000 people had lost their lives as at mid-September 2020. The disruption to economic activity has been extremely severe, although there has been a wide range of economic outcomes in our trading partners in the June 2020 quarter. Quarterly GDP in China grew 11.5%, following a fall of 10.0% in the March quarter, but falls were recorded in our other main trading partners in the June 2020 quarter, ranging from 1.4% in Taiwan and 3.2% in South Korea to 20.4% in the United Kingdom and 25.6% in India. However, easing restrictions in many parts of the world has enabled a substantial recovery in activity to occur. Global indexes of manufacturing and services activity have strengthened from their lows in the June quarter, indicating global economic activity is recovering; however, renewed outbreaks of the virus in some parts of the world, including Europe and Australia, may temper the pace of the recovery.

The International Monetary Fund's (IMF) June 2020 *World Economic Update* forecasts global growth at -4.9% in 2020 and 5.4% in 2021, down from -3.0% and 5.8% respectively at the time of its April forecasts. The downward revisions reflected additional disruption to activity from social distancing measures persisting into the second half of 2020 and long lasting harm (scarring) occurring from the restrictions on activity in the first half of the year. The Organisation for Economic Cooperation and Development's (OECD's) June 2020 *Economic Outlook* suggests even weaker outcomes are possible. Both the IMF and OECD updates provide scenarios where a second wave of infection would create a more dire situation than a single wave scenario, and the OECD noted that either situation is equally likely to occur.

Figure 1.16 – Trading partner growth



Source: The Treasury

In light of recent events, we now expect a more gradual economic recovery for our trading partners than earlier assumed. Activity in the economies of our trading partners is assumed to contract 3.3% in the 2020 calendar year, before bouncing back 5.5% in 2021 (Figure 1.16). Compared with global growth overall, China's economic growth is relatively more important for growth in our main trading partners, accounting for almost one third of New Zealand's trade. China is expected to grow modestly in 2020 and to continue to provide support for New Zealand's exports. However, the outlook for trading partner growth is conditional on the pandemic being brought under control in coming months and public health restrictions being progressively eased. In some countries, the nascent recovery is being threatened by renewed outbreaks of the virus, increasing the risks that the recovery will be more gradual. The alternative scenarios consider the implications of slower growth in our main trading partners for the economic outlook.

…and our trading partners will have different impacts from COVID-19

Output in China returned to pre-COVID-19 levels in the June quarter following a 10.0% fall in the March quarter. The recovery in China is expected to help stabilise economic conditions across Asia, particularly in the industrial sector, and to underpin a broader recovery over 2021. Tourism, however, which is important to a number of economies in the region, has weakened considerably and is likely to continue to have a considerable dampening effect on activity. Weaker global demand more generally will also restrain the pace of recovery across the Asia-Pacific region.

In Australia, measures to contain the spread of the virus resulted in a 7.0% quarterly contraction in output in the June 2020 quarter, the largest fall since records began. Employment has fallen considerably and the unemployment rate has risen from 5.1% in February 2020 to 7.5% in July. Australia experienced a period of easing restrictions earlier in the year, before a renewed outbreak in Victoria resulted in a period of tighter containment measures. It is likely that the outbreak of the virus in Victoria will dampen the rebound in quarterly Australian GDP in the September 2020 quarter and slow the pace of recovery.

Very substantial monetary and fiscal policy support is helping to prevent a deeper recession in Australia. The Australian government's support measures, together with declines in revenue and increases in expenses, are expected to result in budget deficits equivalent to 4.3% of GDP in the year ending June 2020 and 9.7% of GDP in the year ending June 2021.

The human and economic costs of the pandemic have been especially severe in the United States. The number of confirmed cases and fatalities is the highest in the world, and rising. Measures to contain the virus led to output falling 9.6% in the June quarter, while the unemployment rate increased to 14.7% in April, from 3.5% in February. An easing of restrictions has enabled a recovery in activity to begin, and the unemployment rate declined to 8.4% in August. However, in some states, easing of restrictions has been associated with renewed COVID-19 outbreaks. This has led some states to partially reverse earlier easing measures or to postpone planned easing. Ongoing disruption to activity and heightened uncertainty are likely to restrain private sector spending and slow the pace of recovery.

Nominal GDP is weaker than forecast in the Budget Update

A weaker world outlook and the slower pace of domestic recovery mean that New Zealand's real GDP is cumulatively reduced by around 2.5% compared to the *Budget Update*. Weaker domestic prices and a lower terms of trade mean that nominal GDP is lower by a cumulative $13 billion (-0.9%) over the forecast period compared to the main *Budget Update* forecast. These changes in overall income in the economy have a significant negative impact on tax revenue and the government's fiscal position, as outlined in the Fiscal Outlook chapter.

Alternative Scenarios

The outlook for the economy continues to remain uncertain. This uncertainty stems from multiple factors including the evolution of the virus and the development of effective vaccines and treatments; the pace of the recovery; the extent of long-term reductions in output ('scarring'); and the implications of persistently high unemployment that may arise from business failures and the necessary changes in business operations. These factors may be inter-related: earlier control of the pandemic is likely to facilitate a stronger recovery and reduce the risks of long-term damage to the economy. Alternatively, the longer the virus continues to spread and disrupt economic and social activity, the slower the pace of recovery and the greater the risks of long-lasting scarring.

The Government policy response has focused on measures to protect viable businesses, sustain employment and create new business opportunities. The level of fiscal support has been very considerable to date, but additional support may be provided if the virus proves difficult to contain. How businesses and households respond is also important to the outlook. Their behaviour will be affected by uncertainty and confidence around developments in health, income and wealth.

Reflecting this uncertainty, the Treasury has constructed three alternative scenarios to the main forecast described above. The approach here differs from the usual upside (or stronger) and downside (or weaker) growth scenarios presented in the past to highlight the sensitivity of the outlook to particular assumptions that are highly uncertain. Each scenario incorporates the same initial fall in real GDP expected in the June 2020 quarter and the same anticipated recovery in the September 2020 quarter but then incorporates different assumptions about the pace of the recovery, the course of the virus, the degree of long-term scarring and the extent of monetary and fiscal support.

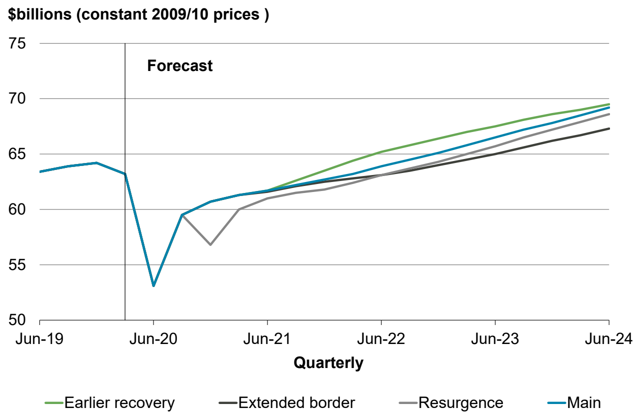
Compared to the main forecast:

- In the **earlier recovery in services exports scenario,** the recovery in services exports commences earlier, and is stronger than in the main forecast, and leads to stronger real GDP growth. This might be consistent with the development of policies and procedures that reduces the risks to public health associated with international travel and enables some easing of travel restrictions between selected countries. Business investment would be stronger and the unemployment rate would be lower. The difference in real GDP is modest at the end of the forecast period.

- In the **extended border controls scenario,** the recovery in services exports is weaker. This might be consistent with a world where no form of effective treatment is found, leading to strict border controls being maintained indefinitely. Global economic growth would be weaker and export returns would be lower. These conditions would result in increased business failure, weaker investment and persistently higher unemployment as the structure of the economy changes. Additional monetary policy support is likely to be required to meet the Reserve Bank's policy targets. The deeper scarring effects contribute to a reduction in real GDP of about 3% at the end of the forecast period.

- In the **resurgence in community transmission scenario,** real GDP contracts sharply in the December 2020 quarter and, following a rebound in the subsequent quarter, thereafter grows at a similar pace to the main forecast. It is assumed the country would return to stricter control measures for some time if there is a resurgence in community transmission of COVID-19. Despite additional fiscal support, business failures would increase, household consumption would be lower and the unemployment rate would be persistently higher. Real GDP is 1% lower at the end of the forecast period.

Figure 1.17 – Real GDP



Sources: Stats NZ, the Treasury

Taken together, the scenarios help illustrate the nature of the economic challenges ahead and the potential range of outcomes against which the public finances can be assessed. However, we have no means of gauging which of these outcomes is more plausible, nor do we believe they cover the entire range of plausible outcomes.

Table 1.3 – Scenario summary

	Assumptions			
Scenario	***Border and exports of services***	***Output and unemployment***	***COVID-19 alert level***	***Policy support and external conditions***
Main	Border restrictions are partially eased on 1 July 2021 and fully removed on 1 January 2022. Real services exports are 13% lower in the June 2024 quarter than in the December 2019 quarter.	Potential output is 3% lower and real GDP is 2.5% lower at the end of the forecast than in the main *Budget Update* forecast. The unemployment rate averages 6.9% over the forecast period, compared to 6.4% in the *Budget Update*. At the end of the forecast, the unemployment rate is 5.3% compared to 4.8% in the *Budget Update*.	Alert Levels 3 and 2 are in place for four weeks in the September 2020 quarter. Alert Level 1 is in place until 1 January 2022.	Fiscal policy support of $58.5 billion. Trading partner growth (TPG) of -3.3% in 2020, 5.5% in 2021 and about 3.5% thereafter. The trade-weighted exchange rate (TWI) is steady.
Earlier recovery in services exports	Border restrictions are unchanged from the main forecast, but exports of services recover more strongly. Real services exports are 4% lower in the June 2024 quarter than in the December 2019 quarter.	Potential output is unchanged from the main forecast. Real GDP is slightly higher at the end of the forecast period. The unemployment rate averages 6.2% over the forecast period and is 4.8% at the end of the forecast.	As in main forecast.	Fiscal policy support and TPG as in the main forecast. Monetary policy support is scaled back. The TWI is 4% higher in the June 2024 quarter than in the main forecast.
Extended border controls	Border restrictions are partially eased on 1 July 2021 but there is no further substantive easing. Real services exports are 35% lower in the June 2024 quarter than in the December 2019 quarter.	Compared to the main forecast, potential output is 1% lower, and real GDP is 3% lower, at the end of the forecast period. The unemployment rate averages 7.5% over the forecast period and is 6.6% at the end of the forecast.	As in main forecast, except Alert Level 1 is in place until 30 June 2024.	TPG is about 0.5 percentage points weaker in 2021 and each year thereafter. Monetary policy support increases significantly. The TWI declines and is 9% lower in the June 2024 quarter than in the main forecast. Fiscal policy support as in the main forecast.
Resurgence in community transmission	Border restrictions are unchanged from the main forecast. Real services exports are 13% lower in the June 2024 quarter than in the December 2019 quarter.	Compared to the main forecast, potential output is 0.6% lower, and real GDP is 1% lower, at the end of the forecast period. The unemployment rate averages 7.8% over the forecast period and is 5.8% at the end of the forecast.	The alert level is escalated in the December 2020 quarter and returns to Level 1 by 1 January 2021.	Fiscal policy support is increased by $5 billion in 2020/21 relative to the main forecast. Monetary policy support increases moderately and the TWI is 1.3% lower, on average, over the forecast period. TPG as in the main forecast.

Key assumptions and judgements in the scenarios

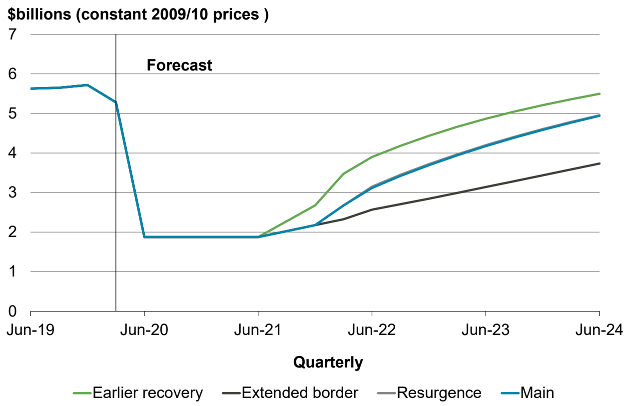
As described above, the outlook in the main forecast is conditioned on several key assumptions around which there is great uncertainty. The three alternative scenarios – constructed from a range of many possibilities – help illustrate the sensitivity of the outlook to those assumptions. The changes we make to these assumptions are discussed below. In both the **extended border controls scenario** and the **earlier recovery in services exports scenario**, we proceed by changing our assumptions about the stringency of border controls and relate these to different possibilities regarding the course of the pandemic and behavioural responses, but the scenarios are open to a range of other possibilities. In contrast, the **resurgence in community transmission scenario** proceeds from an assumption regarding the course of the pandemic and the behavioural responses that may stem from that. In this way, the scenarios highlight both the sources of uncertainty stemming from judgements within the forecasting environment and those arising from the pandemic.

Key assumption 1: Restrictions on international travel are fully eased on 1 January 2022

The timing, speed and extent of the recovery in domestic and global activity will be affected by measures that are taken around the world to contain the spread of the virus and to support economic activity. At present, restrictions on the movement of people within and between countries are an important part of the international response to the pandemic. In the main forecast, restrictions on inbound travel to New Zealand are assumed to ease partially from 1 July 2021 and to be removed completely from 1 January 2022. This might be consistent with the development and deployment of a vaccine or treatment within the next year, and with other means to manage the health risks of the pandemic such as enabling travel between countries with a low incidence of COVID-19 infection.

In the absence of such developments, stricter or longer-lasting restrictions on the movement of people are likely to lead to slower global growth and to dampen prospects for a recovery in New Zealand's goods and services exports. Alternatively, the extent to which border controls are eased on 1 July 2021 may be greater than assumed in the main forecast or, for a given set of easing measures, there may be greater capacity to accommodate travel to New Zealand than assumed in the main forecasts. This might be consistent with the introduction of protocols and procedures that enable restrictions to be eased on travel for some purposes, such as education and employment, or for a wider range of countries than assumed in the main forecast. In addition to uncertainty about when, and by how much, border restrictions might be eased, there is uncertainty surrounding the pace of recovery in both travel demand and travel industry capacity.

Figure 1.18 – Services exports



Sources: Stats NZ, the Treasury

In the **earlier recovery in services exports scenario**, the partial easing of restrictions enables services exports to recover more strongly in the second half of 2021. A further pick-up is assumed when all restrictions are lifted on 1 January 2022. We assume that travel services subsequently grow at a similar rate to the main forecast. In this scenario, services exports are 4% below their pre-virus level at the end of the forecast period (Figure 1.18). In the **extended border controls scenario**, the recovery in services exports is more gradual and, at the end of the forecast period, services exports are 35% below their pre-virus level; this compares with a 14% decline in the main forecast (Figure 1.18).

Key assumption 2: Virus transmission control measures do not tighten significantly

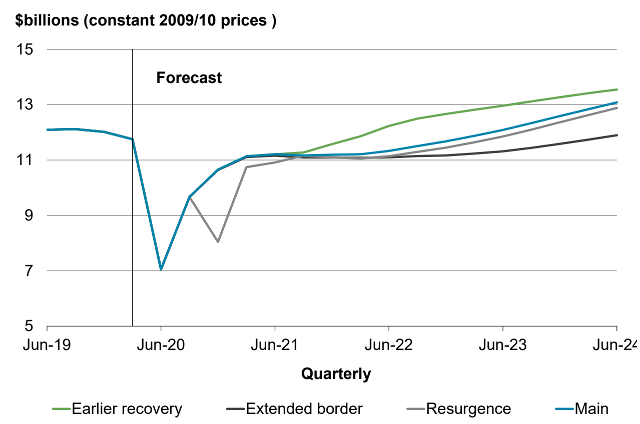
The main forecasts assume the ongoing successful prevention of transmission from cases that might arrive in New Zealand once the outbreak of community transmission in mid-August is contained. Nonetheless, there is a risk that widespread community transmission may reoccur. In this scenario, stricter transmission control measures are likely to be re-introduced, particularly in the absence of an effective vaccine, and economic activity considerably disrupted.

In the **resurgence in community transmission scenario**, we assume that public health measures are significantly tightened in the December 2020 quarter. We also assume that fiscal support to households increases by $5 billion, beginning in the December quarter and extending for the rest of the 2020/21 fiscal year. Despite additional fiscal support, December 2020 quarter GDP is around 4.5% lower than in the previous quarter. This might be consistent with a nationwide return to Alert Level 3 for a period followed by a period at Alert Level 2, and a subsequent easing to Alert Level 1. In this scenario, we assume Alert Level 3 restrictions are in place for three weeks and Alert Level 2 restrictions are in place for six weeks. The scenario might also be consistent with more stringent and/or prolonged restrictions only applying to some regions.

Key assumption 3: The degree of scarring in the economy

The extent of the recovery in GDP will also be affected by developments in the economy's productive capacity. As discussed in the box on page 20, the main forecast assumes output is permanently lower than it would be in the absence of the pandemic. Factors reducing output include lower investment, reduced on-the-job training and, particularly in sectors exposed to international travel, the scrapping of some assets that are unable to be redeployed elsewhere, including physical, human and intangible capital.

Figure 1.19 – Real business investment

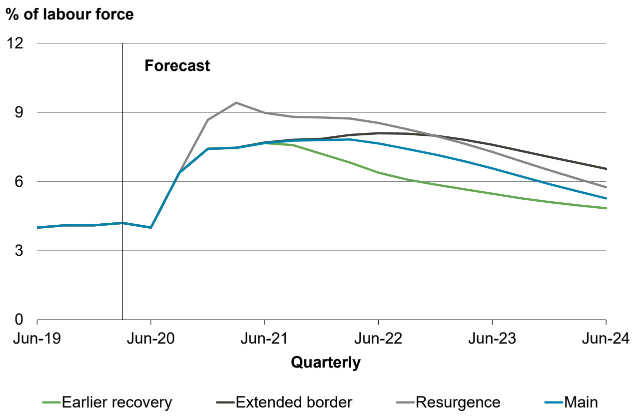


Sources: Stats NZ, the Treasury

The scale of these effects is uncertain and it is possible that there could be a larger impact, particularly if uncertainty about future demand persists for longer than assumed and firms become less willing to innovate and invest. In the labour market, there is a risk unemployment is persistently higher than in the main forecast, increasing the loss of human capital and slowing the pace of skill acquisition and productivity growth in the economy.

More pronounced scarring impacts might be consistent with both the **extended border controls scenario** and the **resurgence in community transmission scenario**. In the **extended border controls scenario**, weaker travel demand and persistent uncertainty further depress business investment. The negative impacts on the economy's productive potential accumulate over time, reflecting the slower pace of capital accumulation. Persistent uncertainty might also make firms more cautious about expanding employment and unemployment may decline more gradually. In this scenario, potential output is 1% lower at the end of the forecast and the unemployment rate is 6.6%, compared to about 5.3% in the main forecast. This has implications for wage and price inflation: the lower level of potential output means that there is less spare capacity in the economy, which puts more upward pressure on prices relative to the main forecast, but in the labour market, spare capacity is greater, leading to weaker wage growth and relatively less inflationary pressure.

Figure 1.20 – Unemployment rate



Sources: Stats NZ, the Treasury

In the **resurgence in community transmission scenario**, the increased risk of business failure and heightened uncertainty are likely to weigh on business expansion and household spending. In this scenario, unemployment is likely to be higher, although additional fiscal support is assumed to mitigate the extent of the rise. The unemployment rate peaks at about 9.4% and potential output is about 0.6% lower at the end of the forecast period than in the main forecast. The NAIRU is assumed to be 5.1% at the end of the forecast period, higher than 4.8% in the main forecast, and the unemployment rate is about 5.8% at the end of the forecast period.

Alternatively, the unemployment rate might decline more quickly than in the main forecast if the negative effects of the pandemic are not as severe as anticipated. This might be consistent with the **earlier recovery in services exports scenario**.

Key assumption 4: The global economic outlook

Developments in the world economy are important to the nature of the domestic recovery. In the main forecast, the outlook for growth in New Zealand's main trading partners is conditional on continued easing in lockdown measures and no further significant disruption in activity. The need for more prolonged or stricter pandemic control measures in our main trading partners would likely slow the pace of recovery and dampen demand for New Zealand exports. Moreover, continued disruption to trading partner activity raises the risk of scarring impacts in the affected countries and in New Zealand. In the **extended border controls** scenario, we assume growth in our major trading partners is 0.5 percentage points weaker in each year than in the main forecast. This reduces export returns and contributes to weaker business investment, lower employment and more subdued household consumption spending. Persistent uncertainty is assumed to exacerbate these effects, although the scale of the impact is difficult to judge and even weaker outcomes are possible.

Key assumption 5: Fiscal and monetary policy support

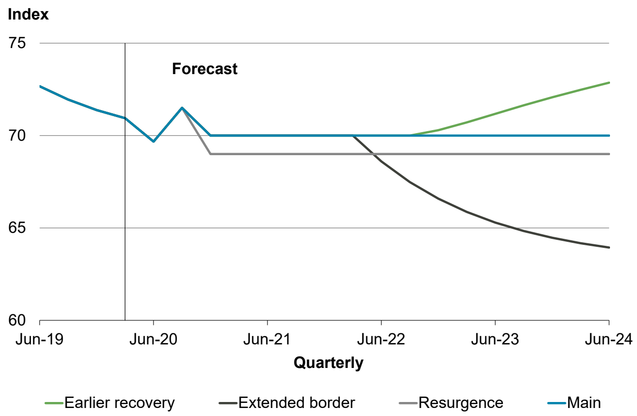
Fiscal and monetary support for individuals, workers and firms is helping to alleviate the extent of disruption to economic activity and reduce the risk of further long-term damage. The effectiveness of these policies and decisions to cease, maintain or increase support will be important to the path of the economic recovery. As discussed above, the main forecast makes assumptions across each of these dimensions, all of which are highly uncertain.

Each of the three alternative scenarios is associated with a particular combination of monetary and fiscal responses that reflects the trajectory of key variables within the scenario, including inflation and unemployment. This helps to illustrate the conditional nature of policy responses to the economic outlook. For example, fiscal support might be further increased in response to developments that raise the risk of long-lasting damage to the economy. As discussed above, this might be consistent with the return of strict public health measures and the increased risk of firm failure and household hardship that would bring.

Importantly, the conditioning of the forecasts runs both ways. For example, the main forecast is conditioned on market expectations for interest rates, which imply a fall over the next year, and the trade-weighted exchange rate remaining around its June quarter level. However, there is no New Zealand precedent for the Reserve Bank's monetary policies and much uncertainty surrounds the outcomes of the policies and their implications for future policy choices.

In scenarios where increased uncertainty restrains the pace of the recovery, it might be necessary to ease monetary conditions further to achieve the Reserve Bank's inflation and employment objectives. In the **extended border controls scenario**, we assume that monetary conditions are eased by the equivalent of a two percentage point reduction in the policy interest rate (the OCR) by the end of December 2022. This might be consistent with an expansion of the Bank's Large Scale Asset Purchases programme. We also assume the exchange rate declines gradually, reflecting the weaker terms of trade, and is around 9% lower at the end of the forecast period (Figure 1.21). The path of the exchange rate has implications for inflation; in this case, it puts upward pressure on the price of imported goods relative to the main forecast.

Figure 1.21 – Trade-weighted exchange rate



Sources: Stats NZ, the Treasury

In the **resurgence in community transmission scenario**, additional fiscal spending of around $5 billion in 2020/21 helps smooth the impacts of temporary income losses, and the lingering effects on consumption and investment are addressed through an easing in monetary conditions equivalent to a reduction in the policy interest rate of about one percentage point. The exchange rate is about 1.4% lower from the December 2020 quarter onwards (Figure 1.21).

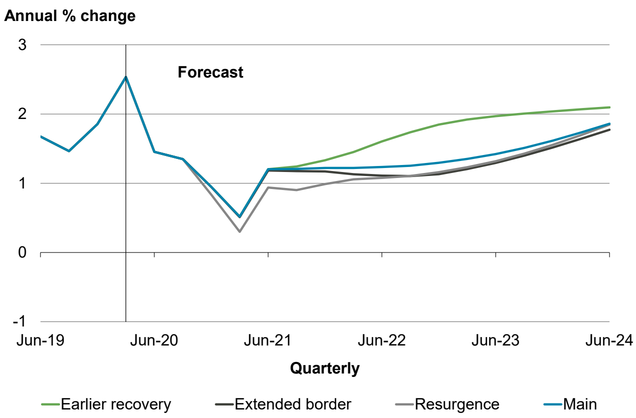
Alternatively, an earlier recovery in domestic demand, which might be consistent with the **earlier recovery in services exports scenario**, is likely to be associated with reduced monetary policy accommodation and a higher exchange rate (Figure 1.21). The fiscal policy assumption is the same as in the main forecast.

Key assumption 6: The impact of the pandemic on inflation

Over the medium term, the paths of wages and prices are important drivers of government tax revenue. It is clear that the pandemic is creating significant spare capacity in the economy, particularly in those sectors of the economy dependent on travel and tourism. However, it is highly uncertain how domestic prices will respond to the pandemic. With movements across the border tightly controlled, lower prices in dependent sectors may have little impact on demand. If demand rises only modestly when prices are cut significantly, firms' profits may fall. Moreover, firms that have experienced large falls in cash flows may be reluctant to cut prices or to take on credit.

As discussed above, there is the potential for inflation to be affected by movements in the exchange rate and by the interaction of potential output and aggregate demand. In both the **extended border controls** and the **resurgence in community transmission scenarios**, the lower exchange rate puts upward pressure on inflation. At the same time, persistent weakness in activity results in downward pressure on inflation. However, scarring reduces the economy's potential output, which reduces excess capacity in the economy and partially attenuates the negative inflationary effects of weaker demand (Figure 1.22).

Figure 1.22 – Inflation (Consumers Price Index)



Sources: Stats NZ, the Treasury

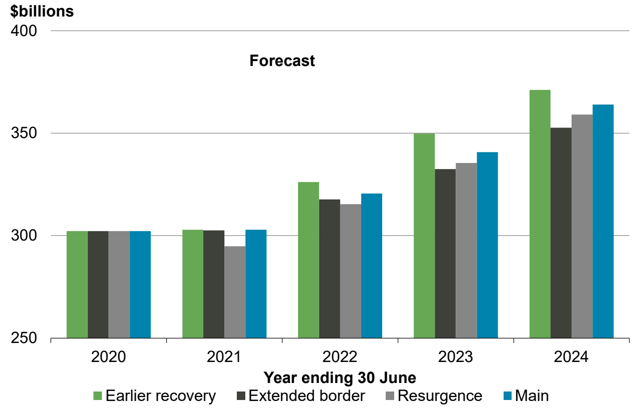
In the **earlier recovery in services exports scenario**, the faster recovery in domestic demand reduces spare capacity and puts upward pressure on inflation (Figure 1.22). However, firms might choose not to increase their prices as demand returns, in order to rebuild their customer base. In this case, inflation might be weaker than assumed. The higher exchange rate is a source of downward pressure on inflation. Firms may also choose to boost investment, perhaps to take advantage of changes in preferences and behaviours resulting from the pandemic experience, which could raise productivity and reduce inflationary pressures.

In all these scenarios, the relationship between spare capacity and inflation is assumed to be as responsive as it is in normal times, despite historically high levels of spare capacity. In recent times, the historical relationship between inflation and spare capacity appears to have weakened, further adding to uncertainty around the outlook for inflation and for monetary policy.

Nominal GDP, the operating balance and net government debt under the scenarios

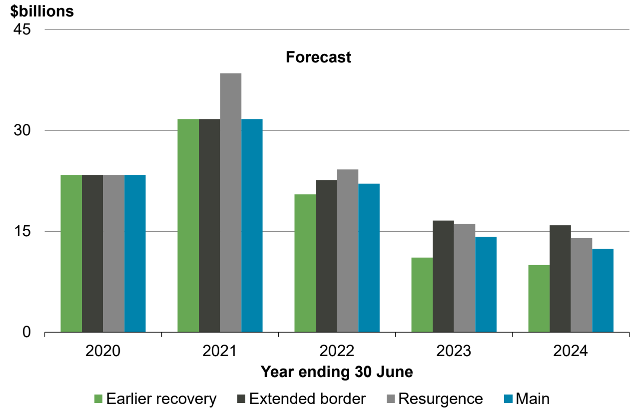
The combined effects of the alternative scenario assumptions for real GDP, the terms of trade, consumer price inflation and other prices in the economy are reflected in nominal GDP and in the fiscal aggregates. Cumulative nominal GDP is weakest in the **resurgence in community transmission scenario**, reflecting weaker real GDP and lower inflation, particularly over the first half of the forecast period (Figure 1.23). Compared to the main forecast, nominal GDP is weaker in each of the four fiscal years ending June 2024, and the cumulative reduction in GDP is slightly over $23 billion (or 1.8%). The loss in GDP is slightly under $23 billion (1.7%) in the **extended border controls scenario**. In contrast, real GDP and inflation are strongest in the **earlier recovery in services exports scenario**, which lifts the cumulative level of nominal GDP by about $22 billion (1.6%) compared with the main forecast.

Figure 1.23 – Nominal GDP



Sources: Stats NZ, the Treasury

Figure 1.24 – Total Crown OBEGAL deficits

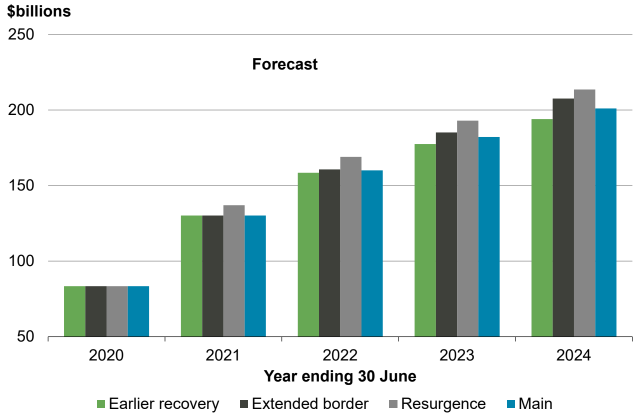


Source: The Treasury

The weaker outlook for nominal GDP in the **extended border controls** and the **resurgence in community transmission** scenarios flows through to lower tax revenue and higher operating expenses, the latter partly driven by increased welfare expenses. In the **resurgence in community transmission scenario**, increased fiscal support further raises operating expenses, and the operating balance before gains and losses (OBEGAL) deficit is about $7 billion higher in 2020/21 and about $2 billion higher in subsequent years than in the main forecast (Figure 1.24). In this scenario, net core Crown debt rises to about $214 billion (59% of GDP) in 2023/24 (Figure 1.25), compared to $201 billion (55% of GDP) in the main scenario.

In the **earlier recovery in services exports scenario**, stronger nominal GDP growth supports tax revenue and lower unemployment contributes to reduced operating expenses. As a result, OBEGAL deficits are about $2.4 billion lower, on average, from 2021/22 onwards than in the main forecast (Figure 1.24). In 2023/24, the OBEGAL deficit narrows to about $10 billion (3% of GDP) and net core Crown debt is about $194 billion (52% of GDP). In the **extended border controls scenario**, weaker nominal GDP growth and higher operating expenses result in wider OBEGAL deficits than in the main scenario (Figure 1.24). Net core Crown debt is about $208 billion (59% of GDP) in 2023/24 (Figure 1.25).

Figure 1.25 – Net core Crown debt



Source: The Treasury

2

Fiscal Outlook

Summary

- The economic impact of COVID-19, coupled with the resulting Government fiscal response, will have a significant impact on the Government's finances, with ongoing operating deficits and an increasing level of debt.
- In the 2019/20 fiscal year, the Government has recorded an operating balance before gains and losses (OBEGAL) deficit of $23.4 billion, while net core Crown debt increased by $25.7 billion to be $83.4 billion.
- Over the next four years significant OBEGAL deficits are expected and net core Crown debt continues to rise, reaching $201.1 billion by 2023/24.
- The impact from COVID-19 on the Government's finances are hardest felt in the 2019/20 and 2020/21 fiscal years as economic activity slows reducing tax revenue and the Government's support measures take effect. Beyond 2020/21, as economic activity picks up, the forecast shows an uplift in tax revenue. At the same time a majority of the Government's temporary fiscal support measures unwind, leading to a recovery in the Crown's operating balance indicators.
- In the 2019/20 fiscal year, there was an OBEGAL deficit of $23.4 billion. This deficit is forecast to increase to a deficit of $31.7 billion in 2020/21, before beginning to reduce in 2021/22. OBEGAL deficits average $16.2 billion over the last three years of the forecast.
- The Government's strong balance sheet position prior to the COVID-19 pandemic has enabled the Government to absorb the fiscal impact from COVID-19 by increasing borrowings and running down net worth.
- Beyond 2019/20, net core Crown debt is expected to increase on average by around $29.4 billion per year across the forecast and as operating deficits begin to reduce so too does the annual increase in net core Crown debt. Net core Crown debt is forecast to reach 55.3% of GDP by the end of the forecast period.
- In the *Budget Update,* the Government signalled funding of $62.1 billion to respond to and recover from COVID-19. This included the establishment of the $50 billion COVID-19 Response and Recovery Fund (CRRF). To date, $35.9 billion of the CRRF has been applied by the Government, leaving $14.1 billion for the Government to allocate in the future. The estimated costs of some individual initiatives funded from the CRRF have been updated, resulting in an overall reduction in the fiscal impact of around $4 billion from the CRRF, compared to the *Budget Update*.

- In addition to the Government's fiscal support measures, the Reserve Bank is continuing to employ monetary policy measures such as the Large Scale Asset Purchases (LSAP). This programme has been expanded to $100 billion, up from the previous $33 billion limit reported in the *Budget Update*.
- In 2019/20, compared to the *Budget Update*, most key fiscal indicators have come in stronger on the back of the economy holding up better than expected and lower than forecast Government spending. Over the next three years the difference to the *Budget Update* is largely owing to the change in the profile of the Government's COVID-19 fiscal support measures.
- The OBEGAL deficit outlook by the end of the forecast period is expected to be weaker, reflecting a slower-paced economic recovery and an increase in expenditure from COVID-19 fiscal support measures. The weaker outlook in the 2023/24 fiscal year will mean the fiscal outlook over the projection period (2024/25 to 2033/34) will also be weaker compared to the *Budget Update*, with OBEGAL deficits continuing out to 2033/34.
- There is added uncertainty in these forecasts in relation to the size of the economic impact, and the pace of recovery. The Economic Outlook chapter discusses these uncertainties and provides some scenarios to illustrate the range of potential outcomes.
- These forecasts are sensitive to a number of judgements and assumptions and should be read in conjunction with the Risks to the Fiscal Forecasts chapter.

Table 2.1 – Fiscal indicators

Year ending 30 June	2019[1] Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
$billions						
Core Crown tax revenue	86.5	84.9	84.7	84.3	92.5	98.5
Core Crown expenses	87.0	108.8	119.5	109.9	111.7	116.1
Total Crown OBEGAL	7.4	(23.4)	(31.7)	(22.1)	(14.2)	(12.4)
Total Crown operating balance	0.4	(30.3)	(35.3)	(20.1)	(10.0)	(7.8)
Core Crown residual cash	(0.7)	(23.7)	(41.0)	(28.6)	(22.3)	(18.9)
Net core Crown debt	57.7	83.4	130.2	160.1	182.2	201.1
Gross debt	84.4	101.5	93.8	99.3	132.2	159.7
Total borrowings	110.2	152.7	210.3	243.3	266.3	286.6
Net worth	143.3	115.7	80.4	60.6	50.9	43.5
% of GDP						
Core Crown tax revenue	28.5	28.1	28.0	26.3	27.2	27.1
Core Crown expenses	28.7	36.0	39.4	34.3	32.8	31.9
Total Crown OBEGAL	2.4	(7.7)	(10.5)	(6.9)	(4.2)	(3.4)
Total Crown operating balance	0.1	(10.0)	(11.6)	(6.3)	(2.9)	(2.1)
Core Crown residual cash	(0.2)	(7.8)	(13.5)	(8.9)	(6.5)	(5.2)
Net core Crown debt	19.0	27.6	43.0	49.9	53.5	55.3
Gross debt	27.8	33.6	31.0	31.0	38.8	43.9
Total borrowings	36.3	50.5	69.4	75.9	78.2	78.8
Net worth	47.2	38.3	26.6	18.9	14.9	12.0

Note: 1 '2019 Actual' numbers have been restated to reflect updated accounting standards. For more details refer to the forecast financial statements note 17 on page 158.

Source: The Treasury

This chapter has three sections:

- 30 June 2020 actual results – this covers the fiscal results of the 2019/20 fiscal year, based on the unaudited financial statements of the Government for the year ended 30 June 2020
- Short-term outlook – this covers the fiscal forecasts for the period from 2020/21 to 2023/24, and
- Medium-term outlook – this covers the fiscal projections for the period from 2024/25 to 2033/34, based on assumptions that extrapolate the conditions existing in the final year of the forecast period.

COVID-19 response and recovery

In the *Budget Update*, the Government signalled $62.1 billion of funding to respond to and recover from COVID-19. This consists of the $12.1 billion initial package to support New Zealanders (17 March Support Package) and $50.0 billion in the CRRF established at Budget 2020.

COVID-19 Response and Recovery Fund

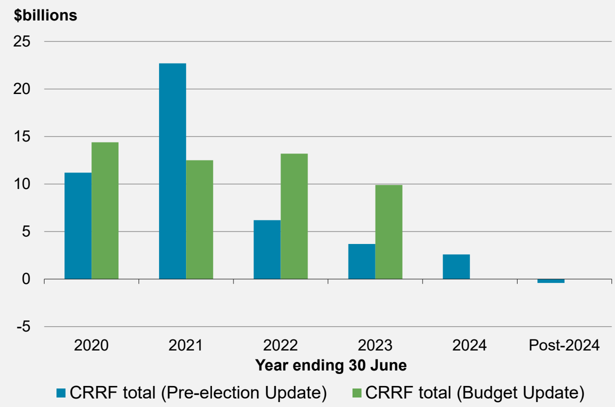
The CRRF is a notional envelope for Budget management purposes, rather than an actual sum of money ring-fenced in the accounts. The *Pre-election Update* fiscal forecasts capture Government decisions funded from the CRRF and the unallocated portion of the CRRF up to 7 September 2020.

As at 7 September 2020, $36.9 billion of the CRRF had been used to manage the fiscal impact of decisions from the Government's response to and recovery from COVID-19. Of the funding allocated, $1.0 billion has been assumed to be returned back to the CRRF and available to reallocate. Meaning that, overall $35.9 billion of the CRRF has been used by the Government. This leaves $14.1 billion of funding available to allocate in the future. The unallocated portion of the CRRF has been assumed to be fully allocated by the end of the forecast period. The phasing of the unallocated portion of the CRRF over forecast years has been broadly based off the profile of actual decisions to date that have been managed against the CRRF.

Changes since the *Budget Update*

As signalled in the *Budget Update* our estimates included in the fiscal forecasts around the CRRF were going to be sensitive to several factors (eg, the profile of costs from actual decisions). Since the *Budget Update* there have been a number of developments in relation to the Government's support measures that have impacted on our fiscal forecasts; these include:

Figure 2.1 – Fiscal impact from the CRRF compared to the *Budget Update*



Source: The Treasury

- The Government has made a number of new decisions, which have been managed against the CRRF. The profile of the estimated costs of actual decisions has differed from what was previously assumed. In addition, the profile of decisions to date has been used as a base to determine the timing of the unallocated portion of the CRRF.

- The initial estimates of several initiatives funded from the CRRF have been revised to reflect updated assumptions, particularly around expected uptake. Based on the most material revisions, it is expected that there will be a reduction in the fiscal impact from decisions charged against the CRRF of around $5 billion. As a result, the fiscal impact from the CRRF will be less than in the *Budget Update* (refer Figure 2.1).

- It is assumed that $1.0 billion of the downward revisions (mentioned above) in the estimated costs of funded initiatives will return to the CRRF.

Overall, this has resulted in a lower fiscal impact in the 2019/20 year, but a higher impact in the 2020/21 year. Over the following two years the fiscal impacts are smaller, but by the end of the forecast period the fiscal impact is higher than previously expected.

COVID-19 funding decisions

Overall, the Government has made decisions totalling $49.0 billion in relation to the response to and recovery from COVID-19. This comprises $36.9 billion managed against the CRRF and $12.1 billion as part of the 17 March Support Package announced in March. The profile and nature of spending at the point decisions were managed against the CRRF are outlined in Table 2.2. After adding back funding returned to the CRRF of $1.0 billion, $14.1 billion remains unallocated from the CRRF and has been assumed to be fully allocated by the end of the forecast period.

Table 2.2 – Profile of COVID-19 funding decisions and unallocated portion of the CRRF

Year ending 30 June $billions	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Post-2024 Forecast[1]	Total
17 March Support Package	6.6	1.0	2.4	0.8	1.3	-	**12.1**
COVID-19 Response and Recovery Fund							
- Operating funding decisions	12.9	11.4	1.8	1.7	1.4	-	**29.1**
- Capital funding decisions	6.5	1.1	0.1	0.8	(0.3)	(0.4)	**7.8**
Total of COVID-19 decisions	26.0	13.5	4.3	3.3	2.4	(0.4)	**49.0**
Unallocated COVID-19 funding	-	7.0	3.6	1.8	1.8	-	**14.1**
	26.0	**20.4**	**7.8**	**5.1**	**4.2**	**(0.4)**	**63.1**
Less funding returned back to the CRRF							1.0
Total COVID-19 funding							**62.1**

Note: 1 The fiscal costs over the forecast period have been managed against the CRRF; the only exception to this is the Small Business Cashflow Loan Scheme, where the 2024/25 impact has been counted. Some of the decisions made by the Government will have ongoing impacts beyond the forecast period.

Source: The Treasury

Fiscal impact on the fiscal forecasts from COVID-19 funding decisions

Since the time that the initial costs of decisions were managed against the CRRF, there have been subsequent revisions in the estimated costs and the nature of expenditure for some initiatives has changed (eg, operating to capital expenditure). This has resulted in the fiscal impact from the CRRF reflected in the Forecast Financial Statements being lower than the funding made available by the Government. Table 2.3 outlines the impact of the CRRF on the Forecast Financial Statements and how it has changed since the *Budget Update*.

Table 2.3 – Fiscal impacts of the Government's COVID-19 support measures

Year ending 30 June $billions	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Post-2024	Total
Operating impact - *Pre-election Update*	10.1	21.2	5.3	4.0	3.0	-	**43.6**
Operating impact - *Budget Update*	13.6	12.2	14.1	9.9	-	-	**49.8**
Change	**3.5**	**(9.0)**	**8.8**	**5.9**	**(3.0)**	**-**	**6.2**
Capital impact - *Pre-election Update*	1.1	1.5	0.9	(0.3)	(0.4)	(0.4)	**2.4**
Capital impact - *Budget Update*	0.8	0.3	(0.9)	-	-	-	**0.2**
Change	**(0.3)**	**(1.2)**	**(1.8)**	**0.3**	**0.4**	**0.4**	**(2.2)**
Total CRRF impact - *Pre-election Update*	11.2	22.7	6.2	3.7	2.6	(0.4)	**46.0**
Total CRRF impact - *Budget Update*	14.4	12.5	13.2	9.9	-	-	**50.0**
Change	**3.2**	**(10.2)**	**7.0**	**6.2**	**(2.6)**	**0.4**	**4.0**
Total COVID-19 fiscal impact - *Pre-election update* [1]	17.8	23.7	8.6	4.5	3.9	(0.4)	**58.1**
Total COVID-19 fiscal impact - *Budget update* [1]	21.0	13.5	15.6	10.7	1.3	-	**62.1**
Change	**3.2**	**(10.2)**	**7.0**	**6.2**	**(2.6)**	**0.4**	**4.0**

Note: 1 Includes the 17 March Support Package of $12.1 billion.

Source: The Treasury

30 June 2020 Actual Results

This section of the chapter focuses on the 30 June 2020 unaudited actual results. The timing of the 2020 *Pre-election Update* has meant the Treasury has prepared the Financial Statements of the Government for the year ended 30 June 2020, which are now subject to audit. The unaudited numbers for the 2019/20 fiscal year have been used throughout this document.

The Financial Statements of the Government for the year ended 30 June 2020 will not be finalised until the audit is completed; therefore the numbers discussed in this section are subject to change. It is difficult to determine whether there will be any material differences; however, recent history suggests audit changes have had a minimal impact on the Government's key fiscal indicators. In addition, the release of June 2020 quarter GDP data on 17 September 2020 will change the GDP ratios of key fiscal indicators for the 2019/20 fiscal year presented in the Fiscal Outlook chapter.

Similar to the forecasts, the 30 June 2020 unaudited actual results are underpinned by a number of judgements, estimates and assumptions. The COVID-19 pandemic has meant there is more uncertainty around the key judgements, estimates and assumptions used in asset and liability valuations, and in determining accrued revenues and expenses.

The Government's fiscal position has significantly deteriorated during the 2019/20 fiscal year…

COVID-19 has had a significant impact on the Government's results for the 2019/20 fiscal year, with large deficits, increasing debt levels and a fall in net worth.

In the 2019/20 fiscal year, there was an OBEGAL deficit of $23.4 billion compared to an OBEGAL surplus of $7.4 billion in 2018/19. Likewise, residual cash is in a deficit position of $23.7 billion, and as a result net core Crown debt has increased to $83.4 billion in the 2019/20 year from $57.7 billion in 2018/19.

Table 2.4 – 2019/20 unaudited results compared to previous years

Year ended 30 June $billions	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	Variance to 2019	2020 Budget Update	Variance to Budget
Core Crown tax revenue	70.4	75.6	80.2	86.5	84.9	(1.6)	82.3	2.6
Core Crown expenses	73.9	76.3	80.6	87.0	108.8	(21.8)	114.0	5.2
OBEGAL	1.8	4.1	5.5	7.4	(23.4)	(30.8)	(28.3)	4.9
Operating balance	(5.4)	12.3	8.4	0.4	(30.3)	(30.7)	(37.1)	6.8
Core Crown residual cash	(1.3)	2.6	1.3	(0.7)	(23.7)	(23.0)	(32.0)	8.3
Net core Crown debt	61.9	59.5	57.5	57.7	83.4	(25.7)	88.9	5.5
as a percentage of GDP	*24.0%*	*21.7%*	*19.6%*	*19.0%*	27.6%		*30.2%*	
Gross debt	86.9	87.1	88.1	84.4	101.5	(17.1)	99.8	(1.7)
as a percentage of GDP	*33.7%*	*31.7%*	*30.1%*	*27.8%*	*33.6%*		*33.9%*	
Total Crown borrowings	114.0	111.8	115.7	110.2	152.7	(42.5)	164.8	12.1
Net worth	95.5	116.5	135.6	143.3	115.7	(27.6)	106.0	9.7

…as a slowdown in the economy combined with one-off items last year has contributed to a decrease in core Crown tax revenue…

Overall, core Crown tax revenue is lower by $1.6 billion from last year to be $84.9 billion in the 2019/20 fiscal year. The slowdown in economic activity owing to the COVID-19 pandemic and the one-off increase to core Crown tax revenue recognised last year from the implementation of Inland Revenue's new system have contributed to a decrease in core Crown tax revenue.

A change in tax revenue estimation[12] using the Treasury's forecast of firms' net operating surplus for the 2020 and 2021 income tax years has reduced tax revenue by $0.5 billion. The calculation for the 2020 and 2021 income tax years differs from previous years (and other years in the forecast), in which income tax assessments were based on 105% of the prior year terminal tax. This change is to recognise the impact of COVID-19 on taxable income in 2020 and 2021, and in particular the impact from New Zealand entering the Alert Level 4 lockdown on 25 March 2020. As a result, the percentage applied to terminal tax is 102.8% for the 2020 income tax year and 96.45% for the 2021 income tax year, rather than the standard increase of 105%.

In addition to the change in tax revenue estimations, a significant part of the decrease in core Crown tax revenue from 2019/20 was owing to the 2018/19 tax revenue being higher primarily as a result of the implementation of Inland Revenue's Simplified Tax and Revenue Technology (START) system in the 2018/19 year, which impacted how tax revenue is calculated and resulted in a one-off increase in that year.

Across the main tax types, corporate tax fell by $3.3 billion (21.0%) in 2019/20, mainly reflecting this one-off boost in the 2018/19 year discussed above but also reflecting a $0.3 billion reduction owing to the change in estimation noted above. GST revenue decreased by $0.1 billion (0.5%) in 2019/20, mostly owing to weaker private consumption, residential investment and overseas tourist spending in New Zealand in the last part of 2019/20.

Partially offsetting these reductions in tax revenue, source deductions, which are mainly PAYE on wages and salaries, grew by $1.9 billion (5.9%) in 2019/20. Growth in 2019/20 came mainly from wage increases, but was also aided by the Wage Subsidy supporting employment through the June quarter. Other tax types were relatively static compared to 2018/19.

[12] Tax revenue is recognised on an accrual basis in the period in which the taxable event occurs. This means assumptions and estimations are made about tax revenue where tax returns for periods up to 30 June 2020 are not available. Estimation mainly affects income tax revenue (both individuals and corporate tax). Where taxpayers subject to the provisional tax regime have not yet filed a terminal tax assessment, for the 2020 and 2021 income tax years, provisional tax assessments are recognised as revenue based on the prior year terminal tax adjusted for the Treasury's most recent macro-economic forecasts (firms' net operating surplus) for that year.

...while the Government's COVID-19 fiscal support measures have driven a significant increase in core Crown expenses...

In nominal terms, core Crown expenses increased by $21.8 billion (25.1%) to $108.8 billion. The largest driver of growth in nominal core Crown expenditure was the Government's fiscal support measures in response to COVID-19, which made up around $16.7 billion of additional operating expenditure in the 2019/20 year. The Government's *Budget 2019* and *Budget 2020* decisions also contributed to this growth. At the time of announcement, these decisions were forecast to increase core Crown expenses in 2019/20 by $3.8 billion in total.

Within core Crown expenses the most significant growth was in expenses related to social assistance spending which increased by $14.6 billion, from $29.0 billion in 2018/19 to $43.6 billion in 2019/20. This increase was largely owing to the Wage Subsidy Scheme that was put in place to support businesses and workers who are financially impacted by COVID-19. Payments from this scheme totalled $12.1 billion in the 2019/20 year.

However, the scheme was temporary and the Resurgence Wage Subsidy Scheme finished on 3 September 2020, so these subsidies are expected to have less of an impact beyond 2019/20.

…the net profits from SOEs and Crown entities have declined…

The combined operating results of State-owned enterprises and Crown entities have contributed around $5.0 billion to the OBEGAL deficit. A number of State-owned enterprises and Crown entities were impacted by reductions in revenue and increases in expenditure owing to the impacts of COVID-19 (eg, Air New Zealand and the New Zealand Transport Agency). Increases in insurance expenditure also adversely impact OBEGAL for Crown entities such as the Accident Compensation Corporation (ACC) and the Earthquake Commission (EQC).

…and net losses have increased the operating balance deficit

Overall, total net losses for the year were $8.1 billion, largely owing to $6.0 billion of losses in relation to the valuation of the long-term liability for ACC[13] outstanding claims largely as a result of a fall in discount rates, $3.3 billion of losses recognised relating to the LSAP programme owing to current market prices for these bonds being higher than when the bonds were issued (refer box on page 60), and $1.1 billion in relation to the Emissions Trading Scheme (ETS) (owing to an increase in the carbon price used to value the ETS liability). These valuation losses were partially offset by $1.9 billion in investment gains mostly from the New Zealand Superannuation Fund (NZS Fund) and ACC investment activities.

When these net losses are combined with the OBEGAL deficit (and including surpluses from associates and joint ventures), the operating balance for 2019/20 was a deficit of $30.3 billion.

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[13] The Crown's operating balance is particularly sensitive to changes in some key assumptions used to value assets and liabilities. For example, this year decreases in discount rates added $7.3 billion to the ACC liability.

The decline in the operating results also flow through to core Crown residual cash…

The net core Crown operating cash flow for the 2019/20 fiscal year is a deficit of $14.3 billion largely as a result of static tax receipts and an increase in cash payments in relation to the Government's fiscal support measures in response to COVID-19.

In addition, the Government has spent $9.4 billion on capital investments in 2019/20, which was $2.6 billion higher than 2018/19. The core Crown capital investment largely consisted of purchases of physical assets of $3.0 billion, investment in Crown entities of $3.2 billion and the Government's contributions to the NZS Fund of $1.5 billion. In addition, in 2019/20 advances issued were $1.7 billion higher than in the 2018/19 year largely as a result of the Small Business Cash Flow Scheme which was established as part of the Government's COVID-19 response.

…resulting in an increase to net core Crown debt

Taking into account both operating and capital activities of the Crown, the cash shortfall (residual cash deficit) this year has increased to $23.7 billion from $0.7 billion in 2018/19.

Net core Crown debt of $83.4 billion for 2019/20 has increased by $25.7 billion from $57.7 billion in 2018/19. The cash shortfall is the main driver of the increase in net core Crown debt. In addition, the LSAP programme has adversely impacted net core Crown debt by around $3 billion (refer to box on page 60).

As a percentage of GDP, net core Crown debt has also increased, from 19.0% in 2018/19 to 27.6% in 2019/20.

Similarly, both gross debt and total borrowings have increased since last year. The increase in gross debt of $17.1 billion is less than the increase in net core Crown debt owing to the LSAP programme (refer to page 60) that results in a switch between government-issued bonds to bank settlement accounts, meaning the impact on gross debt is lower than the impact on net core Crown debt.

In contrast, the increase in total borrowings of $42.5 billion is higher than the increase in core Crown net debt. Gross sovereign-issued debt (which will include the impact on borrowings from the LSAP programme) increased by $33.2 billion to help fund the cash shortfall, while SOE and Crown entity borrowings increased by around $7.6 billion largely owing to growth in Kiwibank deposits and lending undertaken by Kāinga Ora to fund capital expansion. NZS Fund also contributed around $1.8 billion mostly relating to losses on derivatives held as at 30 June 2020.

Operating deficits result in a significant decrease in net worth with an increase in liabilities exceeding the increase in assets

Although taxpayers' funds were positive in 2019/20, they have been significantly depleted since 2018/19, reducing from $34.0 billion to $3.1 billion as a result of the operating deficit of $30.3 billion.

Revaluation uplifts of physical assets increased by $5.1 billion while at the same time revaluations of long-term retirement plans (eg, the Government Superannuation Fund) and Veterans' Disability Entitlements resulted in $1.6 billion of losses which are taken directly to reserves. When these revaluations are combined with the operating balance deficit of $30.3 billion and minority interest transactions, net worth decreased by $27.6 billion to be $115.7 billion.

Total assets grew by $28.5 billion in the 2019/20 year to reach $393.2 billion, while at the same time liabilities increased by $56.2 billion to reach $277.5 billion. Of the increase in assets, financial assets grew the most increasing by $19.0 billion, while property, plant and equipment increased by $8.8 billion (including revaluation uplifts). Of the increase in liabilities, borrowings increased by $42.5 billion, while ACC's insurance liability increased by $8.3 billion. The increase in borrowings is largely a result of funding the Government's response to COVID-19. The increase in the ACC liability is largely owing to changes in discount rates which are used to present value the outstanding claims liability balance.

The 2019/20 actual outturn has come in more strongly than expected in the 2020 Budget Update

Most of the Government's key fiscal indicators have come in stronger than what was forecast at the *Budget Update*. The improvement is owing to economic activity holding up better than expected in the June quarter, and as a result core Crown tax revenue was $2.6 billion higher than expected. In addition, core Crown expenses have come in lower by $5.2 billion with the majority of this difference relating to spending in relation to the Government's COVID-19 fiscal support measures being lower than forecast. Partially offsetting the variances in tax revenue and core Crown expenses, SOE and Crown entity results are weaker than expected. Overall the OBEGAL deficit was $4.9 billion lower than forecast at the *Budget Update*.

The variances in core Crown tax revenue and core Crown expenses also flow through to improve the cash position, with the core Crown residual cash deficit being lower than forecast by $8.3 billion. The improvement in the residual cash position also flows through to the net core Crown debt position; however, some of this improvement is partially offset by the expansion in the size of the LSAP programme since the *Budget Update*, meaning that overall net core Crown debt is $5.5 billion lower than forecast as at 30 June 2020.

Short-term Outlook

This section of the chapter focuses on the four-year forecast horizon, covering from 2020/21 up to and including the 2023/24 fiscal year. The preparation of the pre-election fiscal forecasts has involved:

- updating the operating results and expense forecasts from departments and significant other government reporting entities for the years 2020/21 to 2023/24
- considering the impact of additional financial information that has occurred since the finalisation of the *Budget Update* forecasts on 20 April 2020, and
- incorporating the fiscal impact of significant Cabinet decisions made since the *Budget Update*, up to and including 7 September 2020.

Key judgements and assumptions

The fiscal forecasts are based on assumptions and judgements developed from the best information available at the time they were prepared. Actual events are likely to differ from these assumptions and judgements, while uncertainty around the forecast assumptions and judgements increases over the forecast period.

The forecasts incorporate Government decisions and other circumstances known to the Government and advised to the Treasury (up to 7 September 2020). In the lead-up to an election, political parties, including those comprising the current Government, make announcements about their policies and intentions. It does not automatically follow, however, that all announcements are included in these fiscal forecasts. The criteria for inclusion in these forecasts, along with the key risks, can be found in the Risks to the Fiscal Forecasts chapter.

In addition to the key assumptions underpinning the economic forecasts (refer to page 14), the following key judgements and assumptions supporting the fiscal forecasts were made:

- Tax forecasts were completed on 26 August 2020 and are based on the economic forecast completed on 21 August 2020.
- The cost of commitments not explicitly included in the fiscal forecasts (or variations to the estimates included in the fiscal forecasts) is assumed to be met within the Budget operating allowance and multi-year capital allowance and the unallocated CRRF included in the fiscal forecasts.
- Departments will continue to spend less than the upper limits of approved spending (referred to as appropriations). A top-down adjustment is made to compensate for this. The adjustment will be higher at the start of the forecast period as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have around transferring underspends to later years (refer to the box on page 73).
- On 13 May 2020, the Reserve Bank significantly expanded the Large Scale Asset Purchases (LSAP) programme to $60.0 billion, and then subsequently on 12 August 2020 expanded this further to $100.0 billion. This $100.0 billion is assumed to be fully implemented for the forecasts, up from the previous $33.0 billion limit reported in the *Budget Update*. As the bonds that have been repurchased mature, the value of bonds held under LSAP reduce.

- Major capital programmes (eg, Rail Packages, Public Housing, P-8A Poseidon Aircraft and Prison Capacity) will proceed as planned.
- Forecast returns on the large investment portfolios managed by ACC and the NZS Fund are based on their expectations of long-term benchmark rates of return for their respective portfolios.
- Significant valuations (eg, the student loan portfolio, ACC claims liability and Government Superannuation Fund (GSF) retirement liability) are based on underlying assumptions (eg, discount rates, salary increases and inflation) made at the time the valuations were prepared.
- No revaluations of property, plant and equipment are forecast beyond the current year. Only revaluations that have already been completed are included in these forecasts.
- The 2019/20 fiscal year represents unaudited actual results. This means that they may differ slightly from the final published 2019/20 audited Financial Statements of the Government of New Zealand.
- Contributions to the NZS Fund over the forecast period and the estimated contribution to the NZS Fund, if contributions were based on the legislated contribution formula, are set out in Table 2.5. Over the forecast years, all Fund variables (apart from the capital contributions) are based on those provided by the NZS Fund itself. For more information, refer to the Treasury website for the NZS Fund model.

Table 2.5 – NZS Fund contributions

Year ending 30 June $billions	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**
Estimated contributions as prescribed by formula[1]	0.7	1.1	1.5	1.9
Forecast contributions in *Pre-election Update*	2.1	2.4	1.4	1.8

Note: 1 Calculations of annual contributions using the NZS Fund model.

Source: The Treasury

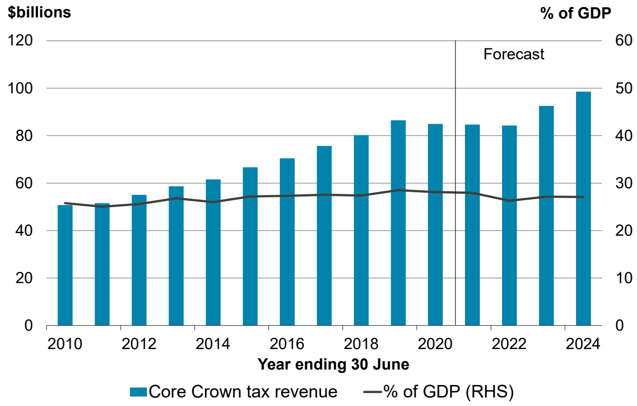
- The impact of COVID-19 on GDP means that the contributions prescribed by the legislative formula have decreased in 2020/21 and 2021/22. However, the impact of this on the NZS Fund is small, because between the years 2020/21 and 2021/22 the Government's own planned capital contributions are applied. Between 2020/21 and 2022/23, small amounts of the capital contributions are transferred to a new fund administered by the Guardians of New Zealand Superannuation, which will invest via New Zealand Growth Capital Partners (formerly New Zealand Venture Investment Fund).
- Further information on the underlying economic assumptions used in these fiscal forecasts can be found on page 76.

Core Crown Tax Revenue

Tax revenue is forecast to decrease in 2020/21 and 2021/22, before beginning to increase later in the forecast period

Core Crown tax revenue (Figure 2.2) is forecast to decrease in nominal terms in 2020/21 and 2021/22, before beginning to recover in 2022/23 and then continue to increase in the last year of the forecast period. As a percentage of GDP, core Crown tax revenue is forecast to decrease from 28.1% in 2019/20 to 26.3% in 2021/22, after which it is forecast to increase and remain stable at around 27% for the remainder of the forecast period.

Figure 2.2 – Core Crown tax revenue



Source: The Treasury

By 2023/24, core Crown tax revenue is expected to reach $98.5 billion, $13.6 billion higher than in the 2019/20 year. Table 2.6 shows the breakdown of the movements across the major tax types over the four years to 2023/24.

Table 2.6 – Change in core Crown tax revenue by major tax type

Year ending 30 June $billions	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**Total Change**
Source deductions	0.7	0.5	1.5	2.4	**5.1**
Goods and services tax (GST)	(0.8)	0.7	1.8	1.9	**3.6**
Net other persons tax	(0.1)	(0.3)	1.0	0.4	**1.0**
Duties	0.2	-	-	0.1	**0.3**
Motor vehicle fees (MVF) and road user charges (RUC)	0.1	0.1	0.1	0.1	**0.4**
Corporate tax	-	(1.3)	3.7	1.1	**3.5**
Resident withholding tax (RWT) on interest	(0.4)	-	(0.1)	0.1	**(0.4)**
Other taxes	0.1	(0.1)	0.2	(0.1)	**0.1**
Total (decrease)/increase in core Crown tax revenue	**(0.2)**	**(0.4)**	**8.2**	**6.0**	**13.6**
Plus previous year	84.9	84.7	84.3	92.5	
Core Crown tax revenue	**84.7**	**84.3**	**92.5**	**98.5**	

Source: The Treasury

Overall core Crown tax revenue decreases in 2020/21 and 2021/22…

GST revenue is forecast to fall by $0.8 billion in 2020/21. This decline is mostly owing to a significant fall in overseas tourist spending in 2020/21. Private consumption recovers from 2021/22 onwards resulting in increased GST revenue.

Corporate tax revenue is expected to remain flat in 2020/21 and then fall in 2021/22. An expected decline in tax revenue, owing to lower operating profits expected as a result of the impact of COVID-19, is the main reason for flat corporate tax revenue in 2020/21. A fall of $1.3 billion in 2021/22 is mainly a result of changes to depreciation allowances and asset-expensing thresholds.

Resident withholding tax on interest is expected to fall by $0.4 billion in 2020/21, mainly owing to declining deposit interest rates.

Net other persons tax revenue is forecast to fall over 2020/21 and 2021/22 owing to a decline in taxable profits and changes to depreciation allowances and asset-expensing thresholds.

Source deductions, which are mainly PAYE on wages and salaries, are forecast to grow by $1.2 billion in 2020/21 and 2021/22, mainly owing to wage growth, as the level of employment is expected to decline, particularly in 2020/21.

…but then starts to recover from 2022/23...

Corporate tax revenue is forecast to increase through 2022/23 and 2023/24 owing to relatively strong forecasts for profit growth in those years.

Source deductions revenue is expected to grow more strongly, almost entirely owing to a recovery in employment and wage growth, with wage growth contributing to fiscal drag.[14]

GST revenue is forecast to increase by $3.7 billion from 2022/23 onwards, mainly owing to a lift in private consumption, residential investment and tourist spending in New Zealand.

Net other persons tax revenue growth is expected to resume in 2022/23, as taxable profits are expected to continue to increase, terminal tax rebounds, and the effects of the depreciation and asset-expensing changes are less negative than in 2021/22.

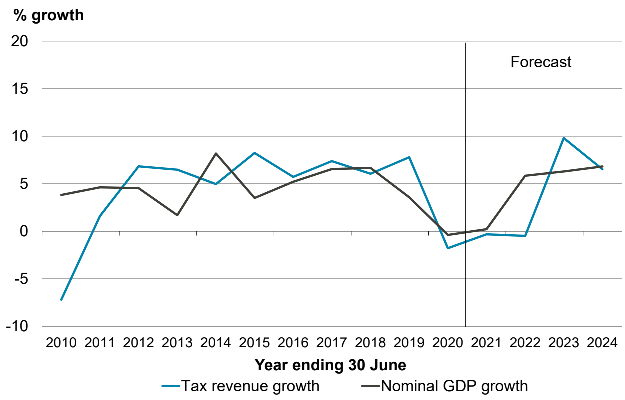
[14] Fiscal drag is the additional income tax generated as an individual's average tax rate increases as their income increases.

…broadly in line with expected economic growth

Figure 2.3 shows that core Crown tax revenue is forecast to grow at a slower rate than nominal GDP in both 2020/21 and 2021/22, mainly owing to:

- Major components of the GDP forecast that affect the tax forecasts, such as compensation of employees and overseas tourist spending in New Zealand, are forecast to grow at a slower rate than total nominal GDP.
- Deposit interest rates are expected to decline further, causing RWT on interest to fall.

Figure 2.3 – Core Crown tax revenue and nominal GDP growth



Source: The Treasury

- Policy changes introduced in response to the COVID-19 pandemic, mainly relating to depreciation allowances, asset-expensing thresholds and loss carry-back, are expected to reduce tax revenue.

In 2022/23, tax revenue growth exceeds nominal GDP growth as tax policy change effects are less negative than in 2021/22 and taxable profits are forecast to grow at a faster rate than GDP.

Uncertainty of the tax forecasts

The global economic outlook, domestic consumer demand, employment and the prospects of international tourism resuming in the near term are uncertain. This uncertainty will have a significant impact on tax revenue over the forecast period.

Revenue outturns have been above forecast since the outbreak of COVID-19, mainly owing to stronger-than-expected private consumption, employment and taxable profits. Although the strong core Crown tax revenue numbers for 2019/20 can partly be attributed to Government policy response, there is potential downside risk associated with the cessation of some of these policies (eg, the Wage Subsidy Scheme).

The uncertainty associated with tax revenue forecasts and Government's COVID-19 response measures can be seen in Table 2.7, which shows the difference in core Crown tax revenue forecasts under the Alternative Scenarios.

Table 2.7 – Core Crown tax revenue uncertainty

Year ending 30 June **$billions**	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**Difference across forecast**
Main forecast (*Pre-election Update*)	84.7	84.3	92.5	98.5	**-**
Alternative Scenarios:					
Earlier recovery in service exports	84.7	85.5	95.1	100.8	**6.1**
Extended border controls	84.6	83.7	90.3	95.4	**(6.0)**
Resurgence in community transmission	82.8	82.6	90.9	97.0	**(6.7)**

Source: The Treasury

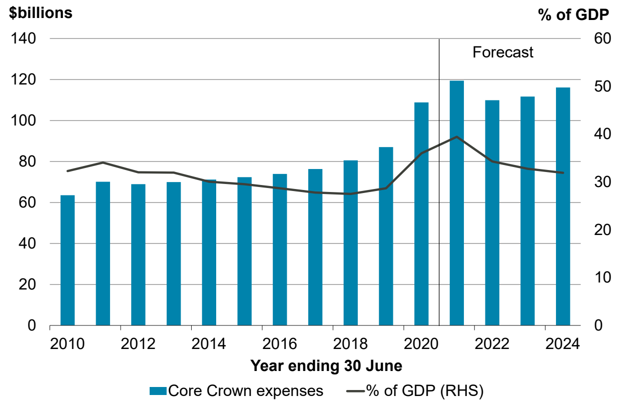
The various macroeconomic assumptions that underpin each of the scenarios are explained more broadly in the Alternative Scenarios section of the Economic Outlook chapter on page 30. These assumptions have an impact on the macroeconomic variables used to forecast tax revenue and explain the variance in tax revenue outcomes over the forecast period.

Core Crown Expenses

Core Crown expenses are expected to increase significantly in the near term primarily owing to the Government's COVID-19 response…

Core Crown expenses are forecast to increase by an additional $10.7 billion in 2020/21, peaking at $119.5 billion, and then decrease by $9.6 billion in 2021/22 billion before increasing again in 2022/23. In the last year of the forecast, core Crown expenses reach $116.1 billion. Core Crown expenses as a percentage of GDP are expected to peak at 39.4% in 2020/21 before declining to 31.9% by 2023/24 (Figure 2.4).

Figure 2.4 – Core Crown expenses



Source: The Treasury

The impact of the Government's response to and recovery from COVID-19 will mean core Crown expenses are forecast to remain at elevated levels for the next few years. However, it is expected that most of the Government's policy measures in relation to COVID-19 will be temporary, with a smaller ongoing impact to core Crown expenses by the end of the forecast period. Refer to Table 2.3 in the box on page 43 for the forecast profile of COVID-19 related operating expenditure. Looking through the temporary nature of the Government's fiscal support measures, core Crown expenses are expected to increase by $19.7 billion by the end of the forecast.

…with previous Budget decisions and allowances for future Budget decisions being a key driver of the growth…

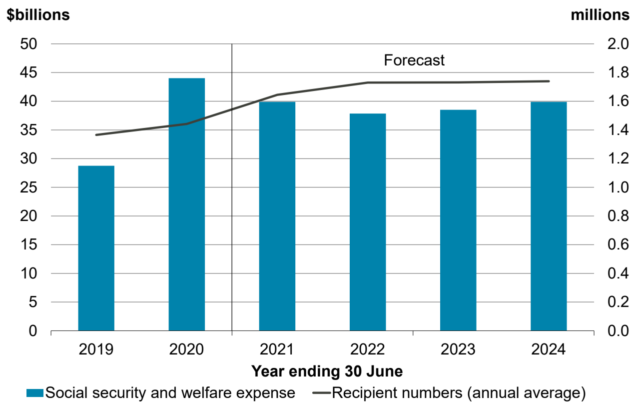
Around half of the nominal increase in expenses is attributable to previous budget decisions and new spending set aside for future budgets. At the time of announcement, Budget 2020 decisions were expected to increase expenditure by $3.2 billion. There has been no change to future budget operating allowances in these forecasts. Future budget operating allowances are currently set at $2.4 billion for Budgets 2021 and 2022, increasing to $2.6 billion in Budget 2023. The fiscal forecasts assume that any additional costs in relation to Government commitments and future costs pressures will be met from operating allowances. For forecasting purposes, budget operating allowances are assumed to be all operating expenditure. However, operating allowances may actually be used for a combination of revenue and operating or capital expenditure initiatives when allocated. Refer to the box on page 57 for more details on how Budget allowances operate and Table 2.17 on page 80 for some sensitivity analysis regarding allowance settings.

…while benefit costs continue to grow, mainly owing to increasing recipient numbers…

Social assistance spending is forecast to fall by $4.0 billion by 2023/24. Expenditure in the 2019/20 year has been elevated by the Wage Subsidy Scheme, which totalled $12.1 billion. If we look through the Wage Subsidy Scheme, given its temporary nature, social assistance spending will grow by $8.1 billion mainly owing to growth in recipient numbers, the impact of indexation of most benefits to wage growth and the increase of $25 per week in main benefits from 1 April 2020.

The New Zealand Superannuation benefit is expected to grow by $3.5 billion between 2019/20 and 2023/24. New Zealand Superannuation recipient numbers are forecast to increase from an average of around 767,000 in 2018/19 to 905,000 by the end of the forecast period (an increase of 18.0%). By the end of the forecast period, New Zealand Superannuation equals just under half of core Crown social assistance spending and 16.4% of core Crown expenditure.

Figure 2.5 – Social security welfare expense and recipient numbers of main benefits and NZS



Source: The Treasury

Growth in Jobseeker Support and Emergency Benefit and Accommodation Assistance benefits is expected to contribute $1.6 billion and $0.7 billion respectively to the growth in social assistance costs (excluding the Wage Subsidy impact).

The economic conditions over the forecast period are a significant factor in the expected growth in Jobseeker Support and Emergency Benefit recipients, with flow-on impacts to Accommodation Assistance, and the growth in overall benefit expenses:

- The number of Jobseeker Support and Emergency Benefit recipients is expected to increase by 89,000 by 2020/21 compared with 2019/20 and then increase further in 2021/22 to peak at 279,000, before reducing to 246,000 recipients by 2023/24, 84,000 (an increase of 52%) more recipients than 2019/20.

- The number of Accommodation Assistance recipients is expected to increase by 76,000 by 2020/21 compared with 2019/20 and then increase further in 2021/22, peaking at 420,000 recipients, before reducing to 405,000 recipients by 2023/24 an increase of 87,000 (a 27% increase) compared with 2019/20.

…and finance costs decrease owing to monetary policy interventions via the LSAP and lower interest rates

Core Crown finance costs are forecast to reduce by $0.9 billion by the end of the forecast period when compared to the 2019/20 fiscal year. While additional borrowings to fund the forecast residual cash deficits result in additional interest costs, this is more than offset by a lower effective interest rate of borrowings owing both to lower Government bond interest rates and to settlement cash liabilities having a lower interest rate than the repurchased Government bonds they have effectively replaced through the LSAP programme. Refer to the box on page 60 for further details of the LSAP programme.

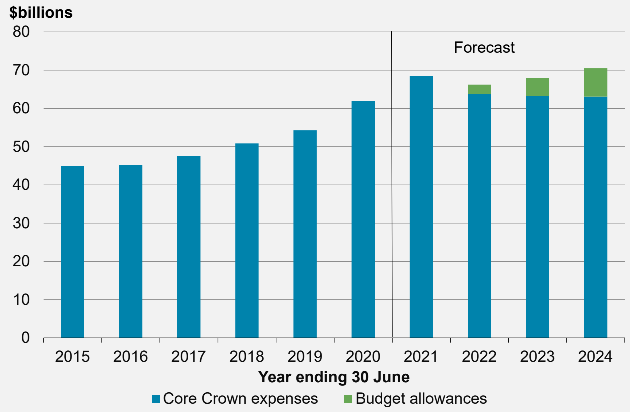
Budget allowances

The majority of core Crown expenditure is 'fixed'[15] over the forecast period and a specific policy decision is required to make adjustments. Funding increases are generally sought through the Budget process, where increases have to be met from a limited pool of funding allocated for new spending and traded off against spending proposals in all other areas of government. These pools of new funding are called the Budget allowances.

Budget allowances are included in fiscal forecasts as 'forecast new spending' to make the forecasts more realistic and better link the forecasts to the Government's fiscal strategy. The *Budget Policy Statement*, usually published in December, is where the Government signals its intended allowances for the coming Budget and they are set at a level which allows the Government to achieve its broader fiscal objectives.

Budget allowances show how much funding is available for maintaining existing services and new investment in each Budget over the next three years. The level of allowances need to be set at a level that is realistic given known cost pressures. All new funding to meet the cost of new policies and agency cost pressures that cannot be met from existing baselines should be met from Budget allowances. The Risks to the Fiscal Forecasts chapter outlines the key risks to the fiscal forecasts.

Figure 2.6 – Fixed core Crown expenditure[1] and Budget operating allowances



Note: 1 Excluding core Crown social assistance spending and finance costs.

Source: The Treasury

15 Fixed nominal baselines refers to the amount of spending that does not automatically adjust for changes in price or demand. There are some exceptions, such as the majority of benefit expenses that are indexed to wage growth and demographic changes, transport expenses that are based on transport revenue earned, and finance costs which are based on the levels of debt and interest rates.

The operating allowance is a net amount allocated for new policy initiatives or cost increases in existing policy. It may be allocated to either expenditure or revenue policy changes.

Given that the bulk of the allowance is usually allocated to the expenditure side, it is often referred to as an allowance for new spending.

The operating allowance for Budget 2021 is $2.4 billion per year and continues in perpetuity, meaning that over the forecast period (2021/22 to 2023/24) there is a total of $7.2 billion to allocate. Budget 2022 and Budget 2023 allocate an operating allowance of $2.4 billion and $2.6 billion respectively across the forecast period. By the 2023/24 forecast year, the operating allowances allocate $7.4 billion in additional expenditure to the current fixed baselines.

The fiscal forecasts assume that any additional costs in relation to future government commitments and future cost pressures (such as those mentioned in the Risks to the Fiscal Forecasts chapter) will be met from these Budget allowances. The Government can decide to manage costs ‘outside’ of the Budget allowances or increase Budget spending. Over recent years, Budget spending has been higher than the allowances (operating and capital) signalled in the Government’s *Budget Policy Statement*. Any spending that occurs outside of the Budget allowances will directly impact the fiscal forecasts.

As well as spending outside of the Budget allowances, a change to the operating allowances will directly flow through into government expenditure (or revenue) and this will impact the surplus or deficit that is achieved or expected.

Refer to Table 2.17 on page 80 for further sensitivity analysis of the impact of potential changes to the Budget allowances on key fiscal indicators.

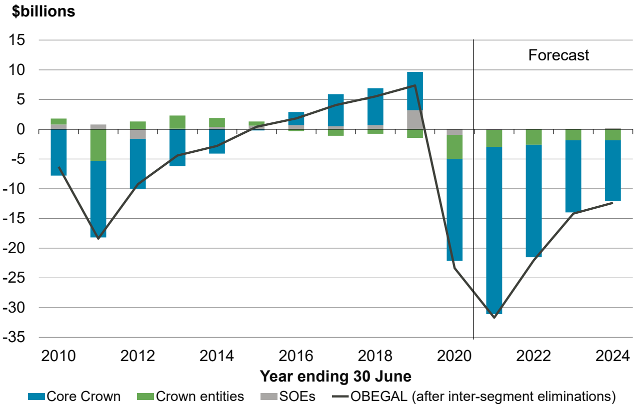
Operating Balance before Gains and Losses and the Operating Balance

OBEGAL deficits are forecast across the period although some recovery is expected from 2022/23…

The unaudited OBEGAL was a $23.4 billion deficit in 2019/20 and this is forecast to increase sharply to reach a $31.7 billion deficit in 2020/21 before starting to reduce over the remainder of the forecast period. An OBEGAL deficit of $12.4 billion is forecast for the final year of the forecast (Figure 2.7).

In line with the expected economic impacts of COVID-19 and the Government's response, OBEGAL deficits are expected to be highest in the near term, before starting to recover in 2022/23.

Figure 2.7 – Components of OBEGAL by segment



Source: The Treasury

State-owned enterprises (SOEs) had deficits in 2019/20 (compared to surpluses in 2018/19) and are forecasting deficits in the 2020/21 year. This reflects the expected decline in third-party revenue due to COVID-19 for some SOEs and increased expenditure (eg, asset impairments). The SOE segment as a whole is expected to recover and return small surpluses in the last two years of the forecast.

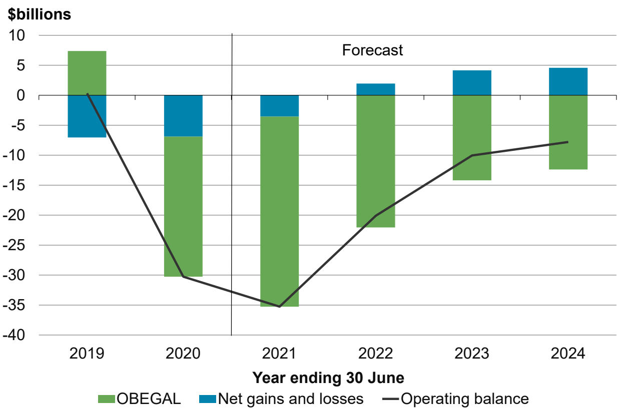
The Crown entities sector is forecasting deficits of $2.9 billion and $2.6 billion for 2020/21 and 2021/22 before reducing deficits to around $1.8 billion for the last two years of the forecast period. These deficits are mainly driven by ACC and District Health Boards (DHBs) averaging OBEGAL deficits of $1.6 billion and $0.6 billion respectively. ACC's OBEGAL deficits largely arise from the increased future cost of its outstanding insurance claims liabilities while the DHBs' deficits are owing to forecast growth in demand leading to rising costs. Other Crown entities, largely in the education and housing sectors, are also forecasting deficits across the period although on a much smaller scale.

…leading to operating balance deficits

The total Crown operating balance, which includes gains and losses on assets and liabilities, is also forecast to be in deficit across all years of the forecast period (Figure 2.8).

Operating balance deficits peak at $35.3 billion in 2020/21, reducing to $20.1 billion in 2021/22 and then reducing further to $7.8 billion in the last year of the forecast period. This

Figure 2.8 – Components of operating balance



Source: The Treasury

trend reflects the OBEGAL trend, which flows directly through, with gains and losses having a smaller impact.

While gains and losses on the Crown's liabilities such as the ACC and ETS liabilities are not forecast beyond an actual year, they are forecast for the Crown's investment activities. The impact of the LSAP is forecast to result in $6.1 billion of losses in 2020/21 and $1.7 billion in 2021/22 (see box below). However, net gains on the Government's investment activities (largely the NZS Fund) of between $3.4 billion and $4.5 billion across the forecast period more than offset these losses.

Fiscal impacts of the Large Scale Asset Purchases Programme

On 13 May 2020, the Reserve Bank significantly expanded the Large Scale Asset Purchases (LSAP) programme to $60 billion, up from the previous $33 billion limit reported in the *Budget Update*. Subsequently, on 12 August 2020, this was expanded further to a $100 billion limit. Under this programme, the Reserve Bank intends to buy up to $100 billion of New Zealand Government Bonds (NZGBs) and Local Government Funding Agency (LGFA) Bonds in the secondary market over the period to June 2022. The Reserve Bank purchases these bonds from bondholders using newly created settlement balances at the sellers' bank – it does not purchase bonds directly from the Crown or the LGFA.

The aim of the LSAP programme is to support the economy by lowering borrowing costs to households and businesses and depreciating the New Zealand dollar. As of 7 September, the Reserve Bank had purchased $28.0 billion in NZGBs (including $1.2 billion in Inflation-indexed Bonds) and $1.3 billion in LGFA bonds under the programme. The Reserve Bank, like many other central banks, typically implements monetary policy by controlling the short-term policy rate, the Official Cash Rate (OCR), but has turned to 'alternative' monetary policies, such as LSAP, as its ability to lower the OCR has become constrained.

LSAPs have fiscal impacts on the consolidated Financial Statements of the Government and on a number of the Government's key fiscal indicators. In summary, there will be a negative fiscal impact initially when the bonds are repurchased; however, through time there will be a positive impact, through a reduction in Government borrowing costs (if short-term interest rates remain low).

Initial fiscal impact

To acquire Government bonds in the secondary market, the Reserve Bank must pay current bond prices. These are generally higher than the bond prices that bondholders paid when the bonds were first issued by the Government as interest rates have fallen. This means the Government is in effect purchasing back its debt at a premium. This premium paid results in a loss that is recorded in 'gains and losses' below OBEGAL, but included in the operating balance in the forecast statement of financial performance. The loss also increases net core Crown debt.

In the *Pre-election Update*, the losses from initial LSAP repurchases were $3.3 billion in 2019/20 and are forecast to be $6.1 billion in 2020/21 and $1.7 billion in 2021/22. This is an increase on the *Budget Update* losses forecast at $1.6 billion in 2019/20 and $2.2 billion in 2020/21, largely as a result of the increases in the scale of the programme announced in May and August 2020 after the finalisation of Budget 2020.

Ongoing fiscal impact

The net effect of the LSAP programme in the whole-of-government forecast statement of financial position reflects that the Government has switched some borrowings from external bondholders to borrowing through bank settlement accounts. There is a benefit from lower forecast borrowing costs through time as the fixed interest rate payable on the bonds is replaced by the lower floating OCR rate (currently 0.25%) payable on bank settlement account borrowings. These reduced borrowing costs compared to the *Budget Update* have a favourable impact on OBEGAL and the operating balance, through reduced finance cost forecasts in the forecast statement of financial performance.

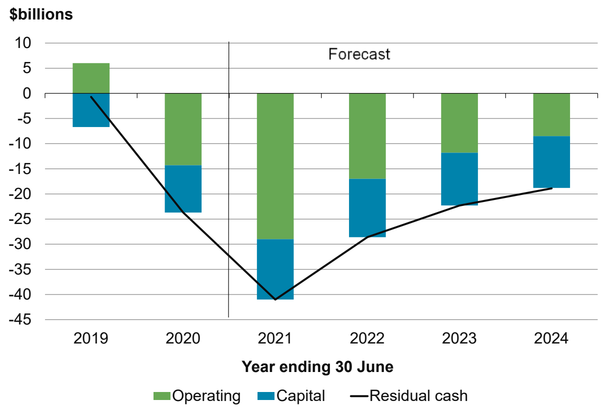
The main gross debt fiscal indicator excludes Reserve Bank settlement accounts, so the switch from government-issued bonds to bank settlement accounts under the LSAP programme means gross debt has reduced. In contrast, net core Crown debt includes bank settlement accounts, so the switch in borrowings under the LSAP programme has a different impact. While the net effect is that settlement accounts replace government-issued bonds in the net core Crown debt indicator, there is still an increase initially in net core Crown debt for the value of the losses incurred in respect of the LSAP repurchases (referred to above under 'Initial fiscal impact').

Residual Cash and Net Core Crown Debt[16]

Significant cash shortfalls are now expected, reflecting the forecast deficits…

From 2019/20 up until 2023/24, a cash shortfall of $110.7 billion is expected (Figure 2.9). This cash shortfall is funded largely through additional borrowing.

Figure 2.9 – Core Crown residual cash



Source: The Treasury

The level of operating cash deficit is forecast to grow in 2020/21 from the deficit of $14.3 billion in 2019/20 to peak at $29.0 billion, before reducing over the remainder of the forecast period. The trend in these deficits broadly follows a similar trend to the OBEGAL forecast, with larger cash deficits in the near term as cash payments for COVID-19 related expenses are expected.

…while capital spending increases the cash deficits…

In addition to the $9.4 billion spent in 2019/20, the Government is expected to invest a net total of $44.4 billion in capital over the forecast years to 2023/24, a total of $53.8 billion including the 2019/20 year. Net capital spending (including the 2019/20 spend) includes:

- $14.9 billion on building and acquiring physical assets
- $3.1 billion on advances, and
- $18.8 billion on providing capital to Crown entities (eg, to Waka Kotahi NZ Transport Agency (NZTA) for state highways ($7.4 billion), to DHBs to build or develop hospitals ($3.7 billion) and to KiwiRail to invest in the rail network ($3.0 billion)).

In addition, the forecast capital spending includes $9.2 billion in contributions to the NZS Fund and future new capital spending of $10.7 billion including $8.4 billion in contingencies where funding has been set aside for specific initiatives, but additional report backs are required before funding is confirmed. Future new capital spending represents funding set aside to be allocated in the future.

Table 2.8 shows core Crown capital spending that has an impact on net core Crown debt. It excludes capital spending undertaken directly by Crown entities and SOEs funded from their own resources (including third-party financing).

[16] Net core Crown debt and residual cash indicators are measured on a core Crown basis. Residual cash includes both operating and capital activity. This differs from OBEGAL, which is measured at a total Crown level and includes operating activity only.

Table 2.8 – Net capital expenditure activity[17]

Year ending 30 June $billions	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	5-Year Total
Education	0.9	1.1	1.2	0.9	0.8	**4.9**
Defence	0.9	0.8	1.2	1.0	1.0	**4.9**
Corrections	0.2	0.3	0.2	0.2	0.2	**1.1**
Social Development	0.1	0.1	0.1	0.1	0.1	**0.5**
Police	0.1	0.1	0.1	0.1	0.1	**0.5**
Inland Revenue	0.1	0.2	-	-	-	**0.3**
Internal Affairs	0.1	0.1	0.1	-	-	**0.3**
Justice	-	0.1	0.1	0.1	0.1	**0.4**
Ministry of Business, Innovation, and Employment	0.1	0.1	0.1	0.1	0.1	**0.5**
Ministry of Foreign Affairs and Trade	-	-	0.1	0.1	0.1	**0.3**
Health	0.2	-	-	-	-	**0.2**
Other	0.2	0.5	-	0.2	0.1	**1.0**
Net purchase of physical assets	**2.9**	**3.4**	**3.2**	**2.8**	**2.6**	**14.9**
Small Business Cashflow loans	1.4	0.5	(0.1)	(0.4)	(0.5)	**0.9**
Housing infrastructure fund	-	0.4	0.3	0.2	0.1	**1.0**
Student loans	(0.1)	0.3	0.3	0.3	0.2	**1.0**
NZTA	0.4	0.1	(0.1)	(0.2)	(0.1)	**0.1**
Other	0.1	-	(0.2)	0.1	0.1	**0.1**
Net advances	**1.8**	**1.3**	**0.2**	**-**	**(0.2)**	**3.1**
NZTA	1.2	1.2	1.5	1.8	1.7	**7.4**
District Health Boards	0.5	0.6	0.8	1.0	0.8	**3.7**
KiwiRail	0.5	0.9	0.9	0.5	0.2	**3.0**
City Rail Link	0.3	0.4	0.7	0.4	0.1	**1.9**
Provincial Growth Fund Limited	0.2	0.3	-	-	-	**0.5**
Crown Infrastructure Partners	0.1	0.2	-	-	0.2	**0.5**
Ōtākaro	0.1	0.1	0.1	-	-	**0.3**
Tāmaki Regeneration	-	-	-	-	0.2	**0.2**
Other	0.3	0.6	0.2	0.2	-	**1.3**
Net investments	**3.2**	**4.3**	**4.2**	**3.9**	**3.2**	**18.8**
Future new capital spending	-	2.7	2.1	2.7	3.2	**10.7**
Top-down capital adjustment	-	(1.8)	(0.5)	(0.3)	(0.3)	**(2.9)**
Contribution to NZS Fund	1.5	2.1	2.4	1.4	1.8	**9.2**
Net capital spending	**9.4**	**12.0**	**11.6**	**10.5**	**10.3**	**53.8**

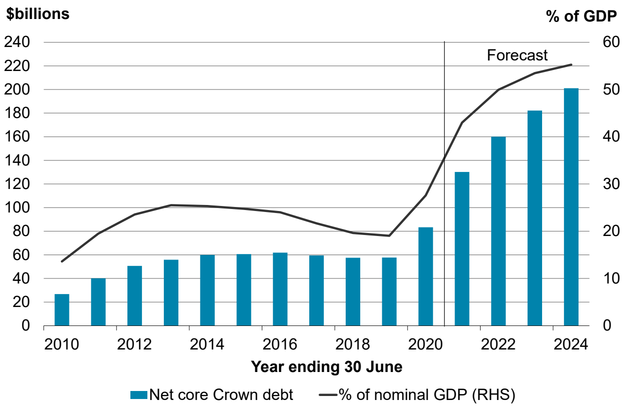
Source: The Treasury

17 In addition to the above capital spending, a number of capital projects have been undertaken through Public Private Partnerships (PPPs). Unlike capital spending, where cash payments are made as the asset is being constructed, cash flows in relation to PPPs do not typically commence until the completion of the project.

…and consequently, net core Crown debt is expected to increase significantly over the forecast period

In nominal terms, net core Crown debt is expected to grow substantially over the forecast period, reaching $201.1 billion in 2023/24. This is an increase of $117.7 billion from the unaudited position at the end of the 2019/20 year. The increase in net core Crown debt is mainly driven by the need to fund the residual cash deficits of around $110.7 billion expected beyond 2019/20 up to 2023/24.

Figure 2.10 – Net core Crown debt



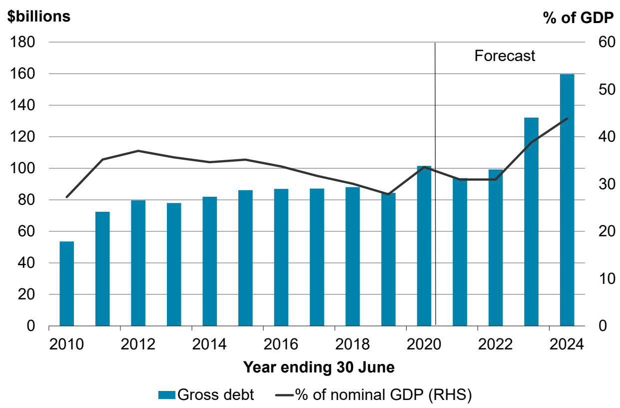
Source: The Treasury

As a percentage of GDP, net core Crown debt is expected to increase rapidly from 27.6% in 2019/20 to 43.0% in 2020/21 (Figure 2.10). It then gradually rises, to reach 55.3% in 2023/24.

Beyond 2021, gross debt rises rapidly…

Gross debt is expected to stay relatively static through 2020/21 and 2021/22 and then increase significantly in 2022/23 and continue rising in 2023/24, increasing by a total of $58.2 billion from 2019/20 (Figure 2.11).

Figure 2.11 – Gross debt



Source: The Treasury

Forecast gross debt as a percentage of GDP rises significantly, before reaching 43.9% by the end of the forecast period.

While net core Crown debt increases in all years, gross debt is relatively static up until 2021/22 (Figure 2.11). This is largely owing to the LSAP programme, which provides for the Reserve Bank to purchase government-issued bonds and borrow through bank settlement accounts instead. As the gross debt indicator excludes Reserve Bank settlement cash, the switch from government-issued bonds to bank settlement accounts under the LSAP programme means gross debt has reduced. In contrast, net core Crown debt includes bank settlement accounts, so the switch in borrowings under the LSAP programme has a different impact. Refer to the box on page 60 for further details of the fiscal impacts of the LSAP on both gross debt and net core Crown debt indicators.

…and the core Crown borrowing programme will provide net funds of $120.5 billion

The core Crown borrowing programme includes the issuance of both New Zealand Government Bonds (NZGB) and short-term borrowings (eg, Treasury Bills and Euro-Commercial Paper).

Heightened uncertainty remains on the timing, and to a lesser extent the size, of cash requirements, alongside variability in economic activity. To mitigate this uncertainty, a sizeable cash buffer is forecast, which ensures the Government is better placed to manage funding and liquidity risks. Consistent with the profile of core Crown residual cash deficits, NZGB issuance is predominantly weighted towards the early part of the forecast.

Beyond 2019/20, the bond programme is expected to raise funds of $162.5 billion in total. Bond maturities and repurchases will result in repayments of $39.3 billion of existing debt. In addition, short-term borrowing is expected to be $2.7 billion lower at the end of the forecast period (Table 2.9). Overall, the core Crown borrowing programme will provide net funds of $120.5 billion to help meet residual cash deficits and to ensure cash is available for the upcoming bond maturities in 2025.

Table 2.9 – Net issuance of Government bonds and short-term borrowing[18]

Year ending 30 June $billions	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**Total**
Face value of Government bonds issued (market)	50.0	35.0	35.0	35.0	155.0
Debt programme cash flows					
Cash proceeds from issue of market bonds	55.0	37.0	35.6	34.9	162.5
Repayment of market bonds	(11.1)	-	(15.7)	(12.5)	(39.3)
Net issue/(repayment) of short-term borrowing	(2.7)	-	-	-	(2.7)
Net debt programme cash flows	**41.2**	**37.0**	**19.9**	**22.4**	**120.5**

Source: The Treasury

18 More information on the bond programme can be found at https://debtmanagement.treasury.govt.nz/investor-resources/media-statements

Table 2.10 sets out how all forecast Government revenue, and operating and capital expenditure, impacts the key fiscal indicators.

Table 2.10 – Fiscal indicators and the financial forecasts

Financial Results	Actual 30 June 2019 $billions	Unaudited Actual 30 June 2020 $billions	Forecast 30 June 2021 $billions	Forecast 30 June 2022 $billions	Forecast 30 June 2023 $billions	Forecast 30 June 2024 $billions
Core Crown taxation revenue...	86.5	84.9	84.7	84.3	92.5	98.5
...combined with other core Crown revenue...	7.0	6.8	6.6	6.8	7.0	7.4
...funds core Crown expenses...	(87.0)	(108.8)	(119.5)	(109.9)	(111.7)	(116.1)
...and with SOE and CE results...	0.9	(6.3)	(3.5)	(3.3)	(2.0)	(2.2)
...this results in an operating balance before gains and losses **(OBEGAL)**...	7.4	(23.4)	(31.7)	(22.1)	(14.2)	(12.4)
...with gains/losses leading to **operating surplus/(deficit)...**	0.4	(30.3)	(35.3)	(20.1)	(10.0)	(7.8)
...with income in SOEs, CEs[1] and the NZS Fund retained...	(1.5)	5.8	3.3	3.1	1.8	2.0
...and some items do not impact cash	(0.3)	33.6	34.7	22.1	10.6	9.7
This leads to an operating residual cash surplus/(deficit)...	**6.0**	**(14.3)**	**(29.0)**	**(17.0)**	**(11.8)**	**(8.5)**
...used to make contributions to the NZS Fund...	(1.0)	(1.5)	(2.1)	(2.4)	(1.4)	(1.8)
...and to use for capital expenditure...	(3.0)	(2.9)	(3.4)	(3.2)	(2.8)	(2.6)
...and to make advances (eg, to students)	(2.7)	(5.0)	(5.6)	(4.4)	(3.9)	(3.1)
Adjusting for forecast adjustments (top-down/new spending)...	-	-	(0.9)	(1.6)	(2.4)	(2.9)
...results in a **borrowing requirement (cash (deficit)/surplus)**	**(0.7)**	**(23.7)**	**(41.0)**	**(28.6)**	**(22.3)**	**(18.9)**
Opening net core Crown debt...	57.5	57.7	83.4	130.2	160.1	182.2
...when combined with the residual cash (surplus)/deficit...	0.7	23.7	41.0	28.6	22.3	18.9
...and other fair value movements in financial assets and financial liabilities...	(0.5)	2.0	5.8	1.3	(0.2)	-
...results in a closing **net core Crown debt**...	**57.7**	**83.4**	**130.2**	**160.1**	**182.2**	**201.1**
...which as a % of GDP is	**19.0%**	**27.6%**	**43.0%**	**49.9%**	**53.5%**	**55.3%**

Note: 1 State-owned enterprises (SOEs) and Crown entities (CEs)

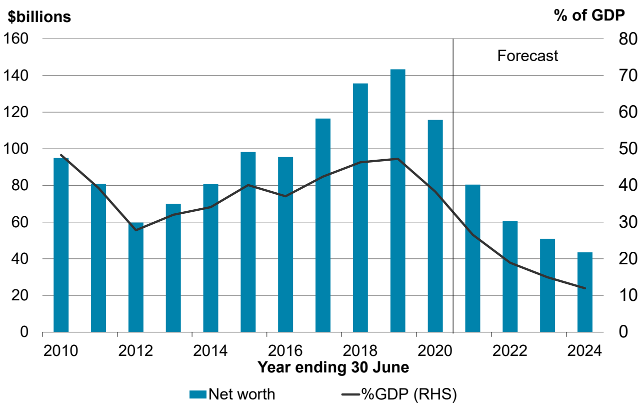
Source: The Treasury

Total Crown Balance Sheet

Operating balance deficits drive a decline in the Crown's net worth…

Net worth is the difference between the Crown's total assets (what the government owns) and liabilities (what the government owes). Net worth primarily consists of the accumulation of operating surpluses and deficits (referred to as taxpayers' funds) and revaluation movements in physical assets.

Figure 2.12 – Net worth



Source: The Treasury

In nominal terms, net worth declines by $72.2 billion from 2019/20, a decrease of 62.4%. As a percentage of GDP, net worth decreases to be 12.0% in 2023/24 (Figure 2.12). The impact of the operating balance deficit, which is largely owing to the COVID-19 economic impact and the Government's fiscal response to date, flows through to the Crown's balance sheet. Refer to Table 2.11 for a composition of net worth.

Table 2.11 – Breakdown of net worth

Year ending 30 June $billions	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Taxpayers' funds	3.1	(32.2)	(52.3)	(62.3)	(70.1)
Property, plant and equipment revaluation reserve	112.2	112.2	112.2	112.2	112.2
Other reserves	0.4	0.4	0.7	1.0	1.4
Total net worth	**115.7**	**80.4**	**60.6**	**50.9**	**43.5**
Net worth attributable to minority interests	(5.6)	(5.4)	(5.4)	(5.6)	(5.8)
Net worth attributable to the Crown	**110.1**	**75.0**	**55.2**	**45.3**	**37.7**

Source: The Treasury

This table shows that taxpayers' funds is forecast to be in a negative position from the 2020/21 fiscal year[19]. A positive taxpayers' funds provides a buffer against adverse events. These forecasts reflect the use of that buffer in response to COVID-19. This reduction in taxpayers' funds arises largely as a result of the increase in borrowings – refer to Table 2.12 for further discussion on changes in assets and liabilities which drives the changes in taxpayers' funds.

…and there has also been a significant change in the value of the Crown's assets and liabilities…

The overall decrease in net worth can be analysed by the movements in the total assets and total liabilities. Over the forecast period, total assets are forecast to increase by $66.9 billion from the 2019/20 unaudited actual results; however, more than offsetting this, total liabilities are expected to increase by $139.1 billion as indicated in

[19] The last time this occurred in taxpayers' funds was for the year ended 30 June 1999.

Table 2.12 below. Total assets are expected to grow to reach $460.2 billion in 2023/24 while liabilities are forecast to reach $416.6 billion by the end of the forecast period.

Table 2.12 – Change in assets and liabilities reflecting the change in net worth

Year ending 30 June $billions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Total change
Assets					
Property, plant and equipment	7.2	6.2	5.1	3.3	**21.8**
Marketable securities, deposits and derivatives in gain	8.8	2.4	(0.2)	0.6	**11.6**
Share investments	2.9	2.3	2.4	2.9	**10.5**
Advances	0.2	0.9	1.6	2.6	**5.3**
Forecast for new capital spending	2.7	2.1	2.7	3.2	**10.7**
Top-down capital adjustment	(1.8)	(0.5)	(0.3)	(0.3)	**(2.9)**
Other	1.3	1.9	3.5	3.2	**9.9**
Change	**21.3**	**15.3**	**14.8**	**15.5**	**66.9**
Liabilities					
Borrowings	57.5	33.0	23.1	20.3	**133.9**
Insurance liabilities	1.9	2.1	2.3	2.6	**8.9**
Other	(2.8)	-	(0.9)	-	**(3.7)**
Change	**56.6**	**35.1**	**24.5**	**22.9**	**139.1**
Change in net worth	**(35.3)**	**(19.8)**	**(9.7)**	**(7.4)**	**(72.2)**

Source: The Treasury

…with liabilities growing at a faster pace than assets

The largest asset growth over the forecast period is in property, plant and equipment, which is expected to increase by $21.8 billion from 2019/20, and reach $208.1 billion in the 2023/24 fiscal year. Beyond 2019/20 this increase reflects investment in new property, plant and equipment (eg, schools, military assets, public housing and infrastructure) and reflects the additional core Crown capital spend discussed earlier (refer to page 63).

Marketable securities are held by the Government for the purpose of realising capital gains or interest revenue and funding future Government expenditure. The $11.6 billion growth in marketable securities across the forecast period primarily reflects changes in the current economic environment and the Government's use of the balance sheet to fund the response to and recovery from COVID-19. Up until 2021/22, marketable securities are still expected to increase; however, these will reduce in 2022/23 as they are utilised to fund the Government's COVID-19 response and only increase by a small amount in 2023/24.

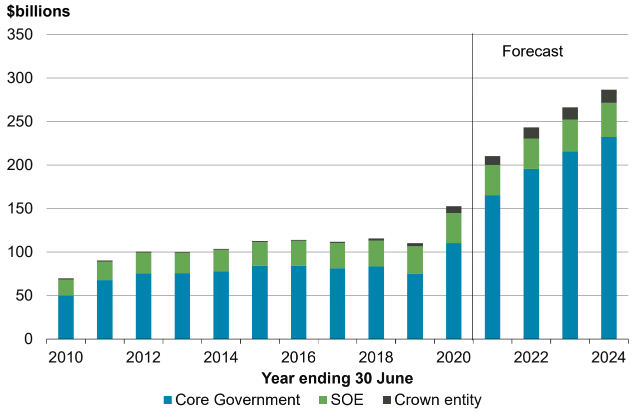
Beyond 2019/20, share investments gradually grow by $10.5 billion to reach $44.3 billion by the 2023/24 fiscal year.

Crown advances are forecast to grow steadily across the forecast period, increasing by $5.3 billion, and finally reaching $42.9 billion in the 2023/24 fiscal year. Advances include loans (mortgages) held by Kiwibank and student loans. The growth in Kiwibank loan assets is generally offset by growth in Kiwibank's loan liabilities.

Future new capital spending represents funding set aside to be allocated in the future, a forecast increase of $10.7 billion by the 2023/24 fiscal year, while the top-down capital adjustment reduces total assets by $2.9 billion by the same point in time. As previously discussed (refer to page 62) the forecast for new capital spending includes $8.4 billion in contingencies where funding has been set aside for specific initiatives.

The increase in total liabilities is largely owing to the forecast borrowings increase of $133.9 billion, 88% higher than the level at 2019/20. Borrowings are forecast to increase sharply in 2020/21, before continuing to climb gradually, reaching $286.6 billion in the 2023/24 fiscal year.

Figure 2.13 – Third party borrowings by segment



Source: The Treasury

Core Crown borrowings grow from around $110 billion in 2019/20 to reach just over $232 billion by the end of the forecast period. At the same time, Crown entity borrowings increase to reach just over $15 billion by 2023/24 (an increase of around $7 billion), while SOE borrowings increase by just under $5 billion to reach around $39 billion and increase more slowly across the forecast period (Figure 2.13).

The increase in core Crown borrowings is largely attributable to an increase in Government bonds issued (around a $60 billion increase from 2019/20) and an increase in settlement deposits with the Reserve Bank over the forecast period. Although relatively small in the near term (as a result of the LSAP programme) Government bonds are expected to increase by just over $60 billion in the last two years of the fiscal forecast. This increase and the settlement deposit increase are a direct result of the economic impacts of COVID-19 and the Government's fiscal and monetary response to it. Refer to the box on page 60 for further details of the LSAP programme impacts.

A significant proportion of the increase in Crown entity borrowings is attributable to an increase in borrowing to fund Government decisions on housing, including the additional 8,000 new public housing and transitional housing places. SOE borrowings are largely attributable to Kiwibank deposits although growth in this is largely offset by the Kiwibank mortgage assets that it holds, as discussed earlier.

The remainder of the increase in total liabilities is mainly driven by a forecast increase in insurance liabilities, which grow by $8.9 billion beyond 2019/20. While ACC's liability increases by $9.7 billion, the Crown's earthquake-related insurance liabilities are expected to reduce by $0.8 billion over the same period.

Comparison to the *Budget Update*

While the fiscal outlook continues to show operating deficits and an increase in net core Crown debt, other key fiscal indicators show an improvement when compared to the *Budget Update* (Table 2.13).

Overall, OBEGAL deficits are now expected to be lower than previously forecast in the 2019/20 fiscal year. The unaudited OBEGAL deficit of $23.4 billion for the 2019/20 fiscal year is now forecast to be lower by $4.9 billion compared to the *Budget Update.* This improvement is mainly a result of stronger economic activity up to 30 June 2020 and lower government expenditure.

By the end of the forecast period, the OBEGAL deficit is now expected to be $7.5 billion higher than the *Budget Update,* a forecast deficit of $12.4 billion. The softer medium-term economic outlook and reforecast COVID-19 response and recovery expenditure are the key drivers for this.

Beyond 2019/20, over the forecast period residual cash deficits of $110.8 billion are expected, which is around $8.1 billion lower than the *Budget Update*. Although expected tax receipts have weakened and expected benefit payments have increased from those previously forecast, this is more than offset by lower-than-expected government spending, and a reduction in net interest payments mainly owing to the LSAP programme and lower interest rates.

The improvement in residual cash deficits also flows through to reduce net core Crown debt; however, the impact from losses in relation to LSAP means that overall net core Crown debt is relatively close to the *Budget Update* by the end of the forecast period.

Table 2.13 – Key fiscal indicators compared to the *Budget Update*

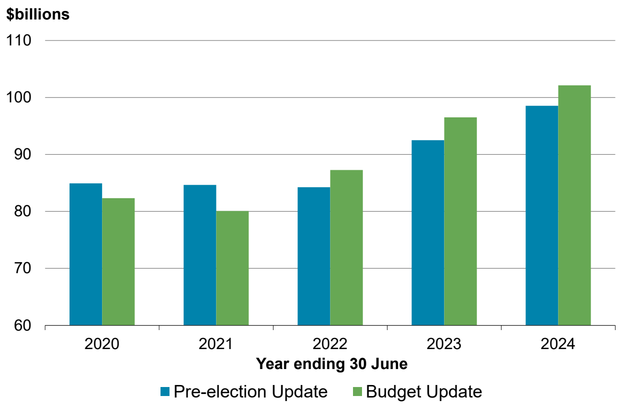
Year ending 30 June $billions	**2020 Unaudited Actual**	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**
OBEGAL					
Pre-election Update	(23.4)	(31.7)	(22.1)	(14.2)	(12.4)
Budget Update	(28.3)	(29.6)	(27.2)	(16.5)	(4.9)
Change	**4.9**	**(2.1)**	**5.1**	**2.3**	**(7.5)**
Core Crown residual cash					
Pre-election Update	(23.7)	(41.0)	(28.6)	(22.3)	(18.9)
Budget Update	(32.0)	(43.3)	(35.2)	(26.9)	(13.5)
Change	**8.3**	**2.3**	**6.6**	**4.6**	**(5.4)**
Net core Crown debt					
Pre-election Update	83.4	130.2	160.1	182.2	201.1
Budget Update	88.9	129.5	163.6	188.7	200.8
Change	**5.5**	**(0.7)**	**3.5**	**6.5**	**(0.3)**
Net worth					
Pre-election Update	115.7	80.4	60.6	50.9	43.5
Budget Update	106.0	76.5	52.4	39.4	38.5
Change	**9.7**	**3.9**	**8.2**	**11.5**	**5.0**

The economic outlook directly impacts tax revenue, which is higher in the short term but lower from the 2021/22 fiscal year…

Most of the major tax types have followed the nominal GDP forecast revisions: higher than the *Budget Update* in the short term, but lower than the *Budget Update* later in the forecast period.

The tax data up to 30 June 2020 has been used as the starting point for the *Pre-election Update* tax forecasts, which shows that core Crown tax revenue for the 12 months to 30 June 2020 was $2.6 billion higher than the *Budget Update*. There were positive variances in GST, corporate tax and other persons tax largely as a result of economic activity holding up slightly better than expected in the June quarter.

Figure 2.14 – Core Crown tax revenue compared to the *Budget Update*



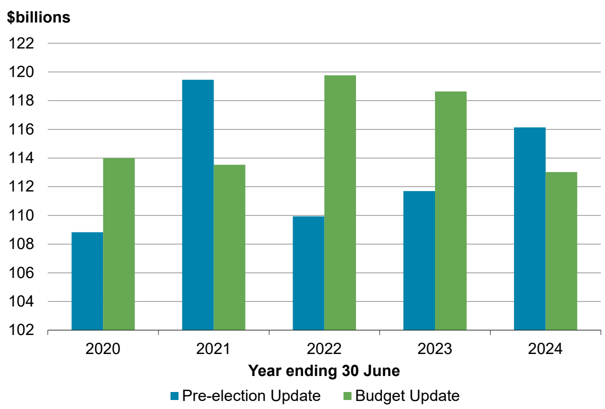
Source: The Treasury

The higher tax revenue starting point and stronger near-term nominal GDP growth forecast increased the tax revenue forecasts in the 2020/21 fiscal year ($4.6 billion higher than the *Budget Update*); but weaker nominal GDP growth expected later in the forecast period reduces expected tax revenue from the 2021/22 fiscal year onwards (on average $3.5 billion lower for each of the last three years of the forecast) (Figure 2.14).

…with core Crown expenses expected to increase significantly in the 2020/21 fiscal year as a result of underspends in 2019/20; beyond this, changes in timing of COVID-19 fiscal support are expected to be a key driver of the change…

Overall, core Crown expenses beyond 2019/20 are expected to be $7.7 billion lower than the *Budget Update.* Core Crown expenses are expected to be higher in 2020/21, largely as a result of expenses being transferred from the 2019/20 fiscal year, where they were originally forecast at the *Budget Update* (refer to page 48 for further discussion of 2019/20 variances from the *Budget Update*) (Figure 2.15).

Figure 2.15 – Core Crown expenses compared to the *Budget Update*



Source: The Treasury

The expected change in the remaining fiscal years of the forecast, when compared to the *Budget Update,* can be mostly attributed to the change in the expected timing of costs funded from the CRRF and the updated phasing of the unallocated portion of the CRRF. This has resulted in forecast increases in expenses in the 2020/21 and 2023/24 fiscal years and a forecast decrease in expenses in the 2021/22 and 2022/23 fiscal years (Table 2.14).

…while several other factors are expected to impact core Crown expenses…

As a result of the weaker economic outlook, beneficiary numbers and wage growth (to which most benefits are indexed) are forecast to increase, and by the end of the forecast period benefit expenses are higher by $5.8 billion compared to the *Budget Update*.

The top-down adjustment for the *Pre-election Update* has been increased since the *Budget Update*, particularly for the 2021/22 fiscal year. The increase reflects the Treasury's view that, given the sharp lift in Government spending, some of this may not eventuate. Refer to the box on page 73 for further discussion of the top-down adjustment.

The size of the LSAP programme has increased since the *Budget Update*. The LSAP results in a reduction in finance costs as the interest rate on the settlement account is lower than the coupon rate of the repurchased Government bonds. Overall finance costs are expected to be lower by around $0.9 billion in 2020/21, which widens to be lower by $2.3 billion in 2022/23 and $7.1 billion overall.

…feeding into OBEGAL deficits in 2020/21 that are higher than previously expected, before reducing for two years and then increasing again in 2023/24…

Although some of the strength seen in core Crown tax revenue for the 2019/20 fiscal year is expected to continue through into 2020/21, this is more than offset by higher expenditure, primarily relating to the Government's fiscal response in relation to COVID-19 resulting in an OBEGAL deficit that is higher than previously forecast (Table 2.14).

Table 2.14 – Changes in OBEGAL compared to the *Budget Update*

Year ending 30 June $billions	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**
OBEGAL – *Pre-election Update*	**(31.7)**	**(22.1)**	**(14.2)**	**(12.4)**
Core Crown tax revenue	4.6	(3.0)	(4.0)	(3.6)
Core Crown expenses	(6.0)	9.9	6.9	(3.1)
SOE and Crown entity results	(0.8)	(1.5)	(0.7)	(0.7)
Other changes	0.1	(0.3)	0.1	(0.1)
Total changes	**(2.1)**	**5.1**	**2.3**	**(7.5)**
OBEGAL – *Budget Update*	**(29.6)**	**(27.2)**	**(16.5)**	**(4.9)**

Source: The Treasury

OBEGAL deficits are now expected to be lower than previously forecast for the 2021/22 and 2022/23 fiscal years largely because core Crown expenses are lower than previously forecast and this reduction being is greater than both the decline in tax revenue and higher deficits expected by the SOE and Crown entity segments. However, by the end of the forecast period the expected OBEGAL deficit is $7.5 billion higher than the *Budget Update*.

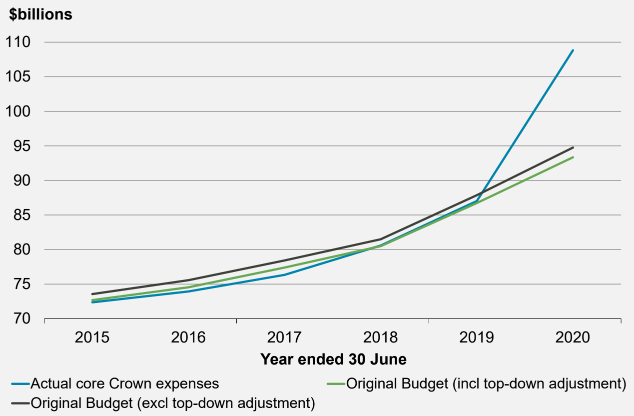
Top-down adjustment

Historically, actual operating and capital expenses incurred by departments for the year usually fall below the level of expenditure that they include in their fiscal forecasts. This usually occurs because when departments prepare their forecasts they tend to use their appropriation amounts (which are upper spending limits) as a basis for their expenditure forecasts rather than making an assessment of whether they will spend all that is appropriated.

To compensate for departments' bias towards over-forecasting expenditure, the Treasury makes a central adjustment to the forecasts called a top-down adjustment. The top-down adjustment reflects the extent to which departments use their appropriation limits when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to SOE or Crown entity forecasts. Without a central adjustment the Treasury's forecast of expenditure would be significantly higher than the amount that departments will actually spend for the year, resulting in large differences when the actual expenditure for the fiscal year to 30 June is known.

Figure 2.16 shows the impact of the Treasury's top-down adjustment on the original Budget forecast for the last six years of actual results. This shows that without the top-down adjustment, the variance between the actual results and the original Budget forecast would be significantly greater than with the top-down adjustment included.

Figure 2.16 – Impact of top-down adjustment compared to actual results



Source: The Treasury

In addition to department forecasts, unallocated funding (contingencies) also attracts a top-down adjustment where the Treasury considers it is unlikely that all of the expenditure indicatively phased to a particular year is expected to be allocated and spent in that year. Historical analysis of contingencies also indicates that there will be a portion of this funding which will also not be utilised.

Given the current environment with a significant uplift in COVID-19 funding decisions since the *Budget Update*, the size of the top-down adjustment has been increased particularly in the 2020/21 year. In addition to the increase in departments' baselines, a large amount of funding has been signalled to be transferred from 2019/20 into the 2020/21 year and a significant rise in spending has been set aside in contingencies. Alongside this, evidence suggests that initial estimates in the *Budget Update* of some of the COVID-19 policies were higher than what has actually eventuated in the 2019/20 year as the 2019/20 actual outturn has come in $5.2 billion lower than forecast at the Budget 2020. Together these factors have led us to top-down adjustments for the 2020/21 fiscal year that are significantly higher than any previous Economic and Fiscal Updates (Table 2.15).

Table 2.15 – Top-down adjustment

Year ending 30 June $millions	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**
Operating top-down:				
Pre-election Update	3,500	1,550	850	800
Budget Update	975	750	650	650
Change	**2,525**	**800**	**200**	**150**
Capital top-down:				
Pre-election Update	1,800	500	300	300
Budget Update	650	350	250	250
Change	**1,150**	**150**	**50**	**50**

Source: The Treasury

…although SOE and Crown entity results are weaker

Overall SOE and Crown entity results are expected to be weaker in all years of the forecast period. From 2019/20 the operating results are expected to be $3.7 billion weaker than the *Budget Update*.

The expected results of ACC and Kāinga Ora are forecast to be on average $0.8 billion lower per annum compared to the *Budget Update.* For ACC this is mainly owing due to a drop in interest rates and updated information around claims costs which have increased expenses, while for Kāinga Ora this is primarily a result of the rent freeze announced by the Government and the expansion of its activities (eg, 8,000 additional housing places).

Residual cash deficits have reduced since the Budget Update…

In total, residual cash deficits of $110.8 billion are expected beyond 2019/20, which is a reduction of $8.1 billion from the *Budget Update*. The main drivers are tax revenue and core Crown expenses, as discussed above.

Additionally, net interest costs are expected to be lower by $8.7 billion largely owing to the increase in the size of the LSAP programme since the *Budget Update*. The estimated costs of COVID-19 initiatives funded from the CRRF have been revised down by around $4.0 billion, as the actual uptake from some initiatives has been less than expected. Contributions to the NZS Fund are expected to be lower by $1.2 billion in the last two years of the forecast owing to a weaker GDP track compared to the *Budget Update*.

Partially offsetting this, core Crown tax receipts beyond 2019/20 are expected to be lower overall by $3.8 billion, while benefit payments are expected to be higher by $6.3 billion. The overall weaker economic outlook is the main reason for these revisions.

…however, net core Crown debt remains broadly the same…

The above-mentioned improvements in residual cash also flow directly through to reduce net core Crown debt, compared to the *Budget Update*.

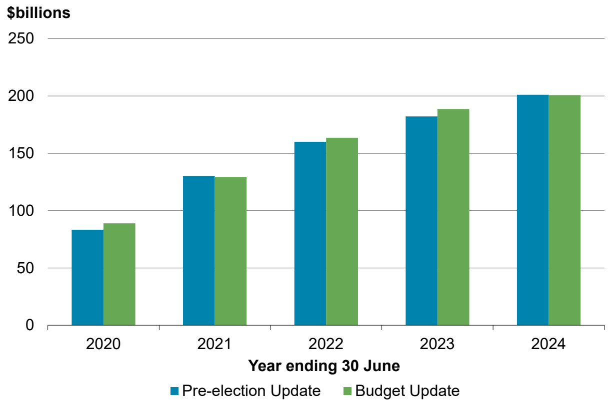
However, the significant expansion in the LSAP programme, announced by the Reserve Bank, which has increased from $33 billion to $100 billion, has adversely impacted net core Crown debt, as described in the LSAP box on page 60.

…while the change in the operating results flows directly into net worth

In the 2019/20 fiscal year, some physical assets have been revalued, which has resulted in an overall increase in net worth of around $5.1 billion.

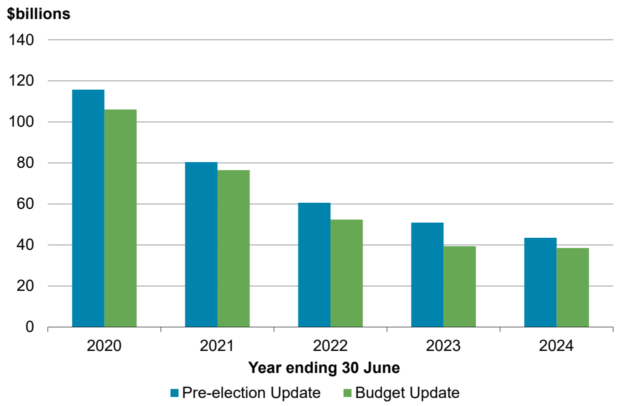
When the asset revaluations are combined with the changes in the operating balance this flows through to improve the net worth position. The gains and losses which are included in the operating balance are broadly in line with what was expected in the *Budget Update*.

Figure 2.17 – Net core Crown debt compared to the *Budget Update*



Source: The Treasury

Figure 2.18 – Net worth compared to the *Budget Update*



Source: The Treasury

Key Economic Assumptions Used in the Forecast Financial Statements

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

- a nominal GDP forecast is needed to forecast tax revenue
- a forecast of CPI inflation is needed because social assistance benefits are generally indexed to inflation, and
- forecasts of interest rates are needed to forecast finance costs, interest income and discount rates.

A summary of the key economic forecasts that are particularly relevant to the Forecast Financial Statements is provided in Table 2.16.

Table 2.16 – Summary of key economic forecasts used in the Forecast Financial Statements

Year ending 30 June	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Real GDP[1] (annual average % change)	2.8	(3.1)	(0.5)	3.6	3.9	4.1
Nominal GDP[2] ($billions)	303.4	302.2	302.9	320.6	340.7	364.0
CPI (annual average % change)	1.7	1.8	1.0	1.2	1.3	1.7
Govt 10-year bonds (annual average %)	2.3	1.2	0.7	1.0	1.5	1.8
5-year bonds (annual average %)	1.8	0.9	0.3	0.7	1.1	1.5
90-day bill rate (annual average %)	1.9	1.0	0.3	0.1	0.1	0.1
Unemployment rate (annual average %)	4.1	4.1	7.2	7.8	7.0	5.7
Employment growth (annual average %)	1.7	1.3	(3.2)	1.2	2.6	3.2

Notes: 1 Production measure.
2 Expenditure measure.

Sources: The Treasury, Stats NZ

Medium-term Outlook

The previous sections of this chapter have concentrated on the 2019/20 actual results (unaudited) and the four-year forecast horizon, up to and including 2023/24. The focus now switches to the decade beyond the last forecast year, extending to 2033/34, referred to as the medium-term projections. Projections differ from forecasts in several ways.

Forecasts are based on comprehensive modelling of, and expert opinion on, economic and fiscal conditions. They take into account the relationships and interactions between variables, and make allowance for the impacts of existing policies. Forecasts represent the best attempt to predict future outcomes based on the information available.

Projections represent potential future paths of variables. They are usually based on historical averages of the levels or growth rates, and depend greatly on both the forecast base from which they arise and the assumptions used to generate them. Projections should not be viewed as accurate predictions, but rather as indicators of potential outcomes under a given set of assumptions. The projections assume an economy that is free of cycles and is growing on trend, and contain no unplanned future policy responses that might be enacted.

The fiscal projections presented in this section are based on the main *Pre-election Update* forecast.

The medium-term economic outlook has deteriorated compared to the* Budget Update*...

The Treasury's *Pre-election Update* economic forecasts show that the medium-term outlook has deteriorated compared to the *Budget Update*. Annual growth of nominal GDP gradually slows over the projection period, from 6.8% in the year ending June 2024 to 3.9% by the year ending June 2034.

While projected nominal GDP growth rates are similar to those produced for the 2020 Fiscal Strategy, they arise from an end-of-forecast GDP base which is $10.3 billion (2.8%) lower compared to Budget 2020. By the end of the projection decade, nominal GDP in the *Pre-election Update* is 1.4% lower than Budget 2020. Table 2.19 shows the paths of the other main economic projections.

…***with increased fiscal pressure due to ongoing CRRF spending assumed in the projection period***

The projections presented at Budget 2020 assumed that spending decisions related to the CRRF did not have any ongoing expenses in the projection period.

For the *Pre-election Update*, we assume approximately $1 billion of COVID-related spending to be ongoing in the projection period. This means that excluding the impacts of other changes to the expenditure forecasts, the starting base of core Crown expenses for our projections in the *Pre-election Update* is higher by about $1 billion compared to Budget 2020.

Assuming that operating and capital allowances are the same as in the 2020 Fiscal Strategy…

The assumptions for operating and capital allowance drive the projections of many of the fiscal indicators. The operating allowances fund the growth of functional spending areas such as health, education, and law and order, while capital allowances fund infrastructure projects.

The *Pre-election Update* fiscal projections assume the same operating and capital allowances as at Budget 2020. From 2024/25, operating allowances are assumed to be \$2.1 billion, growing at 2% per budget and capital allowances are assumed to be \$3.0 billion per annum also growing at 2% per budget. These were set at Budget 2020 as a feasible path that met the Government's long-term fiscal objectives at the time.

...core Crown revenue and expenses stabilise at 31% of GDP by 2033/34

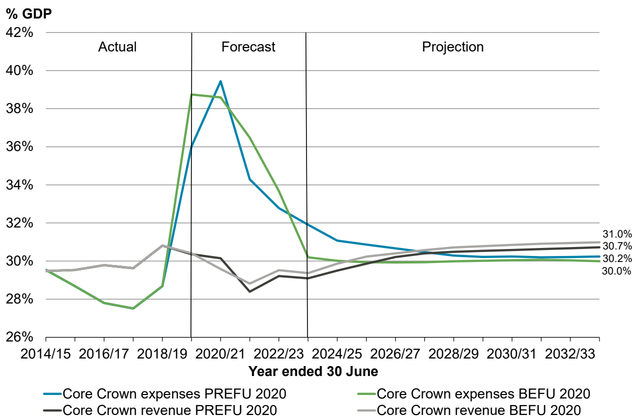
Core Crown revenue as a percentage of GDP rises gradually over the projection period and stabilises at 31% of GDP by 2033/34, around the long-run average level. The increase in the early years of the projection period is a result of core Crown revenue falling to a relatively low share of GDP by the end of the forecast period, from which it is assumed to recover through the projection period. The path of core Crown revenue as a percentage of nominal GDP is similar to Budget 2020.

However, core Crown expenses as a percentage of nominal GDP are higher in the projection period in the *Pre-election Update* relative to Budget 2020. This is due to higher transfer payments and subsidies and ongoing CRRF spending in the projection period. It also reflects that, unlike revenue, expenditure is assumed to be largely unaffected by the weaker nominal GDP compared to Budget 2020, resulting in an increase in core Crown expenses as a share of the economy.

Weaker nominal GDP does result in core Crown expenses declining slightly as a percentage of nominal GDP due to slower growth in operating expenses, relative to nominal GDP. By the end of the projection period, core Crown expenses stabilise at 30% of GDP.

Figure 2.19 illustrates the paths of core Crown revenue and expenses, as percentages of nominal GDP, in recent history, Budget 2020 and the *Pre-election Update* forecasts and projections.

Figure 2.19 – Core Crown revenue and expenses

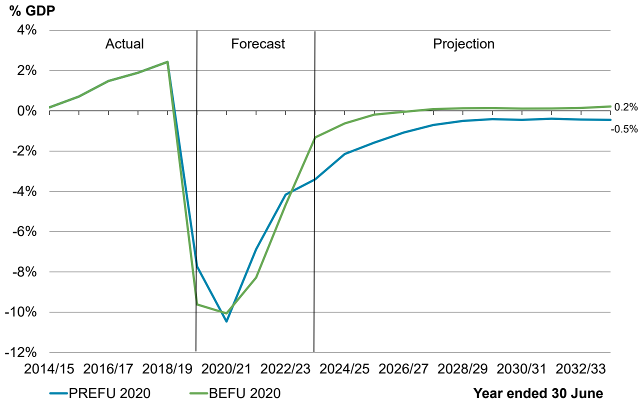


Source: The Treasury

Net core Crown debt declines over the projection period to 48% of GDP and the OBEGAL deficit is projected to be 0.5% of GDP by 2033/34

The change in the economic and fiscal forecasts, particularly the weaker medium-term outlook, and the fact that allowances have remained unchanged from the Budget 2020 means that total Crown OBEGAL in the *Pre-election Update* is weaker in each year compared to the projections in Budget 2020 (Figure 2.20). By the end of the projection period, the OBEGAL deficit is projected to be 0.5% of GDP.

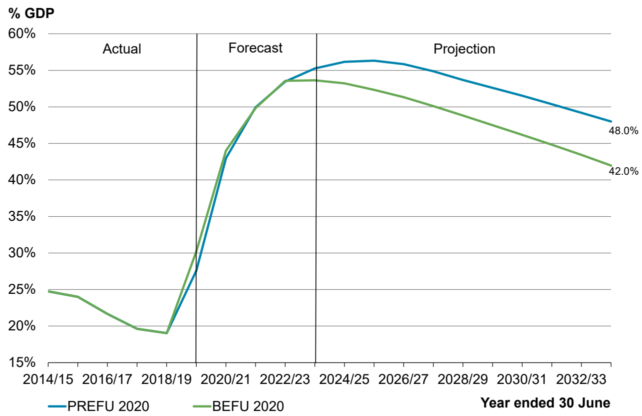
Figure 2.20 – Total Crown OBEGAL



Source: The Treasury

Net core Crown debt increases to peak at 56% of GDP in 2025/26 and gradually declines over the projection period to 48% of GDP by 2033/34. This is illustrated in Figure 2.21 in the projection period compared to Budget 2020.

Figure 2.21 – Net core Crown debt (excluding NZS Fund and advances)



Source: The Treasury

The projections are sensitive to assumptions about future spending growth

In addition to the economic uncertainty discussed in the Economic Outlook chapter, the medium-term fiscal position is sensitive to both short and medium term fiscal policy choices. We illustrate this sensitivity by adjusting the spending assumptions used to produce the projections in two alternative projections:

- ***High short-term spending*** – assumes operating allowances are $1.0 billion higher than set at Budget 2020 in each of next three Budgets (Budgets 2021 to 2023). From Budget 2024 operating spending increases at the same rate assumed in the main projection. This reflects the risk that operating spending in the forecast period grows faster than currently planned due to cost pressures in public services.

- ***Low long-term spending*** – assumes operating allowances for the next three Budgets are unchanged from the level set at Budget 2020. Beginning in Budget 2024, operating a lower annual operating allowance of $1.8 billion, growing in line with inflation thereafter. These assumptions are selected to demonstrate the level of spending growth required to achieve an OBEGAL surplus within a decade.

In both projections, assumptions around economic variables, capital spending, and tax remain unchanged from the main projection. The results of these projections compared to the main assumptions are shown in Table 2.17 and Figures 2.22 to 2.24 below.

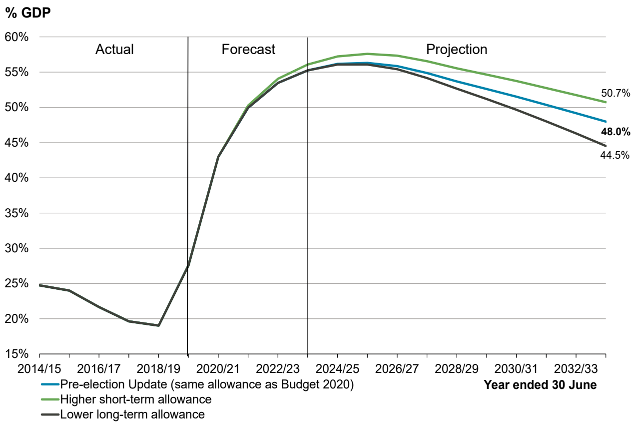
Table 2.17 – Allowance sensitivity analysis: assumptions and results[20]

	Forecast period			**Projection period**	**Fiscal projection results (as % of nominal GDP)**		
	Operating allowance (Capital allowance $4.8b)			Operating allowance (Capital allowance $3b in 2024/25)	Net debt	Total Crown OBEGAL	Core Crown expenses (excluding NZS, welfare and interest payments)
	2021/22	2022/23	2023/24	2024/25 (growing at 2% per annum thereafter)	2033/34	2033/34	2033/34
Main *Pre-election Update* assumption	$2.4b	$2.4b	$2.6b	$2.1b	48%	(0.5)%	18%
High short-term spending	$3.4b	$3.4b	$3.6b	$2.1b	51%	(0.7)%	18%
Low long-term spending	$2.4b	$2.4b	$2.6b	$1.8b	45%	0.2%	17%

These projections are not intended to demonstrate specific fiscal policy options, but indicate how sensitive medium-term fiscal variables are to higher or lower rates of spending growth across different time horizons.

Note that operating allowance assumed in the 'low long-term spending' variant ($1.8 billion from Budget 2024) represents a lower level of growth in government spending than the recent historical average. While this would still represent a nominal increase in government expenditure in each year, the amount of money spent on the government services usually funded from operating allowances[21] would be declining as a share of the economy at a faster rate than in the central projection (Figure 2.24).

Figure 2.22 – Net core Crown debt under different expenditure scenarios



Source: The Treasury

20 Governments can choose a mixture of policy options (eg, revenue settings); this table is a set of assumptions to show sensitivities and these are not the only choices available.

21 Defined here as core Crown expenses, less New Zealand Superannuation, welfare and interest payments. This includes ongoing spending on health, education, law and order and other services provided by central government.

Figure 2.23 – Total Crown OBEGAL under different expenditure scenarios

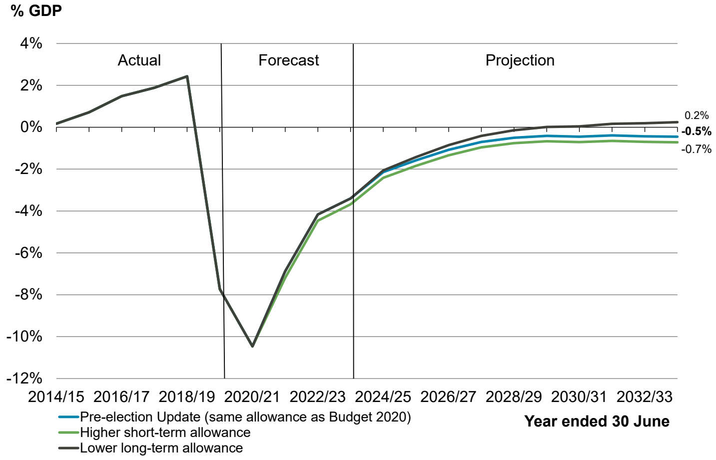


Figure 2.24 – Core Crown expenses (excluding NZS, welfare and interest payments)

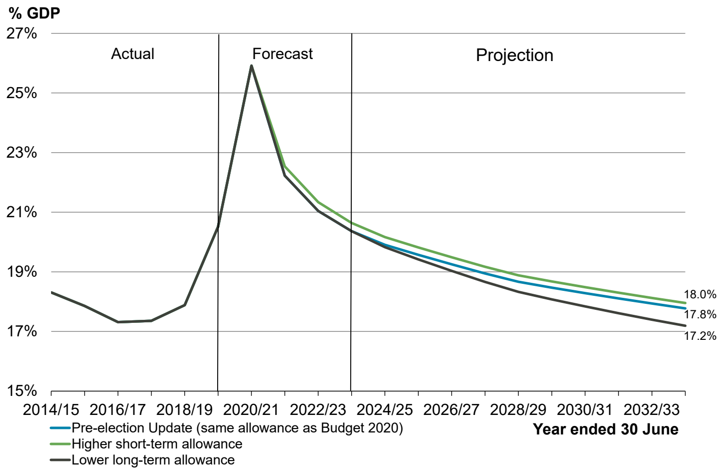


Table 2.18 – Summary of fiscal projections, as percentages of nominal GDP

Year ended 30 June	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
	Forecasts					Projections									
Core Crown revenue	30.4	30.1	28.4	29.2	29.1	29.5	29.9	30.2	30.4	30.5	30.5	30.6	30.6	30.7	30.7
Core Crown expenses	36.0	39.4	34.3	32.8	31.9	31.1	30.9	30.7	30.5	30.3	30.2	30.2	30.2	30.2	30.2
Core Crown residual cash	-7.8	-13.5	-8.9	-6.5	-5.2	-3.6	-3.0	-2.3	-1.7	-1.4	-1.1	-1.1	-0.9	-0.8	-0.7
Total Crown revenue	38.3	37.3	35.6	36.6	36.3	36.7	37.1	37.5	37.7	37.7	37.8	37.9	37.9	38.0	38.0
Total Crown expenses	46.0	47.7	42.4	40.6	39.6	38.8	38.6	38.4	38.3	38.1	38.1	38.2	38.2	38.3	38.4
Total Crown OBEGAL[1]	-7.7	-10.5	-6.9	-4.2	-3.4	-2.1	-1.6	-1.1	-0.7	-0.5	-0.4	-0.5	-0.4	-0.4	-0.5
Total Crown operating balance[2]	-10.0	-11.6	-6.3	-2.9	-2.1	-1.1	-0.5	0.0	0.4	0.7	0.8	0.8	0.9	0.9	0.9
Core Crown GSID[3]	41.1	59.0	65.2	67.4	67.8	69.1	69.7	69.5	68.7	67.6	66.5	65.4	64.3	63.1	61.9
Net core Crown debt[4]	27.6	43.0	49.9	53.5	55.3	56.2	56.3	55.9	54.9	53.7	52.6	51.5	50.4	49.2	48.0
Total Crown net worth	38.3	26.6	18.9	14.9	12.0	10.3	9.3	8.9	8.9	9.2	9.7	10.1	10.6	11.1	11.6
Net worth attributable to the Crown[5]	36.4	24.8	17.2	13.3	10.4	8.7	7.8	7.4	7.5	7.8	8.3	8.7	9.3	9.8	10.3

Notes: 1 Operating balance before gains/(losses).
2 Excludes minority interests.
3 Gross Sovereign Issued Debt.
4 Excludes financial assets of the NZS Fund and core Crown advances.
5 Excludes assets and liabilities belonging to minority interests.

Source: The Treasury

Key Assumptions for Medium-term Fiscal Projections

The assumptions for the medium-term economic and fiscal projections are outlined in this section. The full assumptions can be found at https://treasury.govt.nz/publications/fsm/fiscal-strategy-model-prefu-2020

Table 2.19 – Summary of economic and demographic assumptions[1]

June year[2]	2020	2021	2022	2023	2024	2025	2026	2027	2028	....	2034
			Forecasts					Projections			
Labour force	1.3	0.1	1.8	1.7	1.8	1.3	1.2	1.1	1.1	...	0.6
Unemployment rate[3]	4.1	7.2	7.8	7.0	5.7	5.4	5.1	4.8	4.5	...	4.3
Average weekly hours worked	33.1	33.2	33.3	33.4	33.4	33.5	33.5	33.6	33.7	...	33.7
Labour productivity growth[4]	-1.8	2.5	2.1	1.2	0.8	1.0	1.2	1.2	1.2	...	1.2
Real GDP[5]	-3.1	-0.5	3.6	3.9	4.1	2.8	2.9	2.9	2.8	...	1.8
Nominal GDP[6]	-0.4	0.2	5.8	6.3	6.8	4.9	5.0	4.9	4.8	...	3.9
Consumers Price Index (CPI) (annual percentage change)	1.5	1.2	1.2	1.4	1.8	2.0	2.0	2.0	2.0	...	2.0
Government 10-year bonds (average percentage rate)	1.2	0.7	1.0	1.5	1.8	2.0	2.2	2.4	2.6	...	3.6
Nominal average hourly wage	3.6	1.6	2.1	2.5	2.8	3.0	3.2	3.2	3.2	...	3.2

Notes:
1 Annual average percentage change unless otherwise stated.
2 Note that the economic forecasts in the *Pre-election Update* are based on a June year.
3 Total unemployed as a percentage of the labour force (annual average).
4 Hours worked measure.
5 Production measure, 2009/10 base.
6 Expenditure measure.

Sources: The Treasury, Stats NZ

The assumptions for the economic variables remain unchanged from the 2020 Fiscal Strategy. While many economic variables are at, or very close to, their assumed long-run trend growth rates or levels at the end of the forecast period, a few may require transition in the early years of the projections and some for even longer periods into the projections. In such cases the annual convergence rate assumed is based on recent actual and forecast performance.

In the early years of the projections, several economic variables that are still influenced by the impacts of the COVID-19 pandemic, like the unemployment rate and average weekly hours worked are transitioned back to long-run stable assumptions. Once these are attained the economy is assumed to grow at trend growth rates with no economic cycles in the projections.

Other economic variables reach their long-run assumed rates or levels within the first three projected years, such as CPI growth, annual labour productivity growth, and nominal average hourly wage growth.

The government 10-year bond annual rate of return rises gradually over the entire decade of projections reaching 3.6% by 2033/34. This is driven by assumed movement towards the current long-run stable projection assumption of 5.0%. However, as the annual rate of return in the final forecast year is only 1.8%, the rate does not reach the long-run level within the projection period. The long-run assumption of 5% will be reviewed in the near future, as both actual and forecast interest rates have reduced in recent years.

Projected real GDP grows from its forecast base via the annual combined change in the size of the employed labour force, the average hours they work and their productivity.

Growth in nominal GDP in each projected year is achieved by adding CPI-based inflation to the real GDP growth. The long-run stable assumption for CPI inflation is 2 per cent per year, which matches the midpoint of the band set in remit for the Monetary Policy Committee. Nominal GDP growth is used to project many fiscal variables, including tax revenue. It is also the denominator for most major fiscal indicators, such as net core Crown debt to GDP.

Key judgements and assumptions for projections	
Tax revenue	Linked to growth in nominal GDP. All tax categories change at a rate of 0.1 percentage points of GDP per annum from their end-of-forecast percentage of GDP, either upward or downward, until they reach a long-run stable percentage of GDP. These stable assumptions are based on historical data, taking into account tax rate and policy changes that could affect them. • Source deductions (mainly PAYE tax on salary and wages) track towards a stable percentage to nominal GDP of 11.4 per cent. • The stable percentage for corporate tax (dominated by company tax) is 4.5 per cent. • The assumption for goods and services tax (GST) is 7.3 per cent. • Hypothecated transport taxes, used to fund most transport-related operating and capital expenditure, stabilise at 1.2 per cent of GDP. • All remaining tax types are aggregated into the other taxes category, which uses a long-run stable assumption of 3.6 per cent of GDP. The elimination from core Crown tax to total Crown tax applies a long-run stable assumption of 0.3 per cent of GDP.
New Zealand Superannuation (NZS)	Demographically adjusted and linked to net wage growth, via the "wage floor". The latter refers to the net (after-tax) weekly NZS rate for a couple as set in legislation to lie between 65 per cent and 72.5 per cent of net average weekly earnings.
Jobseeker Support, Supported Living Payment and Sole Parent Support	These three main working-age benefits are grown via demographic adjustment of recipient numbers and net average wage growth for payment rate indexation. Modelling is incorporated to reduce or increase recipient growth in early projected years if recipient numbers are considered to be unusually high or low at the end of the forecast period.
Other benefits	Demographically adjusted and linked to inflation for payment rate indexation. Modelling is incorporated to reduce or increase recipient growth in early projected years if recipient numbers are considered to be unusually high or low at the end of the forecast period.
Health and education	Held constant at the end-of-forecast values, because their growth is assumed to come from a share of the projected Operating Allowance annual increment.
Other expenditure	Held constant at the end-of-forecast values, because their growth is assumed to come from a share of the projected Operating Allowance annual increment.
Finance costs	A function of debt levels and interest rates.
Operating allowance	$2.1 billion in 2024/25. Operating Allowances continue to grow at 2 per cent per annum from this value in later projected years.
Capital allowance	$3 billion in 2024/25. Capital Allowances continue to grow at 2 per cent per annum from this value in later projected years.
NZS Fund	Contributions to the Fund follow the Government's planned track until 2021/22, after which they revert to values determined by the legislated formula and calculated by the Treasury's NZSF model using the latest economic and fiscal forecast inputs.

3

Risks to the Fiscal Forecasts

Overview

The Treasury's fiscal forecasts are based on a number of assumptions and key judgements using the best information available and our best professional judgement. As with any kind of forecast, there is a risk that actual events will differ from expectations. This chapter outlines the key risks to the fiscal forecasts.

Risks to the fiscal forecasts can be either positive or negative, and can affect revenue and spending or assets and liabilities. The key risks to the fiscal forecasts can be broadly classified into the following categories:

Type of risk	Description
1 Fundamentally uncertain events	Significant events relating to changes in the external environment (eg, climate-induced events, natural disasters, pandemics, and international events).
2 Deviation from key assumptions and judgements	Any deviations from the key assumptions and judgements used for the economic and fiscal forecasts (eg, changes in nominal GDP used to forecast tax revenue) that have flow-on impacts for the fiscal forecasts.
3 Contingent liabilities and assets	Potential costs or income to the Crown that depend on whether particular events occur.
4 Policy changes	Potential decisions likely to be taken by the Government related to both new policy and existing policy settings (eg, changes to eligibility criteria for a benefit).
5 Cost pressures associated with existing policies and risk of cost variances	Changes in demand or pricing that impact the cost of delivering services under existing policy settings (eg, an increase in the number of students enrolling in schools). This category includes variances to costs of policies included in the fiscal forecasts.

This chapter provides a discussion of the following risks to the fiscal forecasts:

- COVID-19 (risk type 1, with consequences for all risk types) – there is a significant risk that the fiscal forecasts will be impacted from the continued effects of COVID-19, particularly on the economy, and from the Government's response. This section outlines the key risks to the fiscal forecasts resulting from COVID-19, including the possibility of a resurgence in community transmission of COVID-19 in New Zealand.

- Fiscal Sensitivities (risk type 2) – the fiscal forecasts are sensitive to particular economic indicators (eg, nominal GDP). This section outlines how changes in these economic indicators impact key fiscal indicators.

- Balance Sheet Risks (risk types 2 and 3) – the Government's balance sheet is exposed to a number of risks. This section outlines the risks that assets and liabilities will not be able to provide public services, finance or prefund future government expenditure and obligations, or achieve commercial objectives.

- Specific Fiscal Risks (risk types 4 and 5) – the fiscal forecasts will be impacted from future policy decisions and changes in demand for government services. This section covers all government decisions and other circumstances known to the Government, as at 7 September 2020, that may have a material effect on the fiscal outlook, but are not certain enough in timing or quantum to include in the fiscal forecasts.

- Contingent Liabilities and Assets (risk type 3) – the fiscal forecasts will be impacted if any of the Government's current contingent liabilities or assets crystallise. This section outlines the Government's (unaudited actual) contingent liabilities and assets as at 30 June 2020.

In Economic and Fiscal Updates prior to this year's *Budget Update*, information on Fiscal Sensitivities and Balance Sheet Risks was disclosed separately in a Risks and Scenarios chapter. However, we believe it is more useful in the current environment to include this information in this chapter with the other discussions of risks to the fiscal forecasts.

COVID-19

The COVID-19 pandemic is a major public health shock, which has already had a significant fiscal impact on the Government's finances. This chapter identifies the following specific fiscal risks directly affected by COVID-19:

Policy changes

- Business Finance Guarantee Scheme (Finance)
- COVID-19 Vaccine Strategy (Health)
- Further COVID-19 Business Support (Finance)
- Potential Tax Policy Changes (Revenue)

Cost pressures

- Change in Demand for Tertiary Education and Training (Education)
- Managed Isolation and Quarantine (Housing)
- Small Business Cashflow Scheme (Revenue)

Cross-portfolio risks

- Services Funded by Third Parties

In addition, other specific fiscal risks identified in this chapter are more generally affected by the economic downturn brought about by COVID-19. Despite the identification of these specific fiscal risks, the true fiscal impact of COVID-19 is still highly uncertain. This uncertainty presents significant risks to some of the assumptions used in preparing the fiscal forecasts. The key risks to the fiscal forecasts are:

- *The impact on the economy* – while several months have passed since the initial onset of the pandemic, the duration of the economic downturn and subsequent pace of the recovery depend on many unknown factors. Forecasts for tax revenue and benefit expenses are particularly sensitive to economic conditions. To illustrate this uncertainty the Economic Outlook chapter, from page 11, includes scenarios that model the fiscal impact of how the economy might evolve if some of the key judgements around COVID-19 in the main forecast were to be altered.

- *The Government's response* – the Government has already implemented policies to respond to COVID-19. Policies announced and communicated up to 7 September 2020 have been included in the fiscal forecasts based on the best information available. However, given the degree of uncertainty, there is a risk that actual costs and/or timing of these policies may differ, for example in estimating future calls on the Business Finance Guarantee Scheme or Small Business Cashflow Scheme.

- *The Government's role in recovery* – COVID-19 has impacted a number of sectors in the economy. The Government's response was initially focused on fighting the virus and cushioning the blow and, while still directed towards fighting further outbreaks of the virus, is now becoming increasingly focused on recovery from the impacts of COVID-19. Funding set aside to manage the fiscal costs of the response to, and recovery from, COVID-19 has been included in the fiscal forecasts.

- *The COVID-19 Response and Recovery Fund* – the Government has established the $50 billion COVID-19 Response and Recovery Fund (CRRF) as a budget management tool for managing the fiscal impacts of COVID-19. These forecasts assume that the CRRF will be fully allocated by the end of the forecast period. At the date the fiscal forecasts were finalised, 7 September 2020, $14.1 billion was still available in this budget envelope. To include this remaining budget envelope in the forecasts, the Treasury has had to make judgements about the nature (eg, operating or capital) and timing of the costs. There is a risk that actual costs will differ from the judgements and assumptions used to prepare the fiscal forecasts. There is also a risk that the fiscal costs of the Government's response and recovery may be more or less than what has been reflected in the fiscal forecasts.
- *The impact on valuations of assets and liabilities* – a number of assets and liabilities on the Crown balance sheet are valued using market information (eg, land and buildings, share investments and ACC outstanding claims liability). The impact of COVID-19 is likely to cause some ongoing volatility in the market that will affect the future value of assets and liabilities on the Government's balance sheet.
- *Contingent liabilities* – the effects from COVID-19 may result in costs from some of the Government's existing contingent liabilities converting into expenses during the forecast period. In particular, there is a risk that there may be calls on some uncalled capital facilities and some Crown guarantees and indemnities may crystallise (see pages 122 to 132).
- *The risk of a resurgence in community transmission of COVID-19 or extended border controls* – the key fiscal risks associated with COVID-19, which are outlined above, all apply under the main forecast. The main forecast reflects key assumptions that COVID-19 Alert Level 1 is in place from the September 2020 quarter (with approximately four weeks at Alert Levels 2 and 3) through to the end of 2021, that border restrictions are in place through to 1 January 2022, and that fiscal support measures are around $58.5 billion over the forecast period.

In addition to the key fiscal risks associated with the main forecast, there are further fiscal risks associated with two of the alternative scenarios outlined in the Economic Outlook chapter: (i) a scenario where there is a resurgence in community transmission of COVID-19 in New Zealand, and (ii) a scenario where there are extended border controls. Under a scenario with a resurgence in community transmission, fiscal impacts would be highly dependent on the extent of infection and the nature, timing and effectiveness of the public health response (eg, whether there were to be a small number of cases in a community, a larger number of cases in a region, or multiple clusters spread nationally). Under a scenario with a resurgence in community transmission of COVID-19 or extended border controls, potential fiscal impacts include:

- costs to deliver any public health response to a resurgence in community transmission of COVID-19
- negative impacts on tax forecasts and benefit expenses (from economic conditions and/or COVID-19 alert level restrictions)
- costs of any Government policy decisions to support households and firms
- the impact on valuations of assets and liabilities, and
- costs from some of the Government's existing contingent liabilities converting into expenses.

Fiscal Sensitivities

Table 3.1 sets out some rules of thumb on the sensitivities of the fiscal position to small changes in specific variables. For example, if nominal GDP growth is one percentage point higher than forecast in each year up to June 2024, tax revenue would be around $4.1 billion higher than forecast in the June 2024 year. The sensitivities are broadly symmetric: if nominal GDP growth is one percentage point lower than expected each year, tax revenue would be around $4.0 billion lower than forecast in the June 2024 year. The figures are indicative and can be influenced by the composition of growth as different types of activity have different effective tax rates.

Table 3.1 – Fiscal sensitivity analysis

Years ending 30 June ($millions)	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**
Impact on tax revenue of a one percentage point increase in growth of				
Nominal GDP	905	1,760	2,880	4,080
Wages and salaries	420	855	1,330	1,875
Taxable business profits	175	370	655	945
Impact of 1% lower interest rates on				
Interest income[1]	-318	-273	-327	-318
Interest expenses[1]	-386	-790	-1,134	-1,454
Net impact on operating balance	68	517	807	1,136

Note: 1 Funds managed by the Treasury.

Source: The Treasury

The forecast financial position is based on judgements and assumptions about the future. To inform these judgements and assumptions we rely on market information. Some additional assumptions include those related to foreign exchange rates, share prices, the carbon price and property prices. For example, foreign-currency-denominated financial assets and liabilities are converted into New Zealand dollars, the Government's listed share investments are reported on market prices, and property owned by the Crown is valued using market information. These values are based on information prevailing at 30 June 2020. Where the actual outcome differs from our assumptions, the Crown's actual financial position is likely to differ from the forecasts. In addition, changes in these variables can also have flow-on effects for the Crown's operating balance. For example, a strengthening of share prices may result in higher returns from the Government's direct share investments.

Balance Sheet Risks

The Government's balance sheet is absorbing a significant shock because of COVID-19, deploying the resilience built up over several economic cycles of responsible fiscal management. In addition, the COVID-19 response has seen some further risks added to the Government's balance sheet, for instance in relation to guarantees provided to businesses.

The Government's balance sheet can be usefully categorised by function or purpose as illustrated in Table 3.2 below.

Table 3.2 – Balance sheet functional classifications[22]

Social	Assets and liabilities held to provide public services. These include, for instance, roads, schools, and the national parks. Here, social assets also include tax receivables and student loans managed by the Inland Revenue Department (IRD), and Crown-owned companies that do not have purely commercial objectives such as Crown Research Institutes (CRIs).
Financial	Assets and liabilities that finance or prefund government expenditure and obligations for future expenditure. This category consists of the Crown Financial Institutions (CFIs), the Reserve Bank of New Zealand, and government borrowing via the Treasury's New Zealand Debt Management Office.
Commercial	Assets and liabilities of entities with commercial objectives. The companies are largely independent entities operating in competitive environments. This category comprises commercial priority companies and listed companies.

Balance sheet risks are therefore risks that assets and liabilities will not be able to provide public services, finance or prefund future government expenditure and obligations, or achieve commercial objectives. The resilience of the balance sheet refers to its ability to absorb and adapt to shocks and stresses that might otherwise hinder these objectives being achieved.

Sources of (Social) balance sheet risk to public services

Physical assets such as land, buildings, state highways and military equipment are susceptible to external natural hazards and the quality of asset management in delivering services. The government generally relies on asset management, including built-in redundancies (eg, in network capacities), and its ability to re-allocate or repurpose assets (eg, in responding to a crisis) rather than risk transfer instruments such as insurance in managing these risks.

The replacement costs of physical assets are also susceptible to valuation movements through changes in property market conditions, changes in demand and changes in the costs of construction. The *Pre-election Update* forecasts have incorporated valuations up to 30 June 2020. A number of valuers have identified that while prices have not been significantly impacted by COVID-19, only limited market evidence is available from the time COVID-19 restrictions were first implemented. They have warned that illiquidity in property markets may be a short-term issue or a longer-term concern. Consequently, the property valuations in the balance sheet may be an unreliable guide to future property prices.

22 See *He Puna Hao Pātiki*: *2018 Investment Statement* https://treasury.govt.nz/publications/investment-statement/he-puna-hao-patiki-2018-investment-statement-html#reference-index-10

Social insurance and retirement liabilities (eg, Accident Compensation, Veterans' Disability and the Government Superannuation Fund) are prone to volatility through their actuarial valuations, including changes to expectations of future interest rates and inflation rates. These forecasts reflect a significant crystallisation of this risk as a consequence of the recent reduction of interest rates to unprecedented low levels.

These forecasts show significant concessionary lending available to achieve public policy purposes. This lending includes student loans and the Small Business Cashflow Scheme, while the forecasts also provide for Progressive Home Ownership Loans. This lending brings counter-party risk, and also exposes the Crown to risks associated with changes in assumptions about the future value of money, affecting how these future repayments are discounted. Expected credit losses from this lending are closely monitored.

The Crown faces contingent liabilities, for example, indemnities of activities in the public interest, environmental claims, and legal proceedings. The government indemnities associated with the Business Finance Guarantee Scheme to support viable businesses represent a significant increase in balance sheet risk. Contingent liabilities are discussed more fully on pages 122 to 132 at the end of this chapter.

Sources of (Financial) balance sheet risk to finance or prefund future government expenditure and obligations

The New Zealand Government remains among the highest-rated sovereigns globally, with the top Aaa foreign-currency rating from Moody's (reaffirmed on 2 April 2020) and AA foreign-currency ratings from Standard & Poor's and Fitch. Moody's has reported: "While the global coronavirus outbreak presents unprecedented challenges to New Zealand's economy, the Government has promptly deployed its fiscal capacity to buffer the impact of the shock. Institutional effectiveness mitigates vulnerabilities related to reliance on external financing and elevated household debt."

The deployment of the Government's fiscal capacity has meant that the balance sheet is now more highly leveraged than previously. In addition, monetary policy activities including a Large Scale Asset Purchases (LSAP) programme, foreign-exchange swaps to manage short-term interest rate pressures, and lending to the finance sector by the Reserve Bank have increased interest-rate risk.

Financial assets held by ACC and the New Zealand Superannuation Fund are sensitive to financial market volatility, such as movements in interest rates, exchange rates and equity prices. Crown financial institutions set long-term investment strategies based on underlying policy objectives. These strategies aim to look through short-term volatility and take exposures that would offset the impact of long-term social insurance or retirement liabilities.

Liquidity risk: the Crown incurs liquidity risk with respect to its ability to raise cash to meet its obligations. Each agency manages its own specific liquidity risk while the Treasury manages the Crown's liquidity requirements. The LSAP programme instituted by the Reserve Bank provides additional assurance that this risk is managed in the current environment.

Sources of (Commercial) balance sheet risk to meet commercial objectives

A number of commercial entities owned by the Crown have their financial performance and valuations impacted by the commercial environment in which they operate. These forecasts include support packages for state-controlled commercial businesses where COVID-19 has significantly impacted their commercial environment.

Managing risk into the future

The Crown's exposure to balance sheet risks is unavoidable if it is to pursue its objectives. The general approach that has been taken to identify, measure and treat these risks where practicable, to maintain debt at prudent levels and to hold a healthy level of net worth has enabled the Government to effectively absorb much of the shock of COVID-19.

The build-up and subsequent deployment of that fiscal resilience in response to COVID-19 has underscored the importance of the principles of responsible fiscal management in the Public Finance Act 1989. That deployment is reflected in the reduction of net worth from $143.3 billion at 30 June 2019 to a forecast $43.5 billion as at 30 June 2024.

The forthcoming risk management challenge is to move from absorption to adaptation, as the Government moves from fighting the virus and cushioning the blow towards kickstarting the economy, resetting the Crown's balance sheet objectives and rebuilding its capacity to absorb shocks in the future.

Specific Fiscal Risks

This statement of specific fiscal risks is required by the Public Finance Act 1989. In addition to the discussion of other types of risks to the economic and fiscal forecasts outlined in this chapter, it sets out (to the fullest extent possible) all government decisions and other circumstances known to the Government that may have a material effect on the fiscal outlook, but are not certain enough in timing or quantum to include in the fiscal forecasts. This section covers:

- how specific fiscal risks are managed
- criteria for inclusion and exclusion of specific fiscal risks, and
- the statement of specific fiscal risks.

The risks disclosed in this chapter reflect those that are known at the date of the finalisation of the fiscal forecasts, 7 September 2020. Although the process for disclosure of specific fiscal risks involves a number of entities, including government departments, the Treasury and the Minister of Finance, there remains a possibility that not every significant risk is identified.

How Specific Fiscal Risks are Managed

A key principle guiding the disclosure of risks is transparency. This means that material risks are disclosed in this section regardless of whether they can be managed through existing funding sources (eg, through prioritisation of funding already available to departments) or the Budget operating and capital allowances (the future new spending built into the fiscal forecasts). This ensures a prudent approach to the disclosure of risks, to improve transparency and to avoid prejudging future decisions by governments about what may or may not be funded from allowances.

The Government has a number of options to manage risks. The risks disclosed in this section therefore may not arise in a way that affects the fiscal forecasts presented in this *Pre-election Update*.

1 Reprioritisation

The unaudited actual result for core Crown expenses for the year ended 30 June 2020 is $108.8 billion, while capital spending for the same period totalled $9.4 billion. Some of this expenditure is temporary in nature. Looking beyond this, however, the base of non-temporary expenditure creates significant scope for reprioritisation. Agencies are expected to fund cost pressures and new activities from funding already allocated to them. This could include repurposing low-value expenditure or generating efficiency savings.

2 Budget allowances

The following allowances for new expenditure in future Budgets have been included in the Treasury's fiscal forecasts (Fiscal Outlook chapter) and are the same as those in the *Budget Update*. These may be reviewed at a later date when the fiscal impact of COVID-19 is clearer.

$billions	Budget 2021	Budget 2022	Budget 2023
Operating allowances (per year)	2.4	2.4	2.6
Multi-year capital envelope (total)	◄——	4.8	——►

These allowances are included in the fiscal forecasts to reflect future new spending by the Government and better link the forecasts to the Government's fiscal strategy. The effect of including the allowances in the forecasts is that new spending decisions in future Budgets should not impact the Government's fiscal targets.

The allowances are the main mechanism for the Government to allocate new expenditure for each Budget. The allowances have been set at a level that allows the Government to achieve its broader fiscal and policy objectives, and in accordance with the expectation that any new policy initiatives and cost pressures can be managed within these parameters. A self-imposed limit on expenditure also helps to ensure any new spending is targeted to areas of high priority.

For more information about Budget allowances, refer to pages 57 to 58 in the Fiscal Outlook chapter.

3 Policy choices

For some risks, the Government has choices around future funding, including how much is funded and the timing of when that funding is provided.

4 COVID-19 Response and Recovery Fund (CRRF)

For risks that materialise in full or in part owing to the impacts of COVID-19, drawing down on the remaining balance of the CRRF is an additional option for the Government.

Criteria for Inclusion either in the Fiscal Forecasts or as a Specific Fiscal Risk

Specific criteria based on section 26U of the Public Finance Act 1989 determine what is included in the fiscal forecasts as opposed to what is disclosed as a specific fiscal risk.

Fiscal forecasts	Specific fiscal risks
Matters are incorporated into the fiscal forecasts when: • the matter can be quantified for particular years with reasonable certainty, and • a decision has been taken, or • a decision has not yet been taken but it is reasonably probable[23] that the matter will be approved or the situation will occur.	Matters are disclosed as specific fiscal risks if the likely impact is more than $100 million over the forecast period and either: • a decision has not yet been taken but it is reasonably possible[24] (but not probable) that the matter will be approved or the situation will occur, or • it is reasonably probable or possible that the matter will be approved or the situation will occur, but the matter cannot be quantified or assigned to particular years with reasonable certainty.

[23] For these purposes, 'reasonably probable' is taken to mean that the matter is **more likely than not** to be approved within the forecast period (ie, there is a greater than 50% chance of the matter occurring or being approved).

[24] For these purposes, 'reasonably possible' is taken to mean that the matter **might** be approved within the forecast period (ie, there is a 20% to 50% chance of the matter occurring or being approved).

General Risks not Included as Specific Fiscal Risks

A range of general risks to the fiscal forecasts exist but are not separately disclosed as specific fiscal risks, including:

- risks from changes to economic assumptions, including as a result of COVID-19, and the most significant of these have been recognised elsewhere in this chapter and *Pre-election Update*
- business risks and volatility in the returns from, and valuation of, the Government's investments relating to the broader economic and commercial environment, and
- the costs of future individual natural disasters, individual events resulting from climate change, and other major events (including biosecurity incursions), as their occurrence, nature and timing cannot be predicted.

New Zealand will continue to experience natural disasters and for some of these the frequency and/or severity is likely to increase with climate change, for example increased coastal flooding because of sea level rise and extreme weather events. Once such an event does occur, various choices arise about how to respond, and when to recognise potential liabilities. Specific risks are disclosed at that point based on the range of possible responses.

In addition, the fiscal forecasts do not include a liability for New Zealand's international climate change obligations because these are not yet measurable. Policy decisions already made and yet to be made aimed at securing New Zealand's commitments resulting from the Paris Agreement, as well as those designed to mitigate the wide-ranging consequences of climate change in New Zealand, are expected to have a fiscal impact; however, any specific impact is unquantifiable at this stage.

Exclusions to Disclosure

The Minister of Finance may determine, under section 26V of the Public Finance Act 1989, that a matter not be included in the fiscal forecasts or a specific fiscal risk not be disclosed, if such disclosure is likely to:

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

Section 26V requires the Minister of Finance, if possible, to avoid withholding the matter, either by making a decision on it before the forecasts are finalised or by disclosing it without quantifying the risk.

Summary Table

The matters listed below are disclosed as specific fiscal risks because, in the Treasury's judgement, they meet the criteria for disclosure. Full descriptions are set out in the next section.

The table below is categorised based on the nature of the risk: policy changes, cost pressures and cross-portfolio risks. Within these categories, the risks have been ordered by portfolio and include the title of the risk, its status and whether it has an impact on revenue, expenses and/or capital expenditure. The status of the risk describes whether the risk reflects a new matter or is changed or unchanged since the *Budget Update*.

Statement of Specific Fiscal Risks as at 7 September 2020

Policy change risks

Policy changes by portfolio	Status[25]	Type of risk
ACC		
Impacts of Changes to Accident Compensation Policy Settings	Unchanged	Expenses
Work-related Gradual Process Disease and Infection	Unchanged	Expenses
Biosecurity		
Mycoplasma Bovis Biosecurity Response	Unchanged	Expenses and Revenue
Broadcasting, Communications and Digital Media		
Delivery of the Government's Public Media Outcomes	Unchanged	Expenses and Capital
Defence		
Defence Funding Requirements to Deliver New Zealand's Defence Strategy	Unchanged	Expenses and Capital
Disposal of New Zealand Defence Force Assets	Unchanged	Revenue and Expenses
Education		
Early Learning Action Plan	Unchanged	Expenses
Education Workforce Strategy	Unchanged	Expenses
Extension of the Fees-free Tertiary Education Policy	Unchanged	Expenses
Free and Healthy Lunch Programme	New	Expenses and Capital
Reform of Vocational Education (RoVE)	Changed	Expenses and Capital
Replacing Deciles with the Equity Index	New	Expenses
Response to the Tomorrow's Schools Review	Unchanged	Expenses

25 *Unchanged* – risks where the nature and/or scale of the risk has not changed substantively since the *Budget Update*.

Changed – risks where the nature and/or scale of the risk has changed substantively since the *Budget Update*.

Policy changes by portfolio	Status[25]	Type of risk
Finance		
Alternative Monetary Policy Tools	New	Expenses
Business Finance Guarantee Scheme	New	Expenses
Deposit Insurance Scheme	Unchanged	Revenue and Expenses
Further COVID-19 Business Support	New	Expenses
Foreign Affairs		
Official Development Assistance	Unchanged	Expenses
Health		
COVID-19 Vaccine Strategy	New	Expenses
Health and Disability System Review	Changed	Expenses
Primary Care Services	Unchanged	Expenses
Local Government		
Three Waters Infrastructure Investment and Reform Programme	New	Expenses and Capital
Māori Development		
Government Response to WAI262	Unchanged	Expenses
Research, Science and Innovation		
Research and Development Spending Target	Unchanged	Expenses
Revenue		
Potential Tax Policy Changes	Unchanged	Revenue
Taxation of Digital Services	Unchanged	Revenue
Social Development		
Changes to the Welfare System	Unchanged	Expenses
Transport		
Auckland City Rail Link Ownership Issues	Unchanged	Expenses
Light Rail in Auckland	Unchanged	Expenses and Capital
Support for KiwiRail	Changed	Capital
Upper North Island Supply Chain Strategy (UNISCS) – Independent Working Group Recommendations	Unchanged	Expenses and Capital
Wellington Transport Investment Programme	Unchanged	Expenses and Capital

Cost pressure risks

Cost pressures by portfolio	Status[26]	Type of risk
ACC		
ACC Levies	Unchanged	Expenses and Revenue
Non-Earners' Account	Unchanged	Expenses
Climate Change		
Emissions Trading Scheme – Fixed Price Option	Unchanged	Revenue and Expenses
Conservation		
Department of Conservation Compliance with Drinking Water Supply Infrastructure Requirements	New	Expenses and Capital
Corrections		
Waikeria Mental Health Unit Operating Funding	New	Expenses
Economic Development		
New Zealand Screen Production Grant – International	Unchanged	Expenses
Education		
Change in Demand for Tertiary Education and Training	New	Expenses
Education Operating Cost Pressures	Unchanged	Expenses
Learning Support	Changed	Expenses
School Transport Services	Unchanged	Expenses
Finance		
Closure of Tiwai Point Aluminium Smelter	New	Expenses
Earthquake Commission	Unchanged	Expenses
Goodwill on Acquisition	Unchanged	Expenses
Foreign Affairs		
Antarctica New Zealand – Redevelopment of Scott Base	Unchanged	Expenses and Capital
Greater Christchurch Regeneration		
Southern Response Earthquake Services Support	Changed	Expenses and Capital
Health		
DHB Sustainability	Unchanged	Expenses
Health Capital Pressure	Unchanged	Capital
Health Operating Pressure	Unchanged	Expenses

26 *Unchanged* – risks where the nature and/or scale of the risk has not changed substantively since the *Budget Update*.

Changed – risks where the nature and/or scale of the risk has changed substantively since the *Budget Update*.

Cost pressures by portfolio	Status[26]	Type of risk
Housing		
Divestment and Development of Kāinga Ora – Homes and Communities' Housing	Unchanged	Expenses
Emergency Housing Special Needs Grants	Unchanged	Expenses
Increases to Market Rent	Unchanged	Expenses
KiwiBuild – Fiscal and Delivery Risks	Unchanged	Revenue, Expenses and Capital
Large-scale Housing and Urban Development Projects	New	Expenses and Capital
Managed Isolation and Quarantine	New	Expenses
Tāmaki Regeneration Project	Unchanged	Expenses
Internal Affairs		
Archives New Zealand Storage Capacity	Unchanged	Expenses and Capital
Royal Commission of Inquiry into Abuse in State Care	New	Expenses
Justice		
Legal Aid Demand Pressures	New	Expenses
Police		
Firearms Reform Programme	Unchanged	Expenses
Racing		
Financial Viability of TAB NZ	New	Expenses and Capital
Regional Economic Development		
Provincial Growth Fund	Unchanged	Expenses and Capital
Revenue		
Cash Held in Tax Pools	Changed	Revenue
Research and Development Tax Incentive	Unchanged	Expenses
Small Business Cashflow Scheme	New	Expenses and Capital
Student Loans – Valuation	Unchanged	Expenses
Transformation and Technology Renewal	Unchanged	Expenses
Social Development		
Quarterly Employment Survey Redevelopment	Changed	Expenses
Transport		
Auckland City Rail Link	Unchanged	Expenses and Capital
Treaty of Waitangi Negotiations		
Relativity Clause	Unchanged	Expenses
Treaty Settlement Forecasts	Unchanged	Expenses
Veterans		
Veterans' Disability Entitlements	New	Expenses

Cross-portfolio risks

Cross-portfolio specific fiscal risks	Status[27]	Type of risk
Addressing the Gender Pay Gap in the State Sector	Changed	Expenses
Budget 2020 Priority Packages	Unchanged	Expenses and Capital
Changes to Institutional Form of Government Agencies	Unchanged	Expenses
Increasing the Minimum Wage	Unchanged	Expenses
Information and Communications Technology Operating and Capital Pressures	New	Expenses and Capital
New Zealand Upgrade Programme	Unchanged	Expenses and Capital
Non-Government Providers Receiving Funding from the Crown	Unchanged	Expenses
Other Capital Cost Pressures	Changed	Capital
Other Operating Cost Pressures	Changed	Expenses
Outcomes from Other Government Inquiries and Reviews	Unchanged	Expenses
Pay Equity Claims Following the Care and Support Worker Settlement	Unchanged	Expenses
Policy Responses to the 15 March 2019 Terror Attacks	Unchanged	Expenses
Possible Responses to the 2020 Referendums on Cannabis Law Reform and End of Life Choice	Unchanged	Expenses
Services Funded by Third Parties	Changed	Expenses
State Sector Employment Agreements	Unchanged	Expenses
Transitioning to an Electric Vehicle Fleet in the State Sector	New	Capital
Unexpected Maintenance for Crown-owned Buildings	Unchanged	Capital

27 *Unchanged* – risks where the nature and/or scale of the risk has not changed substantively since the *Budget Update*.

Changed – risks where the nature and/or scale of the risk has changed substantively since the *Budget Update*.

Policy Change Risks by Portfolio

The following section outlines risks relating to potential decisions likely to be taken by the Government relating to both new and existing policy settings. Cross-portfolio policy change risks are outlined on pages 118 to 120.

ACC

Impacts of Changes to Accident Compensation Policy Settings (Unchanged)

The Government has signalled it will review a number of Accident Compensation scheme policy settings. Some of the policy issues identified would require either legislative or regulatory change. These changes could result in a significant fiscal impact.

Work-related Gradual Process Disease and Infection (Unchanged)

Under current legislation, the Government incurs an obligation for Work-related Gradual Process Disease and Infection claims when the claim is made, and an expense is recognised at this point. The liability for commercial accident and sickness insurance contracts would usually be recognised when exposure to conditions that will give rise to a claim occurs. An amendment to legislation would be required to recognise claims at the same time as for commercial contracts. An initial adjustment to the liability and an expense of about $1.5 billion to $2.0 billion would need to be reported if such an amendment were to be enacted.

Biosecurity

Mycoplasma Bovis Biosecurity Response (Unchanged)

The Government and the farming sector have agreed to attempt to eradicate the cattle disease *Mycoplasma bovis*. Crown funding has been appropriated and included in the forecasts for response activities in 2020/21 only. The timing of farming sector contributions may differ from what is in the fiscal forecasts. The need for Crown funding to be appropriated for 2021/22 and subsequent years will be considered depending on progress in eradicating the disease.

Broadcasting, Communications and Digital Media

Delivery of the Government's Public Media Outcomes (Unchanged)

The media sector, including both public and privately-owned organisations, is under increasing pressure from international competition, declining revenue shares and changes to the way people access content. The Government has committed to strengthening New Zealand's public media and has commissioned a detailed business case on the viability of a preferred approach. Once business case outcomes are agreed, significant additional investment may be required to deliver on the Government's public media outcomes.

Defence

Defence Funding Requirements to Deliver New Zealand's Defence Strategy (Unchanged)

In 2018, the Government updated Defence policy settings in the *Strategic Defence Policy Statement 2018*. These policy settings, and the *Defence Capability Plan 2019* subsequently agreed by the Government in 2019, provide an indication of future Defence capital and operating funding requirements. However, the precise quantum and timing of actual Defence spending will depend on the approval of future business cases and Budget initiatives.

Disposal of New Zealand Defence Force Assets (Unchanged)

The Government continues to consider the potential to dispose of a number of New Zealand Defence Force assets. Depending on market conditions, the timing of disposal and the sale price received could have either a positive or a negative impact on the Government's overall financial position.

Education

Early Learning Action Plan (Unchanged)

Following public consultation between November 2018 and March 2019 and subsequent Cabinet approval, the Government released *He Taonga te Tamaiti – Every Child a Taonga: Early Learning Action Plan 2019-2029* in December 2019. The estimated cost of the Early Learning Action Plan (ELAP) in the forecast period is approximately $1.2 billion. This estimated cost relates to actions that are indicated in the ELAP as likely to begin within the forecast period, such as improving adult-to-child ratios. To the extent that costs cannot be managed within baselines, further funding may be required.

Education Workforce Strategy (Unchanged)

The Ministry of Education is working in partnership with the Education Workforce Strategy Governance Group to develop a comprehensive Education Workforce Strategy (EWS) for the full education workforce. Cabinet will consider the draft EWS in early 2021. Post-Cabinet consultation and engagement with the education workforce and the New Zealand public will follow. An action plan will likely be finalised in late 2021. Initial estimates are that unconstrained implementation, delivering on the full intent of the EWS, will cost more than $100 million.

Extension of the Fees-free Tertiary Education Policy (Unchanged)

The Government has a stated intention to extend its first-year fees-free tertiary education and training policy to make the first three years of tertiary education fees-free in future parliamentary terms. The behavioural changes from extending the policy, and therefore the impact on future costs, are unquantifiable at this stage.

Free and Healthy Lunch Programme (New)

The Free and Healthy Lunch Programme was a prototype to test different models of delivery to students in selected schools. The programme was expanded to provide lunches to the 25% most disadvantaged students in the country as part of the Government's COVID-19 response. The programme funding (both the prototype and expansion) ends in December 2021. If the Government decides to extend or expand the programme, additional ongoing funding beyond that currently provided for will be required.

Reform of Vocational Education (RoVE) (Changed)

The New Zealand Institute of Skills and Technology (NZIST) has been established, bringing into one organisation the 16 former Institutes of Technology and Polytechnics. The NZIST may seek significant additional Crown funding in the future for the transformation and management of its national network of education providers, including integrating support for work-based training such as apprenticeships. Design of, and implementation planning for, the vocational education Unified Funding System (UFS) is continuing. The Government has stated an intention to implement the UFS from 1 January 2023, but this and any additional investment is subject to Cabinet decisions.

Replacing Deciles with the Equity Index (New)

The Government has made an in-principle decision to replace school deciles with the Equity Index. The index provides a more refined measure to understand whether there are socio-economic factors present in the lives of children that can impact educational outcomes. This will inform how the education system can be resourced to provide all children with an equitable chance of success. Additional funding for schools and implementation will be required in the future to transition to the new system.

Response to the Tomorrow's Schools Review (Unchanged)

The Government's response to the Tomorrow's Schools Review has been publicly released. Continued policy development and relevant service and implementation design have begun. Accordingly, future decisions are required on almost all changes, including decisions on changes in investment. The Government has indicated it will consider these changes and new investments over the next three to four Budgets. This is a policy choice of the Government and the costs will be material but unquantifiable at this point for specific financial years. The impact of COVID-19 will lead to continued development work over the long term, with a short-term focus on supporting schools and front-line services.

Finance

Alternative Monetary Policy Tools (New)

The Reserve Bank of New Zealand (RBNZ) is considering a range of options to expand its Alternative Monetary Policy tools (AMPs). These tools may be supported by an indemnity from the Minister of Finance for potential losses for the RBNZ. The potential risk and costs to the Crown are material but unquantified at this stage.

Business Finance Guarantee Scheme (New)

As reported under contingent liabilities, the Crown has established a Business Finance Guarantee Scheme (BFGS) with a number of banks to support New Zealand businesses facing hardship as a consequence of COVID-19. The currently assessed fair value of these contracts, and the expense arising, has been quantified and incorporated into the forecasts. Changes to the BFGS currently being implemented will increase take-up of the scheme, and may impact on credit losses that will be incurred. This is a variance risk to the extent that the actual take-up of the scheme and credit losses incurred, which may also be affected by any future changes to the scheme's settings, may differ from what is included in the fiscal forecasts.

Deposit Insurance Scheme (Unchanged)

The Government has announced that by 2023 it plans to introduce a deposit insurance scheme, of $50,000 per depositor per institution, and is consulting on the details. The scheme would have an impact on both expenses and revenue over the forecast period, but is not yet reflected in the fiscal forecasts.

Further COVID-19 Business Support (New)

Through various policy decisions, the Government has committed to supporting businesses in response to COVID-19. Were the Government to provide additional support to businesses at various COVID-19 alert levels, this would represent a fiscal risk to the extent that the timing, extent and/or nature of COVID-19 business support may differ from that included in the fiscal forecasts.

Foreign Affairs

Official Development Assistance (Unchanged)

Each year, New Zealand's Official Development Assistance (ODA) expenditure is measured as a proportion of Gross National Income (GNI). In Budget 2020, Cabinet agreed to increase ODA by $55.589 million in 2020/21, lifting it to 0.31% of GNI from 0.28% of GNI. If Government wants to maintain the ratio at or around 0.31% beyond June 2021, a different level of funding may be required, depending on the scale of the economic impact of COVID-19.

Health

COVID-19 Vaccine Strategy (New)

The New Zealand Government will need to obtain or facilitate the development of a vaccine for COVID-19. There is a fiscal risk related to the cost of purchasing a vaccine if one becomes available, as well as the cost of vaccinating the population to prevent further outbreaks of COVID-19.

Health and Disability System Review (Changed)

The review of the New Zealand Health and Disability System has identified opportunities to improve the performance, structure and sustainability of the system with a goal of achieving equity of outcomes, and contributing to wellness for all, particularly Māori and Pacific peoples. Until the Government has considered the recommendations and decided which to implement, the costs of implementation will not be known. No decisions will be taken until after a government is formed following the General Election in October 2020.

Primary Care Services (Unchanged)

The Government has signalled the intention to further increase funding for Primary Care services beyond the increase provided in Budget 2020 and in response to COVID-19. The associated implementation details and arrangements for any further funding are yet to be finalised.

Local Government

Three Waters Infrastructure Investment and Reform Programme (New)

The Three Waters Review highlighted systemic challenges facing the three waters sector including infrastructure deficiencies, asset management, service delivery, capacity and capability issues, and funding and affordability constraints. In July 2020, the Government made funds available to territorial authorities to support their planned investment programme and large-scale asset replacements. This funding will be available only to territorial authorities that opt in to the proposed three waters service delivery reform programme over the next three years. It is possible that further funding is required in the future to incentivise territorial authorities to support and deliver the reform programme.

Māori Development

Government Response to WAI262 (Unchanged)

The Waitangi Tribunal's report on the WAI262 claim focuses on the protection of Māori culture and identity, with a particular focus on mātauranga Māori and associated taonga. The Tribunal's recommendations are directed towards a number of government agencies individually, as groups and across sectors. In April 2019, the Government initiated a whole-of-government approach to addressing issues raised in the WAI262 claim and the Tribunal's subsequent report.

Research, Science and Innovation

Research and Development Spending Target (Unchanged)

The Government has a target to increase economy-wide research and development (R&D) expenditure to 2% of GDP over 10 years. While the effect of COVID-19 is likely to decrease GDP, it is also likely to decrease private sector R&D expenditure. It is too soon to assess whether the combined effect of these two factors will further increase the cost to the Crown of achieving the 2% of GDP target.

Revenue

Potential Tax Policy Changes (Unchanged)

The Government has initiated a work programme to progress certain tax measures. These can be viewed on the tax policy website www.taxpolicy.ird.govt.nz. Given the effect of the COVID-19 pandemic on the economy, the focus of the work programme will be on supporting businesses and New Zealanders through this crisis and facilitating the recovery. The fiscal implications of these potential policy changes are unquantified at this stage.

Taxation of Digital Services (Unchanged)

The Government is currently considering options for reform of the international tax framework in light of the challenges posed by digitalisation and globalisation. The Government's preference is to continue working with the Organisation for Economic Co-operation and Development (OECD) to find a multilaterally agreed solution to these challenges, but the Government will seriously consider a digital service tax if the OECD does not make sufficient progress on a multilateral solution. The revenue impact of any change will depend on the design of the preferred option.

Social Development

Changes to the Welfare System (Unchanged)

The Government has agreed that its vision for the welfare system is to ensure that people have an adequate income and standard of living, are treated with respect and can live in dignity, and are able to participate meaningfully in their communities. Cabinet has agreed to a multi-year policy work programme to deliver on this vision. Any changes agreed to in future will likely have legislative, operational, ICT and fiscal implications. Detailed information on the scale of change, implications and associated costs will be provided to Cabinet as part of future decisions.

Transport

Auckland City Rail Link Ownership Issues (Unchanged)

The Government has committed to fund 50% of the costs associated with the City Rail Link project, along with Auckland Council, which has also committed to fund 50% of the project. Both the Crown and Auckland Council have treated the investment for the City Rail Link project as capital expenditure. Depending on the final ownership structure of the City Rail Link, the Crown may need to write off some value from the Crown's books. Any write-off is likely to be in the range of +/- 20% of the Crown's investment (ie, there may be a write-up of value), but this depends on several factors including allocation of assets and valuation basis once allocation has been determined. The timeframe for decisions on future ownership has yet to be finalised. The current work plan is for such a decision to be made in late 2020, although the agreement between Sponsors and City Rail Link Limited allows for a decision to be made as late as 2022.

Light Rail in Auckland (Unchanged)

Cabinet has decided to terminate the parallel process for the Auckland Light Rail project and for any further decisions to be taken after a government is formed following the General Election in October 2020. The Government is still committed to addressing congestion on the city centre to Mangere corridor and, depending on future decisions, Crown funding may be required to support any rapid transit project.

Support for KiwiRail (Changed)

Budget 2020 provided an appropriation of $246 million for below rail network investment, $421 million to replace ageing rolling stock, and $400 million to support replacement of the ageing interisland ferry fleet and associated landside infrastructure. Further Crown funding is likely to be sought to progress these projects as part of the implementation of the Future of Rail programme.

Upper North Island Supply Chain Strategy (UNISCS) – Independent Working Group Recommendations (Unchanged)

Sapere Research Group has completed its report analysing the Working Group's options for moving freight from the Ports of Auckland. All of the five options analysed had economic costs that outweighed the economic benefits. Cabinet has deferred any decisions on the future location of Auckland's port until 2021, when officials are expected to give their advice on the Sapere and Working Group reports.

Wellington Transport Investment Programme (Unchanged)

The Government Policy Statement on land transport 2021 has been developed in a way that ensures that Let's Get Wellington Moving (LGWM), along with the Government's other priorities, can be funded from the National Land Transport Fund (NLTF) to the expected level. However, the ability to deliver LGWM in full relies on local government providing its own share. If the local government share is at risk of not being met, heightened by COVID-19, there could be requests for greater funding from central government, putting further pressure on the NLTF.

Cost Pressure and Cost Variance Risks by Portfolio

The following section outlines risks of cost pressures and variance risks of items included in the fiscal forecasts (where applicable). The majority of agencies are likely to face cost pressures in the future owing to changes in demand or costs of inputs used in the delivery of existing services or products. The key drivers of future cost pressures are likely to come from population changes, wage increases (both pay negotiations and progression through pay scales) and the price inflation of inputs. Cross-portfolio risks for other operating and capital cost pressures are outlined on pages 118 to 120.

ACC

ACC Levies (Unchanged)

ACC levies will remain unchanged until at least 2022, with indicative future levy rates for the Work, Earners' and Motor Vehicle accounts included in the forecasts. Final levy decisions are made by the Government and may differ from the forecast levy path. In addition, revenue from the levies set for these accounts may be more or less than that required to cover the cost of claims. If factors such as claims experience, ACC performance, and economic assumptions (particularly discount rates and unemployment rates) differ from the forecasts, ACC's levy revenue, claims costs, and liability may also differ from the forecasts. Any variance will have a corresponding impact on the operating balance.

Non-Earners' Account (Unchanged)

The amount of funding provided by the Crown (and included in the fiscal forecasts) for the Non-Earners' Account may be more or less than is required to cover the cost of future claims. If factors such as claims experience, ACC performance, and economic assumptions (particularly discount rates) turn out differently from what has been forecast, any such variance will have a corresponding fiscal impact.

Climate Change

Emissions Trading Scheme – Fixed Price Option (Unchanged)

The Emissions Trading Scheme (ETS) earns revenue and incurs expenses for the Crown, both of which are uncertain. The uncertainty is partly owing to the future market price of New Zealand Units (NZUs), and the extent to which participants elect to use the Fixed Price Option (FPO). For the latest fiscal forecasts, both revenue and expenses assume a carbon price value based on the market price at 30 June 2020 of $32.10. Under the FPO, participants and eligible persons have an option to meet their obligations by purchasing units directly from the Crown at a fixed price. Should the secondary market price of NZUs exceed the fixed price near the time the surrender obligations are due in May 2021, it is likely that participants and eligible persons would use the FPO. As a result, the Crown would recognise an expense from selling units at below market price and receive cash that would reduce net core Crown debt. Conversely, if the market price of NZUs remains less than the $35 FPO for 2020 emissions it is likely that participants will use the secondary market to fulfil their surrender obligations rather than the FPO. The Climate Change Response (Emissions Trading Reform) Amendment Act 2020 enables the auctioning of units to begin in 2021. Auctioning NZUs will result in cash being paid to the Crown, also reducing net core Crown debt. The extent of this depends on the future price realised for auctioned units, which is inherently uncertain.

Conservation

Department of Conservation Compliance with Drinking Water Supply Infrastructure Requirements (New)

Three waters reforms (see Three Waters Infrastructure Investment and Reform Programme on page 105) will introduce new requirements for providers of drinking water and limit the definition of 'self-supplier' to individual domestic self-suppliers. The Department of Conservation manages drinking water supply infrastructure assets at over 2,000 sites including campsites, huts, visitor centres and town supplies, many of which are exempt from drinking water standards under the current definition of 'self-supplier'. The new requirement that all drinking water suppliers must provide safe drinking water and comply with drinking water standards on a consistent basis, and the proposed change to the definition of 'self-supplier' resulting from the Water Services Bill, may have significant fiscal implications for the Department of Conservation.

Corrections

Waikeria Mental Health Unit Operating Funding (New)

The Waikeria Prison Development, including a 500-bed High Security Facility and a 100-bed Mental Health and Addiction Service, is currently under construction. The operational costs of running these facilities were not sought at the time Cabinet approved the projects. These operational costs, including the intensive model of care required by the Government as part of the Mental Health and Addiction Service, may require further Crown funding as there is a risk that these costs cannot be met within existing baselines.

Economic Development

New Zealand Screen Production Grant – International (Unchanged)

The New Zealand Screen Production Grant is an uncapped, on-demand grant that incentivises international studios to locate production work in New Zealand by offering them a rebate on their qualifying expenditure. Although potential delays to productions as a result of COVID-19 may offset some of this risk in the near term, there remains a high level of international interest in New Zealand as a place to do screen business over the forecast period. The fiscal forecasts include an estimate of expenditure based on known productions. There nevertheless remains a risk that demand for the Screen Production Grant will exceed what is included in the fiscal forecasts if more large-budget productions choose to locate in New Zealand (in addition to the two existing large-scale productions of the *Avatar* sequels and *The Lord of the Rings* television series).

Education

Change in Demand for Tertiary Education and Training (New)

There is significant uncertainty about the impact of COVID-19 on unemployment, the reduced net migration of New Zealand residents, and the scale of the increased enrolments in tertiary education that result. More people aged 18-24 years, and more people unable to find work who enter study instead to upskill or retrain, can lead to more enrolments in tertiary education. In Budget 2020, the COVID-19 Response and Recovery Fund provided an additional $334 million over 2021 to 2023 to meet increased learner demand. Due to the uncertainty around the impact of COVID-19, learner demand could be higher, or lower, than the available number of funded places for learners. Updated forecasts and initial enrolments in 2021 will provide an indication of any potential additional financial costs.

Education Operating Cost Pressures (Unchanged)

The education sector faces significant cost pressures from increasing demand in early childhood education (ECE) and schooling, largely as a result of population growth. Demographic change has an impact on expenditure on ECE subsidies, especially for the 20 hours' fully subsidised entitlement for three- to five-year-olds; the per-pupil component of schools' operational funding; and schools' full-time teaching equivalent entitlement, which is based on staff-to-student ratios. In addition, the Ministry of Education faces compounding departmental operating expenditure pressures due to the increasing demand for and price of education services, and other cost pressures experienced by its work programmes. These pressures, which include difficult-to-control inflationary pressures, represent risks to the extent that they cannot be managed through reprioritisation or new spending set aside in the forecasts. The Government's stated intention is that all pressures are managed through these mechanisms.

Learning Support (Changed)

The Government's Learning Support Action Plan 2019-2025 (the Action Plan) notes the need to provide better support for disabled children and young people, and those with additional learning needs. Some Action Plan priorities may need further funding, such as strengthening support for neurodiverse learners and those who require alternatives to mainstream schooling and/or are at risk of disengaging from education. In addition, some existing learning support services provided and/or funded by the Ministry of Education face volume and price pressures. There is a risk that these pressures cannot be met within existing baselines and further funding may be required.

School Transport Services (Unchanged)

The cost of Daily School Bus Services makes up approximately half of the total budget for School Transport Services. The Ministry of Education will be going to market for the tender for provision of these services, which could impact the annual expenditure under the new contracts. In addition, the combination of a demand increase of 14% in Specialised School Transport Assistance (prior to COVID-19) and indexation increases will likely lead to further cost increases. To the extent that these pressures cannot be managed within existing baselines, additional funding is likely to be required.

Finance

Closure of Tiwai Point Aluminium Smelter (New)

On 9 July 2020, Rio Tinto Limited announced the closure on or before August 2021 of New Zealand Aluminium Smelters (NZAS), which operates the Tiwai Point Aluminium Smelter in Southland, with the wind-down of operations expected to be completed by August 2021. The impacts on electricity generation and transmission companies, which are majority or wholly owned by the Crown, and the need for transitional assistance for the Southland regional economy and workforce are unknown at this stage but could be significant.

Earthquake Commission (Unchanged)

The Earthquake Commission's (EQC's) independent actuary undertakes half-yearly valuations of the total earthquake liability to the Crown. This includes settled and yet to settle claims (including those in litigation), an estimation of future claims not yet received, insurer finalisation and any associated reinsurance recoveries. Based on these valuations, a profile of the claims yet to settle is included in the fiscal forecasts. There remain risks that EQC's remaining settlement expenditure relating to the Canterbury and Kaikōura earthquakes will differ from (be higher or lower than) forecast. This is because EQC's remaining settlement expenditure relating to the Canterbury earthquakes does not incorporate any liability recognition or provision for costs relating to the over-cap portion of any building claims, whether they are on-sold remedial building claims or otherwise. EQC only recognises expected future costs where it is liable for such costs under the Earthquake Commission Act 1993. The risks include litigation and the resolution of liability with insurers and reinsurers, in addition to the level of future remedial claims. It is not possible at this stage to fully quantify the potential financial impact or the timing of these risks owing to the uncertainty associated with them, and variation could be material.

Goodwill on Acquisition (Unchanged)

As at 30 June 2020, the Government had goodwill on acquisition of a number of sub-entities totalling $483 million (unaudited actual). Under New Zealand accounting standards (PBE IPSAS 26), goodwill items are required to be assessed annually for impairment. If there is any indication that the goodwill may be impaired, the recoverable amount of the cash-generating units to which the goodwill is allocated is required to be estimated. If the recoverable amount is less than the carrying amount of those units, the units and the goodwill allocated to them are regarded as impaired and the Government is required to recognise impairment losses in the operating statement. Such assessments will be conducted at the end of the financial year. The fiscal forecasts currently make no allowance for further such impairment losses.

Foreign Affairs

Antarctica New Zealand – Redevelopment of Scott Base (Unchanged)

The infrastructure at Scott Base is approaching the end of its functional life. The indicative cost of redeveloping the base ranges from $200 million to $290 million over an approximately eight-year period. Budget 2019 provided $19.7 million to Antarctica New Zealand to undertake further design and market testing to confirm costs ahead of seeking full redevelopment costs. In June 2019, Cabinet agreed in principle to the redevelopment of Scott Base and to a specific design option, subject to approval of the final costs, to be sought in a future Budget.

Greater Christchurch Regeneration

Southern Response Earthquake Services Support (Changed)

The ultimate cost to the Crown of settling earthquake claims remains subject to uncertainty. Forecasts currently assume that the actual cost to settle claims will align with the actuary's central estimate of the claims provision. There is a risk that the actual cost could be higher than this estimate, which is sensitive to its underlying assumptions such as damage estimates, recent and future court decisions, claims emerging in the future and the forecast profile of claims settlement.

Health

DHB Sustainability (Unchanged)

In recent years, the District Health Board (DHB) sector has been running operating deficits. As a result, a number of DHBs have required additional equity injections from the Government in order to remain solvent. This trend is expected to continue, with the fiscal forecasts reflecting deficits from DHBs of, on average, $600 million per year over the forecast period. The fiscal forecasts assume that future expenditure growth will be met from future Budget allowances.

There is a significant risk that DHBs' deficits may be higher than what has been included in the fiscal forecasts, which would adversely impact the Government's operating balance and net core Crown debt. In particular, the DHB sector is likely to face significant cost pressures in the future to maintain the delivery of existing services. These cost pressures may increase as a result of the COVID-19 response. DHB expenditure growth is likely to be driven by demographic changes, price inflation of inputs, and wage costs (both pay negotiation and progression through pay scales). The Government does have choices for meeting future cost pressures if they eventuate. However, given current policy settings, constraining or reducing expenditure over the forecast period while maintaining existing services would be very difficult. DHBs will be likely to require additional revenue to manage growing deficits. Decisions on the Health and Disability System Review recommendations will not be taken until after a government has been formed following the General Election in October 2020.

Health Capital Pressure (Unchanged)

These capital pressures mainly relate to DHBs, but also to the Ministry of Health and other parts of the health system. DHBs have submitted updated capital intentions, identifying the indicative need for Crown funding over the next four years. Budget 2020 provided $750 million for DHBs and Budget 2019 provided $1.7 billion, with a further $300 million being provided through the New Zealand Upgrade Programme. However, the pressures remain significant over the forecast period. These pressures are largely driven by asset condition issues and demographic change (population growth and an ageing population), placing pressure on infrastructure capacity. Information technology capability in the Ministry of Health and other parts of the sector also needs to be addressed because of ageing legacy systems and an inability to leverage new technology. The magnitude of the risk will depend in part on whether the capital expenditure can be incurred at the time forecast in the fiscal forecasts.

Health Operating Pressure (Unchanged)

The health sector is likely to face significant operating pressures within its existing baselines to maintain the delivery of existing health services. The main pressure drivers include demographic changes (both growth and an ageing population), wage costs (both pay negotiations and progression through pay scale), price inflation of inputs and increased operating costs from investment in information and communications technology (ICT).

Housing

Divestment and Development of Kāinga Ora – Homes and Communities' Housing (Unchanged)

Kāinga Ora's financial forecasts include business-as-usual divestments, acquisitions and the redevelopment of land and housing as part of its asset management strategy. Revenue from land and property divestments is used to help finance new public housing stock. The COVID-19 crisis is expected to disrupt the property market, potentially reducing Kāinga Ora's revenue from divestments, thereby increasing its borrowing and/or Crown funding requirements. Kāinga Ora also faces commercial and financial risks inherent in large-scale build and urban development programmes, the magnitude of which has increased as a result of the adverse impact of COVID-19 on Kāinga Ora's pipeline, international supply chains and the financial viability of its build partners.

Emergency Housing Special Needs Grants (Unchanged)

Emergency Housing Special Needs Grants help individuals and families with the cost of staying in short-term accommodation if they are unable to access a transitional or public housing place. If demand increases and/or the number of transitional or public housing places does not increase as forecast, this would increase demand for the grants, with associated fiscal costs.

Increases to Market Rent (Unchanged)

Over $1 billion of payments per annum for housing assistance, such as income-related rent subsidies and accommodation payments for transitional housing, are linked to market-based rent levels. Should market rents increase above what is assumed for the forecasts, further funding may be required to maintain current levels of support.

KiwiBuild – Fiscal and Delivery Risks (Unchanged)

Changes in the housing market and economy may have an impact on the costs of delivering homes and associated revenue recycling. If the prices of underwritten houses fall, Crown underwrites may be called, thereby increasing debt, and the value of the portfolio may fall, impacting the operating balance. To achieve programme goals, there may be a need to change policy settings or provide support to developers and/or homebuyers. The Crown also faces general commercial risks associated with development and with implementing a large and evolving programme, which pose fiscal and delivery risks.

Large-scale Housing and Urban Development Projects (New)

Kāinga Ora is currently carrying out a number of large-scale housing redevelopment projects. While a portion of these costs will be met from Kāinga Ora's balance sheet, funding for the additional infrastructure and works needed to support these developments is yet to be agreed between central and local governments.

Managed Isolation and Quarantine (New)

Given the changing global situation and uncertainty with respect to COVID-19, demand for Managed Isolation and Quarantine (MIQ), and the number of places, length of time, and type of accommodation, health and security arrangements required, may change rapidly. Any changes in demand may create cost volatility and could outstrip current MIQ supply and appropriated funding. Current expectations are that facilities may be required for some time, giving rise to a need to seek funding additional to that already included in the forecasts.

Tāmaki Regeneration Project (Changed)

The Tāmaki Regeneration Project involves the replacement of 2,500 existing public houses with between 7,500 and 10,500 new public, affordable and market houses (around one-third of which will be public houses). Development involves writing off existing public housing assets. If land sale proceeds are less than the value of write-offs in a given year, there will be a negative impact on the operating balance. The likelihood of this occurring has increased, given the expected impact of COVID-19 on land prices.

Internal Affairs

Archives New Zealand Storage Capacity (Unchanged)

There are capacity and condition issues with the current property portfolio for the storage of New Zealand's documentary heritage. Budget 2019 provided funding to complete the design work and initial shift activities associated with the proposed upgrade and expansion of the physical infrastructure. Budget 2020 provided funding for the development and subsequent lease of the new Wellington Archives New Zealand facility and the land purchase and design for a new Regional Shared Repository (RSR). Further funding will be sought in Budget 2022 for the construction of the new RSR to respond to forecast storage growth to 2030.

Royal Commission of Inquiry into Abuse in State Care (New)

The Royal Commission of Inquiry into Historical Abuse in State Care and in the Care of Faith-based Institutions was formally established in November 2018 and was funded only for the first phase of its work. Additional funding may be required through Budget 2021 to enable the Royal Commission to complete the second phase of work, following submission of its interim report in late 2020.

Justice

Legal Aid Demand Pressures (New)

Entitlement to legal aid is legislatively mandated and costs are driven by the volume and complexity of cases. The average cost per case has increased as a result of growth in more serious cases. Volumes can be affected, either positively or negatively, by changes to justice sector policy settings or trends in crime. There is a risk that additional funding will be required if volumes are higher or cases more complex than assumed in the forecasts.

Police

Firearms Reform Programme (Unchanged)

The Arms Legislation Act 2020 was assented to on 24 June 2020. The Act amends the Arms Act 1983 to provide for the establishment of a firearms registry and for other changes including amendments to the licensing regime, increased regulatory oversight, and the development of new offences and penalties. To the extent that the implementation of the changes cannot be managed within baselines, additional funding will be required.

Racing

Financial Viability of TAB NZ (New)

The Government made up to $50 million available for the Racing Industry Transition Agency (now TAB NZ) to support its operations through to 31 July 2020. The work to determine the level of the industry support package revealed that TAB NZ was undercapitalised, and additional support may be needed. In the post-COVID environment, TAB NZ revenue may also be depressed for several years, which could have downstream implications for the industry and communities that depend on it. Work is underway to confirm and size this and identify options for addressing any funding requirements.

Regional Economic Development

Provincial Growth Fund (Unchanged)

The Government has committed to a Provincial Growth Fund of $3.0 billion over a three-year period. The capital and operating split and timing of this funding, as set out in the fiscal forecasts, are likely to change, and final capital and operating expense amounts in any year may vary from those forecast.

Revenue

Cash Held in Tax Pools (Changed)

Funds held in tax pools are recognised as a Crown asset. There is a risk that funds held in these pools may be withdrawn by that taxpayer, resulting in a reduction in the Crown's available cash reserves. The risk of withdrawal is larger in economic downturn as taxpayers are more likely to withdraw deposits. Conversely, there is also a risk that tax pool deposits will increase if Inland Revenue's use of money interest rates remains unchanged and the Reserve Bank moves to negative interest rates.

Research and Development Tax Incentive (Unchanged)

The Government has implemented a Research and Development (R&D) Tax Incentive, which allows eligible firms to deduct a percentage of their expenditure on R&D against their tax liability to the Crown. Under certain circumstances, eligible firms may receive a cash payment in place of a tax credit. There is a risk that costs may differ from forecasts owing to the limited availability of data for forecasting purposes on future R&D expenditure, including how firms' R&D expenditure will respond to the subsidy. Additionally, international experience shows that costs of R&D tax credits can be significantly higher than expected if firms recategorise other types of expenditure as R&D in order to claim the credit. Costs may also differ from forecasts as the investment environment can change quickly.

Small Business Cashflow Scheme (New)

The Small Business Cashflow Scheme was introduced to support small-to-medium businesses affected by COVID-19. There is a variance risk that the value of the lending may differ from what is currently forecast, either positively or negatively, as the lending under the scheme is dependent on demand until the application closing date of 31 December 2020. As new lending occurs, an initial write-down to fair value is made. This reflects the cost the Crown incurs in making a loan at below-market terms and the risk that borrowers will not repay their loans. The fair value of the scheme will depend on the amount of loans and the assumptions around borrower repayments and defaults over the life of the scheme. The fair value assumptions made to project borrower repayments and discount them to today's dollars rely on volatile factors that are subject to change.

Student Loans – Valuation (Unchanged)

The value of student loans is sensitive to assumptions such as borrowers' future incomes and general economic factors such as interest rates, unemployment levels, salary inflation and the Consumers Price Index. As new lending occurs, an initial write-down to fair value is made, and an expense is incurred, reflecting the cost the Crown incurs in making an interest-free loan and the risk that borrowers may not repay their loans. However, the assumptions made at the time of lending rely on volatile factors that are subject to change.

Transformation and Technology Renewal (Unchanged)

The Business Transformation programme agreed by the previous Government in 2015 is reflected in the fiscal forecasts. There are risks that the remaining implementation costs, revenue gains and operating costs savings may differ from forecasts. In addition, changes in government policies could materially affect the programme's costs and benefits.

Social Development

Quarterly Employment Survey Redevelopment (Changed)

Stats NZ is redeveloping the Quarterly Employment Survey, which will change the way average wages are calculated from the current approach. There are several ways in which the new survey will differ, and the exact impact of this is uncertain. New Zealand Superannuation and Veteran's Pension rates are linked to the level of the net average wage, while other main benefit rates (such as Jobseeker Support, Sole Parent Support and the Supported Living Payment) are indexed to annual movements in net wages. Current estimates indicate redevelopment would likely increase costs to the Crown; however, this is unable to be quantified owing to ongoing uncertainty.

Transport

Auckland City Rail Link (Unchanged)

The Government has committed to fund 50% of the costs associated with the City Rail Link project, which is estimated to cost $4.4 billion. Based on this estimate, the Government's contribution to the project will be around $2.2 billion. There is a risk that the timing, scope and amount of the Government's contribution to the project could be different from what is included in the fiscal forecasts.

Treaty of Waitangi Negotiations

Relativity Clause (Unchanged)

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. Now that the total redress amount for all historical Treaty settlements exceeds $1.0 billion in 1994 present-value terms, the mechanism provides that the Crown is liable to make payments to maintain the real value of Ngāi Tahu's and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17.0% for Waikato-Tainui and 16.1% for Ngāi Tahu. There is a risk that the timing and amount of the expense for the relativity payments may differ from the fiscal forecasts. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

Treaty Settlement Forecasts (Unchanged)

The fiscal forecasts include provision for the cost of future Treaty settlements. Given that settlements are finalised through negotiations, there is a risk that the timing and amount of the settlements could be different from the profile included in the fiscal forecasts.

Veterans

Veterans' Disability Entitlements (New)

The fiscal forecasts include a liability for payments to veterans deemed to be in relation to their service rendered. On 28 July 2020, the Minister for Veterans announced new declarations of qualifying operational service, which may result in an increase in the liability. The fiscal impacts of this announcement have not been reflected in the fiscal forecasts, as they could not be quantified prior to the forecast finalisation date.

Cross-portfolio Specific Fiscal Risks

Addressing the Gender Pay Gap in the State Sector (Changed)

The Government has made a commitment to addressing the gender pay gap in the core public service. The *Eliminating the Public Service Gender Pay Gap 2018-20 Action Plan Progress Report* was released in July 2020 and highlights that good progress has been made towards closing this gap. Fulfilling the remainder of this commitment will involve costs to the Crown.

Budget 2020 Priority Packages (Unchanged)

In the *Budget Policy Statement 2020*, the Government signalled its intention to focus on five wellbeing priority areas in Budget 2020. As a result of COVID-19, however, packages to address these priority areas were not included in Budget 2020, which focused on funding existing cost pressures and responding to COVID-19. It remains the Government's intention to progress parts of these priority packages, but the timing for doing this is yet to be determined.

Changes to Institutional Form of Government Agencies (Unchanged)

The Government has announced a number of policy commitments that involve changes to the machinery of government. These commitments are likely to involve changes to the composition and structure of existing government departments. Where the additional resourcing and other costs of these changes cannot be met through baseline expenditure, further Crown funding may be required.

Increasing the Minimum Wage (Unchanged)

Government policy decisions to increase the minimum wage to $20 by April 2021 will mean increased costs to State sector employers to the extent that their employees receive a direct increase in wages. Where costs cannot be absorbed within baselines without compromising service delivery, funding may be sought.

Information and Communications Technology Operating and Capital Pressures (New)

A number of agencies are facing increasing operating and capital pressures related to ageing information and communications technology (ICT) assets and capability that are no longer fit for purpose. In addition, COVID-19 has highlighted the need for some agencies, particularly in the Education sector, to expand existing digital services, in line with increased demand and changed circumstances. This risk is aligned with the need for agencies to transition to cloud based solutions in line with the Government's Cloud-First policy. These pressures are fiscal risks to the extent that they cannot be managed through agencies' existing balance sheets and/or other funding mechanisms as outlined in this chapter.

New Zealand Upgrade Programme (Unchanged)

The New Zealand Upgrade Programme was announced in December 2019. The programme provides funding for significant capital investments. Operating expenses still need to be provided for some projects and there remains a risk regarding the timing of the capital projects that have been reflected in the fiscal forecasts.

Non-government Providers Receiving Funding from the Crown (Unchanged)

The Government is facing ongoing pressure from non-government providers of Crown-funded services to fund a greater proportion of their costs, or to fund cost pressures. This includes providers in the health, disability, welfare, justice, and child protection sectors.

Other Capital Cost Pressures (Changed)

Agencies are likely to face capital expenditure pressures related to replacing ageing infrastructure and other capital requirements driven by demand pressures. These pressures are risks to the fiscal forecasts to the extent that they cannot be managed through agencies' existing balance sheets and baselines, new capital spending set aside in forecasts from the multi-year capital allowance, or other funding mechanisms (eg, Crown Infrastructure Partners). The Government's stated intention is that all pressures are managed through these mechanisms.

Other Operating Cost Pressures (Changed)

As in previous years, agencies are likely to face operating expenditure pressures in the future as a result of changes in the demand for and price of the services they provide or because some of their funding is time limited. The majority of spending by agencies is not automatically adjusted for increases driven by demand or price pressures. These pressures and those arising from time-limited funding are risks to the fiscal forecasts to the extent that they cannot be managed through reprioritisation or new spending set aside in the forecasts. The Government's stated intention is that all pressures are managed through these mechanisms.

Outcomes from Other Government Inquiries and Reviews (Unchanged)

A number of inquiries and reviews across government (not specifically mentioned elsewhere in this chapter) are underway or have recently released findings. At this point it is uncertain what the fiscal impact from the outcomes of these reviews may be.

Pay Equity Claims Following the Care and Support Worker Settlement (Unchanged)

A number of claims have been raised, mainly from workers in the social sectors (including health, education and welfare), in relation to the Equal Pay Act 1972 providing for pay equity (equal pay for work of equal value). The forecasts include an estimate of the expected cost to settle current and future claims; however, there is a risk that the costs may differ depending on the number of further claims that are raised and the outcomes reached from applying the pay equity principles to each particular claim.

Policy Responses to the 15 March 2019 Terror Attacks (Unchanged)

The Government has made several responses to the 15 March 2019 terror attacks. Further responses may be needed including policy and legislative amendments. In addition, there are likely to be further costs associated with responding to the Royal Commission of Inquiry into the Attack on Christchurch Mosques on 15 March 2019, which are unable to be quantified at this point.

Possible Responses to the 2020 Referendums on Cannabis Law Reform and End of Life Choice (Unchanged)

The Government has committed to holding referendums, at the General Election in October 2020, on legalising the use of cannabis and on end of life choice. The cost of conducting the referendums has been provided for in the forecasts. However, there could be associated impacts on the Government's operating balance should current legal frameworks change as an outcome of the referendums.

Services Funded by Third Parties (Changed)

A wide range of government services are funded through third-party fees and charges. Demand for these services can vary, with a direct effect on revenue received. If revenue collected is lower than the total costs of providing the service, there is a risk that the Government may need to provide additional funding or that changes will be required to the way government services are delivered, which could result in costs to the Crown. As a result of COVID-19 the Government has, through the COVID-19 Response and Recovery Fund, provided additional funding, particularly, but not exclusively, to New Zealand's border agencies. If the ongoing impacts of COVID-19 on revenue received from third parties are worse than forecast or last for longer, further additional government funding may be required.

State Sector Employment Agreements (Unchanged)

All collective agreements in the State sector are due to be renegotiated over the forecast period. As well as direct fiscal implications for the employers of workforces covered by any changes to remuneration, the renegotiation of agreements can have flow-on effects for remuneration in other employers across the sector.

Transitioning to an Electric Vehicle Fleet in the State Sector (New)

The Government has set a target of having all light vehicles in the government fleet emissions-free, where practicable, by 2025/26. The costs associated with transitioning to an electric vehicle fleet have not been included in the fiscal forecasts. To the extent that agencies are unable to meet such costs from within baselines, further funding may be required.

Unexpected Maintenance for Crown-owned Buildings (Unchanged)

There is a possibility that the Crown will incur costs when unexpected maintenance is required for the buildings it owns. Examples include earthquake strengthening for some of the buildings that do not meet modern building standards and maintenance for buildings with weather-tightness issues. The likelihood, timing and fiscal impact of any repairs are uncertain.

Risks Removed Since the *Budget Update*

Portfolio	Title	Reason for expiry
ACC	Legal Claims and Proceedings	A Court of Appeal decision allowing an appeal by ACC against a High Court decision removes the ongoing fiscal risk.
Foreign Affairs	APEC 2021	Owing to COVID-19, the Minister of Foreign Affairs has announced that APEC 2021 will be a virtual event. Accordingly, all costs can now be met from within the existing appropriation.
Greater Christchurch Regeneration	Christchurch Central Recovery Plan – Anchor Projects	As most anchor projects have now been completed or the development expenses are included in the fiscal forecasts, the materiality of this risk is below the threshold for publication.
Housing	Infrastructure Funding and Financing to Improve Housing Affordability	The Infrastructure Funding and Financing Act 2020, to which this risk related, has now been passed.
Housing	Progressive Home Ownership	This has been accounted for in the fiscal forecasts. The launch of the first phase of the Progressive Home Ownership scheme was announced by the Government on 24 July 2020.
Revenue	Loss Continuity	This is now included in the fiscal forecasts. The Government intends to introduce legislation on this, and for the policy to apply to the relevant tax year.

Contingent Liabilities and Contingent Assets

Contingent liabilities are possible costs that have arisen from past events, but the amount of the liability, or whether it will eventuate, will not be confirmed until a particular event occurs; or they are present liabilities that are unable to be measured with sufficient reliability to be recorded in the fiscal forecasts.

Typically, contingent liabilities consist of guarantees and indemnities, uncalled capital, and legal disputes and claims. The contingent liabilities facing the Crown are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation.

In general, if a guarantee or indemnity qualifies as a financial guarantee contract, or the amount becomes sufficiently reliable to record as a liability, it would reduce the operating balance and net worth. When a contingent liability crystallises, and is settled, there is an increase in net core Crown debt. In the case of some contingencies (eg, uncalled capital) the negative impact would be restricted to net core Crown debt because the cost would be offset by the acquisition of an asset.

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

Contingent assets are possible assets that have arisen from past events but the amount of the asset, or whether it will eventuate, will not be confirmed until a particular event occurs.

Only contingent liabilities and contingent assets involving amounts of over $100 million are separately disclosed in this chapter. Quantifiable contingencies of less than $100 million are aggregated in the ‘other quantifiable’ total.

Some contingencies of the Crown are not able to be quantified. We have disclosed unquantifiable contingent liabilities and unquantifiable contingent assets that potentially could have an impact of more than $20 million and are not expected to be remote.[28]

The contingencies have been stated as at 30 June 2020, being the unaudited actuals.

[28] ‘Remote’ is defined as being an item with a less than 10% chance of occurring.

Quantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities

	Status[29]	30 June 2020 Unaudited Actual ($millions)
Uncalled capital		
Asian Development Bank	Unchanged	3,315
International Monetary Fund – promissory notes	Unchanged	2,058
International Bank for Reconstruction and Development	Unchanged	1,724
International Monetary Fund – arrangements to borrow	Unchanged	693
Asian Infrastructure Investment Bank	Unchanged	575
Other uncalled capital	Unchanged	19
		8,384
Guarantees and indemnities		
New Zealand Export Credit Office guarantees	Unchanged	127
Other guarantees and indemnities	Unchanged	136
		263
Legal proceedings and disputes		
Legal tax proceedings	Unchanged	189
Other legal proceedings and disputes	Unchanged	257
		446
Other quantifiable contingent liabilities		
Unclaimed monies	Unchanged	183
Ministry for Primary Industries	Unchanged	132
Other quantifiable contingent liabilities	Unchanged	170
		485
Total quantifiable contingent liabilities		**9,578**

Contingent assets

		30 June 2020 Unaudited Actual ($millions)
Legal proceedings and disputes		
Other contingent assets	Unchanged	45
Total quantifiable contingent assets		**45**

The 'Air New Zealand Partnership' contingent liability reported in the *Budget Update* is now less than $100 million as at 30 June 2020, and has been aggregated into the 'other quantifiable contingent liabilities' total above.

29 Status of contingent liabilities or assets when compared with the *Budget Update* published on 14 May 2020.

Unquantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities

Indemnities	**Status**
Contact Energy Limited	Unchanged
Earthquake Commission (EQC)	Unchanged
Genesis Energy	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Partners	Unchanged
New Zealand Aluminium Smelter and Comalco	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
New Zealand Transport Agency (NZTA)	New
Reserve Bank	Unchanged
Southern Response Earthquake Services Limited (SRES)	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
Legal claims and proceedings	
Accident Compensation Corporation (ACC) litigation	Unchanged
Aquaculture Settlements	New
Canterbury insurance disputes	Unchanged
Kiwifruit vine disease Psa-V	New
Ministry for Primary Industries – Biosecurity Act 1993 compensation	Unchanged
Treaty of Waitangi claims	Unchanged
Wakatu	Unchanged
Other unquantifiable contingent liabilities	
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Holidays Act 2003 and other relevant legislation	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged

The ‘Remediation of per- and poly-fluoroalkyl substances contamination’ contingent liability reported in the *Budget Update* has been removed as it is considered to be remote.

Description of Contingent Liabilities

Quantifiable contingent liabilities over $100 million

Uncalled capital

As part of the Crown's commitment to a multilateral approach to ensure global financial and economic stability, New Zealand, as a member country of the organisations listed below, contributes capital by subscribing to shares in certain institutions. The capital (when called) is typically used to raise additional funding for loans to member countries, or in the case of the quota contributions to directly finance lending to members. For New Zealand and other donor countries, capital contributions comprise both 'paid-in' capital and 'callable capital or promissory notes'.

The Crown's uncalled capital subscriptions over $100 million are as follows:

Uncalled capital	**30 June 2020 $millions**	**30 June 2019 $millions**
Asian Development Bank	3,315	3,216
International Monetary Fund – promissory notes	2,058	2,145
International Bank for Reconstruction and Development	1,724	1,654
International Monetary Fund – arrangements to borrow	693	660
Asian Infrastructure Investment Bank	575	551

Guarantees and indemnities

Guarantees are legally binding promises made by the Crown to assume responsibility for a debt, or the performance of an obligation of another party, should that party default. Guarantees generally relate to the payment of money but may require the performance of services.

Indemnities are legally binding promises where the Crown undertakes to accept the risk of loss or damage that another party may suffer and to hold the other party harmless against loss caused by a specific stated event(s).

Business Finance Guarantee Scheme

The Crown has established a Business Finance Guarantee Scheme with a number of banks to support New Zealand businesses facing hardship as a consequence of COVID-19. Under this scheme, the Crown has indemnified approved banks for an amount equal to 80% of the shortfall that arises in relation to a supported loan in default. As these indemnities are financial guarantee contracts, the fair value of the contract, and the expense arising, has been quantified and incorporated into the forecasts.

New Zealand Export Credit Office guarantees

The New Zealand Export Credit Office provides a range of guarantee products to assist New Zealand exporters to manage risk and capitalise on trade opportunities around the globe. The obligations to third parties are guaranteed by the Crown and are intended to extend the capacity of facilities in the private sector.

$127 million at 30 June 2020 ($109 million at 30 June 2019)

Legal proceedings and disputes

Legal tax proceedings

When a taxpayer disagrees with an assessment issued following the dispute process, the taxpayer may challenge that decision by filing proceedings with the Taxation Review Authority or the High Court. This contingent liability represents the maximum liability Inland Revenue has in respect of these cases.

$189 million at 30 June 2020 ($134 million at 30 June 2019)

Other quantifiable contingent liabilities

Unclaimed monies

Under the Unclaimed Money Act 1971, entities (eg, financial institutions, insurance companies) hand over money not claimed after six years to Inland Revenue. The funds are repaid to the entitled owner on proof of identification.

$183 million at 30 June 2020 ($174 million at 30 June 2019)

Ministry for Primary Industries – Biosecurity Act compensation

Under section 162A of the Biosecurity Act 1993, compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property or restrictions on the movement of a person's goods. The Ministry for Primary Industries has been notified compensation will be sought following its responses for incursions including pea weevil, *Bonamia ostreae*, kauri dieback and other minor incursions, as well as claims for losses incurred following the destruction of bud-stock, known as the post-entry quarantine response. Infectious bursal disease virus claims are also expected based on discussions with industry. These claims can be quantified but do not meet the tests for recognising a provision.

$132 million at 30 June 2020 ($138 million at 30 June 2019)

Unquantifiable contingent liabilities

This part of the statement provides details of the contingent liabilities of the Crown which are not quantified, excluding those that are considered remote, reported by indemnities, legal disputes, and other contingent liabilities.

The indemnities and claims that are disclosed individually, while they cannot be quantified, have the potential to exceed $20 million in costs and are not considered to be remote.

Indemnities

A number of these indemnities are provided to organisations within the Crown's control. If these indemnities were to crystallise, the Crown would compensate the individual entity for the loss and there would likely be an adverse impact on core Crown expenses and net core Crown debt.

Party indemnified	Instrument of indemnification	Actions indemnified
Contact Energy Limited	The Crown and Contact Energy signed a number of documents to settle in full Contact Energy's outstanding land rights and geothermal asset rights at Wairakei	The documents contained two reciprocal indemnities between the Crown and Contact to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Earthquake Commission (EQC)	Section 16 of the Earthquake Commission Act 1993	As set out in the Earthquake Commission Act 1993, the Crown shall fund any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions as the Minister of Finance determines.
Genesis Energy	Genesis acquisition of Tekapo A & B power stations	Indemnity against any damage to the beds of lakes and rivers subject to operating easements.
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Section 50 of the District Courts Act 2016, section 4F of the Justices of the Peace Act 1957 and section 58 of the Disputes Tribunal Act 1988	Damages or costs awarded against them as a result of exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.
Maui Partners	Confidentiality agreements with Maui Partners in relation to the provision of gas reserves information	Any losses arising from a breach of the deed.
New Zealand Aluminium Smelter and Comalco	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill	Costs incurred in removing the dross and disposing of it at another site by an appropriate authority. Removal of the dross is currently underway.
New Zealand Local Authorities	Section 39 of the Civil Defence Emergency Management Act 2002 – National Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that, with the approval of the Minister, the Government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide was approved and issued by the Director of Civil Defence Emergency Management.
New Zealand Railways Corporation	Section 10 of the Finance Act 1990	Guarantees all loan and swap obligations of the New Zealand Railways Corporation.

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Transport Agency (NZTA)	Deed of Indemnity pursuant to section 65ZD of the Public Finance Act 1989	The indemnity is provided to NZTA in respect of additional payments such as a Māori Claim or a Natural Disaster Event, any failure to pay, and compensation amounts on termination of the Project Agreement to the contractors of Transmission Gully and Puhoi to Warkworth.
Reserve Bank	A letter of indemnity provided by the Crown to the Reserve Bank to cover losses arising from the large-scale asset purchases of Indemnified Bonds	In March 2020, the Crown agreed to indemnify the Reserve Bank in respect of all losses which the Reserve Bank incurs in respect of Indemnified Bonds. The scale of coverage was expanded in May 2020. The Crown may terminate coverage for any additional purchases at any time after 30 September 2021 by giving one day's notice to the Reserve Bank. Otherwise, obligations under this letter of indemnity may be terminated by agreement between the Crown and the Reserve Bank if they both believe the Large Scale Asset Purchases (LSAP) programme is no longer needed as a monetary policy tool. Termination of this indemnity will not release the Crown from any liability in respect of losses occurring after 30 September 2021 in respect of the already purchased Indemnified Bonds. Indemnified Bonds means all New Zealand domestic nominal government bonds, inflation-indexed government bonds and Local Government Funding Authority bonds purchased by the Reserve Bank under the LSAP programme prior to 30 September 2021. Included are reinvestments of maturing bonds up to the cap. The cap is 50%, 30% and 30% of the respective markets.
Southern Response Earthquake Services Limited (SRES)	Deed of Indemnity	SRES continues to work through and settle the claims of AMI residential policyholders that arose from the Canterbury earthquake series. However, it has not proven possible to settle some claims through the normal internal process or with external assistance such as mediation. In light of certain litigation that has arisen, the Minister of Finance provided SRES with a Deed of Indemnity in relation to that litigation on 25 September 2018.

Party indemnified	Instrument of indemnification	Actions indemnified
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI, which has since been transferred to Methanex Motunui Limited.
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master	The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited dated 24 September 2015. The Crown has indemnified Westpac New Zealand Limited: • for all amounts paid by Westpac New Zealand under letters of credit issued on behalf of the Crown, and • against certain costs, damages and losses to third parties resulting from: - unauthorised, forged or fraudulent payment instructions - unauthorised or incorrect direct debit instructions, or - cheques mistakenly drawn in favour of a third party rather than in favour of the Crown.

Legal claims and proceedings

Numerous legal actions have been brought against the Crown. However, in the majority of these actions it is considered a remote possibility that the Crown would lose the case, or if the Crown were to lose it would be unlikely to have greater than a $20 million impact. Based on these factors, not all legal actions are individually disclosed. The claims that are disclosed individually, while they cannot be quantified, have the potential to exceed $20 million in costs.

Accident Compensation Corporation (ACC) litigation

Litigation involving ACC arises mainly from challenges to operational decisions made by ACC through the statutory review and appeal process. No accrual has been made for contingent liabilities, which could arise, as these disputes are issue based and ACC's active management of litigation means that it will be either settling or defending, depending on the merits of the issue in dispute. ACC's Board believes the resolution of outstanding appeals will not have any material effect on the financial statements of ACC and therefore are not material for the Crown.

Aquaculture settlements

Under the Māori Commercial Aquaculture Claims Settlement Act 2004, the Crown is obligated to provide regional Iwi with 20% of future aquaculture growth. This settlement is unusual because it is an ongoing and prospective settlement. As aquaculture in New Zealand grows, settlement obligations arise. Iwi may choose to accept settlement as either cash, marine rights, or a combination following the negotiation process. The amount and timing of settlements are therefore uncertain, as they are dependent on sector growth, as well as the preferred nature of settlement. This results in challenges with regard to reliably estimating the Crown's potential obligations. The contingency is therefore unquantified.

Canterbury insurance disputes

Southern Response Earthquake Services Limited (SRES) from time to time receives notification of legal claims and disputes in relation to claim settlements as a commercial outcome of conducting its business.

A representative action proceeding was filed against SRES on 29 May 2018. The financial statements make no allowance for the outcome of these proceedings, as the range of possible outcomes cannot be reliably quantified at this time. These claims are being defended because there is a wide range of potential outcomes, and any estimate of a possible obligation resulting from this proceeding would be unreliable.

Kiwifruit vine disease Psa-V

Approximately 210 growers, represented by Strathboss Kiwifruit Limited, filed a claim against the Ministry for Primary Industries alleging it is legally liable for damages they have suffered from a biosecurity incursion of the kiwifruit vine disease Psa-V in New Zealand. On 27 June 2018, the High Court found that the Ministry owed a duty of care to Strathboss and claimants. The Court of Appeal overturned the High Court's decision, finding that the Ministry for Primary Industries did not owe a duty of care to Strathboss and claimants. Strathboss is appealing the decision to the Supreme Court and the Supreme Court has given leave to appeal. The Ministry for Primary Industries is still unable to quantify Strathboss's claim because the extent of any loss will be decided at a second trial in the High Court. Unless the Supreme Court finds the Crown is liable, this trial will not occur, and the claim will not be quantified.

Ministry for Primary Industries – Biosecurity Act compensation

Under section 162A of the Biosecurity Act 1993, compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property, or restrictions on the movement of a person's goods. The Ministry for Primary Industries has been notified that compensation will be sought following its response to the *Mycoplasma bovis* incursion. The contingent liability resulting from the *Mycoplasma bovis* outbreak is unquantified because the Ministry for Primary Industries is unable to reliably estimate the period of time losses will be incurred as a result of its actions under the Biosecurity Act 1993. To the extent that an obligation can be quantified, an amount is recognised in the Financial Statements of the Government. As at 30 June 2020, a quantified contingent liability of $132 million has been recognised.

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge with the Waitangi Tribunal certain claims relating to land or actions counter to the principles of the Treaty. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Crown with respect to land which has been transferred by the Crown to a State-owned enterprise (SOE), universities, wānanga or New Zealand Institute of Skills and Technology, or is subject to the Crown Forest Assets Act 1989.

On occasion, Māori claimants pursue the resolution of particular claims against the Crown through higher courts. Failure to successfully defend such actions may result in a liability for historical Treaty grievances in excess of that currently anticipated.

Wakatu

Crown Law is acting for the Attorney-General on behalf of the Crown in right of New Zealand in Proprietors of *Wakatu v Attorney-General (CIV 2010-485-181)*, in which it is claimed that the Crown breached trust, fiduciary and other equitable obligations relating to land transactions in the top of the South Island in the 1840s. The plaintiff seeks the return of land they say the Crown holds on trust for the successors of the original owners and compensation, or other relief, for alleged breach of trust, fiduciary and other equitable obligations. In February 2017, the Supreme Court held that the Crown owed a fiduciary duty in relation to the land transactions concerned, but remitted matters of breach, defences and remedy to the High Court for a further hearing or hearings. The matter is large and complex and could take up to a further 10 years to resolve.

Other unquantifiable contingent liabilities

Criminal Proceeds (Recovery) Act 2009

The Ministry of Justice is responsible for administering the Criminal Proceeds (Recovery) Act 2009. The Act requires the Crown to give an undertaking as to damages or costs in relation to asset restraining orders. In the event that the Crown is found liable, payment may be required.

Environmental liabilities

Under common law and various statutes, the Crown may have a responsibility to remedy adverse effects on the environment arising from Crown activities. Entities managing significant Crown properties have implemented systems to identify, monitor and assess potential contaminated sites.

In accordance with PBE IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets, any contaminated sites for which costs can be reliably measured have been included in the statement of financial position as provisions. Where costs cannot be reliably measured, they are disclosed as an unquantified contingent liability.

Holidays Act compliance

A number of entities have commenced or completed a review of calculations in recent years to ensure compliance with the Holidays Act 2003. Where possible, a provision has been made in these financial statements for obligations arising from those reviews that have been made in the current year or previous years. To the extent that an obligation cannot reasonably be quantified, there is an unquantified contingency. Further work continues to be undertaken by entities to calculate the potential liability. For some entities, there are complexities and this issue is taking longer to resolve (eg, District Health Boards and schools).

Treaty of Waitangi claims – settlement relativity payments – see page 117

Description of Contingent Assets

There are no material quantifiable or unquantifiable contingent assets at 30 June 2020.

4

Forecast Financial Statements

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

They are based on the accounting policies and assumptions that follow. As with all such assumptions, there is a degree of uncertainty surrounding them. This uncertainty increases as the forecast horizon extends. There are risks to the fiscal forecasts which are discussed further in the Risks to the Fiscal Forecasts chapter.

The forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. They reflect all government decisions and circumstances communicated to 7 September 2020.

The finalisation dates and key assumptions that underpin the preparation of the Forecast Financial Statements are outlined in the Fiscal Outlook chapter (pages 39 to 83).

Statement of Accounting Policies

Significant Accounting Policies

The Forecast Financial Statements have been prepared in accordance with the accounting policies that are expected to be used in the comparable audited actual Financial Statements of the Government. They comply with generally accepted accounting practice (GAAP) as required by the Public Finance Act 1989 and have been prepared in accordance with *Public Benefit Entity Financial Reporting Standard 42: Prospective Financial Statements*.

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

The Forecast Financial Statements reflect the accounting standards in place in the year that they are prepared. Adoption of new accounting standards in future financial years are consequently not reflected in these Forecast Financial Statements. Where accounting standards are to be adopted within the fiscal forecasts period, this has been signalled in the note disclosures where impacts may be significant.

The specific accounting policies are included on the Treasury's website at https://treasury.govt.nz/information-and-services/state-sector-leadership/guidance/financial-reporting-policies-and-guidance/accounting-policies

Forecast Policies

The Forecast Financial Statements have been prepared on the basis of the Treasury's best professional judgement. Actual financial results for the periods covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Statements and the actual reported results in future years are set out in the Risks to the Fiscal Forecasts chapter on pages 85 to 132. Key forecast assumptions are set out on pages 49 to 50.

Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2020 to 30 June 2024. The "2020 Previous Budget" figures are the original forecasts to 30 June 2020 as presented in the 2019 *Budget Update* and the "2020 Unaudited Actual" figures are the actual results for the year ended 30 June 2020 that are currently subject to audit. The "2019 Actual" figures are the audited results reported in the Financial Statements of the Government (FSG) for the year ended 30 June 2019, except where balances have been restated to reflect the adoption of the following accounting standards from 1 July 2019:

- PBE IPSAS 35: Consolidated Financial Statements, and
- PBE IPSAS 39: Employee Benefits (updated).

A reconciliation between the key indicators published in the FSG for the year ended 30 June 2019 and the comparative numbers published in this document as a result of these changes is included in note 17.

Government Reporting Entity as at 7 September 2020

These forecast financial statements are for the Government Reporting entity as specified in Part 3 of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities (classified in the three institutional components used for segmental reporting). The following tables list the Entities within each institutional Component. (Subsidiaries are consolidated by their parents and not listed separately).

Core Crown Segment

Departments

Crown Law Office

Department of Conservation

Department of Corrections

Department of Internal Affairs

Department of the Prime Minister and Cabinet – (includes National Emergency Management Agency as departmental agency)

Education Review Office

Government Communications Security Bureau

Inland Revenue Department

Land Information New Zealand

Ministry for Culture and Heritage

Ministry for Pacific Peoples

Ministry for Primary Industries

Ministry for the Environment

Ministry for Women

Ministry of Business, Innovation, and Employment

Ministry of Defence

Ministry of Education

Ministry of Foreign Affairs and Trade

Ministry of Health – (includes Cancer Control Agency as departmental agency)

Ministry of Housing and Urban Development

Ministry of Justice - (includes Te Arawhiti – Office for Māori Crown Relations as departmental agency)

Ministry of Māori Development

Ministry of Social Development

Ministry of Transport

New Zealand Customs Service

New Zealand Defence Force

New Zealand Police

New Zealand Security Intelligence Service

Office of the Clerk of the House of Representatives

Oranga Tamariki, Ministry for Children

Parliamentary Counsel Office

Parliamentary Service

Public Service Commission - (includes Social Wellbeing Agency as a departmental agency)

Serious Fraud Office

Statistics New Zealand

Te Kāhui Whakamana Rua Tekau mā Iwa – Pike River Recovery Agency

The Treasury

Offices of Parliament

Controller and Auditor-General

Office of the Ombudsman

Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund

Reserve Bank of New Zealand

State-owned Enterprises Segment

State-owned Enterprises

Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
KiwiRail Holdings Limited
Kordia Group Limited
Landcorp Farming Limited
Meteorological Service of New Zealand Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act Schedule 5)

Genesis Energy Limited
Mercury NZ Limited
Meridian Energy Limited

Other

Air New Zealand Limited
Kiwi Group Holdings Limited (including Kiwibank)

Crown Entities Segment

Crown Entities

Accident Compensation Corporation
Accreditation Council
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Children's Commissioner
Civil Aviation Authority of New Zealand
Climate Change Commission
Commerce Commission
Criminal Cases Review Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
District Health Boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Financial Markets Authority
Fire and Emergency New Zealand
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Promotion Agency
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Human Rights Commission
Independent Police Conduct Authority
Kāinga Ora - Homes and Communities
Law Commission
Maritime New Zealand
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood Service
New Zealand Film Commission
New Zealand Growth Capital Partners (previously New Zealand Venture Investment Fund)
New Zealand Infrastructure Commission/ Te Waihanga
New Zealand Institute of Skills and Technology
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,420)
Social Workers Registration Board
Sport and Recreation New Zealand
Takeovers Panel
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Transport Accident Investigation Commission
WorkSafe New Zealand

Crown Entities Segment (continued)

Organisations listed in schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust

Asia New Zealand Foundation

Fish and Game Councils (12)

Game Animal Council

Māori Trustee

National Pacific Radio Trust

New Zealand Fish and Game Council

New Zealand Game Bird Habitat Trust Board

New Zealand Government Property Corporation

New Zealand Lottery Grants Board

Ngāi Tahu Ancillary Claims Trust

Pacific Co-operation Foundation

Pacific Island Business Development Trust

Reserves Boards (21)

Te Ariki Trust

Legal entities created by Treaty of Waitangi settlement Acts (Public Finance Act Schedule 6)

Te Urewera

Non-listed companies in which the Crown is majority or sole shareholder (Public Finance Act Schedule 4A)

Crown Asset Management Limited

Crown Infrastructure Partners Limited

Education Payroll Limited

New Zealand Green Investment Finance Limited

Ōtākaro Limited

Predator Free 2050 Limited

Provincial Growth Fund Limited

Research and Education Advanced Network New Zealand Limited

Southern Response Earthquake Services Limited

Tāmaki Redevelopment Company Limited

The Network for Learning Limited

Others

Christ Church Cathedral Reinstatement Trust

Venture Capital Fund

Other entities not fully consolidated into the forecast financial statements of the Government with only the Crown's interest in them being included.

Crown entities

Tertiary Education Institutions (11)

(8 Universities and 3 Wānanga)

Non-listed companies in which the Crown is majority or sole shareholder (Public Finance Act Schedule 4A)

City Rail Link Limited

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Revenue								
Taxation revenue	1	85,723	88,541	84,335	84,169	83,623	91,804	97,699
Other sovereign revenue	1	6,028	6,027	6,269	6,283	6,677	7,451	8,100
Total Revenue Levied through the Crown's Sovereign Power		**91,751**	**94,568**	**90,604**	**90,452**	**90,300**	**99,255**	**105,799**
Sales of goods and services		19,796	19,041	18,438	15,970	17,213	18,289	18,804
Interest revenue	2	2,646	2,748	2,300	2,247	2,271	2,487	2,669
Other revenue		4,949	4,397	4,424	4,305	4,437	4,658	4,874
Total revenue earned through the Crown's operations		**27,391**	**26,186**	**25,162**	**22,522**	**23,921**	**25,434**	**26,347**
Total revenue (excluding gains)		**119,142**	**120,754**	**115,766**	**112,974**	**114,221**	**124,689**	**132,146**
Expenses								
Transfer payments and subsidies	3	28,086	29,690	42,607	37,770	36,003	36,912	38,171
Personnel expenses		25,933	25,711	27,785	28,818	29,083	29,563	29,746
Depreciation		4,554	5,217	5,294	5,650	5,697	5,878	6,068
Other operating expenses	4	42,693	49,012	52,618	56,592	50,627	49,069	49,140
Finance costs	2	4,298	4,181	3,773	2,544	2,037	2,475	3,198
Insurance expenses	5	5,812	5,547	6,903	6,602	6,579	6,944	7,482
Forecast new operating spending	6	-	1,266	-	10,057	7,431	8,467	11,048
Top-down expense adjustment	6	-	(1,400)	-	(3,500)	(1,550)	(850)	(800)
Total expenses (excluding losses)		**111,376**	**119,224**	**138,980**	**144,533**	**135,907**	**138,458**	**144,053**
Minority interest share of operating balance before gains/(losses)		(337)	(375)	(144)	(136)	(365)	(422)	(468)
Operating balance before gains/(losses) (excluding minority interests)		**7,429**	**1,155**	**(23,358)**	**(31,695)**	**(22,051)**	**(14,191)**	**(12,375)**
Net gains/(losses) on large scale asset purchases	2	-	-	(3,258)	(6,095)	(1,657)	-	-
Net gains/(losses) on financial instruments	2	4,444	3,290	1,906	3,396	3,724	4,136	4,535
Net gains/(losses) on non-financial instruments	7	(11,575)	(71)	(7,313)	(83)	(74)	(82)	(82)
Less minority interest share of net gains/(losses)		(115)	3	572	(3)	(11)	(26)	(34)
Total gains/(losses) (excluding minority interests)		**(7,246)**	**3,222**	**(8,093)**	**(2,785)**	**1,982**	**4,028**	**4,419**
Net surplus/(deficit) from associates and joint ventures		206	273	1,193	(780)	(29)	123	151
Operating balance (excluding minority interests)		**389**	**4,650**	**(30,258)**	**(35,260)**	**(20,098)**	**(10,040)**	**(7,805)**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.

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

Forecast Analysis of Expenses by Functional Classification

for the years ending 30 June

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Total Crown expenses							
By functional classification[2]							
Social security and welfare	33,902	36,079	49,900	46,127	44,040	44,959	46,667
Health	18,660	18,975	20,410	22,695	20,749	20,692	20,620
Education	15,280	15,868	17,581	17,297	18,481	18,348	18,409
Core government services	4,732	5,589	5,869	5,703	4,726	4,609	5,211
Law and order	5,050	5,369	5,304	5,730	5,606	5,642	5,601
Transport and communications	8,429	11,263	13,011	11,614	10,701	10,804	10,762
Economic and industrial services	10,433	10,184	11,244	11,318	10,530	10,478	10,458
Defence	2,390	2,532	2,482	2,745	2,728	2,719	2,824
Heritage, culture and recreation	2,503	2,772	2,904	3,248	3,050	2,906	2,869
Primary services	2,395	2,500	2,430	3,057	2,116	1,970	1,880
Housing and community development	2,020	2,339	2,450	3,425	3,287	3,284	3,389
Environmental protection	1,108	1,279	1,472	1,683	1,584	1,559	1,483
GSF pension expenses	80	87	87	51	52	71	93
Other	96	341	63	739	339	325	341
Finance costs	4,298	4,181	3,773	2,544	2,037	2,475	3,198
Forecast new operating spending	-	1,266	-	10,057	7,431	8,467	11,048
Top-down expense adjustment	-	(1,400)	-	(3,500)	(1,550)	(850)	(800)
Total Crown expenses excluding losses	**111,376**	**119,224**	**138,980**	**144,533**	**135,907**	**138,458**	**144,053**

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

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Core Crown expenses							
By functional classification[2]							
Social security and welfare	28,740	30,811	44,028	39,897	37,846	38,514	39,899
Health	18,268	19,198	19,891	23,132	21,343	21,407	21,486
Education	14,293	14,919	16,322	15,968	17,252	16,950	17,010
Core government services	5,166	5,610	6,083	5,966	5,155	5,133	5,368
Law and order	4,625	4,890	4,911	5,384	5,147	5,179	5,142
Transport and communications	2,889	3,103	3,179	5,548	3,718	3,758	3,558
Economic and industrial services	3,006	4,328	3,988	4,744	3,798	3,661	3,447
Defence	2,395	2,541	2,499	2,762	2,745	2,736	2,840
Heritage, culture and recreation	918	996	1,106	1,576	1,237	1,050	992
Primary services	960	1,036	961	1,448	906	822	746
Housing and community development	727	897	1,015	1,972	1,535	1,224	1,134
Environmental protection	1,119	1,281	1,485	1,691	1,591	1,567	1,491
GSF pension expenses	66	73	73	30	31	49	71
Other	96	341	63	739	339	325	341
Finance costs	3,691	3,454	3,228	2,044	1,408	1,702	2,364
Forecast new operating spending	-	1,266	-	10,057	7,431	8,467	11,048
Top-down expense adjustment	-	(1,400)	-	(3,500)	(1,550)	(850)	(800)
Total core Crown expenses excluding losses	**86,959**	**93,344**	**108,832**	**119,458**	**109,932**	**111,694**	**116,137**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.
2. The classifications of the functions of the Government reflect current approved baselines. Forecast new operating spending is shown as a separate line item in the above analysis and will be allocated to functions of the Government once decisions are made in future Budgets.

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

Forecast Statement of Comprehensive Revenue and Expense

for the years ending 30 June

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Operating Balance (including minority interest)	**841**	**5,022**	**(30,686)**	**(35,121)**	**(19,722)**	**(9,592)**	**(7,303)**
Other comprehensive revenue and expense							
Revaluation of physical assets	12,474	-	5,118	-	-	-	-
Revaluation of defined benefit retirement plan schemes	(2,615)	-	(1,271)	199	198	192	183
Net revaluations of veterans' disability entitlements	(784)	-	(311)	-	-	-	-
Transfers to/(from) reserves	(202)	8	-	7	40	(3)	7
(Gains)/losses transferred to the statement of financial performance	(2)	(4)	(75)	(30)	3	-	-
Foreign currency translation differences on foreign operations	(31)	-	3	4	-	-	-
Other movements	5	12	38	-	2	2	(4)
Total other comprehensive revenue and expense	**8,845**	**16**	**3,502**	**180**	**243**	**191**	**186**
Total comprehensive revenue and expense	**9,686**	**5,038**	**(27,184)**	**(34,941)**	**(19,479)**	**(9,401)**	**(7,117)**
Attributable to:							
- minority interest	943	359	(341)	127	377	447	503
- the Crown	8,743	4,679	(26,843)	(35,068)	(19,856)	(9,848)	(7,620)
Total comprehensive revenue and expense	**9,686**	**5,038**	**(27,184)**	**(34,941)**	**(19,479)**	**(9,401)**	**(7,117)**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Opening net worth	136,296	136,166	143,339	115,729	80,436	60,610	50,925
Impacts of adoption of NZ PBE IPSAS 35 Inclusion of veterans' disability entitlements	(2,170)	(3,016)	-	-	-	-	-
Adjusted opening net worth	134,126	133,150	143,339	115,729	80,436	60,610	50,925
Operating balance (including minority interest)	841	5,022	(30,686)	(35,121)	(19,722)	(9,592)	(7,303)
Net revaluations of physical assets	9,074	-	5,118	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	-	-	(1,271)	199	198	192	183
Net revaluations of veterans' disability entitlements	-	-	(311)	-	-	-	-
Transfers to/(from) reserves	(202)	8	-	7	40	(3)	7
(Gains)/losses transferred to the Statement of Financial Performance	(2)	(4)	(75)	(30)	3	-	-
Foreign currency translation differences on foreign operations	(31)	-	3	4	-	-	-
Other movements	6	12	38	-	2	2	(4)
Comprehensive income	**9,686**	**5,038**	**(27,184)**	**(34,941)**	**(19,479)**	**(9,401)**	**(7,117)**
Transactions with minority interest	(473)	(508)	(426)	(352)	(347)	(284)	(281)
Closing net worth	**143,339**	**137,680**	**115,729**	**80,436**	**60,610**	**50,925**	**43,527**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.

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

Forecast Statement of Cash Flows

for the years ending 30 June

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Cash Flows from Operations							
Cash was provided from							
Taxation receipts	83,017	87,567	83,157	81,815	83,896	90,526	96,940
Other sovereign receipts	5,187	4,827	5,294	5,144	5,883	6,566	7,041
Sales of goods and services	19,764	19,075	18,289	15,429	17,436	18,380	18,878
Interest receipts	2,528	2,444	2,307	1,741	1,650	2,012	2,199
Other operating receipts	4,563	4,450	4,537	4,378	4,330	4,517	4,661
Total cash provided from operations	**115,059**	**118,363**	**113,584**	**108,507**	**113,195**	**122,001**	**129,719**
Cash was disbursed to							
Transfer payments and subsidies	27,982	30,056	42,945	38,099	36,353	37,285	38,453
Personnel and operating payments	72,079	76,094	77,376	87,055	80,913	80,747	80,485
Interest payments	4,025	3,844	3,849	3,446	2,262	2,796	3,343
Forecast new operating spending	-	1,266	-	10,057	7,431	8,467	11,048
Top-down expense adjustment	-	(1,400)	-	(3,500)	(1,550)	(850)	(800)
Total cash disbursed to operations	**104,086**	**109,860**	**124,170**	**135,157**	**125,409**	**128,445**	**132,529**
Net cash flows from operations	**10,973**	**8,503**	**(10,586)**	**(26,650)**	**(12,214)**	**(6,444)**	**(2,810)**
Cash Flows from Investing Activities							
Cash was provided from/(disbursed to)							
Net (purchase)/sale of physical assets	(8,464)	(10,034)	(8,878)	(12,333)	(12,396)	(11,774)	(9,754)
Net (purchase)/sale of shares and other securities	3,804	(1,757)	(34,317)	(73,048)	(43,700)	16,098	1,786
Net (purchase)/sale of intangible assets	(791)	(951)	(855)	(926)	(615)	(678)	(612)
Net (issue)/repayment of advances	(1,902)	(1,995)	(1,292)	(1,429)	(262)	(929)	(1,887)
Net acquisition of investments in associates	136	(502)	(286)	(403)	(695)	(443)	(95)
Forecast new capital spending	-	(466)	-	(2,663)	(2,085)	(2,704)	(3,234)
Top-down capital adjustment	-	950	-	1,800	500	300	300
Net cash flows from investing activities	**(7,217)**	**(14,755)**	**(45,628)**	**(89,002)**	**(59,253)**	**(130)**	**(13,496)**
Net cash flows from operating and investing activities	**3,756**	**(6,252)**	**(56,214)**	**(115,652)**	**(71,467)**	**(6,574)**	**(16,306)**
Cash Flows from Financing Activities							
Cash was provided from/(disbursed to)							
Net Issue/(repayment) of circulating currency	437	198	1,209	(4)	80	81	82
Net issue/(repayment) of government bonds[2]	(3,536)	3,760	28,622	48,352	36,975	19,811	22,478
Net issue/(repayment) of foreign-currency borrowings	1,487	24	1,192	(3,663)	1	1	1
Net issue/(repayment) of other New Zealand dollar borrowings	(530)	1,814	27,365	71,088	35,487	(12,503)	(4,919)
Dividends paid to minority interests[3]	(504)	(524)	(479)	(424)	(422)	(366)	(371)
Net cash flows from financing activities	**(2,646)**	**5,272**	**57,909**	**115,349**	**72,121**	**7,024**	**17,271**
Net movement in cash	**1,110**	**(980)**	**1,695**	**(303)**	**654**	**450**	**965**
Opening cash balance	18,894	21,768	20,248	22,783	22,480	23,134	23,584
Foreign-exchange gains/(losses) on opening cash	244	5	840	-	-	-	-
Closing cash balance	**20,248**	**20,793**	**22,783**	**22,480**	**23,134**	**23,584**	**24,549**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.
2. Further information on the proceeds and repayments of government bonds is available in note 16.
3. Excludes transactions with ACC and NZS Fund.

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

Forecast Statement of Cash Flows (continued)

for the years ending 30 June

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
Net Cash Flows from Operations	**10,973**	**8,503**	**(10,586)**	**(26,650)**	**(12,214)**	**(6,444)**	**(2,810)**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses)							
Net gains/(losses) on large scale asset purchases	-	-	(3,258)	(6,095)	(1,657)	-	-
Net gains/(losses) on financial instruments	4,444	3,290	1,906	3,396	3,724	4,136	4,535
Net gains/(losses) on non-financial instruments	(11,575)	(71)	(7,313)	(83)	(74)	(82)	(82)
Minority interest share of net gains/(losses)	(115)	3	572	(3)	(11)	(26)	(34)
Total gains/(losses)	**(7,246)**	**3,222**	**(8,093)**	**(2,785)**	**1,982**	**4,028**	**4,419**
Other Non-cash Items in Operating Balance							
Depreciation	(4,554)	(5,217)	(5,294)	(5,650)	(5,697)	(5,878)	(6,068)
Amortisation	(934)	(789)	(2,422)	(799)	(830)	(848)	(842)
Cost of concessionary lending	(763)	(1,072)	(1,279)	(1,021)	(679)	(644)	(601)
Impairment of financial assets (excluding receivables)	(41)	(21)	(53)	(20)	(4)	(10)	(15)
Reversal of Rail network impairment	2,576	-	-	-	-	-	-
Decrease/(increase) in insurance liabilities	(1,768)	(733)	(2,351)	(1,429)	(2,142)	(2,301)	(2,559)
Other	(193)	(663)	1,100	(918)	(386)	(268)	(271)
Total other non-cash Items	**(5,677)**	**(8,495)**	**(10,299)**	**(9,837)**	**(9,738)**	**(9,949)**	**(10,356)**
Movements in Working Capital							
Increase/(decrease) in receivables	4,168	758	(386)	2,037	(241)	1,235	424
Increase/(decrease) in accrued interest	37	218	1	1,404	784	716	522
Increase/(decrease) in inventories	175	334	257	30	30	143	123
Increase/(decrease) in prepayments	36	12	159	(251)	(205)	3	6
Decrease/(increase) in deferred revenue	(97)	(40)	(68)	538	(230)	(129)	(34)
Defined benefit retirement plan net expenditure	571	582	(804)	828	823	802	774
Decrease/(increase) in payables/provisions	(2,551)	(444)	(439)	(574)	(1,089)	(445)	(873)
Total movements in working capital	**2,339**	**1,420**	**(1,280)**	**4,012**	**(128)**	**2,325**	**942**
Operating balance (excluding minority interests)	**389**	**4,650**	**(30,258)**	**(35,260)**	**(20,098)**	**(10,040)**	**(7,805)**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.

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

Forecast Statement of Financial Position

as at 30 June

	Note	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Assets								
Cash and cash equivalents	8	20,248	20,793	22,783	22,480	23,134	23,584	24,549
Receivables	8	23,327	21,317	23,725	24,959	24,869	26,210	26,992
Marketable securities, deposits and derivatives in gain	8	43,616	38,621	60,993	69,774	72,160	71,937	72,581
Share investments	8	39,552	41,623	33,791	36,726	39,014	41,391	44,314
Advances	8	33,690	34,107	37,631	37,846	38,743	40,360	42,948
Investments in controlled enterprises	8	3,688	3,777	4,220	5,231	6,134	7,083	8,143
Inventory		1,517	1,751	1,776	1,807	1,836	1,979	2,103
Other assets		2,828	2,863	3,662	3,130	2,911	2,944	2,998
Property, plant and equipment	10	177,625	169,151	186,432	193,604	199,762	204,852	208,106
Equity accounted investments[2]		14,650	14,931	14,308	13,991	14,664	15,220	15,462
Intangible assets and goodwill		3,911	4,375	3,892	4,154	4,166	4,218	4,193
Forecast for new capital spending	6	-	924	-	2,663	4,748	7,452	10,686
Top-down capital adjustment		-	(2,200)	-	(1,800)	(2,300)	(2,600)	(2,900)
Total assets		**364,652**	**352,033**	**393,213**	**414,565**	**429,841**	**444,630**	**460,175**
Liabilities								
Issued currency		6,813	6,807	8,022	8,018	8,098	8,179	8,261
Payables	12	16,742	12,847	16,970	15,781	16,361	16,708	17,559
Deferred revenue		2,523	2,428	2,593	2,050	2,281	2,410	2,450
Borrowings		110,248	118,005	152,737	210,268	243,278	266,324	286,642
Insurance liabilities	5	58,216	50,610	66,690	68,543	70,685	72,986	75,545
Retirement plan liabilities	13	13,179	10,971	13,983	13,154	12,330	11,529	10,755
Provisions	14	13,592	12,685	16,489	16,315	16,198	15,569	15,436
Total liabilities		**221,313**	**214,353**	**277,484**	**334,129**	**369,231**	**393,705**	**416,648**
Total assets less total liabilities		**143,339**	**137,680**	**115,729**	**80,436**	**60,610**	**50,925**	**43,527**
Net Worth								
Taxpayers' funds		33,966	38,815	3,082	(32,170)	(52,263)	(62,304)	(70,111)
Property, plant and equipment revaluation reserve		106,495	94,603	112,192	112,181	112,181	112,183	112,184
Defined benefit plan revaluation reserve		(2,615)	(872)	(3,886)	(3,687)	(3,489)	(3,297)	(3,114)
Veterans' disability entitlements reserve		(784)	(784)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)
Other reserves		(113)	84	(187)	(191)	(152)	(153)	(150)
Total net worth attributable to the Crown		**136,949**	**131,846**	**110,106**	**75,038**	**55,182**	**45,334**	**37,714**
Net worth attributable to minority interest		6,390	5,834	5,623	5,398	5,428	5,591	5,813
Total net worth	15	**143,339**	**137,680**	**115,729**	**80,436**	**60,610**	**50,925**	**43,527**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.
2. Equity accounted investments include tertiary education institutions and City Rail Link Limited.

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

Forecast Statement of Borrowings

as at 30 June

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Borrowings							
Government bonds	56,874	62,378	64,363	58,646	64,273	97,241	124,776
Treasury bills	3,455	2,964	11,269	10,489	10,486	10,480	10,474
Government retail stock	169	177	242	242	242	242	243
Settlement deposits with Reserve Bank	6,891	6,713	23,027	86,320	111,101	98,833	88,207
Derivatives in loss	3,939	2,344	5,567	4,306	4,009	3,979	3,594
Finance lease liabilities	1,328	2,539	1,495	1,326	1,078	1,001	1,166
Other borrowings	37,592	40,890	46,774	48,939	52,089	54,548	58,182
Total borrowings	**110,248**	**118,005**	**152,737**	**210,268**	**243,278**	**266,324**	**286,642**
Sovereign-guaranteed debt	74,946	80,129	109,547	165,268	195,378	215,840	232,565
Non sovereign-guaranteed debt	35,302	37,876	43,190	45,000	47,900	50,484	54,077
Total borrowings	**110,248**	**118,005**	**152,737**	**210,268**	**243,278**	**266,324**	**286,642**
Net Debt:							
Core Crown borrowings[2]	91,833	95,199	126,820	180,824	211,142	231,818	248,739
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(903)	(2,595)	(2,675)	(1,988)	(2,046)	(2,076)	(2,124)
Gross sovereign-issued debt[3]	**90,930**	**92,604**	**124,145**	**178,836**	**209,096**	**229,742**	**246,615**
Less core Crown financial assets[4]	90,715	89,351	102,170	114,413	120,415	123,959	127,661
Net core Crown debt (incl. NZS Fund)[5]	**215**	**3,253**	**21,975**	**64,423**	**88,681**	**105,783**	**118,954**
Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[6]	43,676	46,011	46,843	50,307	55,897	60,989	67,015
Net core Crown debt (excl. NZS Fund)	**43,891**	**49,264**	**68,818**	**114,730**	**144,578**	**166,772**	**185,969**
Add back core Crown advances	13,845	15,431	14,556	15,465	15,527	15,424	15,142
Net core Crown debt (excl. NZS Fund and advances)[7]	**57,736**	**64,695**	**83,374**	**130,195**	**160,105**	**182,196**	**201,111**
Gross Debt:							
Gross sovereign-issued debt[3]	90,930	92,604	124,145	178,836	209,096	229,742	246,615
Less Reserve Bank settlement cash and Reserve Bank bills	(8,081)	(7,359)	(24,239)	(86,645)	(111,426)	(99,158)	(88,532)
Add back changes to government borrowing owing to settlement cash[8]	1,600	1,600	1,600	1,600	1,600	1,600	1,600
Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills	**84,449**	**86,845**	**101,506**	**93,791**	**99,270**	**132,184**	**159,683**
Monetary Liabilities							
Issued currency	6,813	6,807	8,022	8,018	8,098	8,179	8,261
Settlement deposits with Reserve Bank	6,891	6,713	23,027	86,320	111,101	98,833	88,207
Total Monetary Liabilities	**13,704**	**13,520**	**31,049**	**94,338**	**119,199**	**107,012**	**96,468**

Monetary liabilities facilitate payments to be effected in New Zealand dollars, thereby ensuring the smooth functioning of the economy.

Notes on borrowings

Total borrowings can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities are not explicitly guaranteed by the Crown. No debt of SOEs and Crown entities is currently guaranteed by the Crown.

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.
2. Core Crown borrowings in this instance include unsettled purchases of securities (classified as accounts payable in the Statement of Financial Position).
3. Gross sovereign-issued debt (GSID) represents debt issued by the sovereign (the core Crown) and includes any government stock held by the other Crown reporting entities.
4. Core Crown financial assets exclude receivables, except for unsettled sales of securities.
5. Net core Crown debt represents GSID less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the creditworthiness of a country.
6. Adding back the NZS Fund assets provides the financial liabilities less financial assets of the core Crown, excluding those assets set aside to meet part of the future cost of New Zealand Superannuation.
7. Net core Crown debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.
8. The Reserve Bank has used $1.6 billion of settlement cash to purchase reserves that were to have been funded by the government borrowing programme. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

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

Statement of Actual Commitments

as at 30 June

	2020 Unaudited Actual $m	2019 Actual[1] $m
Capital Commitments		
State highways	4,788	4,436
Specialist military equipment	2,677	1,786
Land and buildings	5,395	4,618
Other property, plant and equipment	3,833	1,985
Other capital commitments	1,784	826
Tertiary education institutions	400	595
Total capital commitments	**18,877**	**14,246**
Operating Commitments		
Non-cancellable accommodation leases	5,237	4,779
Other non-cancellable leases	5,016	3,204
Tertiary education institutions	1,084	936
Total operating commitments	**11,337**	**8,919**
Total commitments	**30,214**	**23,165**
Total Commitments by Segment		
Core Crown	15,712	9,699
Crown entities	9,832	9,173
State-owned Enterprises	6,555	4,472
Inter-segment eliminations	(1,885)	(179)
Total commitments	**30,214**	**23,165**

1. The 30 June 2019 commitments were restated to reflect the adoption of the new accounting standard PBE IPSAS 35: *Consolidated Financial Statements*. The impact of this is to increase total commitments by $39 million. Refer note 17 for further details of this new standard.

Statement of Actual Contingent Liabilities and Assets

as at 30 June

	2020 Unaudited Actual $m	2019 Actual $m
Quantifiable Contingent Liabilities		
Uncalled capital	8,384	8,245
Guarantees and indemnities	263	190
Legal proceedings and disputes	446	734
Other contingent liabilities	485	488
Total quantifiable contingent liabilities	**9,578**	**9,657**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	9,409	9,175
Crown entities	89	392
State-owned Enterprises	210	191
Inter-segment eliminations	(130)	(101)
Total quantifiable contingent liabilities	**9,578**	**9,657**
Quantifiable Contingent Assets by Segment		
Core Crown	17	70
Crown entities	28	-
State-owned Enterprises	-	2
Total quantifiable contingent assets	**45**	**72**

More information on contingent liabilities (quantified and unquantified) is outlined in the Risks to the Fiscal Forecasts chapter.

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

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation Revenue (accrual)							
Individuals							
Source deductions	32,879	34,731	34,809	35,606	36,034	37,570	39,926
Other persons	7,663	7,149	7,159	6,983	6,934	7,996	8,532
Refunds	(2,429)	(1,937)	(1,887)	(1,744)	(2,000)	(2,131)	(2,258)
Fringe benefit tax	585	585	593	599	598	619	653
Total individuals	**38,698**	**40,528**	**40,674**	**41,444**	**41,566**	**44,054**	**46,853**
Corporate Tax							
Gross companies tax	14,892	14,074	11,895	12,067	10,711	14,334	15,225
Refunds	(343)	(218)	(424)	(353)	(404)	(415)	(425)
Non-resident withholding tax	650	648	570	433	412	448	485
Total corporate tax	**15,199**	**14,504**	**12,041**	**12,147**	**10,719**	**14,367**	**15,285**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,659	1,675	1,529	1,088	1,052	1,043	1,079
Resident w/holding tax on dividend income	838	796	828	794	792	881	962
Total other direct income tax	**2,497**	**2,471**	**2,357**	**1,882**	**1,844**	**1,924**	**2,041**
Total direct income tax	**56,394**	**57,503**	**55,072**	**55,473**	**54,129**	**60,345**	**64,179**
Goods and Services Tax							
Gross goods and services tax	35,860	37,696	35,861	34,503	35,513	38,163	41,246
Refunds	(13,998)	(14,334)	(14,112)	(13,583)	(13,950)	(14,756)	(15,927)
Total goods and services tax	**21,862**	**23,362**	**21,749**	**20,920**	**21,563**	**23,407**	**25,319**
Other Indirect Taxation							
Road user charges	1,673	1,799	1,716	1,752	1,842	1,951	2,060
Petroleum fuels excise – domestic production	1,201	1,332	1,075	1,211	1,280	1,283	1,297
Alcohol excise – domestic production	722	748	710	740	750	767	786
Tobacco excise – domestic production	483	430	485	200	2	2	2
Petroleum fuels excise – imports[1]	781	751	801	855	903	905	915
Alcohol excise – imports[1]	364	352	354	348	353	361	370
Tobacco excise – imports[1]	1,497	1,539	1,683	1,965	2,084	2,060	2,041
Other customs duty	172	177	164	170	170	170	170
Gaming duties	247	230	200	215	224	226	229
Motor vehicle fees	227	228	226	217	220	224	228
Approved issuer levy and cheque duty	74	65	76	77	77	77	77
Energy resources levies	26	25	24	26	26	26	26
Total other indirect taxation	**7,467**	**7,676**	**7,514**	**7,776**	**7,931**	**8,052**	**8,201**
Total indirect taxation	**29,329**	**31,038**	**29,263**	**28,696**	**29,494**	**31,459**	**33,520**
Total taxation revenue	**85,723**	**88,541**	**84,335**	**84,169**	**83,623**	**91,804**	**97,699**
Other Sovereign Revenue (accrual)							
ACC levies	3,014	2,938	3,032	2,911	3,177	3,752	4,234
Fire and Emergency levies	579	588	596	578	600	641	641
EQC levies	387	440	446	500	505	510	516
Child support and working for families penalties	225	225	254	234	223	214	207
Court fines	124	104	134	115	115	115	115
Emissions Trading revenue	846	1,055	1,043	1,152	1,210	1,237	1,377
Other miscellaneous items	853	677	764	793	847	982	1,010
Total other sovereign revenue	**6,028**	**6,027**	**6,269**	**6,283**	**6,677**	**7,451**	**8,100**
Total sovereign revenue	**91,751**	**94,568**	**90,604**	**90,452**	**90,300**	**99,255**	**105,799**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation Receipts (cash)							
Individuals							
Source deductions	32,728	34,537	34,485	35,402	35,827	37,355	39,697
Other persons	7,073	7,092	7,485	6,804	7,217	8,046	8,739
Refunds	(2,572)	(2,308)	(2,638)	(2,598)	(2,298)	(2,551)	(2,711)
Fringe benefit tax	578	585	590	599	598	619	653
Total individuals	**37,807**	**39,906**	**39,922**	**40,207**	**41,344**	**43,469**	**46,378**
Corporate Tax							
Gross companies tax	14,020	14,440	13,561	12,407	12,754	15,145	16,534
Refunds	(880)	(623)	(1,538)	(1,559)	(1,632)	(1,619)	(1,715)
Non-resident withholding tax	653	648	525	433	412	448	485
Total corporate tax	**13,793**	**14,465**	**12,548**	**11,281**	**11,534**	**13,974**	**15,304**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,629	1,675	1,514	1,088	1,052	1,043	1,079
Resident w/holding tax on dividend income	802	796	787	794	792	881	962
Total other direct income tax	**2,431**	**2,471**	**2,301**	**1,882**	**1,844**	**1,924**	**2,041**
Total direct income tax	**54,031**	**56,842**	**54,771**	**53,370**	**54,722**	**59,367**	**63,723**
Goods and Services Tax							
Gross goods and services tax	35,125	37,212	34,878	34,067	35,045	37,702	40,783
Refunds	(13,538)	(14,174)	(14,001)	(13,423)	(13,790)	(14,596)	(15,767)
Total goods and services tax	**21,587**	**23,038**	**20,877**	**20,644**	**21,255**	**23,106**	**25,016**
Other Indirect Taxation							
Road user charges	1,665	1,799	1,705	1,752	1,842	1,951	2,060
Petroleum fuels excise – domestic production	1,180	1,332	1,090	1,211	1,280	1,283	1,297
Alcohol excise – domestic production	721	748	696	740	750	767	786
Tobacco excise – domestic production	484	430	486	200	2	2	2
Customs duty	2,827	2,830	3,035	3,363	3,498	3,497	3,496
Gaming duties	240	230	200	215	224	226	229
Motor vehicle fees	220	228	199	217	220	224	228
Approved issuer levy and cheque duty	36	65	74	77	77	77	77
Energy resources levies	26	25	24	26	26	26	26
Total other indirect taxation	**7,399**	**7,687**	**7,509**	**7,801**	**7,919**	**8,053**	**8,201**
Total indirect taxation	**28,986**	**30,725**	**28,386**	**28,445**	**29,174**	**31,159**	**33,217**
Total taxation receipts	**83,017**	**87,567**	**83,157**	**81,815**	**83,896**	**90,526**	**96,940**
Other Sovereign Receipts (cash)							
ACC levies	2,782	2,823	2,925	2,859	3,208	3,724	4,223
Fire and Emergency levies	577	585	592	575	598	638	643
EQC levies	395	417	478	502	504	510	515
Child support and working for families penalties	194	217	163	185	201	192	185
Court fines	131	118	133	115	115	115	115
Other miscellaneous items	1,108	667	1,003	908	1,257	1,387	1,360
Total other sovereign receipts	**5,187**	**4,827**	**5,294**	**5,144**	**5,883**	**6,566**	**7,041**
Total sovereign receipts	**88,204**	**92,394**	**88,451**	**86,959**	**89,779**	**97,092**	**103,981**

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 2: Investment Revenue/(Expenditure)							
Interest revenue	**2,646**	**2,748**	**2,300**	**2,247**	**2,271**	**2,487**	**2,669**
Interest Expenses							
Interest on financial liabilities	4,010	3,884	3,518	2,351	1,853	2,290	3,007
Interest unwind on provisions	288	297	255	193	184	185	191
Total interest expenses	**4,298**	**4,181**	**3,773**	**2,544**	**2,037**	**2,475**	**3,198**
Net interest revenue/(expense)	**(1,652)**	**(1,433)**	**(1,473)**	**(297)**	**234**	**12**	**(529)**
Dividend revenue	1,070	1,040	906	972	1,021	1,083	1,150
Gains and losses on large scale asset purchases	-	-	(3,258)	(6,095)	(1,657)	-	-
Gains and losses on financial instruments	4,444	3,290	1,906	3,396	3,724	4,136	4,535
Total investment revenue/(expenditure)	**3,862**	**2,897**	**(1,919)**	**(2,024)**	**3,322**	**5,231**	**5,156**
NOTE 3: Transfer Payments and Subsidies							
New Zealand superannuation	14,562	15,488	15,521	16,426	17,107	17,957	18,993
Family tax credit	2,131	2,195	2,189	2,147	2,042	2,043	2,128
Jobseeker support and emergency benefit	1,854	1,976	2,285	3,772	4,176	3,970	3,882
Supported living payment	1,556	1,589	1,650	1,790	1,817	1,886	1,966
Accommodation assistance	1,640	1,810	1,923	2,424	2,597	2,600	2,625
Sole parent support	1,115	1,175	1,231	1,504	1,628	1,677	1,690
Income related rent subsidy	45	84	63	48	48	51	54
KiwiSaver subsidies	951	915	893	936	971	1,004	1,038
Other working for families tax credits	635	536	641	653	658	658	668
Official development assistance	708	740	736	825	819	858	860
Student allowances	583	585	567	624	683	677	652
Winter energy payment	441	458	669	828	558	564	566
Best start	48	231	184	336	447	454	471
Disability assistance	386	391	395	411	417	416	418
Hardship assistance	300	346	418	560	642	663	683
Orphan's/unsupported child's benefit	225	247	248	295	328	358	380
Wage Subsidy Scheme	-	-	12,095	2,697	-	-	-
Other social assistance benefits	906	924	899	1,494	1,065	1,076	1,097
Total transfer payments and subsidies	**28,086**	**29,690**	**42,607**	**37,770**	**36,003**	**36,912**	**38,171**
NOTE 4: Other Operating Expenses							
Grants and subsidies	5,682	7,545	10,499	10,405	9,796	9,597	9,424
Reversal of Rail network impairment	(2,576)	-	-	-	-	-	-
Repairs and maintenance	2,265	1,584	2,420	2,147	2,165	2,420	2,527
Rental and leasing costs	1,431	1,429	1,480	1,505	1,519	1,523	1,529
Amortisation and impairment of intangible assets	934	789	2,422	799	830	848	842
Impairment of financial assets	920	798	1,493	1,218	984	990	995
Cost of concessionary lending	763	1,072	1,279	1,021	679	644	601
Lottery prize payments	645	726	754	664	737	759	766
Inventory expenses	1,582	1,824	1,773	2,048	2,279	2,249	2,336
Other operating expenses	31,047	33,245	30,498	36,785	31,638	30,039	30,120
Total other operating expenses	**42,693**	**49,012**	**52,618**	**56,592**	**50,627**	**49,069**	**49,140**

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 5: Insurance							
Insurance expense by entity							
ACC	5,362	5,478	6,246	6,284	6,309	6,658	7,180
EQC	476	95	614	188	253	269	286
Southern Response	(40)	(42)	27	(15)	(10)	(6)	(3)
Other (incl. inter-segment eliminations)	14	16	16	145	27	23	19
Total insurance expenses	**5,812**	**5,547**	**6,903**	**6,602**	**6,579**	**6,944**	**7,482**
Insurance liability by entity							
ACC	56,611	50,083	64,946	67,230	69,579	72,045	74,632
EQC	1,342	481	1,528	1,044	871	725	707
Southern Response	216	-	168	94	49	22	8
Other (incl. inter-segment eliminations)	47	46	48	175	186	194	198
Total insurance liabilities	**58,216**	**50,610**	**66,690**	**68,543**	**70,685**	**72,986**	**75,545**

ACC liability

Calculation information

Taylor Fry has prepared an independent actuarial estimate of the ACC outstanding claims liability as at 30 June 2020. This estimate includes the expected future payments relating to accidents that occurred prior to balance date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected future administrative expenses of managing these claims. The estimate also includes a risk margin to provide for a higher degree of certainty that the liability for outstanding claims, at balance date, will be adequate to cover possible adverse developments. The assumptions underpinning this valuation form the basis of the five-year forecast of the outstanding claims liability.

The key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), Average Weekly Earnings (AWE) and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the latest discount rates as at 30 June 2020. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 1.86% and allows for a long-term discount rate of 4.30% from 2083.

Other key variables in each valuation are the forecast increases in claim costs over and above the economic variables above, and the assumed rate at which long-term claimants will leave the scheme over the period. This assessment is largely based on scheme history.

Presentation approach

ACC has available to it a portfolio of assets that offset the claims liability. The assets below (less cross-holdings of NZ Government stock) are included as assets in the Statement of Financial Position.

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Gross ACC Liability							
Opening gross liability	43,314	48,441	56,611	64,946	67,230	69,579	72,045
Net change	13,297	1,642	8,335	2,284	2,349	2,466	2,587
Closing gross liability	**56,611**	**50,083**	**64,946**	**67,230**	**69,579**	**72,045**	**74,632**
Less Net Assets Available to ACC							
Opening net asset value	41,958	43,998	46,598	48,987	49,460	50,416	51,837
Net change	4,640	650	2,389	473	956	1,421	1,649
Closing net asset value	**46,598**	**44,648**	**48,987**	**49,460**	**50,416**	**51,837**	**53,486**
Net ACC Reserves (Net Liability)							
Opening reserves position	(1,356)	(4,443)	(10,013)	(15,959)	(17,770)	(19,163)	(20,208)
Net change	(8,657)	(992)	(5,946)	(1,811)	(1,393)	(1,045)	(938)
Closing reserves position (net liability)/net asset	**(10,013)**	**(5,435)**	**(15,959)**	**(17,770)**	**(19,163)**	**(20,208)**	**(21,146)**

Notes to the Forecast Financial Statements

	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 6: Forecast New Spending and Top-down Expense Adjustment					
Forecast New Operating Spending					
Unallocated contingencies	-	3,092	1,653	2,061	2,056
COVID-19 response and recovery funding	-	6,965	3,583	1,791	1,791
Forecast new spending for Budget 2021	-	-	2,195	2,215	2,201
Forecast new spending for Budget 2022	-	-	-	2,400	2,400
Forecast new spending for Budget 2023	-	-	-	-	2,600
Total forecast new operating spending	**-**	**10,057**	**7,431**	**8,467**	**11,048**
Operating top-down adjustment	**-**	**(3,500)**	**(1,550)**	**(850)**	**(800)**

Unallocated contingencies will include funding from Budget 2020 and previous Budgets that have yet to be allocated to departments. Forecast new spending indicates the expected spending increases from future Budgets.

The forecast for new operating spending for Budget 2021 is $2.4 billion. Some of this allowance has been pre-committed as at the forecast finalisation date of 7 September 2020, with only the unallocated portion of the allowance included in this note.

	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	Post-2024 $m	Total $m
Forecast New Capital Spending (annual)							
Unallocated contingencies	-	2,663	1,671	1,875	2,168	1,337	9,714
Forecast new spending for Budgets 2021 - 2023	-	-	414	829	1,066	2,428	4,737
Total forecast new capital spending	**-**	**2,663**	**2,085**	**2,704**	**3,234**	**3,765**	**14,451**
Forecast new capital spending (cumulative)	**-**	**2,663**	**4,748**	**7,452**	**10,686**		
Capital top-down adjustment (cumulative)	**-**	**(1,800)**	**(2,300)**	**(2,600)**	**(2,900)**		

Unallocated contingencies represent capital spending from Budget 2020 and previous Budgets that has yet to be allocated to departments. Forecast new spending indicates the expected capital spending increases from future Budgets.

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 7: Net Gains and Losses on Non-Financial Instruments							
Actuarial gains/(losses) on ACC outstanding claims	(11,367)	-	(5,974)	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	(225)	-	(1,097)	-	-	-	-
Other	17	(71)	(242)	(83)	(74)	(82)	(82)
Net gains/(losses) on non-financial instruments	**(11,575)**	**(71)**	**(7,313)**	**(83)**	**(74)**	**(82)**	**(82)**
NOTE 8: Financial Assets (including receivables)							
Cash and cash equivalents	20,248	20,793	22,783	22,480	23,134	23,584	24,549
Tax receivables	13,741	12,109	14,104	15,421	14,312	14,758	14,676
Trade and other receivables	9,586	9,208	9,621	9,538	10,557	11,452	12,316
Student loans (refer note 9)	10,731	9,884	10,395	10,442	10,504	10,589	10,589
Kiwibank mortgages	20,411	21,099	22,189	21,518	22,000	23,440	26,148
Long-term deposits	4,355	3,419	5,443	4,893	4,625	3,594	3,586
IMF financial assets	2,327	2,334	2,538	2,538	2,538	2,538	2,538
Other advances	2,548	3,124	5,047	5,886	6,239	6,331	6,211
Share investments	39,552	41,623	33,791	36,726	39,014	41,391	44,314
Investments in controlled enterprises	3,688	3,777	4,220	5,231	6,134	7,083	8,143
Derivatives in gain	4,585	3,062	7,166	4,956	4,544	4,455	4,231
Other marketable securities	32,349	29,806	45,846	57,387	60,453	61,350	62,226
Total financial assets (including receivables)	**164,121**	**160,238**	**183,143**	**197,016**	**204,054**	**210,565**	**219,527**
Financial Assets by Entity							
Total core Crown segment	107,265	104,869	120,403	134,439	139,823	144,168	148,345
Total Crown entities segment	57,604	52,914	62,062	60,753	62,096	62,834	64,968
Total state-owned enterprises segment	27,624	28,102	29,508	28,571	28,631	30,342	33,341
Inter-segment eliminations	(28,372)	(25,647)	(28,830)	(26,747)	(26,496)	(26,779)	(27,127)
Total financial assets (including receivables)	**164,121**	**160,238**	**183,143**	**197,016**	**204,054**	**210,565**	**219,527**
NOTE 9: Student Loans							
Nominal value (including accrued interest)	16,034	15,834	16,135	16,431	16,775	17,117	17,336
Opening book value	**9,929**	**10,085**	**10,731**	**10,395**	**10,442**	**10,504**	**10,589**
Net new lending (including fees)	1,361	1,391	1,413	1,588	1,645	1,639	1,574
New lending - establishment fee	-	-	-	-	-	-	-
Less initial write-down to fair value	(563)	(576)	(506)	(554)	(593)	(601)	(589)
Repayments made during the year	(1,371)	(1,465)	(1,477)	(1,316)	(1,321)	(1,302)	(1,356)
Interest unwind	394	415	331	295	299	318	341
Unwind of administration costs	36	34	36	34	32	31	30
Experience/actuarial adjustments:							
- Expected repayment adjustments	211	-	(476)	-	-	-	-
- Discount rate adjustments	734	-	343	-	-	-	-
Closing book value	**10,731**	**9,884**	**10,395**	**10,442**	**10,504**	**10,589**	**10,589**

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 10: Property, Plant and Equipment							
Net Carrying Value[1]							
By class of asset							
Land	55,005	52,974	57,875	58,203	57,842	57,679	57,792
Buildings	40,732	40,960	44,989	48,682	51,678	53,552	54,001
State highways	37,222	35,190	39,410	41,305	43,085	44,801	46,609
Electricity generation assets	17,239	15,410	17,091	16,756	16,453	16,122	15,845
Electricity distribution network (cost)	4,173	4,065	4,291	4,351	4,566	4,770	4,953
Aircraft (excluding military)	4,993	5,550	3,794	3,929	4,349	5,139	6,056
Specialist military equipment	3,353	4,171	3,339	3,855	4,661	5,187	5,697
Specified cultural and heritage assets	3,150	3,167	2,980	2,992	3,003	3,012	3,018
Rail network[2]	6,407	2,131	6,872	7,037	7,111	7,008	6,634
Other plant and equipment (cost)	5,351	5,533	5,791	6,494	7,014	7,582	7,501
Total property, plant and equipment	**177,625**	**169,151**	**186,432**	**193,604**	**199,762**	**204,852**	**208,106**
Land breakdown by usage							
Housing	18,819	18,759	19,949	20,202	20,214	20,208	20,193
State highway corridor land	13,745	12,256	14,724	14,341	13,673	13,633	13,593
Conservation land	6,630	6,242	6,733	6,736	6,738	6,739	6,741
Rail network	3,516	3,482	3,779	3,810	3,808	3,806	3,804
Schools	5,772	5,896	6,024	6,096	6,206	6,327	6,430
Commercial (SOEs) excluding Rail	1,205	1,316	1,146	1,176	1,198	1,217	1,237
Other	5,318	5,023	5,520	5,842	6,005	5,749	5,794
Total land	**55,005**	**52,974**	**57,875**	**58,203**	**57,842**	**57,679**	**57,792**

1. Using a revaluation methodology unless otherwise stated.
2. The rail freight network was valued on a commercial basis for the previous budget and is now valued on a public benefit basis.

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Schedule of Movements							
Cost or Valuation							
Opening balance	175,019	185,438	192,808	205,723	218,420	230,122	240,917
Additions[1]	9,462	11,130	9,568	13,366	12,792	11,515	9,575
Disposals	(1,157)	(848)	(1,224)	(614)	(1,037)	(669)	(571)
Net revaluations	9,623	(29)	2,546	-	-	-	-
Other[2]	(139)	64	2,025	(55)	(53)	(51)	(92)
Total cost or valuation	**192,808**	**195,755**	**205,723**	**218,420**	**230,122**	**240,917**	**249,829**
Accumulated Depreciation and Impairment							
Opening balance	16,356	21,507	15,183	19,291	24,816	30,360	36,065
Eliminated on disposal	(791)	(116)	(686)	(154)	(152)	(173)	(414)
Eliminated on revaluation	(2,452)	-	(2,086)	-	-	-	-
Impairment losses charged to operating balance	(2,516)	-	1,297	-	-	-	-
Depreciation expense	4,554	5,217	5,294	5,650	5,697	5,878	6,068
Other[2]	32	(4)	289	29	(1)	-	4
Total accumulated depreciation and impairment	**15,183**	**26,604**	**19,291**	**24,816**	**30,360**	**36,065**	**41,723**
Total property, plant and equipment	**177,625**	**169,151**	**186,432**	**193,604**	**199,762**	**204,852**	**208,106**

1. Additions do not include any purchases which may result from the allocation of the forecast for new capital spending (separately disclosed in the Statement of Financial Position).
2. Other mainly relates to the establishment of NZIST and transfers to/from other asset categories.

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 11: NZ Superannuation Fund							
Revenue	982	971	803	877	984	1,103	1,213
Less current tax expense	504	877	449	867	973	1,089	1,199
Less other expenses	130	231	148	193	210	221	233
Add gains/(losses)	1,955	2,929	16	2,939	3,294	3,668	4,030
Operating balance	**2,303**	**2,792**	**222**	**2,756**	**3,095**	**3,461**	**3,811**
Opening net worth	39,053	41,811	42,316	43,998	48,874	54,389	59,210
Impacts of adoption of NZ PBE IPSAS 35	(51)	(164)	-	-	-	-	-
Adjusted opening net worth	**39,002**	**41,647**	**42,316**	**43,998**	**48,874**	**54,389**	**59,210**
Gross contribution from the Crown	1,000	1,460	1,460	2,120	2,420	1,360	1,788
Operating balance	2,303	2,792	222	2,756	3,095	3,461	3,811
Other movements in reserves	11	(1)	-	-	-	-	-
Closing net worth	**42,316**	**45,898**	**43,998**	**48,874**	**54,389**	**59,210**	**64,809**
Comprising:							
Financial assets	44,307	49,405	48,323	52,731	58,384	63,151	68,902
Financial liabilities	(1,993)	(3,486)	(4,317)	(3,838)	(3,975)	(3,935)	(4,088)
Net other assets	2	(21)	(8)	(19)	(20)	(6)	(5)
Closing net worth	**42,316**	**45,898**	**43,998**	**48,874**	**54,389**	**59,210**	**64,809**

Under the new accounting standard, PBE IPSAS 35 (effective from 1 July 2019), any controlling interests the New Zealand Superannuation Fund has invested in are reported on a fair value basis and shown as a single line item 'Investments in controlled enterprises' in the statement of financial position (rather than on the previous line-by-line basis). Consequently, there have been material reclassifications between the NZ Superannuation Fund's different asset and liability classes, but with a smaller net impact on the overall value of the Fund. Refer to Note 17 for further details.

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 12: Payables							
Accounts payable	10,449	7,582	11,927	10,795	11,323	11,643	12,481
Taxes repayable	6,293	5,265	5,043	4,986	5,038	5,065	5,078
Total payables	**16,742**	**12,847**	**16,970**	**15,781**	**16,361**	**16,708**	**17,559**

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 13: Retirement Plan Liabilities							
Government Superannuation Fund	13,161	10,968	13,971	13,133	12,310	11,508	10,733
Other funds	18	3	12	21	20	21	22
Total retirement plan liabilities	**13,179**	**10,971**	**13,983**	**13,154**	**12,330**	**11,529**	**10,755**

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 30 June 2020. The liability arises from closed schemes for past and present public sector employees as set out in the Government Superannuation Fund Act 1956. A Projected Unit Credit method was used to calculate the liability as at 30 June 2020, based on membership data at that date. The funding method requires the benefits payable from GSF in respect of past service to be calculated and then discounted back to the valuation date.

For these Forecast Financial Statements, the net GSF liability was updated for the latest discount rates derived from the market yield curve for New Zealand Government bonds as at 30 June 2020.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 0.83% p.a. gradually increasing to 1.58% p.a. to 30 June 2025, then gradually increasing from 1.58% p.a in the year ended 30 June 2037 to 2.0% p.a. in the year ended 30 June 2083 and remaining at 2.0% p.a. for all years after that. In addition an annual salary growth rate, before any promotional effects, of 2.5% p.a. (2.5% p.a. at 30 June 2019).

The 2019/20 projected increase in the net GSF liability is $810 million, reflecting a increase in the GSF liability of $545 million and an decrease in the GSF net assets of $265 million.

The changes in the projected net GSF liability from 2019/20 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
GSF Liability							
Opening GSF liability	15,558	15,810	17,692	18,237	17,402	16,585	15,786
Net projected change	2,134	(590)	545	(834)	(818)	(799)	(772)
Closing GSF liability	**17,692**	**15,220**	**18,237**	**17,402**	**16,585**	**15,786**	**15,014**
Less Net Assets Available to GSF							
Opening net asset value	4,570	4,399	4,531	4,266	4,269	4,275	4,278
Investment valuation changes	161	214	(53)	209	209	209	209
Contribution and other income less benefit payments	(200)	(222)	(212)	(205)	(204)	(206)	(206)
Closing net asset value	**4,531**	**4,391**	**4,266**	**4,269**	**4,275**	**4,278**	**4,281**
Net GSF Liability							
Opening unfunded liability	10,988	11,411	13,161	13,971	13,133	12,310	11,508
Net projected change	2,173	(582)	810	(838)	(823)	(802)	(775)
Closing unfunded liability	**13,161**	**10,968**	**13,971**	**13,133**	**12,310**	**11,508**	**10,733**

The amended accounting standard PBE IPSAS 39: *Employee Benefits* is effective for these forecasts across all years. The value of the net GSF liability has not changed with this change in accounting standard but there have been changes to the presentation of the annual movements in the net liability in the Statement of Financial Performance. Refer to note 17 for further details of the impact of this change on the comparative numbers published in these forecast financial statements.

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 14: Provisions							
Provision for employee entitlements	4,582	3,623	5,535	5,786	5,831	5,907	5,917
Provision for ETS credits	2,884	2,182	3,804	3,514	3,454	3,355	3,046
Provision for National Provident Fund guarantee	879	725	857	796	735	677	623
Veterans Disability Entitlements	3,228	3,228	3,483	3,428	3,373	3,323	3,278
Other provisions	2,019	2,927	2,810	2,791	2,805	2,307	2,572
Total provisions	**13,592**	**12,685**	**16,489**	**16,315**	**16,198**	**15,569**	**15,436**

Provision for ETS credits

The Emissions Trading Scheme (ETS) was established to assist New Zealand in meeting its international climate change obligations and to reduce New Zealand's net emissions of greenhouse gases to below business-as-usual levels. The ETS creates a limited number of tradable New Zealand Units (NZUs) which the Government can allocate. The allocation of NZUs creates a provision if allocated for free; the provision is reduced, and revenue recognised, as NZUs are surrendered to the Crown by emitters.

The prices for NZUs used to calculate the ETS provision are assumed to remain constant over the forecast period and are based on market prices during the last week of June 2020.

The movement in the ETS provision is as follows:

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Opening provision	2,541	2,671	2,884	3,804	3,514	3,454	3,355
Additional provision	543	566	650	747	739	733	717
Provision utilised	(425)	(1,055)	(827)	(1,037)	(799)	(832)	(1,026)
(Gains)/losses	225	-	1,097	-	-	-	-
Closing provision for ETS credits	**2,884**	**2,182**	**3,804**	**3,514**	**3,454**	**3,355**	**3,046**

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 15: Changes in Net Worth							
Taxpayers' funds	33,966	38,815	3,082	(32,170)	(52,263)	(62,304)	(70,111)
Property, plant and equipment revaluation reserve	106,495	94,603	112,192	112,181	112,181	112,183	112,184
Defined benefit plan revaluation reserve[1]	(2,615)	(872)	(3,886)	(3,687)	(3,489)	(3,297)	(3,114)
Veterans' disability entitlements reserve	(784)	(784)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)
Investment revaluation reserve	-	86	-	-	-	-	-
Intangible asset reserve	(7)	1	(7)	(7)	(7)	(7)	(7)
Cash flow hedge reserve	(204)	52	(389)	(375)	(336)	(337)	(334)
Fair value hedge reserve	168	-	277	255	255	255	255
Foreign currency translation reserve	(70)	(55)	(68)	(64)	(64)	(64)	(64)
Net worth attributable to minority interests	6,390	5,834	5,623	5,398	5,428	5,591	5,813
Total net worth	**143,339**	**137,680**	**115,729**	**80,436**	**60,610**	**50,925**	**43,527**
Taxpayers' funds							
Opening taxpayers' funds	35,440	36,077	33,966	3,082	(32,170)	(52,263)	(62,304)
Impacts of adoption of NZ PBE IPSAS 39[1]	(2,503)	(2,503)	-	-	-	-	-
Impacts of adoption of NZ PBE IPSAS 35[1]	510	271	-	-	-	-	-
Adjusted opening taxpayers' funds	33,447	33,845	33,966	3,082	(32,170)	(52,263)	(62,304)
Operating balance excluding minority interests	389	4,650	(30,258)	(35,260)	(20,098)	(10,040)	(7,805)
Transfers from/(to) other reserves	130	71	(644)	11	-	(2)	(1)
Other movements	-	249	18	(3)	5	1	(1)
Closing taxpayers' funds	**33,966**	**38,815**	**3,082**	**(32,170)**	**(52,263)**	**(62,304)**	**(70,111)**
Property, Plant and Equipment Revaluation Reserve							
Opening property, plant and equipment revaluation reserve	94,750	94,686	106,495	112,192	112,181	112,181	112,183
Impacts of adoption of NZ PBE IPSAS 35[1]	(15)	(27)	-	-	-	-	-
Adjusted opening property, plant and equipment revaluation reserve	94,735	94,659	106,495	112,192	112,181	112,181	112,183
Net revaluations	12,482	-	5,118	-	-	-	-
Transfers from/(to) other reserves	(132)	(56)	663	(11)	-	2	1
Net revaluations attributable to minority interests	(590)	-	(84)	-	-	-	-
Closing property, plant and equipment revaluation reserve	**106,495**	**94,603**	**112,192**	**112,181**	**112,181**	**112,183**	**112,184**

1. The adoption of two new accounting standards from 1 July 2019 has resulted in changes to net worth and some of the reserve balances. In addition, a new 'defined benefit plan revaluation reserve' is being presented as part of net worth. Refer to note 17 for details of these changes.

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Unaudited Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 16: Core Crown Residual Cash							
Core Crown Cash Flows from Operations							
Tax receipts	83,716	89,427	84,310	83,318	85,470	92,270	98,942
Other sovereign receipts	1,359	941	1,226	1,136	1,500	1,620	1,587
Interest receipts	712	600	428	250	125	332	420
Sale of goods and services and other receipts	3,200	3,390	3,243	3,118	2,881	2,796	2,792
Transfer payments and subsidies	(28,910)	(31,065)	(43,916)	(39,257)	(37,626)	(38,660)	(39,920)
Personnel and operating costs	(50,591)	(55,367)	(56,583)	(68,076)	(61,856)	(60,581)	(59,602)
Interest payments	(3,450)	(3,137)	(3,016)	(2,904)	(1,611)	(2,001)	(2,490)
Forecast for future new operating spending	-	(1,266)	-	(10,057)	(7,431)	(8,467)	(11,048)
Top-down expense adjustment	-	1,400	-	3,500	1,550	850	800
Net core Crown operating cash flows	**6,036**	**4,923**	**(14,308)**	**(28,972)**	**(16,998)**	**(11,841)**	**(8,519)**
Core Crown Capital Cash Flows							
Net purchase of physical assets	(3,002)	(3,703)	(2,955)	(3,367)	(3,222)	(2,816)	(2,582)
Net increase in advances	(86)	(799)	(1,798)	(1,327)	(177)	24	202
Net purchase of investments	(2,658)	(3,636)	(3,171)	(4,322)	(4,208)	(3,908)	(3,240)
Contribution to NZS Fund	(1,000)	(1,460)	(1,460)	(2,120)	(2,420)	(1,360)	(1,788)
Forecast for future new capital spending	-	(466)	-	(2,663)	(2,085)	(2,704)	(3,234)
Top-down capital adjustment	-	950	-	1,800	500	300	300
Net core Crown capital cash flows	**(6,746)**	**(9,114)**	**(9,384)**	**(11,999)**	**(11,612)**	**(10,464)**	**(10,342)**
Residual cash (deficit)/surplus	**(710)**	**(4,191)**	**(23,692)**	**(40,971)**	**(28,610)**	**(22,305)**	**(18,861)**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt Programme Cash Flows							
Market:							
Issue of government bonds	8,372	10,387	31,951	55,011	36,975	35,556	34,928
Repayment of government bonds	(11,908)	(6,627)	(5,380)	(11,059)	-	(15,745)	(12,450)
Net issue/(repayment) of short-term borrowing[1]	(730)	(345)	8,415	(2,666)	-	-	-
Total market debt cash flows	(4,266)	3,415	34,986	41,286	36,975	19,811	22,478
Non-market:							
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	-	-	-	-	-	-	-
Net issue/(repayment) of short-term borrowing	-	-	-	-	-	-	-
Total non-market debt cash flows	-	-	-	-	-	-	-
Total debt programme cash flows	**(4,266)**	**3,415**	**34,986**	**41,286**	**36,975**	**19,811**	**22,478**
Other Borrowing Cash Flows							
Net (repayment)/issue of other New Zealand dollar borrowing	(2,239)	(24)	15,928	69,539	31,989	(17,076)	(8,274)
Net (repayment)/issue of foreign currency borrowing	1,547	6	1,121	(3,701)	(17)	-	-
Total other borrowing cash flows	**(692)**	**(18)**	**17,049**	**65,838**	**31,972**	**(17,076)**	**(8,274)**
Investing Cash Flows							
Net sale/(purchase) of marketable securities and deposits	5,163	591	(33,039)	(66,173)	(40,418)	19,488	4,573
Net issues/(repayments) of circulating currency	437	198	1,209	(4)	80	81	82
Decrease/(increase) in cash	68	5	3,487	24	1	1	2
Total investing cash flows	**5,668**	**794**	**(28,343)**	**(66,153)**	**(40,337)**	**19,570**	**4,657**
Residual cash deficit/(surplus) funding/(investing)	**710**	**4,191**	**23,692**	**40,971**	**28,610**	**22,305**	**18,861**

1. Short-term borrowing consists of Treasury Bills and may include Euro-Commercial Paper.

Notes to the Forecast Financial Statements

NOTE 17: Impact of Adoption of New Accounting Standards

PBE IPSAS 35: *Consolidated Financial Statements*
From 1 July 2019, the New Zealand Superannuation Fund is consolidated as an investment entity in accordance with PBE IPSAS 35: *Consolidated Financial Statements*. Consequently, any controlling interests the New Zealand Superannuation Fund has invested in are reported on a fair value basis and shown as a single line 'Investments in controlled enterprises' in the statement of financial position, rather than consolidated on the previous line-by-line basis.

In addition to reclassification impact, the measurement of a single investment on a fair value basis may differ from the sum of individual assets and liabilities of that same controlled interest.

PBE IPSAS 39: *Employee Benefits*
The Crown adopted PBE IPSAS 39: Employee Benefits from 1 July 2019 (updating the existing standard PBE IPSAS 25: *Employee Benefits*). The new standard has two impacts on the forecast financial statements, it:
- requires a liability to be reported for the obligation to pay Veteran Disability entitlements; and
- changes aspects of the presentation of the defined benefit scheme - previously mainly the Government Superannuation Fund (GSF).

Veterans Disability Entitlements
The Veterans Support Act 2014 provides for a number of entitlements for eligible veterans (and their spouses, partners, and dependants) who suffer service-related injuries or illnesses. Previously these obligations had been classified as social benefits, and were recognised as payments became due. PBE IPSAS 39: Employee Benefits clarifies that as these obligations arise due to illness or injury from qualifying operational service, a liability should be recognised from that date (reflecting the lifetime entitlement amounts, discounted to today's dollars). The accounting policy for Veterans disability entitlements is therefore changing in these forecasts to be the same as for other employee defined benefits with the new liability recognised from 1 July 2018.

Presentation impacts
PBE IPSAS 39 also impacts the way all defined benefits, including the Government Superannuation Fund (GSF) defined benefit pension scheme is presented in the financial statements, with actuarial gains/losses now being presented in the Statement of Comprehensive Revenue and Expenses (and accumulated in a new revaluation reserve) rather than presented as a gain or loss in the Statement of Financial Performance. The new standard also means the investment return on the scheme's assets above the risk-free rate of return is now classified as actuarial gains and losses (meaning this amount previously included in OBEGAL is now included in reserves).

The new standard does not affect the way the GSF defined benefit liability is calculated overall, and therefore it does not affect the Crown's total Net Worth. From 1 July 2018, cumulative GSF actuarial gains and losses will accumulate in the new revaluation reserve Defined Benefit Plan revaluation reserve', rather than in Taxpayers' Funds.

	2020 Previous Budget (per *Budget Update*) $m	IPSAS 35 Impact $m	IPSAS 39 Impact $m	2020 Previous Budget (restated) $m	Change $m
Statement of Financial Performance					
Core Crown revenue	96,427	(76)	-	96,351	(76)
Core Crown expenses	93,262	2	80	93,344	82
OBEGAL	1,313	(78)	(80)	1,155	(158)
Operating Balance	4,680	50	(80)	4,650	(30)
Statement of Financial Position					
Taxpayers' Funds	39,966	560	(1,711)	38,815	(1,151)
Defined Benefit Plan revaluation reserve	-	-	(872)	(872)	(872)
Veterans disability entitlements reserve	-	-	(784)	(784)	(784)
Net worth	140,748	299	(3,367)	137,680	(3,068)

	2019 Actual (per FSG) $m	IPSAS 35 Impact $m	IPSAS 39 Impact $m	2019 Actual (restated) $m	Change $m
Statement of Financial Performance					
Core Crown revenue	93,625	(151)	-	93,474	(151)
Core Crown expenses	87,022	(148)	85	86,959	(63)
OBEGAL	7,508	6	(85)	7,429	(79)
Operating Balance	(2,274)	(11)	2,674	389	2,663
Statement of Financial Position					
Taxpayers' Funds	33,278	517	171	33,966	688
Defined Benefit Plan revaluation reserve	-	-	(2,615)	(2,615)	(2,615)
Veterans' disability entitlements reserve	-	-	(784)	(784)	(784)
Net worth	146,313	254	(3,228)	143,339	(2,974)

Statement of Segments

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2019	2019	2019	2019	2019
	Actual	Actual	Actual	Actual	Actual
	$m	$m	$m	$m	$m
Statement of Financial Performance for the year ended 30 June 2019					
Revenue					
Taxation revenue	86,468	-	-	(745)	85,723
Other sovereign revenue	1,977	5,588	-	(1,537)	6,028
Revenue from core Crown funding	-	30,602	216	(30,818)	-
Sales of goods and services	1,583	2,224	16,533	(544)	19,796
Interest revenue	1,060	1,016	1,014	(444)	2,646
Other revenue	2,386	3,845	873	(2,155)	4,949
Total revenue (excluding gains)	**93,474**	**43,275**	**18,636**	**(36,243)**	**119,142**
Expenses					
Social assistance and official development assistance	29,015	-	-	(929)	28,086
Personnel expenses	7,794	15,085	3,096	(42)	25,933
Other operating expenses	46,502	23,720	10,940	(33,915)	47,247
Interest expenses	3,648	117	1,045	(512)	4,298
Insurance expenses	-	5,808	5	(1)	5,812
Total expenses (excluding losses)	**86,959**	**44,730**	**15,086**	**(35,399)**	**111,376**
Minority interest share of operating balance before gains/(losses)	-	-	(355)	18	(337)
Operating balance before gains/(losses)	**6,515**	**(1,455)**	**3,195**	**(826)**	**7,429**
Total gains/(losses)	3,140	(7,892)	254	(2,748)	(7,246)
Net surplus/(deficit) from associates and joint ventures	52	166	(86)	74	206
Operating balance	**9,707**	**(9,181)**	**3,363**	**(3,500)**	**389**
Expenses by functional classification					
Social security and welfare	*28,740*	*6,679*	*-*	*(1,517)*	*33,902*
Health	*18,268*	*16,579*	*-*	*(16,187)*	*18,660*
Education	*14,293*	*11,428*	*-*	*(10,441)*	*15,280*
Transport and communications	*2,889*	*3,210*	*5,401*	*(3,071)*	*8,429*
Other	*19,121*	*6,717*	*8,640*	*(3,671)*	*30,807*
Finance costs	*3,648*	*117*	*1,045*	*(512)*	*4,298*
Total expenses (excluding losses)	***86,959***	***44,730***	***15,086***	***(35,399)***	***111,376***
Statement of Financial Position as at 30 June 2019					
Assets					
Cash and cash equivalents	16,963	2,541	1,189	(445)	20,248
Receivables	16,988	6,548	2,189	(2,398)	23,327
Other financial assets	73,337	48,515	24,246	(25,552)	120,546
Property, plant and equipment	43,684	93,731	40,210	-	177,625
Equity accounted investments	46,602	13,682	290	(45,924)	14,650
Intangible assets and goodwill	1,681	692	1,557	(19)	3,911
Inventory and other assets	2,169	1,103	1,125	(52)	4,345
Total assets	**201,424**	**166,812**	**70,806**	**(74,390)**	**364,652**
Liabilities					
Borrowings	91,510	6,931	32,563	(20,756)	110,248
Other liabilities	41,370	69,507	9,315	(9,127)	111,065
Total liabilities	**132,880**	**76,438**	**41,878**	**(29,883)**	**221,313**
Total assets less total liabilities	**68,544**	**90,374**	**28,928**	**(44,507)**	**143,339**
Net worth					
Taxpayers' funds	45,433	30,643	7,715	(49,825)	33,966
Reserves	23,111	59,731	14,481	5,660	102,983
Net worth attributable to minority interest	-	-	6,732	(342)	6,390
Total net worth	**68,544**	**90,374**	**28,928**	**(44,507)**	**143,339**

Forecast Statement of Segments (continued)

	Core Crown 2020 Unaudited Actual $m	Crown entities 2020 Unaudited Actual $m	State-owned Enterprises 2020 Unaudited Actual $m	Inter-segment eliminations 2020 Unaudited Actual $m	Total Crown 2020 Unaudited Actual $m
Statement of Financial Performance for the year ended 30 June 2020					
Revenue					
Taxation revenue	84,930	-	-	(595)	84,335
Other sovereign revenue	2,120	5,688	-	(1,539)	6,269
Revenue from core Crown funding	-	72	-	(72)	-
Sales of goods and services	1,553	20,179	15,278	(18,572)	18,438
Interest revenue	850	947	953	(450)	2,300
Other revenue	2,298	19,667	1,169	(18,710)	4,424
Total revenue (excluding gains)	**91,751**	**46,553**	**17,400**	**(39,938)**	**115,766**
Expenses					
Social assistance and official development assistance	43,616	-	-	(1,009)	42,607
Personnel expenses	8,480	16,328	3,023	(46)	27,785
Other operating expenses	53,507	27,265	14,236	(37,096)	57,912
Interest expenses	3,228	164	921	(540)	3,773
Insurance expenses	1	6,897	5	-	6,903
Forecast for future new spending	-	-	-	-	-
Top-down adjustment	-	-	-	-	-
Total expenses (excluding losses)	**108,832**	**50,654**	**18,185**	**(38,691)**	**138,980**
Minority interest share of operating balance before gains/(losses)	-	-	(160)	16	(144)
Operating balance before gains/(losses)	**(17,081)**	**(4,101)**	**(945)**	**(1,231)**	**(23,358)**
Total gains/(losses)	(3,932)	(4,205)	445	(401)	(8,093)
Net surplus/(deficit) from associates and joint ventures	(42)	1,179	69	(13)	1,193
Operating balance	**(21,055)**	**(7,127)**	**(431)**	**(1,645)**	**(30,258)**
Expenses by functional classification					
Social security and welfare	*44,028*	*7,663*	-	*(1,791)*	*49,900*
Health	*19,891*	*17,728*	-	*(17,209)*	*20,410*
Education	*16,322*	*13,705*	-	*(12,446)*	*17,581*
Transport and communications	*3,179*	*3,824*	*8,959*	*(2,951)*	*13,011*
Other	*22,184*	*7,570*	*8,305*	*(3,754)*	*34,305*
Finance costs	*3,228*	*164*	*921*	*(540)*	*3,773*
Forecast for future new spending	-	-	-	-	-
Top-down adjustment	-	-	-	-	-
Total expenses (excluding losses)	***108,832***	***50,654***	***18,185***	***(38,691)***	***138,980***
Statement of Financial Position as at 30 June 2020					
Assets					
Cash and cash equivalents	17,788	3,931	1,624	(560)	22,783
Receivables	18,322	7,263	2,069	(3,929)	23,725
Other financial assets	83,988	52,060	26,311	(25,724)	136,635
Property, plant and equipment	45,121	101,482	39,828	1	186,432
Equity accounted investments	49,605	12,856	562	(48,715)	14,308
Intangible assets and goodwill	1,570	816	1,526	(20)	3,892
Inventory and other assets	3,261	1,267	1,083	(173)	5,438
Forecast for new capital spending	-	-	-	-	-
Capital top-down adjustment	-	-	-	-	-
Total assets	**219,655**	**179,675**	**73,003**	**(79,120)**	**393,213**
Liabilities					
Borrowings	126,341	11,111	36,021	(20,736)	152,737
Other liabilities	46,364	79,789	8,918	(10,324)	124,747
Total liabilities	**172,705**	**90,900**	**44,939**	**(31,060)**	**277,484**
Total assets less total liabilities	**46,950**	**88,775**	**28,064**	**(48,060)**	**115,729**
Net worth					
Taxpayers' funds	24,470	24,918	7,144	(53,450)	3,082
Reserves	22,480	63,857	14,995	5,692	107,024
Net worth attributable to minority interest	-	-	5,925	(302)	5,623
Total net worth	**46,950**	**88,775**	**28,064**	**(48,060)**	**115,729**

Forecast Statement of Segments (continued)

	Core Crown 2021 Forecast $m	Crown entities 2021 Forecast $m	State-owned Enterprises 2021 Forecast $m	Inter-segment eliminations 2021 Forecast $m	Total Crown 2021 Forecast $m
Statement of Financial Performance for the year ended 30 June 2021					
Revenue					
Taxation revenue	84,660	-	-	(491)	84,169
Other sovereign revenue	2,221	5,888	-	(1,826)	6,283
Revenue from core Crown funding	-	36,949	357	(37,306)	-
Sales of goods and services	1,492	2,504	12,613	(639)	15,970
Interest revenue	957	821	857	(388)	2,247
Other revenue	1,970	4,004	555	(2,224)	4,305
Total revenue (excluding gains)	**91,300**	**50,166**	**14,382**	**(42,874)**	**112,974**
Expenses					
Social assistance and official development assistance	38,925	-	-	(1,155)	37,770
Personnel expenses	8,833	17,546	2,482	(43)	28,818
Other operating expenses	63,097	28,644	11,129	(40,628)	62,242
Interest expenses	2,044	245	706	(451)	2,544
Insurance expenses	2	6,594	6	-	6,602
Forecast for future new spending	10,057	-	-	-	10,057
Top-down adjustment	(3,500)	-	-	-	(3,500)
Total expenses (excluding losses)	**119,458**	**53,029**	**14,323**	**(42,277)**	**144,533**
Minority interest share of operating balance before gains/(losses)	-	-	(149)	13	(136)
Operating balance before gains/(losses)	**(28,158)**	**(2,863)**	**(90)**	**(584)**	**(31,695)**
Total gains/(losses)	(2,962)	171	82	(76)	(2,785)
Net surplus/(deficit) from associates and joint ventures	16	(792)	3	(7)	(780)
Operating balance	**(31,104)**	**(3,484)**	**(5)**	**(667)**	**(35,260)**
Expenses by functional classification					
Social security and welfare	*39,897*	*7,913*	-	*(1,683)*	*46,127*
Health	*23,132*	*18,438*	-	*(18,875)*	*22,695*
Education	*15,968*	*13,213*	-	*(11,884)*	*17,297*
Transport and communications	*5,548*	*4,817*	*5,641*	*(4,392)*	*11,614*
Other	*26,312*	*8,403*	*7,976*	*(4,992)*	*37,699*
Finance costs	*2,044*	*245*	*706*	*(451)*	*2,544*
Forecast for future new spending	*10,057*	-	-	-	*10,057*
Top-down adjustment	*(3,500)*	-	-	-	*(3,500)*
Total expenses (excluding losses)	***119,458***	***53,029***	***14,323***	***(42,277)***	***144,533***
Statement of Financial Position as at 30 June 2021					
Assets					
Cash and cash equivalents	17,147	3,951	1,876	(494)	22,480
Receivables	19,848	6,038	1,486	(2,413)	24,959
Other financial assets	97,259	51,779	25,620	(25,081)	149,577
Property, plant and equipment	46,174	107,431	39,999	-	193,604
Equity accounted investments	54,683	12,172	553	(53,417)	13,991
Intangible assets and goodwill	1,865	765	1,544	(20)	4,154
Inventory and other assets	2,714	1,190	1,128	(95)	4,937
Forecast for new capital spending	2,663	-	-	-	2,663
Capital top-down adjustment	(1,800)	-	-	-	(1,800)
Total assets	**240,553**	**183,326**	**72,206**	**(81,520)**	**414,565**
Liabilities					
Borrowings	180,410	13,807	36,185	(20,134)	210,268
Other liabilities	44,101	80,640	7,589	(8,469)	123,861
Total liabilities	**224,511**	**94,447**	**43,774**	**(28,603)**	**334,129**
Total assets less total liabilities	**16,042**	**88,879**	**28,432**	**(52,917)**	**80,436**
Net worth					
Taxpayers' funds	(5,367)	25,023	7,796	(59,622)	(32,170)
Reserves	21,409	63,856	15,012	6,931	107,208
Net worth attributable to minority interest	-	-	5,624	(226)	5,398
Total net worth	**16,042**	**88,879**	**28,432**	**(52,917)**	**80,436**

Forecast Statement of Segments (continued)

	Core Crown 2022 Forecast $m	Crown entities 2022 Forecast $m	State-owned Enterprises 2022 Forecast $m	Inter-segment eliminations 2022 Forecast $m	Total Crown 2022 Forecast $m
Statement of Financial Performance for the year ended 30 June 2022					
Revenue					
Taxation revenue	84,252	-	-	(629)	83,623
Other sovereign revenue	2,322	6,303	-	(1,948)	6,677
Revenue from core Crown funding	-	36,076	137	(36,213)	-
Sales of goods and services	1,518	2,519	13,871	(695)	17,213
Interest revenue	952	823	884	(388)	2,271
Other revenue	1,974	3,852	572	(1,961)	4,437
Total revenue (excluding gains)	**91,018**	**49,573**	**15,464**	**(41,834)**	**114,221**
Expenses					
Social assistance and official development assistance	37,276	-	-	(1,273)	36,003
Personnel expenses	8,481	17,900	2,745	(43)	29,083
Other operating expenses	56,883	27,342	11,615	(39,516)	56,324
Interest expenses	1,408	358	732	(461)	2,037
Insurance expenses	3	6,571	6	(1)	6,579
Forecast for future new spending	7,431	-	-	-	7,431
Top-down adjustment	(1,550)	-	-	-	(1,550)
Total expenses (excluding losses)	**109,932**	**52,171**	**15,098**	**(41,294)**	**135,907**
Minority interest share of operating balance before gains/(losses)	-	-	(380)	15	(365)
Operating balance before gains/(losses)	**(18,914)**	**(2,598)**	**(14)**	**(525)**	**(22,051)**
Total gains/(losses)	1,871	169	51	(109)	1,982
Net surplus/(deficit) from associates and joint ventures	15	(48)	11	(7)	(29)
Operating balance	**(17,028)**	**(2,477)**	**48**	**(641)**	**(20,098)**
Expenses by functional classification					
Social security and welfare	*37,846*	*7,967*	-	*(1,773)*	*44,040*
Health	*21,343*	*18,194*	-	*(18,788)*	*20,749*
Education	*17,252*	*14,137*	-	*(12,908)*	*18,481*
Transport and communications	*3,718*	*3,710*	*6,423*	*(3,150)*	*10,701*
Other	*22,484*	*7,805*	*7,943*	*(4,214)*	*34,018*
Finance costs	*1,408*	*358*	*732*	*(461)*	*2,037*
Forecast for future new spending	*7,431*	-	-	-	*7,431*
Top-down adjustment	*(1,550)*	-	-	-	*(1,550)*
Total expenses (excluding losses)	***109,932***	***52,171***	***15,098***	***(41,294)***	***135,907***
Statement of Financial Position as at 30 June 2022					
Assets					
Cash and cash equivalents	17,788	4,093	1,748	(495)	23,134
Receivables	19,232	6,181	1,809	(2,353)	24,869
Other financial assets	102,619	52,838	25,485	(24,891)	156,051
Property, plant and equipment	47,620	111,682	40,456	4	199,762
Equity accounted investments	58,935	12,159	581	(57,011)	14,664
Intangible assets and goodwill	1,846	783	1,557	(20)	4,166
Inventory and other assets	2,532	1,153	1,158	(96)	4,747
Forecast for new capital spending	4,748	-	-	-	4,748
Capital top-down adjustment	(2,300)	-	-	-	(2,300)
Total assets	**253,020**	**188,889**	**72,794**	**(84,862)**	**429,841**
Liabilities					
Borrowings	210,727	16,454	36,004	(19,907)	243,278
Other liabilities	43,080	83,322	7,891	(8,340)	125,953
Total liabilities	**253,807**	**99,776**	**43,895**	**(28,247)**	**369,231**
Total assets less total liabilities	**(787)**	**89,113**	**28,899**	**(56,615)**	**60,610**
Net worth					
Taxpayers' funds	(22,395)	25,257	8,288	(63,413)	(52,263)
Reserves	21,608	63,856	15,037	6,944	107,445
Net worth attributable to minority interest	-	-	5,574	(146)	5,428
Total net worth	**(787)**	**89,113**	**28,899**	**(56,615)**	**60,610**

Forecast Statement of Segments (continued)

	Core Crown 2023 Forecast $m	Crown entities 2023 Forecast $m	State-owned Enterprises 2023 Forecast $m	Inter-segment eliminations 2023 Forecast $m	Total Crown 2023 Forecast $m
Statement of Financial Performance for the year ended 30 June 2023					
Revenue					
Taxation revenue	92,513	-	-	(709)	91,804
Other sovereign revenue	2,473	7,058	-	(2,080)	7,451
Revenue from core Crown funding	-	35,281	129	(35,410)	-
Sales of goods and services	1,527	2,740	14,742	(720)	18,289
Interest revenue	1,077	835	964	(389)	2,487
Other revenue	1,957	4,381	659	(2,339)	4,658
Total revenue (excluding gains)	**99,547**	**50,295**	**16,494**	**(41,647)**	**124,689**
Expenses					
Social assistance and official development assistance	38,289	-	-	(1,377)	36,912
Personnel expenses	8,515	18,241	2,851	(44)	29,563
Other operating expenses	55,569	26,555	12,327	(39,504)	54,947
Interest expenses	1,702	414	798	(439)	2,475
Insurance expenses	2	6,935	7	-	6,944
Forecast for future new spending	8,467	-	-	-	8,467
Top-down adjustment	(850)	-	-	-	(850)
Total expenses (excluding losses)	**111,694**	**52,145**	**15,983**	**(41,364)**	**138,458**
Minority interest share of operating balance before gains/(losses)	-	-	(436)	14	(422)
Operating balance before gains/(losses)	**(12,147)**	**(1,850)**	**75**	**(269)**	**(14,191)**
Total gains/(losses)	3,874	211	34	(91)	4,028
Net surplus/(deficit) from associates and joint ventures	16	98	12	(3)	123
Operating balance	**(8,257)**	**(1,541)**	**121**	**(363)**	**(10,040)**
Expenses by functional classification					
Social security and welfare	*38,514*	*8,366*	-	*(1,921)*	*44,959*
Health	*21,407*	*18,140*	-	*(18,855)*	*20,692*
Education	*16,950*	*13,927*	-	*(12,529)*	*18,348*
Transport and communications	*3,758*	*3,535*	*7,154*	*(3,643)*	*10,804*
Other	*21,746*	*7,763*	*8,031*	*(3,977)*	*33,563*
Finance costs	*1,702*	*414*	*798*	*(439)*	*2,475*
Forecast for future new spending	*8,467*	-	-	-	*8,467*
Top-down adjustment	*(850)*	-	-	-	*(850)*
Total expenses (excluding losses)	***111,694***	***52,145***	***15,983***	***(41,364)***	***138,458***
Statement of Financial Position as at 30 June 2023					
Assets					
Cash and cash equivalents	18,107	4,254	1,716	(493)	23,584
Receivables	20,033	6,415	2,087	(2,325)	26,210
Other financial assets	105,845	53,181	26,950	(25,205)	160,771
Property, plant and equipment	48,283	115,749	40,816	4	204,852
Equity accounted investments	62,811	12,294	592	(60,477)	15,220
Intangible assets and goodwill	1,838	784	1,616	(20)	4,218
Inventory and other assets	2,667	1,149	1,204	(97)	4,923
Forecast for new capital spending	7,452	-	-	-	7,452
Capital top-down adjustment	(2,600)	-	-	-	(2,600)
Total assets	**264,436**	**193,826**	**74,981**	**(88,613)**	**444,630**
Liabilities					
Borrowings	231,403	17,551	37,550	(20,180)	266,324
Other liabilities	41,886	85,720	8,063	(8,288)	127,381
Total liabilities	**273,289**	**103,271**	**45,613**	**(28,468)**	**393,705**
Total assets less total liabilities	**(8,853)**	**90,555**	**29,368**	**(60,145)**	**50,925**
Net worth					
Taxpayers' funds	(30,652)	26,698	8,681	(67,031)	(62,304)
Reserves	21,799	63,857	15,043	6,939	107,638
Net worth attributable to minority interest	-	-	5,644	(53)	5,591
Total net worth	**(8,853)**	**90,555**	**29,368**	**(60,145)**	**50,925**

Forecast Statement of Segments (continued)

	Core Crown 2024 Forecast $m	Crown entities 2024 Forecast $m	State-owned Enterprises 2024 Forecast $m	Inter-segment eliminations 2024 Forecast $m	Total Crown 2024 Forecast $m
Statement of Financial Performance for the year ended 30 June 2024					
Revenue					
Taxation revenue	98,547	-	-	(848)	97,699
Other sovereign revenue	2,635	7,688	-	(2,223)	8,100
Revenue from core Crown funding	-	35,082	138	(35,220)	-
Sales of goods and services	1,503	2,784	15,196	(679)	18,804
Interest revenue	1,173	849	1,040	(393)	2,669
Other revenue	2,043	4,599	691	(2,459)	4,874
Total revenue (excluding gains)	**105,901**	**51,002**	**17,065**	**(41,822)**	**132,146**
Expenses					
Social assistance and official development assistance	39,642	-	-	(1,471)	38,171
Personnel expenses	8,528	18,342	2,920	(44)	29,746
Other operating expenses	55,353	26,582	12,634	(39,361)	55,208
Interest expenses	2,364	453	828	(447)	3,198
Insurance expenses	2	7,473	7	-	7,482
Forecast for future new spending	11,048	-	-	-	11,048
Top-down adjustment	(800)	-	-	-	(800)
Total expenses (excluding losses)	**116,137**	**52,850**	**16,389**	**(41,323)**	**144,053**
Minority interest share of operating balance before gains/(losses)	-	-	(484)	16	(468)
Operating balance before gains/(losses)	**(10,236)**	**(1,848)**	**192**	**(483)**	**(12,375)**
Total gains/(losses)	4,268	227	35	(111)	4,419
Net surplus/(deficit) from associates and joint ventures	11	123	16	1	151
Operating balance	**(5,957)**	**(1,498)**	**243**	**(593)**	**(7,805)**
Expenses by functional classification					
Social security and welfare	*39,899*	*8,735*	-	*(1,967)*	*46,667*
Health	*21,486*	*18,081*	-	*(18,947)*	*20,620*
Education	*17,010*	*13,916*	-	*(12,517)*	*18,409*
Transport and communications	*3,558*	*3,659*	*7,353*	*(3,808)*	*10,762*
Other	*21,572*	*8,006*	*8,208*	*(3,637)*	*34,149*
Finance costs	*2,364*	*453*	*828*	*(447)*	*3,198*
Forecast for future new spending	*11,048*	-	-	-	*11,048*
Top-down adjustment	*(800)*	-	-	-	*(800)*
Total expenses (excluding losses)	***116,137***	***52,850***	***16,389***	***(41,323)***	***144,053***
Statement of Financial Position as at 30 June 2024					
Assets					
Cash and cash equivalents	18,573	4,648	1,815	(487)	24,549
Receivables	20,507	6,564	2,243	(2,322)	26,992
Other financial assets	109,081	54,772	29,694	(25,561)	167,986
Property, plant and equipment	48,709	118,485	40,911	1	208,106
Equity accounted investments	65,987	12,417	618	(63,560)	15,462
Intangible assets and goodwill	1,782	776	1,654	(19)	4,193
Inventory and other assets	2,780	1,162	1,254	(95)	5,101
Forecast for new capital spending	10,686	-	-	-	10,686
Capital top-down adjustment	(2,900)	-	-	-	(2,900)
Total assets	**275,205**	**198,824**	**78,189**	**(92,043)**	**460,175**
Liabilities					
Borrowings	248,324	18,313	40,491	(20,486)	286,642
Other liabilities	41,509	88,576	8,133	(8,212)	130,006
Total liabilities	**289,833**	**106,889**	**48,624**	**(28,698)**	**416,648**
Total assets less total liabilities	**(14,628)**	**91,935**	**29,565**	**(63,345)**	**43,527**
Net worth					
Taxpayers' funds	(36,609)	28,078	8,751	(70,331)	(70,111)
Reserves	21,981	63,857	15,043	6,944	107,825
Net worth attributable to minority interest	-	-	5,771	42	5,813
Total net worth	**(14,628)**	**91,935**	**29,565**	**(63,345)**	**43,527**

5

Core Crown Expense Tables

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual[1]	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Social security and welfare	23,523	24,081	25,294	25,999	28,740	44,028	39,897	37,846	38,514	39,899
Health	15,058	15,626	16,223	17,159	18,268	19,891	23,132	21,343	21,407	21,486
Education	12,879	13,158	13,281	13,629	14,293	16,322	15,968	17,252	16,950	17,010
Core government services	4,134	4,102	3,957	4,670	5,166	6,083	5,966	5,155	5,133	5,368
Law and order	3,515	3,648	3,882	4,184	4,625	4,911	5,384	5,147	5,179	5,142
Transport and communications	2,291	2,178	2,176	2,559	2,889	3,179	5,548	3,718	3,758	3,558
Economic and industrial services	2,228	2,107	2,544	2,732	3,006	3,988	4,744	3,798	3,661	3,447
Defence	1,961	2,026	2,146	2,251	2,395	2,499	2,762	2,745	2,736	2,840
Heritage, culture and recreation	778	787	850	850	918	1,106	1,576	1,237	1,050	992
Primary services	667	749	644	807	960	961	1,448	906	822	746
Housing and community development	320	558	539	552	727	1,015	1,972	1,535	1,224	1,134
Environmental protection	723	587	871	1,238	1,119	1,485	1,691	1,591	1,567	1,491
GSF pension expenses	358	271	217	150	66	73	30	31	49	71
Other	145	461	181	299	96	63	739	339	325	341
Finance costs	3,783	3,590	3,534	3,497	3,691	3,228	2,044	1,408	1,702	2,364
Forecast new operating spending	..	..	..	..	..	..	10,057	7,431	8,467	11,048
Top-down expense adjustment	..	..	..	..	..	..	(3,500)	(1,550)	(850)	-800
Core Crown expenses	**72,363**	**73,929**	**76,339**	**80,576**	**86,959**	**108,832**	**119,458**	**109,932**	**111,694**	**116,137**

The classifications of the functions of the Government reflect current approved baselines. Forecast new operating spending is shown as a separate line item in the above analysis and will be allocated to functions of the Government once decisions are made in future Budgets.

1. 'The '2019 Actual' has been restated for the impact of new accounting standards effective from 1 July 2019. At this point in time, the earlier years in this time series have not yet been restated.

Source: The Treasury

Table 5.1 – Social security and welfare expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Welfare benefits (see below)	21,680	22,441	23,339	24,005	26,689	41,308	36,339	34,608	35,560	36,896
Social rehabilitation and compensation	142	151	220	241	249	260	333	358	385	414
Departmental expenses	1,319	1,339	1,417	1,593	1,784	2,062	2,637	2,375	2,236	2,249
Other non-departmental expenses[1,2]	382	150	318	160	18	398	588	505	333	340
Social security and welfare expenses	**23,523**	**24,081**	**25,294**	**25,999**	**28,740**	**44,028**	**39,897**	**37,846**	**38,514**	**39,899**

1. From 2016 some non-departmental expenses spending has been reclassified to community services in housing and community development expenses.
2. The '2020 Unaudited Actual' and '2021 Forecast' for other non-departmental expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.2 – Welfare benefit expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
New Zealand Superannuation	11,591	12,267	13,043	13,699	14,562	15,521	16,426	17,107	17,957	18,993
Jobseeker Support and Emergency Benefit	1,684	1,671	1,697	1,697	1,854	2,285	3,772	4,176	3,970	3,882
Supported living payment	1,515	1,523	1,533	1,541	1,556	1,650	1,790	1,817	1,886	1,966
Sole parent support	1,186	1,153	1,159	1,117	1,115	1,231	1,504	1,628	1,677	1,690
Family Tax Credit	1,854	1,793	1,723	1,639	2,131	2,189	2,147	2,042	2,043	2,128
Other working for families tax credits	549	559	596	556	635	641	653	658	658	668
Accommodation Assistance	1,129	1,164	1,127	1,204	1,640	1,923	2,424	2,597	2,600	2,625
Income-Related Rents	703	755	815	890	974	1,071	1,205	1,322	1,426	1,522
Disability Assistance	377	377	377	379	386	395	411	417	416	418
Winter energy	..	..	..	..	441	669	828	558	564	566
Best start	..	..	..	..	48	184	336	447	454	471
Orphan's/Unsupported Child's Benefit[1]	132	143	152	165	225	248	295	328	358	380
Hardship Assistance[1]	277	290	353	355	300	418	560	642	663	683
Paid Parental Leave	180	217	274	288	369	422	505	515	525	540
Childcare Assistance	183	182	199	196	183	144	144	145	147	148
Veterans Support Entitlement	115	107	98	93	90	66	..	..	..	..
Veteran's Pension	178	186	175	163	153	145	135	124	114	107
Wage Subsidy Scheme	..	..	..	..	..	12,095	2,697	..	..	..
Other benefits[1]	27	54	18	23	27	11	507	85	102	109
Benefit expenses	**21,680**	**22,441**	**23,339**	**24,005**	**26,689**	**41,308**	**36,339**	**34,608**	**35,560**	**36,896**

1. The '2021 Forecast' for other benefits expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Beneficiary numbers[1] (Thousands)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
New Zealand Superannuation	665	691	717	741	767	795	824	851	878	905
Jobseeker Support and Emergency Benefit	133	130	131	129	139	162	251	279	260	246
Supported living payment	98	98	97	96	95	96	97	98	100	101
Sole parent support	72	67	64	60	59	61	70	75	75	74
Accommodation Supplement	292	292	290	285	295	318	394	420	411	405

1. Actual numbers have been reclassified so may differ from previous published Economic and Fiscal Update numbers.

Source: Ministry of Social Development

Table 5.3 – Health expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Departmental outputs	190	188	192	200	210	236	294	240	241	237
Health services purchasing (see below)	13,937	14,361	14,855	15,449	16,311	18,176	19,711	19,308	19,231	19,159
Other non-departmental outputs	312	356	365	816	937	634	915	603	612	630
Health payments to ACC[1]	587	694	697	682	782	812	1,056	1,153	1,281	1,418
Other expenses[2]	32	27	114	12	28	33	1,156	39	42	42
Health expenses	**15,058**	**15,626**	**16,223**	**17,159**	**18,268**	**19,891**	**23,132**	**21,343**	**21,407**	**21,486**

1. Health payments to ACC includes increases in funding for the non-earners funding.
2. The '2021 Forecast' for other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.4 – Health services purchasing

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Payments to District Health Boards	12,414	12,822	13,281	13,829	14,563	15,749	17,018	17,129	17,055	16,985
National disability support services	1,126	1,167	1,188	1,256	1,358	1,599	1,707	1,738	1,738	1,738
Public health services purchasing[1]	397	372	386	364	390	828	986	441	438	436
Health services purchasing	**13,937**	**14,361**	**14,855**	**15,449**	**16,311**	**18,176**	**19,711**	**19,308**	**19,231**	**19,159**

1. The '2020 Unaudited Actual' and '2021 Forecast' for public health services purchasing includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.5 – Education expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Early childhood education	1,644	1,735	1,805	1,844	1,896	2,007	2,199	2,333	2,443	2,561
Primary and secondary schools (see below)	5,773	6,044	6,116	6,334	6,823	7,104	7,987	7,946	7,889	7,922
Tertiary funding (see below)	4,272	4,235	4,051	4,112	4,112	5,621	3,878	5,234	5,010	4,902
Departmental expenses	1,129	1,112	1,190	1,281	1,416	1,534	1,660	1,587	1,580	1,593
Other education expenses	61	32	119	58	46	56	244	152	28	32
Education expenses	**12,879**	**13,158**	**13,281**	**13,629**	**14,293**	**16,322**	**15,968**	**17,252**	**16,950**	**17,010**

Source: The Treasury

Number of places provided[1]	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Forecast	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Early childhood education	195,818	205,094	211,480	217,241	221,068	227,192	233,135	239,820	248,634	257,870

1. Full-time equivalent based on 1,000 funded child hours per calendar year. Note that historical place numbers have been revised so may differ from previous published *Economic and Fiscal Update* numbers.

Source: The Ministry of Education

Table 5.6 – Primary and secondary schools

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Primary	2,920	3,033	3,091	3,216	3,452	3,600	4,001	3,960	3,911	3,899
Secondary	2,229	2,329	2,336	2,407	2,606	2,683	3,018	3,034	3,040	3,086
School transport	186	185	186	195	206	208	221	215	200	200
Special needs support	336	396	410	429	447	515	626	621	627	635
Professional development	98	96	88	82	104	91	102	97	96	96
Schooling improvement	4	5	5	5	8	7	19	19	15	6
Primary and secondary education expenses	**5,773**	**6,044**	**6,116**	**6,334**	**6,823**	**7,104**	**7,987**	**7,946**	**7,889**	**7,922**

Source: The Treasury

Number of places provided[1]	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Primary	490,488	501,786	511,588	520,496	527,429	529,953	527,585	522,937	517,698	510,530
Secondary	277,480	276,473	278,428	277,734	279,904	285,474	292,809	297,496	303,055	307,280

1. These are snapshots as at 1 July for primary year levels (years 1 to 8) and 1 March for secondary year levels (years 9 to 13). These numbers exclude special schools, health camps, hospital schools and home schooling. They are the number of full-time equivalent students enrolled in New Zealand schools, including State, State-integrated, Private-Fully Registered, Private-Provisionally Registered and other Vote Education.
Note that historical figures have been revised for consistency with the current projection methodology, so may differ from figures published in previous Economic and Fiscal Updates.

Source: The Ministry of Education

Table 5.7 – Tertiary funding

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Tuition[1]	2,406	2,463	2,466	2,552	2,571	3,911	1,971	3,271	3,074	3,015
Other tertiary funding	484	487	520	561	606	637	729	687	658	646
Student allowances	511	486	465	511	583	567	624	683	677	652
Student loans	871	799	600	488	352	506	554	593	601	589
Tertiary education expenses	**4,272**	**4,235**	**4,051**	**4,112**	**4,112**	**5,621**	**3,878**	**5,234**	**5,010**	**4,902**

1. The '2020 Unaudited Actual' includes increased funding to provide revenue certainty to tertiary education organisations due to the impact of COVID-19. There is a corresponding reduction in the '2021 Forecast'.

Source: The Treasury

Number of places provided[1]	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Forecast	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Actual delivered and estimated funded places	233,132	231,413	223,645	220,717	217,767	227,800	245,800	242,000	235,100	225,800

1. Tertiary Education places are the number of equivalent full time students (EFTS) in: student achievement component; adult and community education; and youth guarantee programmes.
Place numbers are based on calendar years rather than fiscal years.
Note that historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers.
Tertiary Education places forecast are based on all funding appropriated to Vote Tertiary Education up to Budget 2020 and includes increased appropriation in relation to the Government's response to COVID-19.
The forecast number of places provided is based on the number of places that can be funded under the current funding and not a forecast based on demand.

Source: Tertiary Education Commission

Table 5.8 – Core government services expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Official development assistance	513	534	520	643	708	736	825	819	858	860
Indemnity and guarantee expenses	38	30	22	18	16	14	16	17	17	17
Departmental expenses[1]	1,740	1,845	1,835	2,119	2,199	2,249	2,575	2,303	2,223	2,170
Non-departmental expenses	481	379	511	683	961	878	891	684	697	736
Tax receivable write-down and impairments	873	680	493	616	829	1,356	880	880	880	880
Science expenses	121	118	91	94	103	113	115	116	119	117
Other expenses[2,3]	368	516	485	497	350	737	664	336	339	588
Core government service expenses	**4,134**	**4,102**	**3,957**	**4,670**	**5,166**	**6,083**	**5,966**	**5,155**	**5,133**	**5,368**

1. Departmental expenses includes costs relating to the Inland Revenue Business Transformation project.
2. The '2019 Actual' has been restated for the impact of new accounting standards effective from 1 July 2019. At this point in time, the earlier years in this time series have not yet been restated.
3. The '2020 Unaudited Actual' and '2021 Forecast' for other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.9 – Law and order expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Police	1,456	1,498	1,539	1,629	1,760	1,997	2,109	2,013	2,013	2,002
Ministry of Justice	451	468	479	502	542	591	632	624	619	614
Department of Corrections	1,024	1,068	1,145	1,301	1,417	1,527	1,652	1,580	1,618	1,617
NZ Customs Service	161	153	171	174	187	201	219	197	200	198
Other departments	100	83	121	132	111	163	190	193	189	184
Departmental expenses	**3,192**	**3,270**	**3,455**	**3,738**	**4,017**	**4,479**	**4,802**	**4,607**	**4,639**	**4,615**
Non-departmental outputs	320	359	397	445	457	419	554	529	527	514
Other expenses	3	19	30	1	151	13	28	11	13	13
Law and order expenses	**3,515**	**3,648**	**3,882**	**4,184**	**4,625**	**4,911**	**5,384**	**5,147**	**5,179**	**5,142**

Source: The Treasury

Table 5.10 – Transport and communication expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
New Zealand Transport Agency[1]	1,992	1,982	1,888	2,280	2,601	2,719	3,615	3,139	3,028	3,336
Departmental outputs	43	45	52	55	60	70	90	68	67	66
Other non-departmental expenses[2]	114	106	168	177	158	183	857	143	157	93
Rail funding	93	3	3	3	3	3	33	15	153	12
Other expenses[2]	49	42	65	44	67	204	953	353	353	51
Transport and communication expenses	**2,291**	**2,178**	**2,176**	**2,559**	**2,889**	**3,179**	**5,548**	**3,718**	**3,758**	**3,558**

1. The '2021 Forecast' for New Zealand Transport Agency expenses includes costs in relation to the Government's response to COVID-19.
2. The '2020 Unaudited Actual' to the '2023 Forecast' for other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.11 – Economic and industrial services expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Departmental outputs	391	389	465	447	499	561	598	542	539	544
Employment initiatives	75	3	3	4	10	5	4	4	4	4
Non-departmental outputs[1,3]	742	798	1,085	1,155	1,328	1,614	2,142	1,981	1,716	1,610
KiwiSaver (includes HomeStart grant)[2]	888	763	743	897	951	893	936	971	1,004	1,038
Other expenses[4]	132	154	248	229	218	915	1,064	300	398	251
Economic and industrial services expenses	**2,228**	**2,107**	**2,544**	**2,732**	**3,006**	**3,988**	**4,744**	**3,798**	**3,661**	**3,447**

1. From 2017 onwards, spending on new investment and research fund initiatives is included in non-departmental outputs, this has been reclassified from core government services.
2. From 2018 onwards, spending includes KiwiSaver HomeStart grant initiative.
3. From 2019 onwards, non-departmental outputs includes Provincial Growth Fund expenses.
4. The '2020 Unaudited Actual' and '2021 Forecast' for other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.12 – Defence expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
NZDF core expenses	1,879	1,986	2,084	2,172	2,286	2,418	2,611	2,608	2,592	2,682
Other expenses	82	40	62	79	109	81	151	137	144	158
Defence expenses	**1,961**	**2,026**	**2,146**	**2,251**	**2,395**	**2,499**	**2,762**	**2,745**	**2,736**	**2,840**

Source: The Treasury

Table 5.13 – Heritage, culture and recreation expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Departmental outputs	280	274	282	302	305	326	408	390	340	336
Non-departmental outputs	468	477	512	503	538	627	938	739	630	619
Other expenses[1]	30	36	56	45	75	153	230	108	80	37
Heritage, culture and recreation expenses	**778**	**787**	**850**	**850**	**918**	**1,106**	**1,576**	**1,237**	**1,050**	**992**

1. The '2020 Unaudited Actual' to the '2023 Forecast' for other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.14 – Primary services expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Departmental expenses[2]	384	424	458	549	677	727	941	671	650	630
Non-departmental outputs	114	100	92	188	110	89	211	92	71	68
Biological research[1]	91	95	..	..	..	..	..	..	..	..
Other expenses[2,3]	78	130	94	70	173	145	296	143	101	48
Primary services expenses	**667**	**749**	**644**	**807**	**960**	**961**	**1,448**	**906**	**822**	**746**

1. From 2017 onwards, biological research has been reclassified from primary services to non-departmental expenses within core government services.
2. The '2019 Actual' and the '2020 Unaudited Actual' for other expenses include costs associated with Mycoplasma bovis.
3. From 2019 onwards other expenses includes funding for forestry grants and partnership programmes.

Source: The Treasury

Table 5.15 – Housing and community development expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Housing subsidies	5	5	5	5	4	4	4	4	4	4
Community Services[1]	..	189	189	179	183	235	379	388	329	344
Departmental outputs	113	171	187	150	195	220	236	228	221	200
Other non-departmental expenses[2]	117	114	127	193	283	523	863	826	632	552
Warm up New Zealand	37	22	..	..	..	..	..	..	..	..
Other expenses[3]	48	57	31	25	62	33	490	89	38	34
Housing and community development expenses	**320**	**558**	**539**	**552**	**727**	**1,015**	**1,972**	**1,535**	**1,224**	**1,134**

1. From 2016 onwards, community services have been reclassified from non-departmental expenses in social security and welfare expenses and employment initiatives in economic expenses.
2. From 2019 onwards, KiwiBuild and transitional housing costs are included in non-departmental expenses.
3. The '2021 Forecast' and '2022 Forecast' for other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.16 – Environmental protection expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Emissions Trading Scheme	133	163	295	720	543	650	747	739	733	717
Departmental outputs	360	383	404	412	460	542	685	695	678	619
Non-departmental outputs	41	1	64	72	82	257	225	138	140	142
Other expenses	189	40	108	34	34	36	34	19	16	13
Environmental protection expenses	**723**	**587**	**871**	**1,238**	**1,119**	**1,485**	**1,691**	**1,591**	**1,567**	**1,491**

Source: The Treasury

Table 5.17 – Finance costs

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Unaudited Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Interest on financial liabilities	3,745	3,553	3,505	3,453	3,398	2,971	1,862	1,236	1,530	2,187
Interest unwind on provisions[1]	38	37	29	43	293	257	182	172	172	177
Finance costs expenses	**3,783**	**3,590**	**3,534**	**3,496**	**3,691**	**3,228**	**2,044**	**1,408**	**1,702**	**2,364**

1. 'The '2019 Actual' has been restated for the impact of new accounting standards effective from 1 July 2019. At this point in time, the earlier years in this time series have not yet been restated.

Source: The Treasury

Glossary of Terms

Accruals basis of accounting

An accounting basis where revenue is recognised when earned and expenses when the obligations they relate to are incurred. This contrasts to cash accounting, where income is recognised when the cash is received and expenses when cash to settle an obligation is paid out.

Appropriations

Appropriations are legal authorities granted by Parliament to the Crown or an Office of Parliament to use public resources. Most appropriations are set out in Appropriation Acts.

Baselines

The level of funding approved for any given area of spending (eg, Vote Education).

Commercial portfolio

Consists of assets and liabilities held by companies with commercial objectives, predominantly State-owned Enterprises.

Consumers Price Index (CPI)

Statistics New Zealand's official index to measure the rate of change in prices of goods and services purchased by households. Core or underlying inflation measures exclude or give little weight to extreme or irregular price movements.

Contingent assets

Revenue that the Crown will realise if a particular uncertain event occurs, or a present asset is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent assets). Contingent assets typically comprise loans with specific events that trigger repayment and IRD pending assessments (where there is a proposed adjustment to a tax assessment).

Contingent liabilities

Costs that the Crown will have to face if a particular uncertain event occurs, or present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent liabilities). Contingent liabilities typically comprise guarantees and indemnities, legal disputes and claims, and uncalled capital.

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and the Reserve Bank. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 135 to 138).

Core Crown expenses

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

Core Crown revenue

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

Corporate tax

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

Current account (Balance of Payments)

The current account records the value of New Zealand's transactions with the rest of the world in goods, services, income and transfers. The current account balance is the sum of all current account credits less all current account debits. When the sum of debits is greater than the sum of credits there is a current account deficit. The current account balance is commonly expressed as a percentage of nominal GDP.

Cyclically-adjusted balance (CAB) or structural balance

The Treasury's CAB is an estimate of the OBEGAL adjusted for fluctuations of actual GDP around trend GDP and provides a picture of the underlying fiscal position. It is an accrual-based measure and excludes temporary, one-off items that do not reflect underlying movements in the fiscal position, such as EQC and Southern Response payments.

Demographic changes

Changes to the structure of the population such as the age, gender or ethnic composition.

Domestic bond programme

The amount and timing of government bonds expected to be issued or redeemed.

Excise duties

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

Financial assets

Any asset that is cash, an equity instrument of another entity (shares), a contractual right to receive cash or shares (taxes receivable and ACC levies) or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).

Financial liabilities

Any liability that is a contractual obligation to pay cash (government stock, accounts payable) or a right to exchange a financial asset or liability on unfavourable terms (derivatives in loss).

Financial portfolio

Consists of the assets and liabilities held by the Crown to finance or pre-fund government expenditure.

Fiscal drag

The additional personal income tax generated as an individual's average tax rate increases as their income increases.

Fiscal impulse

The fiscal impulse shows whether the stance of discretionary fiscal policy is becoming more expansionary or contractionary relative to the previous year. The Treasury's fiscal impulse measure is calculated by expressing the cash-version of the CAB as a percentage of nominal GDP and taking year-on-year differences. This cyclically-adjusted measure excludes items that do not directly contribute to domestic demand, such as net interest payments, capital expenditure on imported items, and the purchases and sales of financial investments.

Fiscal intentions (short-term)

Indications of the Government's intentions for operating expenses, operating revenues and the impact of its intentions on the operating balance, debt and net worth over (at least) the next three years. These intentions are required under the Public Finance Act 1989 (PFA).

Fiscal objectives (long-term)

The Government's long-term goals for operating expenses, operating revenue, the operating balance, debt and net worth, as required by the PFA. The objectives must be consistent with the defined principles of responsible fiscal management as outlined in the PFA and must cover a period of (at least) 10 years.

Forecast new capital spending (Multi-year capital envelope)

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

Forecast new operating spending (Operating allowance)

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

Gains and losses

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and GSF. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the Statement of Financial Performance.

GDP deflator

An index of changes in the general price level in the economy. It is calculated as the ratio of nominal GDP to real GDP.

Generally accepted accounting practice (GAAP)

GAAP refers to the rules and concepts used to prepare and present financial statements. GAAP is an independent set of rules and frameworks that govern the recognition, measurement and disclosure of financial elements, such as assets, liabilities, revenues and expenses.

Government Finance Statistics (GFS)

A statistical framework for government reporting developed by IMF to aid comparability of results between countries. This differs from the GAAP framework that is used for reporting by the Government in New Zealand.

Gross debt

GSID (refer below) excluding settlement cash and bank bills.

Gross domestic product (GDP)

A measure of the value-added of all goods and services produced in New Zealand. Changes in GDP measure growth or contraction in economic activity or output. GDP can be measured on either an expenditure or production basis and in either real or nominal terms. (See following definitions.)

Gross domestic product (expenditure)

The sum of total expenditure on final goods and services in the economy, including exports but minus imports. Expenditure GDP is calculated in both real and nominal terms.

Gross domestic product (nominal)

The value-added of goods and services produced in the economy expressed in current prices.

Gross domestic product (production)

The value-added of goods and services produced in New Zealand, after deducting the cost of goods and services used in the production process. Production GDP is calculated only in real terms.

Gross domestic product (real)

The value-added of goods and services produced in the economy expressed in the prices of a base period. The current base period is 2009/10.

Gross national expenditure (GNE)

A measure of total expenditure on final goods and services by New Zealand residents.

Gross sovereign-issued debt (GSID)

Represents debt issued by the sovereign (the core Crown) and includes any government stock held by the NZS Fund, ACC and EQC.

Insurance liabilities

The gross obligation for the future cost of claims incurred prior to balance date represented in today's dollars (present value). The net liability is the gross liability less the asset reserves held to meet those claims.

Inter-segment eliminations

The amounts of transactions between different segments (core Crown, Crown entities and SOEs) that are eliminated to determine total Crown results.

Labour force participation rate

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

Labour productivity

Output per unit of labour input (where labour inputs might be measured as hours worked or the number of people employed).

Line-by-line consolidation

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

Marketable securities

Assets held with financial institutions. These assets are held for both cash flow and investment purposes. Examples are bonds, commercial papers and debentures.

Minority interest

Minority interest refers to shareholders of Government reporting entities outside the Crown. Current examples include those who hold shares in the mixed ownership companies.

Monetary conditions

Aggregate monetary conditions measure the degree to which short-term interest rates and the exchange rate either support or restrict economic growth.

Monetary policy

The policies that the Reserve Bank uses to regulate the supply of money in New Zealand. In the past, the Reserve Bank has primarily used the Official Cash Rate (OCR) to implement monetary policy decisions. Recently, increased focus has been given to alternative monetary policy responses, such as the Large Scale Asset Purchases programme. These measures are all designed to maintain stability in the rate of CPI inflation within a defined target range and to support maximum sustainable employment.

Tightening monetary policy means raising short term interest rates (such as via the OCR) in order to moderate aggregate demand pressures and reduce inflationary pressures. Easing monetary policy has the reverse effect.

Multi-factor productivity

Multi-factor productivity (MFP) relates a change in output to several types of inputs, typically capital and labour. MFP is often measured residually, as the change in output that cannot be accounted for by the change in combined inputs.

National saving

National disposable income less private and public consumption spending. Income excludes gains and losses on capital. Gross saving includes depreciation.

Net core Crown cash flow from operations

The cash impact of core Crown operating results. It is represented by the operating balance (before gains and losses) less retained items (eg, net surplus of SOEs, Crown entities and NZS Fund net revenue) less non-cash items (eg, depreciation).

Net core Crown debt

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

Net international investment position (NIIP)

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

Net worth

Total assets less total liabilities of all Government reporting entities. The change in net worth in any given forecast year is largely driven by the operating balance and property, plant and equipment revaluations.

Net worth attributable to the Crown

Represents the Crown's share of total assets and liabilities and excludes minority interests' share of those assets and liabilities.

Operating balance

Represents OBEGAL (refer below) plus gains and less losses. The operating balance includes gains and losses not reported directly as a movement against net worth. The impact of gains and losses on the operating balance can be subject to short-term market volatility and revaluations of long-term liabilities.

Operating balance before gains and losses (OBEGAL)

Represents total Crown revenue less total Crown expenses excluding minority interest share. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in the calculation.

Output gap

The difference between actual and potential GDP. (See Potential output.)

Outputs

Outputs are the goods and services commissioned by Ministers from public, non-governmental and private sector producers. Outputs may include the supply of policy advice, enforcement of regulations (such as speed limits in transport), provision of a range of services (in health, education, etc), negotiation and management of contracts and administration of benefits.

Potential output

The level of output an economy can sustain without an acceleration of inflation.

Productivity

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

Projections

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

Residual cash

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

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

Settlement cash

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

Social portfolio

Consists of the assets and liabilities held primarily to provide public services or to protect assets for future generations.

Specific fiscal risks

All government decisions or other circumstances known to the Government which may have a material impact on the fiscal and economic outlook, but are not certain enough in timing or amount to include in the fiscal forecasts.

System of National Accounts (SNA)

A set of macroeconomic accounts for government reporting, developed by the international community, to facilitate international comparisons of national economic statistics. This differs from the GAAP framework that is used for reporting by the Government in New Zealand.

Tax revenue

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

Terms of trade

The terms of trade measure the volume of imports that can be funded by a fixed volume of exports, and are calculated as the ratio of the total export price index to the total import price index. New Zealand's headline terms of trade series is derived from export and import price indices from Stats NZ's quarterly Overseas Trade Indices. The Treasury forecasts the terms of trade on an SNA basis, using implicit export and import price indices derived from quarterly national accounts data.

Top-down adjustment

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

Total borrowings

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

Total Crown

Includes the core Crown (defined above) plus Crown entities and SOEs as defined by the Government Reporting Entity on pages 135 to 138.

Tradable/non-tradable output

The tradable sector is the part of the economy particularly exposed to foreign competition either through exports or import substitution. It includes agriculture, forestry and fishing, mining, and manufacturing industries. Non-tradable output includes the construction industry, rental, hiring and real estate services, public administration and safety, and health care and social assistance. Other industries may be classified as either tradable or non-tradable depending on whether their direct or indirect outputs are exposed to foreign competition.

Trade-weighted index (TWI)

A measure of movements in the NZ dollar against the currencies of our major trading partners. Since December 2014, the TWI has been based on 17 currencies, weighted according to each country's direct bilateral trade in goods and services with New Zealand. Together these countries account for more than 80% of New Zealand's foreign trade.

Votes

When Parliament considers legislation relating to appropriations, the appropriations are grouped within "Votes". Generally, a Vote groups similar or related appropriations together (eg, Vote Health includes all health-related appropriations administered by the Ministry of Health).

Year ended

Graphs and tables within this document use different expressions of the timeframe. While some tables may refer to the end of the tax year (31 March), others will refer to the end of the Government's financial year (30 June). For example, unless otherwise stated references to 2019/20 or 2020 will mean the end of the financial year.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
											Unaudited				
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual[3]	Actual	Forecast	Forecast	Forecast	Forecast
$millions															
Revenue and expenses															
Core Crown tax revenue	50,744	51,557	55,081	58,651	61,563	66,636	70,445	75,644	80,224	86,468	84,930	84,660	84,252	92,513	98,547
Core Crown revenue	55,757	57,199	60,428	63,805	67,093	72,213	76,121	81,782	86,778	93,474	91,751	91,300	91,018	99,547	105,901
Core Crown expenses	63,554	70,099	68,939	69,962	71,174	72,363	73,929	76,339	80,576	86,959	108,832	119,458	109,932	111,694	116,137
Surpluses															
Total Crown OBEGAL	(6,315)	(18,396)	(9,240)	(4,414)	(2,802)	414	1,831	4,069	5,534	7,429	(23,358)	(31,695)	(22,051)	(14,191)	(12,375)
Total Crown operating balance	(4,509)	(13,360)	(14,897)	6,925	2,939	5,771	(5,369)	12,317	8,396	389	(30,258)	(35,260)	(20,098)	(10,040)	(7,805)
Cash position															
Core Crown residual cash	(9,000)	(13,343)	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)	(40,971)	(28,610)	(22,305)	(18,861)
Debt															
Gross debt[1]	53,591	72,420	79,635	77,984	81,956	86,125	86,928	87,141	88,053	84,449	101,506	93,791	99,270	132,184	159,683
Gross debt incl RB settlement cash and bank bills	58,891	77,290	84,168	84,286	88,468	93,156	93,283	92,620	95,437	90,930	124,145	178,836	209,096	229,742	246,615
Net core Crown debt (incl NZS Fund)[2]	12,549	23,969	33,475	34,428	34,174	30,862	32,102	23,619	19,460	14,060	36,531	79,888	104,208	121,207	134,096
Net core Crown debt[2]	26,738	40,128	50,671	55,835	59,931	60,631	61,880	59,480	57,495	57,736	83,374	130,195	160,105	182,196	201,111
Total borrowings	69,733	90,245	100,534	100,087	103,419	112,580	113,956	111,806	115,652	110,248	152,737	210,268	243,278	266,324	286,642
Net worth															
Total Crown net worth	94,988	80,887	59,780	70,011	80,697	98,236	95,521	116,472	135,637	143,339	115,729	80,436	60,610	50,925	43,527
Total net worth attributable to the Crown	94,586	80,579	59,348	68,071	75,486	86,454	89,366	110,532	129,644	136,949	110,106	75,038	55,182	45,334	37,714
Nominal expenditure GDP (revised actuals)	196,763	205,848	215,188	218,823	236,716	244,998	257,741	274,594	292,898	303,389	302,212	302,875	320,570	340,745	363,977
% GDP															
Revenue and expenses															
Core Crown tax revenue	25.8	25.0	25.6	26.8	26.0	27.2	27.3	27.5	27.4	28.5	28.1	28.0	26.3	27.2	27.1
Core Crown revenue	28.3	27.8	28.1	29.2	28.3	29.5	29.5	29.8	29.6	30.8	30.4	30.1	28.4	29.2	29.1
Core Crown expenses	32.3	34.1	32.0	32.0	30.1	29.5	28.7	27.8	27.5	28.7	36.0	39.4	34.3	32.8	31.9
Surpluses															
Total Crown OBEGAL	(3.2)	(8.9)	(4.3)	(2.0)	(1.2)	0.2	0.7	1.5	1.9	2.4	(7.7)	(10.5)	(6.9)	(4.2)	(3.4)
Total Crown operating balance	(2.3)	(6.5)	(6.9)	3.2	1.2	2.4	(2.1)	4.5	2.9	0.1	(10.0)	(11.6)	(6.3)	(2.9)	(2.1)
Cash position															
Core Crown residual cash	(4.6)	(6.5)	(4.9)	(2.6)	(1.7)	(0.7)	(0.5)	0.9	0.5	(0.2)	(7.8)	(13.5)	(8.9)	(6.5)	(5.2)
Debt															
Gross debt[1]	27.2	35.2	37.0	35.6	34.6	35.2	33.7	31.7	30.1	27.8	33.6	31.0	31.0	38.8	43.9
Gross debt incl RB settlement cash and bank bills	29.9	37.5	39.1	38.5	37.4	38.0	36.2	33.7	32.6	30.0	41.1	59.0	65.2	67.4	67.8
Net core Crown debt (incl NZS Fund)[2]	6.4	11.6	15.6	15.7	14.4	12.6	12.5	8.6	6.6	4.6	12.1	26.4	32.5	35.6	36.8
Net core Crown debt[2]	13.6	19.5	23.5	25.5	25.3	24.7	24.0	21.7	19.6	19.0	27.6	43.0	49.9	53.5	55.3
Total borrowings	35.4	43.8	46.7	45.7	43.7	46.0	44.2	40.7	39.5	36.3	50.5	69.4	75.9	78.2	78.8
Net worth															
Total Crown net worth	48.3	39.3	27.8	32.0	34.1	40.1	37.1	42.4	46.3	47.2	38.3	26.6	18.9	14.9	12.0
Total net worth attributable to the Crown	48.1	39.1	27.6	31.1	31.9	35.3	34.7	40.3	44.3	45.1	36.4	24.8	17.2	13.3	10.4

1. Excludes Reserve Bank settlement cash and bank bills.
2. Excludes advances.
3. The '2019 Actual' comparator has been restated for the impact of new accounting standards effective from 1 July 2019. At this point in time, the earlier years in this time series have not yet been restated.

Economic Indicators

June Years Annual average % change	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Private consumption	2.3	2.0	3.5	2.5	3.4	3.2	4.4	6.1	3.9	3.0	-2.4	1.2	3.6	2.6	3.7
Public consumption	-0.3	2.6	0.8	-0.1	3.1	3.4	1.5	2.7	3.5	3.6	5.3	4.8	1.6	1.5	1.1
TOTAL CONSUMPTION	1.7	2.2	2.8	1.8	3.4	3.3	3.7	5.3	3.8	3.2	-0.6	2.1	3.1	2.3	3.0
Residential investment	-2.5	-3.1	10.2	18.1	13.1	6.3	10.1	3.9	0.0	2.2	-12.5	-5.0	7.5	10.3	11.1
Business investment	-8.0	8.3	5.9	0.7	9.4	7.0	1.9	1.9	11.1	2.5	-10.1	-0.6	5.3	5.0	7.8
TOTAL INVESTMENT	-6.8	5.7	6.8	4.5	10.3	6.8	3.9	2.4	8.1	2.4	-10.7	-1.7	5.8	6.3	8.7
Stock change (contribution to growth)	0.9	-0.1	0.1	-0.3	0.5	0.0	-0.3	0.4	0.1	-0.7	0.2	0.1	0.1	0.0	0.0
GROSS NATIONAL EXPENDITURE	0.7	2.7	4.0	2.1	4.8	3.8	3.3	5.0	5.0	2.2	-3.0	1.3	3.8	3.2	4.3
Exports	4.8	2.2	2.1	3.0	0.3	6.3	5.7	0.6	3.9	2.7	-7.0	-15.4	8.0	10.9	6.9
Imports	-1.0	11.4	4.4	2.6	9.0	6.6	1.2	6.2	8.0	1.7	-5.7	-7.7	6.7	6.6	6.7
EXPENDITURE ON GDP	2.7	0.2	3.3	2.3	2.3	3.8	4.5	3.5	4.0	2.5	-3.2	-0.4	3.7	4.0	4.2
GDP (production measure)	1.1	1.1	2.8	2.2	2.8	3.9	3.7	3.4	3.2	2.8	-3.1	-0.5	3.6	3.9	4.1
- annual % change	2.9	0.9	2.7	2.4	2.9	3.9	4.2	3.1	3.2	2.1	-16.3	16.3	3.5	4.0	4.1
Real GDP per capita	-0.1	0.1	2.1	1.6	1.7	2.2	1.8	1.4	1.5	1.2	-4.8	-2.0	2.9	2.9	3.0
Nominal GDP (expenditure basis)	3.8	4.6	4.5	1.7	8.2	3.5	5.2	6.5	6.7	3.6	-0.4	0.2	5.8	6.3	6.8
GDP deflator	1.1	4.4	1.2	-0.6	5.7	-0.3	0.7	2.9	2.6	1.1	2.9	0.6	2.0	2.2	2.5
Output gap (% deviation, June year average)	-1.2	-1.9	-1.3	-1.6	-1.6	-0.8	-0.2	0.3	0.7	1.1	-4.2	-6.4	-4.8	-3.0	-1.2
Employment	-1.3	1.5	0.9	0.1	3.1	3.1	2.2	4.8	3.1	1.7	1.3	-3.2	1.2	2.6	3.2
Unemployment (% June quarter s.a.)	6.5	6.0	6.3	5.9	5.2	5.5	5.0	4.8	4.5	4.0	4.0	7.7	7.6	6.6	5.3
Wages (average ordinary-time hourly, ann % change)	1.1	3.0	2.9	2.1	2.5	2.7	2.0	1.5	3.0	4.4	3.0	0.9	2.5	2.6	2.9
CPI inflation (ann % change)	1.7	5.3	1.0	0.7	1.6	0.4	0.4	1.7	1.5	1.7	1.5	1.2	1.2	1.4	1.9
Merchandise terms of trade (SNA basis)	-3.0	9.7	-1.7	-3.8	16.4	-4.7	-2.7	5.0	4.5	-3.5	4.1	-5.3	-0.1	0.8	1.0
House prices (ann % change)	3.4	-0.2	4.0	8.9	6.3	11.8	15.0	6.5	3.6	1.5	6.7	-4.4	4.7	7.4	8.5
Current account balance - $billion	-3.5	-6.0	-7.7	-7.9	-5.9	-8.3	-5.4	-7.0	-9.6	-10.2	-7.2	-15.5	-16.5	-14.0	-14.0
Current account balance - % of GDP	-1.8	-2.9	-3.6	-3.6	-2.5	-3.4	-2.1	-2.6	-3.3	-3.4	-2.4	-5.1	-5.2	-4.1	-3.8
TWI (June quarter)	68.6	70.8	72.4	76.3	81.5	76.2	73.6	76.5	73.8	72.7	69.7	70.0	70.0	70.0	70.0
90-day bank bill rate (June quarter)	2.9	2.7	2.6	2.6	3.4	3.5	2.4	2.0	2.0	1.7	0.3	0.1	0.1	0.1	0.1
10-year bond rate (June quarter)	5.7	5.3	3.7	3.5	4.4	3.6	2.7	2.9	2.8	1.8	0.8	0.7	1.2	1.6	2.0

Data for 2020 and subsequently are forecasts. Data for 2019 and prior years are those that were available when the forecasts were finalised.