TE TAI ŌHANGA
THE TREASURY

Budget Economic and Fiscal Update 2021

20 May 2021

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An introduction to the *Budget 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 *Budget Economic and Fiscal Update (Budget Update)* is part of a suite of documents we release as required by the Public Finance Act 1989.

This *Budget 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 May 2021 is
https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2021

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During the development of
this year's Budget, we lost a valued
team member, **Dean Hemana**.
He is sorely missed.

Our thoughts are with Dean's family.

Haere atu ra e te hoa, e te rangatira.
Tū tono te mahara!

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 government decisions and other circumstances as at 30 April 2021 that were communicated to me by the Minister of Finance as required by the Public Finance Act 1989, and of other economic and fiscal information available to the Treasury as at 30 April 2021. 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

13 May 2021

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured all government decisions and other circumstances as at 30 April 2021 of which I was aware and that had material economic or fiscal implications have been communicated to the Secretary to the Treasury, as required by 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 and wellbeing) 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

13 May 2021

Executive Summary

June years	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Real production GDP (annual average % change)	-1.7	2.9	3.2	4.4	3.3	2.9
Unemployment rate (June quarter)	4.0	5.2	5.0	4.4	4.2	4.2
CPI inflation (annual % change)	1.5	2.4	1.7	1.8	2.0	2.1
Current account (annual, % of GDP)	-1.8	-2.7	-3.4	-3.5	-3.3	-3.1
Fiscal measures ($billions)						
Core Crown tax revenue	85.1	91.5	93.2	101.7	107.1	113.2
Core Crown expenses	108.8	110.7	114.7	115.4	117.8	121.1
Total Crown OBEGAL[1]	-23.1	-15.1	-18.4	-9.5	-5.7	-2.3
Core Crown residual cash	-23.7	-25.3	-39.2	-25.7	-6.0	3.3
Net core Crown debt	83.4	113.7	153.3	178.5	184.2	180.8
as a percentage of GDP	26.3	34.0	43.8	48.0	46.9	43.6
Net worth attributable to the Crown	110.3	112.0	96.6	91.5	90.8	94.0

Notes: 1 Operating balance before gains and losses.

Sources: Stats NZ, the Treasury

- New Zealand has been successful in eliminating COVID-19 in the community throughout most of the 2021 fiscal year. This has enabled most of the economy to operate relatively normally. After the sharpest contraction on record in the June 2020 quarter, GDP rebounded by 12.8% over the second half of 2020 and the unemployment rate fell to 4.7% in the March 2021 quarter. Stronger economic activity has led to a recovery in the year-to-date financial results of the Government, with actual results outperforming expectations.

- Nevertheless, the COVID-19 pandemic continues to play a large role in the economic and fiscal outlook, adversely affecting those sectors dependent on international people flows, as well as people at the margins of the labour force. These effects are expected to persist over the forecast period.

- The impact of COVID-19 on economic activity together with the Government's fiscal support measures have led to large OBEGAL deficits in the near-term, that are expected to narrow across the forecast period reaching $2.3 billion by 2024/25. Net core Crown debt is forecast to increase by close to $100 billion by 2024/25, peaking as a share of GDP at 48.0% in 2022/23. When excluding the Funding for Lending Programme net core Crown debt would be expected to reach 41.4% by the end of the forecast period.

- Both the economic and the fiscal outlook have improved compared to the *2020 Half Year Economic and Fiscal Update (Half Year Update).* Although risks are more balanced than a year ago, uncertainty about the economic outlook remains high owing to both volatility and the potential for sizeable revisions in the data.

- Nominal GDP is higher over the forecast period than in the *Half Year Update*, reflecting stronger real activity, higher inflation and an elevated terms of trade. Overall, we now expect the pandemic to have a smaller impact on New Zealand's long-term productive capacity compared to the *Half Year Update*. Despite some near-term weakness, the economy is expected to strengthen throughout the forecast period, supported by the return of international visitors and higher government spending. Real GDP is forecast to grow by 2.9% in 2021 and average 3.4% over the remainder of the forecast period.

- The employment outlook has also improved substantially compared to the *Half Year Update.* The unemployment rate is expected to rise slightly in the near term before trending down to 4.2% at the end of the forecast period.

- A stronger starting position for the fiscal forecasts combined with improved economic activity, has led to a reduction in OBEGAL deficits in most years and a lower net core Crown debt track compared to the *Half Year Update*.

- Core Crown tax revenue is expected to increase by $4.2 billion on average in each year of the forecast when compared to the *Half Year Update*, but is still lower than expected before the pandemic, owing mainly to lower nominal GDP.

- Overall, the Budget 2021 package allocates operating funding of $15.1 billion over five years. As well as the Budget 2021 package, the Government has provided funding by pre-committing against the Budget 2022 operating allowance and through the COVID-19 Response and Recovery Fund (CRRF). On average $1.8 billion per year of unallocated Budget 2022 funding remains while $5.1 billion of the CRRF remains unallocated.

- Net worth attributable to the Crown is forecast to decline from $110.3 billion in 2019/20 to $94.0 billion in 2024/25, a $16.3 billion reduction, as total liabilities are expected to grow at a faster rate than total assets through to 2023/24 before reversing. When compared to the *Half Year Update*, net worth attributable to the Crown is expected to improve by $33.0 billion by 2024/25, largely reflecting operating balance improvements.

- The Economic Outlook chapter presents alternative upside and downside scenarios. Compared to our main forecast, the upside scenario explores a stronger global recovery in which GDP and labour market outcomes are more positive in the near term, and the effect of tax policy changes on house prices is smaller. The second scenario explores the impact of worse COVID-19 outcomes in New Zealand and abroad. As a result, unemployment rises and the impact on the economy becomes more permanent. In addition, the Risks to the Fiscal Forecasts chapter discusses the key risks to the fiscal forecasts presented in the *2021 Budget Economic and Fiscal Update (Budget Update)*.

Finalisation dates for the *Budget Update*

Economic forecasts – 1 April 2021

Tax revenue forecasts – 9 April 2021

Fiscal forecasts – 30 April 2021

Risks to the fiscal forecasts – 30 April 2021

Text finalised – 12 May 2021

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Economic Outlook

Overview

- The New Zealand economy has proved more resilient to the COVID-19 shock than anticipated, with a swift recovery in the second half of 2020 bringing activity close to pre-pandemic levels. Although the economy is below its previous trajectory and risks to the forecasts persist, the strength of the recovery to date has improved the outlook.

- There remains a high degree of divergence between different sectors of the economy, and the absence of international visitors contributed to a 1.0% quarterly decline in December quarter GDP. The closure of the border is expected to be felt again in the March quarter, and a small quarterly decline in GDP is forecast.

- Despite some near-term weakness, the economy is expected to strengthen from the second half of this year as tourist numbers start to recover and government spending supports consumption and investment. In June 2025, real GDP is forecast to be 2.9% above the *Half Year Update*, with cumulative nominal GDP around $100 billion higher.

- Unemployment is forecast to rise slightly in the near term as the number of people entering the labour force exceeds the number of people entering employment. Increased demand for labour sees unemployment fall below 4.5% by the start of 2023.

- The improved labour market outlook and resilience in economic activity suggest that the long-term effects of the pandemic will not be as severe as previously thought. We now assume a smaller impact on the economy's long-term productive capacity compared to the *Half Year Update*.

- CPI inflation is forecast to rise in the near term to 2.4% as a result of temporary price pressures, before falling below 2.0% in 2022 as spare capacity in the economy remains. Annual inflation is forecast to rise from 2023, reaching 2.0% in early 2024.

- Government policies are expected to slow the pace of house price growth across the forecast period. This is assumed to have a dampening effect on private consumption and residential investment, though growth in these sectors is forecast to remain robust.

- Demand for New Zealand's goods exports is expected to continue as the world economy recovers, and the terms of trade are supported by rising commodity prices.

- Downside risks continue to threaten the recovery, while near-term economic momentum may also be stronger than expected. Two alternative scenarios are presented to illustrate the level of uncertainty in the forecasts.

Table 1.1 – Economic forecasts

Year ending June Annual average % change	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Private consumption	-0.9	5.0	3.0	2.9	2.5	2.4
Public consumption	6.7	4.1	3.1	1.4	1.5	2.0
Total consumption	**0.8**	**4.8**	**3.0**	**2.5**	**2.2**	**2.3**
Residential investment	-6.1	16.0	1.7	5.2	2.7	2.6
Business investment[1]	-4.8	0.6	5.1	9.4	5.1	3.6
Total investment	**-5.1**	**4.4**	**4.2**	**8.3**	**4.5**	**3.4**
Stock change[2]	-0.5	0.3	0.3	0.0	0.0	0.0
Gross national expenditure	**-1.1**	**5.1**	**3.6**	**3.9**	**2.8**	**2.6**
Exports	-5.6	-10.3	6.1	6.8	5.5	4.7
Imports	-6.0	-5.0	10.7	6.0	4.0	3.5
GDP (expenditure measure)	**-1.0**	**4.3**	**1.9**	**3.8**	**3.0**	**2.8**
GDP (production measure)	**-1.7**	**2.9**	**3.2**	**4.4**	**3.3**	**2.9**
Real GDP per capita	-3.7	1.5	2.4	3.4	2.2	1.7
Nominal GDP (expenditure measure)	2.0	5.6	4.6	6.3	5.7	5.5
GDP deflator	3.1	1.2	2.6	2.4	2.6	2.6
Potential GDP	-1.0	5.9	2.4	2.5	2.6	2.7
Output gap (% of potential, June quarter)[3]	-0.7	-3.1	-0.8	0.3	0.8	0.8
Employment	1.7	0.2	1.4	2.4	1.9	1.8
Unemployment rate[4]	4.0	5.2	5.0	4.4	4.2	4.2
Participation rate[5]	69.9	70.1	70.6	70.9	71.1	71.1
Hourly wages (annual % change)[6,7]	3.0	3.5	3.0	2.4	2.8	3.2
CPI inflation (annual % change)	1.5	2.4	1.7	1.8	2.0	2.1
Terms of trade (goods)[8]	4.6	0.3	1.0	-0.9	-0.4	-0.3
House prices (annual % change)[9]	6.8	17.3	0.9	2.1	2.1	2.5
Current account balance (annual)						
$billions	-5.7	-9.0	-11.8	-13.0	-13.1	-12.9
% of GDP	-1.8	-2.7	-3.4	-3.5	-3.3	-3.1
Net international investment position (% of GDP)	-57.0	-54.9	-55.9	-56.0	-56.4	-56.5
Exchange rate (TWI)[10]	69.7	74.5	74.5	74.5	74.7	75.1
90-day bank bill rate[11]	0.3	0.3	0.3	0.3	0.3	0.9
10-year bond rate[11]	0.8	1.8	2.2	2.4	2.7	2.9

Sources: Stats NZ, Reserve Bank of New Zealand, CoreLogic, the Treasury

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

Notes:
1 Business investment is non-residential public and private investment.
2 Contribution to GDP growth.
3 Percentage difference between actual real GDP and potential real GDP.
4 Percent of the labour force, June quarter, seasonally adjusted.
5 Percent of the working-age population, June quarter, seasonally adjusted.
6 Quarterly Employment Survey (QES), average ordinary-time hourly earnings.
7 Forecasts are based on the QES prior to the March 2021 quarter redesign.
8 System of National Accounts.
9 CoreLogic Quarterly House Price Index.
10 Trade-weighted index (TWI), average for the June quarter.
11 Average for the June quarter.

Key economic forecast judgements and assumptions

These forecasts cover the period through to June 2025 and are based on the following judgements and assumptions:

- Given the strong rebound in activity in the second half of 2020, the assumed negative impacts of alert level restrictions are smaller than in the *Half Year Update*. Estimates remain uncertain and may be refined further as more data are released. Our current estimates of the reduction in activity at each alert level are:
  - 25% to 30% at Alert Level 4 (unchanged from the *Half Year Update*)
  - 10% to 15% at Alert Level 3 (previously 15% to 20%)
  - 4% to 6% at Alert Level 2 (previously 6% to 10%)
  - 3% to 4% at Alert Level 1 (previously 3% to 5%).[1]
- The Treasury's working assumption is that Alert Level 1 restrictions will be in place until the end of 2021. A partial easing in border restrictions is assumed from 1 July 2021 onwards (the forecasts were finalised before the announcement of a safe travel zone with Australia in April 2021). A significant opening of the border is assumed from 1 January 2022 onwards, although some restrictions are expected to remain in place for longer. Our view on the pace of recovery in tourist numbers remains unchanged from the *Half Year Update*.
- The Budget 2021 package, future operating and capital allowances and the unallocated COVID-19 Response and Recovery Fund (CRRF) have been incorporated into the forecasts. Total fiscal support is higher than in the *Half Year Update* resulting in higher government consumption as well as providing support to business investment and private consumption.
- We assume that monetary policy support is delivered through a combination of low interest rates, large-scale asset purchases and the Funding for Lending Programme.
- The trade-weighted index (TWI) is assumed to be steady at 74.5 from the June 2021 quarter up to the last quarter of 2023 when it begins trending upwards, reaching 75.1 by the June 2025 quarter, as monetary conditions tighten.
- Net migration is assumed to have fallen to around 7,000 in the year ended March 2021. As international travel restrictions are lifted throughout the world, annual net migration increases to 43,000 by the June 2025 quarter.
- Oil prices increased to US$58 per barrel in the March 2021 quarter and are assumed to continue rising as the global economy recovers, reaching US$65 at the beginning of 2022, before falling to US$55 in June 2025 as global production increases.
- Economic activity in our top 16 trading partners is forecast to grow by 5.8% in the December 2021 year and 4.2% in 2022, an upgrade from the *Half Year Update*.
- Our potential output assumptions have been updated from the *Half Year Update* to reflect the resilience in economic activity and employment over the second half of 2020. More information is available in the box on page 10. Our long-run assumption for the non-accelerating inflation rate of unemployment (NAIRU) is unchanged at 4.25%.

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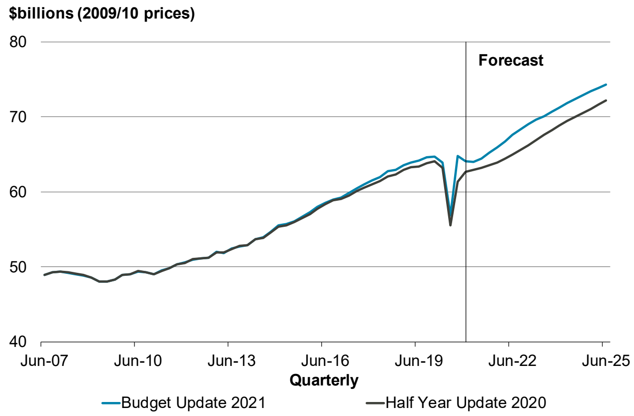
1 More details can be found in the 23 April Weekly Economic Update: https://www.treasury.govt.nz/publications/weu/weekly-economic-update-23-april-2021

Economic Outlook

The New Zealand economy has proved more resilient than anticipated…

Following the 11.0% GDP contraction in the June 2020 quarter, the New Zealand economy showed a high degree of resilience by growing 12.8% over the next two quarters. This took the level of real production GDP in the December 2020 quarter to just 0.9% below the previous year, exceeding the *Half Year Update* forecast by $1.4 billion (Figure 1.1). GDP was volatile on a quarterly basis, rebounding 13.9% in the September quarter before falling 1.0% in the December quarter.

Figure 1.1 – Real production GDP



Sources: Stats NZ, the Treasury

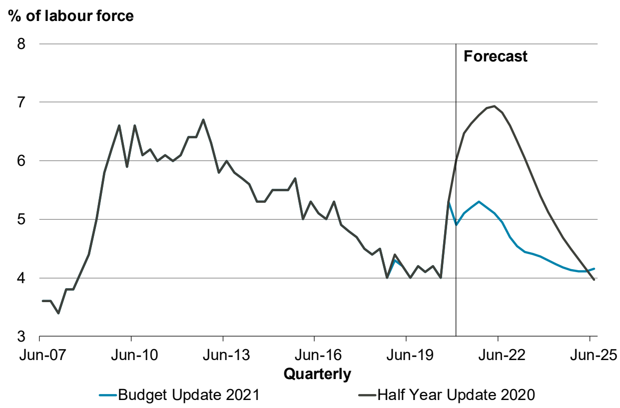
…supported by robust household spending and a buoyant housing market

Beneath the strong headline GDP growth in the second half of 2020, there was a high degree of divergence between different sectors of the economy. Swift recoveries in private consumption and residential investment were underpinned by fiscal and monetary policy support as well as the resilient housing market, offsetting an 8.5% annual fall in business investment. The largest contributor to private consumption growth was durable goods spending, as households made one-off purchases with savings accumulated during higher alert levels, fuelling solid growth in retail trade. In contrast, December quarter activity in arts and recreation services was down 13.1% compared to 2019, and accommodation and food services was down 4.8%, reflecting the ongoing loss of international visitor spending.

Labour market conditions are far better than anticipated…

The surprise drop in December quarter unemployment to 4.9% and subsequent fall to 4.7% in the March 2021 quarter have substantially improved the labour market outlook. The March quarter result was better than the *Budget Update* forecast of 5.1%, suggesting that the peak in unemployment may be lower than forecast. However, an increase in underutilisation and a fall in hours worked suggest ongoing spare capacity in the labour market, and employment growth in the March quarter was entirely driven by people entering part-time work. The unemployment rate is forecast to rise in the near term as employment growth in tourism-related industries remains relatively weak, before falling to under 4.5% by 2023 (Figure 1.2).

Figure 1.2 – Unemployment rate



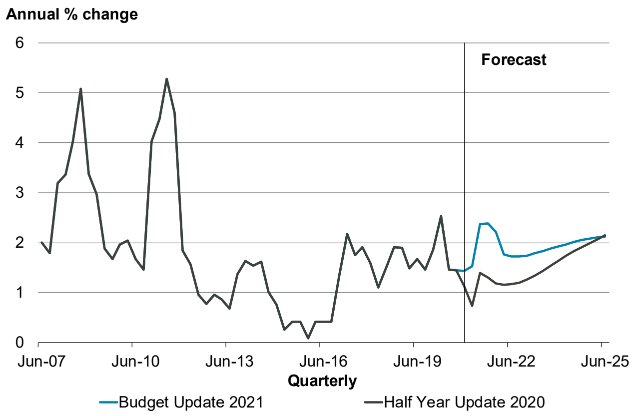
Sources: Stats NZ, the Treasury

The forecast rise in the unemployment rate is due to the number of people entering the labour force exceeding the number of people gaining employment, increasing the number of unemployed job seekers. Total employment is no longer forecast to fall, but to be unchanged during the first half of 2021 and steadily recover over the remainder of the forecast period. The lower unemployment rate suggests increased tightness in the labour market, driving stronger wage growth compared to the *Half Year Update*.

…and resilient demand drives higher inflation…

Inflationary pressures from resilient domestic demand, supply chain disruptions and the rising cost of new homes have supported price growth, with annual Consumers Price Index (CPI) inflation reaching 1.5% in the March 2021 quarter. Inflation is expected to continue rising in 2021, peaking at 2.4% in the September quarter (Figure 1.3). Some of the drivers of rising inflation are likely to be temporary, however, and spare capacity in the economy is expected to remain for some time. CPI inflation is forecast to fall back below 2.0% in 2022, as capacity constraints in construction ease and global supply chains normalise.

Figure 1.3 – Consumers Price Index



Sources: Stats NZ, the Treasury

Inflation is considerably higher over the forecast period compared with the *Half Year Update*, as the more resilient labour market supports wage growth and boosts domestic demand. Annual inflation is forecast to rise from 2023, reaching 2.0% in early 2024. Given the relatively subdued inflation outlook and ongoing risks to the economic recovery, monetary policy is expected to remain supportive, with short-term interest rates forecast to be unchanged from the current 0.3% before starting to rise at the end of 2024.

…resulting in substantially higher nominal GDP across the forecast period…

Despite ongoing downside risks to the outlook, the resilience seen in the economy is expected to continue. Real GDP is forecast to be 2.9% higher than the *Half Year Update* in June 2025, partly owing to large upward revisions to historical data. Some near-term weakness is expected as the loss of the peak tourism season is felt, though growth is forecast to pick up in the second half of 2021 as tourist numbers start to recover and government spending supports consumption and investment. As a result of the stronger economic recovery, elevated terms of trade, a higher domestic price level and upward revisions to historical data, nominal GDP is cumulatively around $100 billion higher than in the *Half Year Update* by the June 2025 quarter. This drives higher forecasts of tax revenue and an improved fiscal position, as outlined in the Fiscal Outlook chapter.

…and a smaller long-term economic impact from the pandemic

The improved labour market outlook and resilience in economic activity suggest that the permanent economic scarring from the pandemic will not be as severe as previously thought. The long-term effects of the pandemic are explored further in the box below.

The long-term impacts of the COVID-19 pandemic

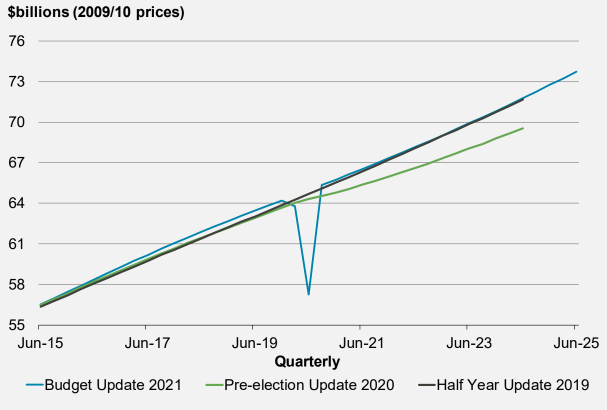
Recessions can have long-lasting impacts on economies through scarring effects on labour markets, periods of reduced investment, and hits to productivity. A key judgement in our forecasts is the impact of the pandemic on the long-term growth potential of the New Zealand economy – also known as 'potential output'. 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 in the economy, and how efficiently they are used. While all forecasts are uncertain, unobservable variables such as potential output involve considerable judgement.

International research highlights that there is significant uncertainty about the long-run impacts of COVID-19. Some studies indicate that pandemics may have smaller long-run impacts than other types of recessions,[2] though particularly severe effects are expected in tourism-dependent economies. While the effect of COVID-19 on the New Zealand economy has been profound – particularly for tourism-related industries – the impact has been smaller than in many other developed economies, partly because of significant fiscal and monetary support. In the *2020 Pre-election Economic and Fiscal Update*, we assumed that the pandemic would leave the long-run level of potential output around 3% lower than expected prior to COVID-19.

Although the long-term impact of COVID-19 remains uncertain, the relatively swift economic recovery suggests a smaller effect than previously thought. Unemployment is now expected to peak at 5.3%, compared to initial forecasts of almost 10%, suggesting less risk of significant labour market scarring. In addition, business investment has not declined by as much as previously forecast, indicating a smaller reduction in capital accumulation. While there is evidence of less scarring, we still expect that the COVID-19 pandemic will have a persistent impact on potential output. We have reversed two thirds of our previous downgrade, leaving a 1% reduction. This reflects disruption to supply chains, the mismatch of labour and capital during the period of border closure, reduced investment and increased risk of business failure.

Stats NZ has also revised historical GDP data, increasing the estimated size of the economy before COVID-19 and therefore our estimate of historical potential output. Together with the reduction in expected scarring from COVID-19, potential output is now forecast to be similar to what we expected in the 2019 *Half Year Update*, our last forecast before the pandemic (Figure 1.4). However, nominal GDP and tax revenue at the end of the forecast period remain below pre-pandemic expectations.

Figure 1.4 – Potential output



Sources: Stats NZ, the Treasury

We have also changed the way we measure potential output in the June 2020 quarter. This is a technical change that has no impact on the headline economic forecasts. However, it substantially affects the cyclical adjustments we make to estimate the fiscal impulse and cyclically-adjusted balance. More detail is provided in the box on pages 34 to 35.

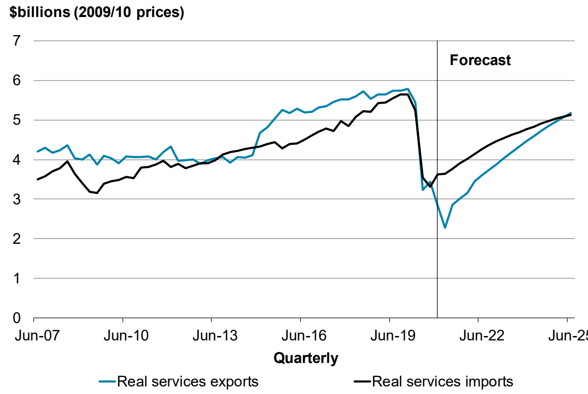
[2] Fuentes & Moder (2020) and Ma, Rogers, & Zhou (2020) found that pandemics have smaller long-run impacts than other recessions. The IMF (World Economic Outlook, April 2021) found that pandemics cause more long-term harm, but that COVID-19 will likely have smaller impacts for advanced economies.

The loss of international visitors remains a drag on the economy…

Although the elimination of COVID-19 in the community has allowed most areas of the economy to recover swiftly, tourism-related businesses continue to be affected by the border closure. Services exports – which are usually dominated by tourist spending – fell by 17.3% in the December quarter on a seasonally adjusted basis. This was the result of a 2.1% fall in the non-seasonally adjusted value occurring when there would usually be a large rise as tourist numbers increased. Another large seasonally adjusted fall is forecast in the March quarter, when tourist spending would usually increase further (Figure 1.5).

The impact of seasonality on services exports is adding to the uncertainty around near-term GDP movements, and will continue to do so for as long as visitor flows remain disrupted. A 20% quarterly fall in services exports is forecast in the March 2021 quarter, contributing -0.9 percentage points to real GDP growth, followed by a 25% rise in the June quarter, contributing +0.9 percentage points. These forecasts are largely driven by judgements around seasonal adjustment, so the actual outturns could vary significantly depending on the approach taken by Stats NZ.

Figure 1.5 – Real services exports and imports



Sources: Stats NZ, the Treasury

These forecasts were finalised prior to the announcement that a safe travel zone between New Zealand and Australia would open on 19 April, so there is upside risk to the services exports forecast for the June quarter. The impact on GDP is expected to be relatively minor, given that services imports will also increase as New Zealand residents travel to Australia, though the inflow of Australian tourists will provide a much-needed boost for tourism businesses in New Zealand. We continue to assume a significant opening of the border on 1 January 2022, when populations in New Zealand and the rest of the developed world are expected to be largely vaccinated against COVID-19. However, it is likely to be longer before unrestricted global travel can resume given the difference in vaccination progress worldwide, so a gradual recovery in services exports is forecast.

…with a dip expected in the March quarter…

Indicators of activity suggest a slowdown over the March 2021 quarter, partly due to increased alert levels in February, with the New Zealand Activity Index showing relatively weak growth and the Household Labour Force Survey measure of hours worked falling 2.3%. These indicators, together with the assumption that seasonally adjusted services exports will fall sharply, are consistent with our forecast of a slight fall in real production GDP. Volatility in economic data was always expected, however, and robust growth in GDP is forecast in the June 2021 quarter, with a steady recovery over the remainder of the forecast period.

…and government policy reduces the pace of house price growth

Annual house price growth continued to accelerate at the end of 2020 and into 2021, prompting the Government to introduce policy measures to address affordability concerns. These policies are expected to reduce house price growth, while increased government spending supports the economic recovery, as explored in the following box.

The impacts of government policy on the economic forecasts

This box sets out the fiscal policy measures included in the economic forecasts, including the expected impacts of the Government's March Housing Package on the housing market and wider economy. Overall fiscal support in the economic forecasts is higher than assumed in the *Half Year Update* and includes the Housing Acceleration Fund (HAF) and the Tackling Inequality and Child Poverty Package.

Higher levels of fiscal spending support the economic recovery

The Budget 2021 package, future operating and capital allowances and the unallocated CRRF have been incorporated into the economic forecasts. The Tackling Inequality and Child Poverty Package supports household incomes, boosting private consumption, while other elements of the operating allowances support government consumption.

Capital allowances boost business (non-housing) investment in our forecasts. We assume the spending is phased, and that part of this spending is crowded out, reducing the full impact of the higher capital allowances on business investment. Additionally, our forecasts assume that funds allocated to the HAF will increase business investment. These funds have been reallocated from the CRRF.

Overall, the economic forecasts reflect higher fiscal spending, which leads to a stronger fiscal impulse. Higher government consumption, private consumption and investment activity owing to increased fiscal spending contribute to faster GDP growth. This reduces the amount of monetary policy stimulus needed to support the recovery, resulting in higher interest rates than would otherwise be forecast.

Housing tax policy changes are expected to slow down house price growth…

The Government announced three housing-related policy changes on 23 March: the extension of the bright-line test from 5 to 10 years, the phased removal of interest deductions on investment residential property, and the $3.8 billion HAF. Of the three policies, the removal of interest deductibility on existing residential properties is expected to have the largest impact on the housing market and wider economy by significantly reducing house price growth over the forecast period. The extension of the bright-line test is likely to have a relatively smaller impact, while the HAF is expected to support business investment.

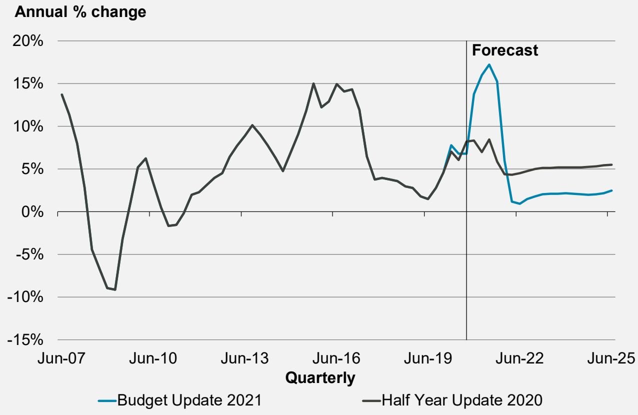
…as leveraged investors exit the market for existing residential properties…

Leveraged investors will be impacted the most by the removal of interest deductibility, which will increase their tax liability. Highly leveraged investors will be more impacted than those that are less leveraged, implying that highly leveraged investors will demand fewer homes going forward. Furthermore, existing property owners facing higher tax costs may seek to divest to bring overall costs down. This will increase selling pressure and reduce demand in the market for existing homes. Non-leveraged investors and owner-occupiers are expected to be largely unaffected by the policy change.

The overall impact of the Housing Package on the housing market is uncertain and depends on various factors, including the final design of the policy and the extent to which other participants (including first home buyers) step in to fill the gap in demand left by leveraged investors. The forecasts assume that other buyer types will enter the market, moderating the downward pressure on prices, but that their willingness to pay will be lower than the leveraged investors who exit the market. The overall result is that house price growth is forecast to continue, but at a significantly reduced rate compared to a scenario without the policy change.

Annual house price growth is forecast to reach a peak of 17.3% in the June 2021 quarter before easing to 0.9% by June 2022 (Figure 1.6). As borders reopen, higher population growth and continued low interest rates are expected to result in a gradual increase in house price inflation, reaching 2.5% in the June 2025 quarter. The slower pace of house price growth means house prices end up around 4% lower in June 2025 than forecast in the *Half Year Update*, and around 16% lower compared to an updated scenario without the policy change.

Figure 1.6 – House prices



Sources: CoreLogic, the Treasury

…altering the composition of buyers in the markets for new and existing property

Interest deductibility will remain in place for new builds for an undecided length of time, which is expected to result in a migration of leveraged investors from the market for existing property into the market for new residential developments. This is likely to reduce the impact on house prices, as demand from some leveraged investors is redirected towards new housing rather than being lost entirely.

Additionally, some owner occupiers and less-leveraged investors will be displaced from the new build market into the existing home market. To the extent that new and existing houses are substitutable, it is expected that prices across both markets will converge, but the incentives to build new properties are ambiguous and could vary by location. Nevertheless, the new equilibrium price for housing will likely be lower than without the tax changes, but higher than without the exemption for new builds.

Slower house price growth is forecast to dampen the economic recovery…

House price movements have a broader impact on the economy. When the value of the housing stock increases, homeowners' household balance sheets rise, causing them to feel wealthier and more inclined to spend, which raises private consumption. House price growth also encourages residential investment, with higher prices enabling more projects to be brought to the market as returns on investment rise to sufficiently high levels.

Slower house price growth will likely dampen these effects, resulting in a slower economic recovery than otherwise and prolonging the period of monetary policy support needed to raise inflation and employment to target. However, the levels of private consumption and residential investment are still forecast to be substantially higher than in the *Half Year Update*. The impact of the tax change on house prices and the associated effects on the wider economy are uncertain and present significant risks to the economic forecasts.

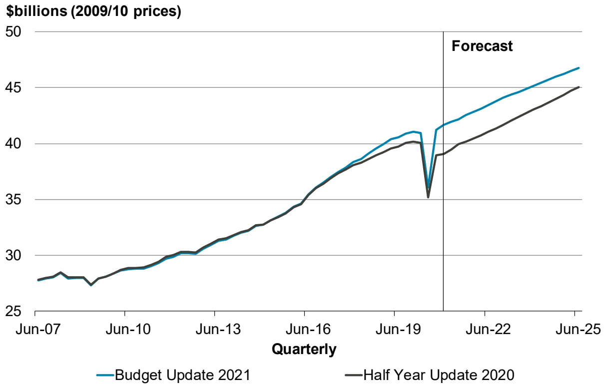
…but with some details still to be decided, the fiscal impact is uncertain

Key policy decisions relating to the Housing Package were yet to be decided at the time of forecast finalisation, making it difficult to estimate the fiscal impact with a reasonable level of certainty. These policy decisions include the duration for which interest deductibility will remain in place for new builds, definitions of 'residential land' and 'developer', and whether interest deductions would be allowed on the sale of property, among others. These uncertainties are reflected in the Risks to the Fiscal Forecasts chapter.

Household consumption is forecast to remain robust…

Although the slowdown in house price growth is forecast to result in more subdued household spending than otherwise, private consumption is expected to grow steadily over the forecast period (Figure 1.7). The continued resilience in the labour market will raise household incomes, and monetary policy is assumed to remain supportive. Fiscal support and the easing of border restrictions from mid-2021 are also expected to boost incomes and lift spending over the forecast period.

Figure 1.7 – Real private consumption



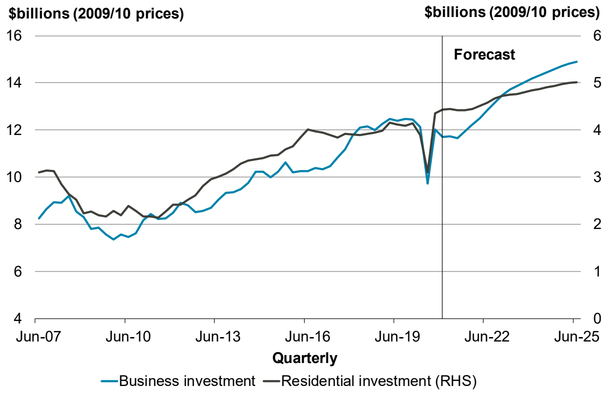
Sources: Stats NZ, the Treasury

…and investment grows steadily after some near-term weakness…

High levels of residential building consents issuance over the past year indicate a large pipeline of work for the near term, though labour shortages and difficulty accessing building materials are expected to limit the amount of work that can be completed. Residential investment growth is forecast to be flat over 2021 as supply constraints restrict growth, before picking up in 2022 as global supply chains normalise and an increase in migration expands the supply of labour (Figure 1.8). The slowdown in house price growth will have a dampening effect owing to the reduction in anticipated returns, though low interest rates are expected to support steady growth over the forecast period.

Business investment is forecast to remain subdued over the first half of this year, as tourism-related businesses continue to bear the loss of international visitors and deal with uncertainty about future earnings (Figure 1.8). Government investment, steady household demand and the gradual return of overseas visitors drive a strong recovery from the second half of 2021, and business investment is forecast to exceed pre-pandemic levels by the start of 2022.

Figure 1.8 – Real investment



Sources: Stats NZ, the Treasury

…though risks to the outlook remain

Downside risks continue to threaten the recovery, including the potential for outbreaks of COVID-19 in the community and uncertainty around the success of vaccination programmes. Volatility in economic data will also continue as statistical agencies face challenges in capturing current economic developments, and it is possible that there will be significant revisions to historical data over coming years. There are also upside risks, with recent tax outturns suggesting continued momentum in the New Zealand economy and some of our trading partners showing signs of a more rapid recovery than expected. These risks are illustrated in the two alternative scenarios explored in the box below.

Alternative scenarios

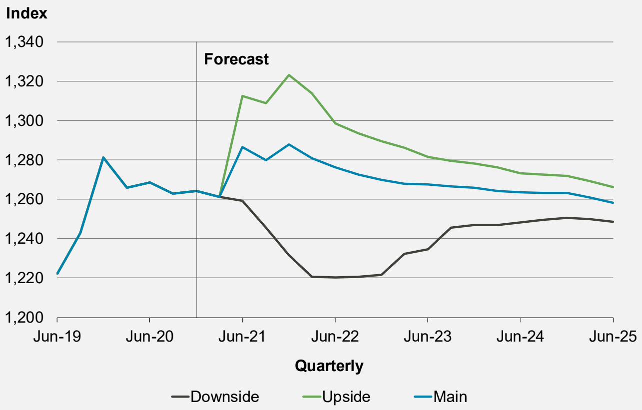
In the **upside** scenario, there is a stronger global recovery…

An upside risk to our forecasts is that growth in New Zealand's trading partner economies exceeds expectations, particularly in the United States where large fiscal stimulus has been deployed and significant progress has been made on vaccine distribution. The upside scenario also assumes further positive surprises in the New Zealand economy, with unemployment continuing to fall in the near term and GDP rising in the March 2021 quarter, as well as a more moderate correction to house price growth.

…boosting the terms of trade and speeding the domestic recovery

Faster growth in our trading partners has positive implications for the terms of trade, which are forecast to rise higher in the upside scenario (Figure 1.9). Higher terms of trade increase export revenue and encourage investment, providing a boost to GDP across the forecast period (Figure 1.10). Annual average GDP growth in December 2021 increases to 4.9%, compared to 4.0% in the main forecast. This improves the labour market outlook, with the unemployment rate falling to 4.2% by June 2022 (Figure 1.11). A smaller reduction in house price growth is also assumed to raise aggregate activity and employment, though this would also imply weaker progress on addressing affordability issues. Faster recoveries in both employment and GDP imply less permanent scarring in the economy, and potential output is forecast to be 1.0% higher at the end of the forecast period.

Figure 1.9 – Goods terms of trade

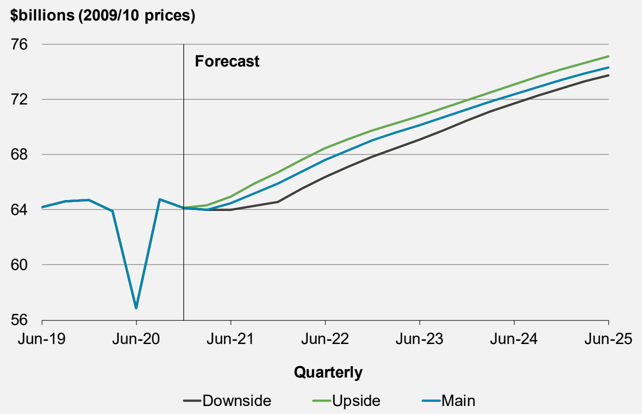


Sources: Stats NZ, the Treasury

In the **downside** scenario, COVID-19 outcomes are worse both here and abroad…

Despite the continued success of New Zealand's elimination strategy and swift vaccine distribution in many countries, COVID-19 remains a significant risk to the economic outlook. The downside scenario includes domestic resurgences in community transmission throughout 2021 that result in higher alert levels in certain parts of the country, as well as less effective vaccination programmes abroad resulting in weaker global growth. In each of the final three quarters of this year, Alert Level 3 is assumed to be in place in half of the country for two weeks, followed by one week with Alert Level 2 restrictions.[3]

Figure 1.10 – Real production GDP



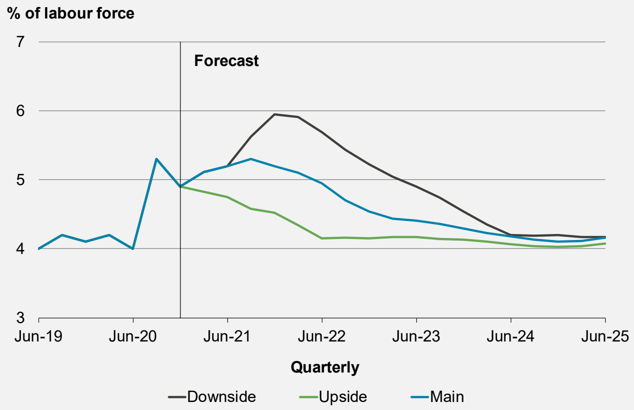
Sources: Stats NZ, the Treasury

3 Note, however, that there is flexibility in the interpretation, and it could be equivalent to (for example) multiple smaller outbreaks in different parts of the country. The scenarios are illustrative only and are intended to give a sense of the range of potential economic outcomes, given the uncertainty in the outlook.

…which pushes up the unemployment rate…

Increases in alert levels throughout 2021 and weaker global growth result in slower GDP growth over the year (Figure 1.10), as well as further increases in unemployment. Annual average GDP growth is 2.9% in December 2021, and the unemployment rate peaks at 5.9% (Figure 1.11). The direct GDP impacts of higher alert levels are assumed to be smaller than in the *Half Year Update*, as outlined on page 7, though recurrent virus outbreaks may weaken business and consumer confidence, discouraging investment and household spending. Slower vaccine progress abroad and virus transmission resurgences in New Zealand result in a slower recovery in exports of services, as safe travel arrangements become less successful and people show a greater reluctance to travel.

Figure 1.11 – Unemployment rate



Sources: Stats NZ, the Treasury

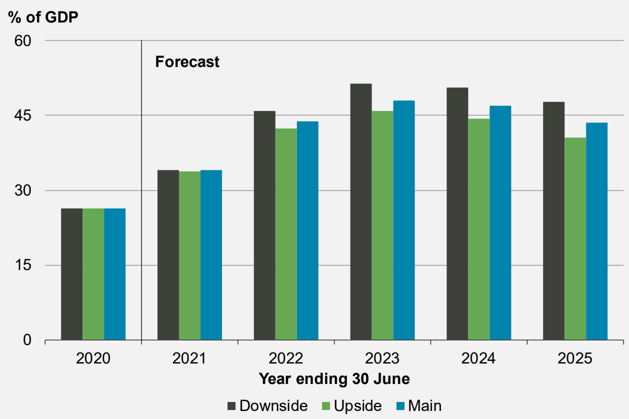
…and results in more permanent impacts on the economy

The weaker recovery in domestic activity and higher unemployment in the downside scenario suggest more permanent economic impacts. Reduced business confidence from recurrent community outbreaks implies less business investment and a smaller capital stock in the future, while sustained high unemployment would likely result in a greater degree of skill mismatches as people look for work in new industries and a smaller labour force as people give up on searching for jobs. The slower recovery in services exports may have particularly severe implications for the economy's long-run productive capacity, as more tourism-related businesses close and their productive capital becomes obsolete. Given these longer-lasting impacts, potential output is forecast to be 1.0% lower in the downside scenario, though this would still represent a smaller reduction in potential output compared to the *Half Year Update* forecast.

Government debt is sensitive to the economic outlook

Cumulative nominal GDP over the forecast period is $31 billion higher in the upside scenario, resulting in an additional $8.7 billion in core Crown revenue. In the downside scenario, cumulative nominal GDP is $45 billion lower than the main forecast, reducing core Crown revenue by $11.3 billion. Net core Crown debt is 47.7% of GDP in the year ending June 2025 in the downside scenario and 40.5% of GDP in the upside, compared to 43.6% in the main forecast (Figure 1.12).

Figure 1.12 – Net core Crown debt to GDP ratio



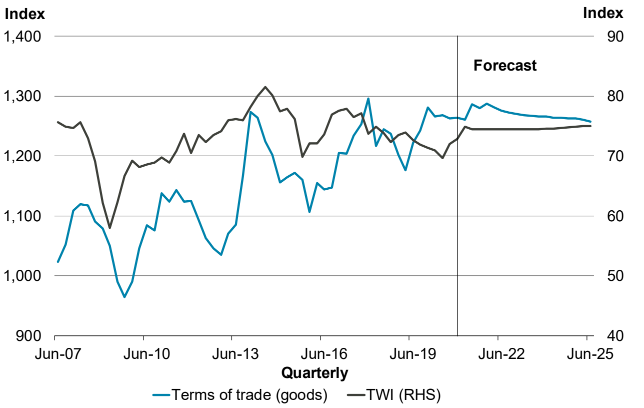
Source: The Treasury

The terms of trade are supported by rising commodity prices…

Robust demand for New Zealand's goods exports has continued, benefiting from the resilience of retail demand as well as the strong economic recovery in China, as explored further in the box below. Commodity prices experienced a swift rebound over the second half of 2020 and into 2021. World prices for dairy, forestry and horticultural products were up between 13% and 24% in April 2021 compared to pre-pandemic levels, though meat prices remained slightly down owing to weak restaurant demand. The rising exchange rate and higher shipping costs have also softened domestic returns for exporters.

The goods terms of trade are forecast to lift in the near term, while the TWI is assumed to remain relatively flat at around 75 (Figure 1.13). Some of the rise in commodity prices is likely to be temporary, driven by disruptions to global supply, and the terms of trade are forecast to ease from 2022 as world trade flows normalise. Goods exports are expected to grow steadily across the forecast period as the world economy recovers.

Figure 1.13 – Goods terms of trade and TWI

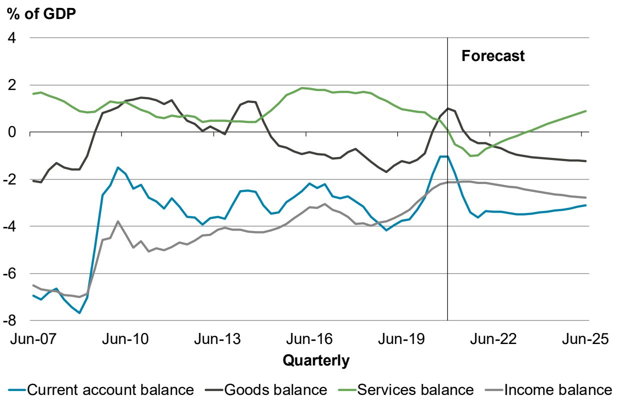


Sources: Stats NZ, RBNZ, the Treasury

…though weakness in services exports drags on the current account balance

Goods import values fell sharply in 2020 and have been relatively slow to recover, remaining around 10% down in the December 2020 quarter compared to the previous year. The fall in goods imports and the relative strength in goods exports lifted New Zealand's goods balance into surplus in the December quarter, for the first time since 2014 (Figure 1.14). Import values are forecast to continue increasing in line with household demand and business investment, pulling the annual goods balance back into deficit in the second half of this year. Congestion in both global supply chains and New Zealand ports is disrupting trade and poses a risk to the outlook for both imports and exports, though recent data suggest that overall trade volumes have largely recovered.

Figure 1.14 – Current account balance and its components



Sources: Stats NZ, the Treasury

The services balance is forecast to fall into deficit in the first quarter of this year as the seasonal impact on services exports peaks, before rising from 2022 as tourist numbers start to recover. The current account balance falls to -3.6% of GDP at the end of this year, then narrows to -3.1% at the end of the forecast period (Figure 1.14).

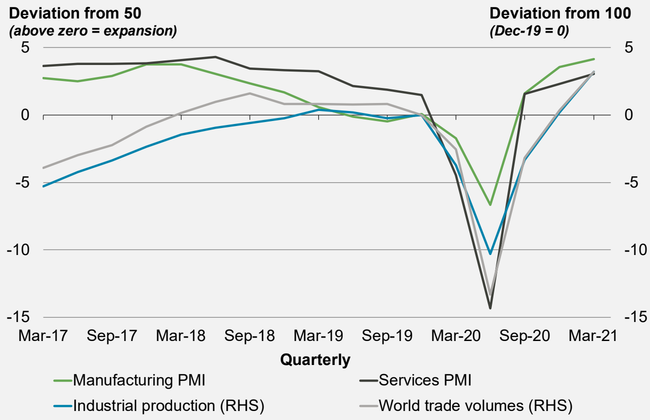
Global economic outlook

The global economy is recovering from the COVID-19 shock…

The global economic recovery from the pandemic is under way, supported by progress with vaccination in advanced economies. Although several developing countries are seeing a resurgence in virus cases, the global recovery is expected to gather steam in the second half of this year, and the outlook has improved compared to the *Half Year Update*. In addition to good vaccination progress, the improvement in global growth prospects also reflects additional fiscal support, particularly in the United States (US) and Japan. However, there is divergence in the pace of the recovery both within and across countries. For individual countries, the recovery depends greatly on the ability to contain the pandemic, exposure to tourism, access to vaccines, and the capacity for monetary and fiscal policy to support the economy. Within countries, youth, women and lower-skilled workers have been the hardest hit.

Robust consumer demand and policy support have facilitated a strong recovery in global trade volumes and bolstered industrial production, both of which have risen above pre-pandemic levels (Figure 1.15). The recovery in goods trade has been supported by a shift in demand from services to goods, as many consumer services have been restricted during the pandemic. This trend should gradually reverse over the course of 2021 as increased vaccination allows services businesses to reopen. The services component of Purchasing Managers' Indices (PMIs) fell more sharply and has recovered at a slower pace (Figure 1.15).

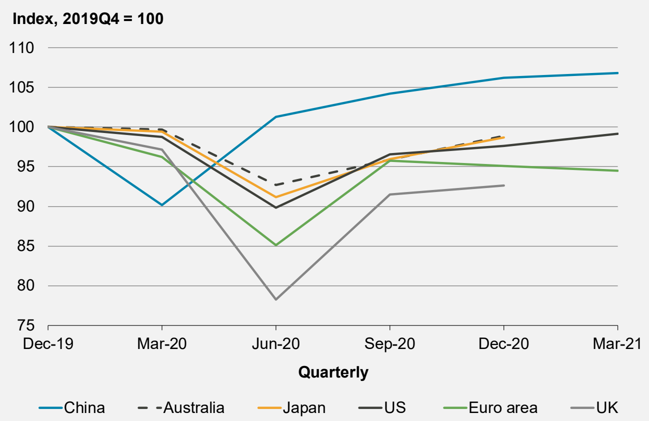
Figure 1.15 – Global activity indicators



Sources: Haver Analytics, the Treasury

The global recovery has been uneven, as illustrated in Figure 1.16. The rapid rebound in goods demand has benefited the export sectors in China and several other Asian economies. Some countries in the region have also benefited from relatively good control over the virus. Other countries in the Asia-Pacific region are continuing to face significant challenges in managing the virus, including India and Malaysia. Meanwhile, in the euro area and the United Kingdom (UK), a tightening in COVID-19 restrictions is likely to have resulted in another GDP contraction in the first quarter of this year. Owing to issues with vaccine distribution, the recovery in the euro area may be slower than elsewhere, though recent vaccination progress is providing hope for a steady recovery in the second half of this year.

Figure 1.16 – Real GDP in trading partner economies



Sources: Haver Analytics, the Treasury

…helped by supportive monetary and fiscal policies

Monetary and fiscal policies are expected to remain accommodative throughout most of the world in 2021, supporting labour market recoveries and asset prices. Along with a build-up in household savings and pent-up consumer demand, this should contribute to strong growth in private consumption in 2021. Concerns about rising inflation have surfaced as a result of supply chain issues, rising commodity prices, accommodative policy settings and robust consumer demand. However, central banks have tended to view inflationary pressures as temporary, with core inflation expected to remain subdued owing to ongoing spare capacity. Advanced economy central bank guidance continues to suggest that policy rates will remain low for several years and asset purchases will only be reduced at a measured pace.

The outlook for our key trading partners has improved…

The International Monetary Fund (IMF) upgraded its outlook for global growth in its April 2021 World Economic Outlook, reflecting increased fiscal support as well as good progress on vaccination. The global economy is now forecast to grow by 6.0% this year and 4.4% in 2022, up from 5.2% and 4.2% forecast in October 2020, and following a 3.3% contraction in 2020.

Most of New Zealand's top trading partners are performing well, which is positive for the terms of trade and export demand. In China, activity levels were already more than 6% above pre-pandemic levels at the end of 2020, and growth has continued at a steady pace in 2021. In Australia, easing control measures have boosted business and consumer confidence, and employment has rebounded swiftly to above pre-pandemic levels. In the US, fiscal stimulus and rapid vaccination progress are underpinning growth prospects, with GDP expected to exceed pre-pandemic levels in the first half of this year. Overall, New Zealand's top 16 trading partners are forecast to grow by 5.8% in 2021 and 4.2% next year, an upgrade from the 5.3% and 3.9% forecast in the *Half Year Update*. Growth is forecast to average roughly 3.5% per year over the remainder of the forecast period.

…but there remains a lot of uncertainty about the global economic outlook

The pace of the recovery is closely tied to progress in vaccination programmes and the effectiveness of vaccines against new strains of the virus, and is therefore expected to be uneven across regions. Developing countries will face significant challenges in implementing large-scale vaccination programmes, and there is a risk that the pandemic will have a more lasting impact on living standards in these economies. There is also a risk that the recent increase in inflation will be more persistent than central banks are expecting, resulting in an earlier tightening in monetary conditions that could dampen the recovery in private consumption and investment. Geopolitical tensions and political instability remain key risks in some regions and could affect growth and lead to higher levels of volatility.

2

Fiscal Outlook

Overview

- The fiscal outlook continues to show signs of recovery, with operating deficits expected to narrow to $2.3 billion by 2024/25, while net core Crown debt as a percentage of GDP starts to fall from 2022/23. However, the COVID-19 pandemic continues to have a large impact on the Fiscal Outlook, with Government support still expected across the forecast period. Net core Crown debt is forecast to increase by close to $100 billion by 2024/25 but is expected to peak at 48.0% of GDP in 2022/23.
- The results to date for the 2020/21 fiscal year show actual outturns that have continued to outperform expectations. This is largely driven by strong economic growth, which has lifted tax revenue in the current year. In addition, a large amount of operating expenditure that was previously expected to be spent in 2020/21 is now expected to be spent later in the forecast period.
- A stronger starting point for the fiscal forecast, means the operating balance before gains and losses (OBEGAL) deficit is forecast to be $15.1 billion (4.5% of GDP) in the current year, which is a reduction of nearly $8 billion compared to the 2019/20 year.
- Investment markets and interest rate returns have also recovered strongly in 2020/21. As a result, overall valuation gains of $17.0 billion are expected in the current year, which more than offsets the forecast OBEGAL deficit, leading to an operating balance surplus and an increase in net worth for the 2020/21 fiscal year.
- In 2020/21, both the residual cash deficit and net core Crown debt are expected to increase when compared to last year. This is largely driven by the Reserve Bank's Funding for Lending Programme (FLP). Excluding the impacts from the FLP, both indicators show a recovery from the 2019/20 actual result.
- The stronger starting position and improved economic outlook means the fiscal outlook continues to improve with most key fiscal indicators stronger than previously expected. However, some of this improvement mentioned above is offset by higher spending and weaker results from Crown entities and State-owned Enterprises (SOE's).
- In the 2021/22 fiscal year, expenditure has been rephased in from the 2020/21 fiscal year and decisions from Budget 2021 have been incorporated. As a result, the OBEGAL deficit is forecast to increase to $18.4 billion in 2021/22 and is also expected to be higher than at the *Half Year Update*. Over the rest of the forecast period, expected OBEGAL deficits decrease, narrowing to $2.3 billion (0.6% of GDP) by 2024/25, and improve when compared to the *Half Year Update.*

- The core Crown residual cash deficit is initially forecast to remain high, then is expected to reduce significantly, returning to a surplus of $3.3 billion by 2024/25. Residual cash is forecast to be $8.9 billion lower overall than at the *Half Year Update,* mainly because of the impact of core Crown drivers on OBEGAL. In addition, residual cash has been impacted by increases in capital allowances and rephasing of the FLP.

- The fiscal impact from the FLP has had a significant influence on the forecast for core Crown residual cash (refer Table 2.7 on page 33). If the fiscal impact from the FLP were stripped out, the trend in core Crown residual cash would be broadly similar to the OBEGAL deficit track.

- Net core Crown debt is forecast to increase to 2023/24 in nominal terms, peaking at $184.2 billion. However, as a percentage of GDP, net core Crown debt is expected to peak a year earlier at 48.0% of GDP in 2022/23. Across the forecast, both nominally and as a percentage of GDP, net core Crown debt has reduced compared to the *Half Year Update,* driven mainly by the improvement in the core Crown residual cash deficit forecast for the 2020/21 fiscal year, which flows through to net core Crown debt.

- Similar to its impacts on core Crown residual cash, the FLP has a significant impact on net core Crown debt. Excluding the FLP, net core Crown debt is expected to increase to $171.5 billion (41.4% of GDP) in 2024/25. The level of net core Crown debt is lower across the forecast period when the impacts of the FLP are removed (refer page 24).

- By the end of the forecast period, net worth attributable to the Crown is forecast to decline by $16.3 billion. When compared to the Half Year Update, net worth attributable to the Crown is expected to improve by $33.0 billion by 2024/25, reflecting the operating balance improvements as strength in the economy continues.

Table 2.1 – Fiscal indicators

Year ending 30 June	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
$billions						
Core Crown tax revenue	85.1	91.5	93.2	101.7	107.1	113.2
Core Crown expenses	108.8	110.7	114.7	115.4	117.8	121.1
Total Crown OBEGAL	(23.1)	(15.1)	(18.4)	(9.5)	(5.7)	(2.3)
Total Crown operating balance	(30.0)	1.3	(15.6)	(5.2)	(0.9)	3.0
Core Crown residual cash	(23.7)	(25.3)	(39.2)	(25.7)	(6.0)	3.3
Net core Crown debt	83.4	113.7	153.3	178.5	184.2	180.8
Gross debt	102.3	97.0	95.9	114.4	136.4	154.6
Total borrowings	152.7	173.2	215.2	245.2	254.5	255.1
Net worth attributable to the Crown	110.3	112.0	96.6	91.5	90.8	94.0
% of GDP						
Core Crown tax revenue	26.9	27.4	26.6	27.4	27.3	27.3
Core Crown expenses	34.4	33.1	32.8	31.1	30.0	29.2
Total Crown OBEGAL	(7.3)	(4.5)	(5.3)	(2.6)	(1.4)	(0.6)
Total Crown operating balance	(9.5)	0.4	(4.5)	(1.4)	(0.2)	0.7
Core Crown residual cash	(7.5)	(7.6)	(11.2)	(6.9)	(1.5)	0.8
Net core Crown debt	26.3	34.0	43.8	48.0	46.9	43.6
Gross debt	32.3	29.0	27.4	30.8	34.7	37.3
Total borrowings	48.2	51.8	61.5	66.0	64.8	61.6
Net worth attributable to the Crown	34.9	33.5	27.6	24.6	23.1	22.7

Source: The Treasury

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 30 April 2021). The main exceptions to this are the:

- impacts of the recent health reforms announcement (page 59), and
- tax impacts of interest deductibility of the recent housing announcements (page 57).

Neither of these matters are reflected in the fiscal forecasts as not enough information was available to reliably estimate the fiscal impact from these policy changes.

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 7), the following key judgements and assumptions supporting the fiscal forecasts were made:

- Tax forecasts were completed on 9 April 2021 and are based on the economic forecast completed on 1 April 2021. There have been no changes to tax policy requiring disclosure under section 26R of the Public Finance Act 1989.
- 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 allowances and multi-year capital allowance and the unallocated COVID-19 Response and Recovery Fund (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.
- The Housing Acceleration Fund is incorporated into the fiscal forecast. It should be noted that there is still a high level of uncertainty around the nature of the spending (eg, operating vs capital), the timing profile of the expected expenditure and any future funding requirements that may be needed.
- Forecast returns on the large investment portfolios managed by the Accident Compensation Corporation (ACC) and the New Zealand Superannuation Fund (NZS Fund) are based on their expectations of long-term benchmark rates of return for their respective portfolios.
- No revaluations of property, plant and equipment are projected beyond the current year. Only revaluations that have already been completed are included in these forecasts.
- Significant valuations (eg, the student loans 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.

- 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 2.2. Over the forecast years, all NZS 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 2.2 – NZS Fund contributions

Year ending 30 June $billions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Estimated contributions as prescribed by formula[1]	2.1[2]	1.2	1.4	1.7	1.9
Forecast contributions in *Budget Update*	2.1	2.4	1.4	1.6	1.9

Notes: 1 Calculations of annual contributions using the NZS Fund model.
2 As the 2020/21 fiscal year is nearly completed, this value has not been calculated by the NZS Fund model.

Source: The Treasury

- The impact of the COVID-19 pandemic on GDP means that the contributions prescribed by the legislative formula have decreased in 2021/22. However, the impact of this on the NZS Fund is small, because in the year 2021/22 the Government's own planned capital contribution is applied.

Further information on the underlying economic assumptions used in these fiscal forecasts can be found on page 42.

The impact of Funding for Lending Programme on key fiscal indicators

The Reserve Bank continues to employ alternative monetary policy measures such as the Large Scale Asset Purchases (LSAP) programme and the FLP. Both programmes have been included in the *Budget Update* fiscal forecasts.

The FLP significantly impacts on core Crown residual cash and net core Crown debt over the forecast period. We consider that the expected impact of the FLP on these key fiscal indicators should be 'looked through' for fiscal policy purposes. Table 2.3 outlines the impact the FLP has on net core Crown debt and what this indicator would look like without it.

Table 2.3 – Impact of FLP on net core Crown debt

Year ending 30 June $billions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Net core Crown debt	113.7	153.3	178.5	184.2	180.8
Add financial assets from FLP	4.5	18.7	28.0	21.8	9.3
Net core Crown debt (incl FLP assets)	**109.2**	**134.6**	**150.5**	**162.4**	**171.5**
As a percentage of GDP					
Net core Crown debt	34.0	43.8	48.0	46.9	43.6
Net core Crown debt (incl FLP assets)	32.7	38.5	40.5	41.3	41.4

Source: The Treasury

Further information of the FLP can be found on pages 40 and 41 of the *Half Year Update:* https://www.treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2020. As signalled in the *Half Year Update*, the Treasury is reviewing the appropriateness of the Government's fiscal indicators; more detail on this is provided in the box on page 121.

Fiscal Outlook for the Current Year

The financial results of the Government have recovered strongly during the 2020/21 fiscal year…

The Financial Statements of the Government for the nine months ended 31 March 2021 have continued to outperform expectations. This is largely driven by stronger economic activity, which has lifted the growth in the Government's core Crown tax revenue. Growth in employment, wages, private consumption, residential investment and profits has contributed to the stronger year-to-date growth in tax revenue. However, not all of the recent growth in tax revenue can be explained by the reported growth in the underlying economic drivers of tax. This higher starting base for tax revenue has been built into the forecast for the 2020/21 fiscal year. Overall, core Crown tax revenue is expected to grow by $6.4 billion in the 2020/21 fiscal year.

Although core Crown expenditure is close to forecast at 31 March 2021, some of the spending previously expected to occur in the last three months of the 2020/21 fiscal year is now expected to be spent later in the forecast period. In addition, some unused funding for 2020/21 from the CRRF has been reprioritised and returned to the unallocated portion of the CRRF (refer to page 29). This has reduced the growth in core Crown expenses, which are now expected to grow by $1.9 billion in the 2020/21 fiscal year.

With core Crown tax revenue expected to grow at a faster pace than core Crown expenses for the 2020/21 fiscal year, the forecast OBEGAL deficit in 2020/21 of $15.1 billion is lower by $7.9 billion than the 2019/20 actual result.

…and so too have market conditions, resulting in an operating balance surplus…

Investment markets and interest rates have also recovered strongly in 2020/21. As a result, overall valuations gains totalling $17.0 billion are expected in 2020/21. Gains of around $12.8 billion are expected from the financial instrument portfolios largely managed by the NZS Fund and ACC. The increasing yields on Government bonds have influenced an increase in discount rates used to value the Government's long-term liabilities (eg, ACC's outstanding claims liability), resulting in a gain of $9.5 billion expected to be recognised in 2020/21. This gain is partially offset by losses from the LSAP programme and provisions for the Emissions Trading Scheme (ETS).

When gains and losses are added to the OBEGAL deficit, the total operating balance is forecast to be in surplus in the 2020/21 fiscal year, at $1.3 billion. The overall improvement in the 2020/21 year has led to an increase in net worth attributable to the Crown, up $1.7 billion from the previous year's actual results and reaching an expected $112.0 billion.

…however, the improved operating results in the 2020/21 fiscal year do not fully flow through to residual cash and net core Crown debt

A core Crown residual cash deficit of $25.3 billion is forecast in 2020/21, which is $1.6 billion higher than the deficit last year, while net core Crown debt is expected to increase by $30.3 billion, which is $4.7 billion more than the increase during the 2019/20 fiscal year. The Reserve Bank's LSAP and FLP have offset the improvements in OBEGAL mentioned above. Excluding the impacts of these programmes, both the core Crown residual cash deficit and net core Crown debt have improved since the 2019/20 result.

Trends in the Fiscal Outlook Beyond 2020/21

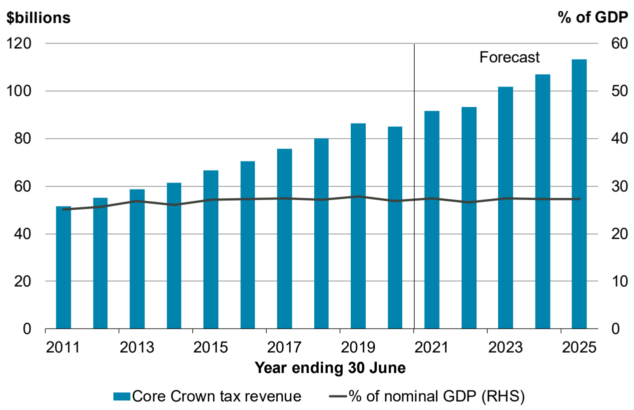
Tax revenue growth initially declines, then grows in line with the economy…

Core Crown tax revenue is forecast to increase by $21.7 billion across the forecast period, reaching $113.2 billion in 2024/25. As a percentage of GDP, core Crown tax revenue remains relatively stable at around 27% of GDP (Figure 2.1).

Although forecast to remain fairly static across the forecast period, core Crown tax revenue as a percentage of GDP is expected to decrease in the near term, falling to 26.6% of GDP in 2021/22. This drop in 2021/22 is broadly driven by tax policy measures the Government introduced in the previous year in response to supporting the economy through the COVID-19 pandemic.

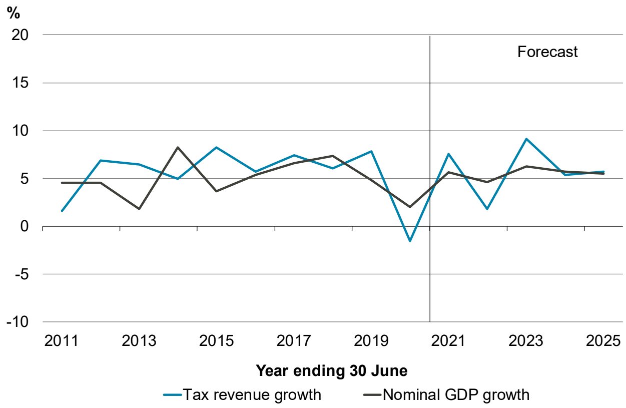
When compared to growth in the economy, core Crown tax revenue is forecast to grow at a faster rate than nominal GDP in both 2020/21 and 2022/23 but comparatively more slowly in 2021/22 (Figure 2.2).The current year growth is mainly a result of stronger-than-anticipated tax outturns, and strong growth in private consumption, residential investment, wage growth and profitability.

Figure 2.1 – Core Crown tax revenue



Source: The Treasury

Figure 2.2 – Core Crown tax revenue and nominal GDP growth



Source: The Treasury

The slower growth in 2021/22 is mainly owing to tax policy measures introduced in the previous year, such as the reinstatement of tax deductions for depreciation on commercial and industrial properties and the increase in the threshold for expensing capital purchases.

These policies are expected to have less impact on expected tax revenue growth from 2022/23. In addition, the introduction of the previously announced new top tax rate is expected to have a positive impact on forecast tax revenue growth in 2022/23 when compared to 2021/22.

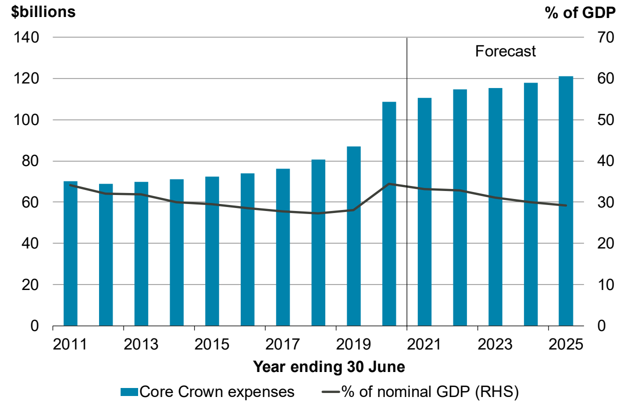
From 2023/24, core Crown tax revenue is forecast to grow in line with nominal GDP growth. Core Crown tax revenue for the nine months to March 2021 was $4.0 billion above that forecast at the *Half Year Update*. It is assumed that much of this strength is expected to persist; however, some unwinding has been built into the forecast. As a result, there is both an upside and downside risk if this strength either was to be sustained or was to unwind over the remainder of the year.

…while expenses stay elevated across the forecast owing to increased spending from Government decisions…

Core Crown expenses in the near term continue to reflect increased spending from the COVID-19 pandemic. New Government spending decisions also see the expected nominal core Crown expenses remain at elevated levels, reaching $121.1 billion by 2024/25 (Figure 2.3).

While core Crown expenses are forecast to increase nominally each year, as a percentage of GDP they decline gradually across the forecast, reaching 29.2% of GDP by 2024/25.

Figure 2.3 – Core Crown expenses



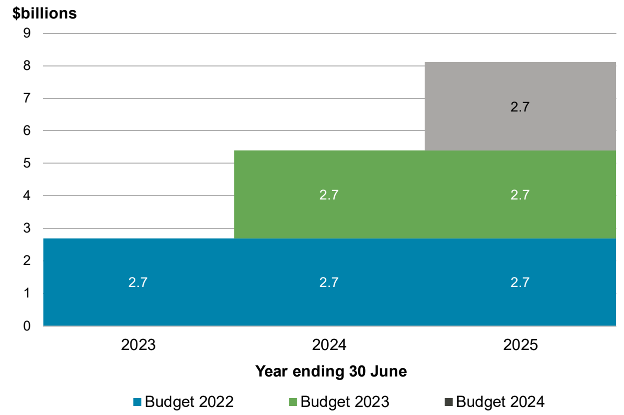
Source: The Treasury

The Government's fiscal support measures in response to the COVID-19 pandemic continue to keep expenses elevated in the near term. Funding for the Managed Isolation and Quarantine (MIQ) facilities ($1.6 billion), vaccine purchasing ($1.5 billion) and targeted support for the aviation and transport industries ($1.2 billion) is expected in the current year and next year of the forecast before ceasing by the end of the forecast. The Housing Acceleration Fund announcement also adds an additional $2.1 billion of operating expenditure across the forecast period, which has been funded from the CRRF.

…with allowances for new spending in future Budgets contributing to growth in expenditure…

The Government has announced an operating allowance of $2.7 billion for Budget 2022. Decisions averaging $0.7 billion per year have already been pre-committed against the Budget 2022 operating allowances. When combined with non-discretionary spending (given current policy settings), this leaves on average $1.8 billion of operating funding to be allocated at Budget 2022. Operating allowances for Budget 2023 and Budget 2024 are also $2.7 billion. Overall, new spending from future Budgets is forecast to increase expenses by $8.1 billion by 2024/25 (Figure 2.4).

Figure 2.4 – Budget operating allowances



Source: The Treasury

For forecasting purposes, Budget allowances are assumed to be all operating expenditure. However, these allowances can be used for a combination of revenue and expenditure initiatives when allocated. The fiscal forecasts also assume that any additional costs in relation to Government commitments and future cost pressures will be met from operating allowances, such as those outlined in the Risks to the Fiscal Forecasts (page 43).

The Government may change Budget allowances for a range of reasons – for example, if there is increased revenue that provides additional fiscal headroom, it needs to stimulate the economy, there are high-value investments identified through the Budget process, or it needs to respond to unforeseen events, which has been the case in recent years. Any increase that is not offset by revenue increases or expense reductions will directly impact the fiscal forecasts.

…and other economic factors increasing expenditure…

In addition, social assistance spending (excluding policy changes) is forecast to increase by $3.8 billion across the forecast period, driven by increases in overall recipient numbers (in particular, New Zealand Superannuation) and increasing wage growth to which the major benefit categories' payments are indexed. Core Crown finance costs are also higher by $0.9 billion by 2024/25, largely driven by higher forecast interest and inflation rates across the forecast period.

…while the temporary COVID-19 spending stops…

The expected reduction in COVID-19 fiscal support measures by 2024/25 partially offsets the forecast increases in core Crown expenses. From 2021/22, core Crown expenses are forecast to increase by $10.4 billion by the end of the forecast period.

More details on the functional classification of core Crown expenses, including large short-term expenses relating to the COVID-19 pandemic, can be found in the core Crown Expense Tables on page 127.

2021 Budget new operating spending

The purpose of this box is to explain how the 2021 Budget operating funding decisions have been incorporated into the fiscal forecasts. Details on individual initiatives can be found in the *Wellbeing Budget 2021* document.

Overall, 2021 Budget operating funding decisions total $19.0 billion across the forecast period. The package includes revenue initiatives that total $0.7 billion and spending initiatives which total $19.7 billion (refer to Table 2.4).

As well as the Government's Budget 2021 operating package, there have been decisions funded from the CRRF and from Budget 2022 operating allowances that have impacted on the fiscal forecasts. Table 2.4 provides a summary of 2021 Budget operating decisions and how they impact on some key core Crown indicators.

Table 2.4 – Impact of 2021 Budget operating package on key core Crown indicators

Year ending 30 June $millions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	5-year Total
Budget 2021 package						
Spending initiatives	263	4,086	4,040	3,770	3,320	15,479
Revenue initiatives	-	(83)	(84)	(87)	(88)	(342)
	263	4,003	3,956	3,683	3,232	15,137
CRRF						
Funding from the CRRF	6	497	808	648	609	2,568
CRRF savings[4]	(565)	(62)	(62)	(62)	(62)	(813)
	(559)	435	746	586	547	1,755
Pre-commitments against Budget 2022						
Spending initiatives	-	159	610	848	836	2,453
Revenue initiatives	-	(30)	(112)	(110)	(108)	(360)
	-	129	498	738	728	2,093
Total spending initiatives (including CRRF savings)	(296)	4,680	5,396	5,204	4,703	19,687
Total revenue initiatives	-	(113)	(196)	(197)	(196)	(702)
Total new spending	**(296)**	**4,567**	**5,200**	**5,007**	**4,507**	**18,985**
Impact of total new spending						
Increase in core Crown revenue	-	113	196	197	196	702
Increase in core Crown expenses	(296)	4,358	5,396	5,204	4,703	19,365
(Increase)/reduction in OBEGAL[5]	**(296)**	**4,245**	**5,200**	**5,007**	**4,507**	**18,663**

Source: The Treasury

The increase in core Crown expenses from the 2021 Budget package ($19.4 billion) is spread across a number of areas as outlined in Table 2.5. The core Crown expense tables on page 127 outline the total core Crown expenditure on each of these areas after these increases.

4 The CRRF savings in Table 2.4 represent savings on operating expenditure only. When including CRRF savings on capital spending (from 2021 Budget decisions), the total CRRF savings are $926 million.

5 The reduction to OBEGAL in the 2021/22 fiscal year differs to total new spending as certain decisions are assumed to be treated as capital expenditure, rather than operating expenditure within the fiscal forecasts.

Table 2.5 – Composition of the increase in core Crown expenditure by functional classification from 2021 Budget decisions[6]

Year ending 30 June $millions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	5-year Total
Health	(132)	1,099	1,109	1,131	1,123	4,330
Social security and welfare	25	1,049	1,598	1,402	1,366	5,440
Education (including tertiary)	(222)	352	451	417	396	1,394
Law and order	2	128	179	182	186	677
Primary services	-	91	33	30	23	177
Core government services	14	133	100	58	58	363
Economic and industrial services	34	237	89	65	64	489
Heritage, culture and recreation	-	45	38	35	34	152
Housing and community development	(4)	715	970	812	789	3,282
Environmental protection	280	55	69	66	8	478
Transport and communications	(293)	78	182	360	52	379
Unallocated contingencies	-	376	578	646	604	2,204
	(296)	4,358	5,396	5,204	4,703	19,365

Source: The Treasury

The amounts in Table 2.5 classified as 'unallocated contingencies' represent centrally held contingencies that have yet to be allocated to a particular departmental baseline.

COVID-19 Response and Recovery

At the 2020 *Budget Update*, the Government signalled $62.1 billion of funding to support the COVID-19 response and recovery, which consists of the $12.1 billion initial package to support New Zealanders (17 March 2020 Support Package) and $50.0 billion in the CRRF.

2021 Budget decisions have allocated a net $3.7 billion from the CRRF ($1.8 billion in operating and $1.9 billion in capital), with the most significant initiative relating to the Housing Acceleration Fund. In addition, a further $1.5 billion of decisions (eg, additional business support payments) has been allocated outside of the Budget process since the *Half Year Update*. This means that the Government has allocated $57.0 billion of the funding that had been set aside (with the majority expected to have impacted in the 2019/20 and 2020/21 fiscal years), leaving $5.1 billion available to allocate in the future (Table 2.6).

Table 2.6 – Funding allocated from the CRRF since the *Half Year Update*

	$billions	
Funding remaining at the *Half Year Update*		10.3
Changes since the *Half Year Update*		
• Budget 2021 – net operating decisions	1.8	
• Budget 2021 – net capital decisions	1.9	
• Other decisions	1.5	
Total change since the *Half Year Update*		(5.2)
Funding unallocated at the *Budget Update*		5.1

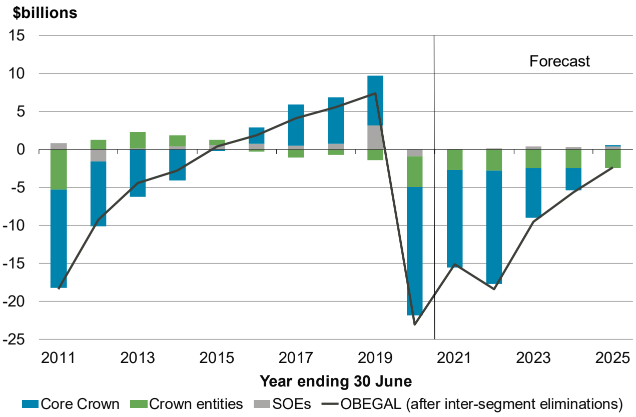
Source: The Treasury

The fiscal forecasts have assumed that the remaining unallocated portion of the CRRF will be spent by the end of the forecast period and will largely be focused on any future resurgence and the economic recovery from the impacts. For the phasing of the unallocated CRRF included in the fiscal forecast, refer to page 107.

6 The breakdown by functional classification above is based on a framework developed by the OECD so may be different from the classification by portfolio in the other Budget documents.

…resulting in a large deficit in the near term, which narrows across the forecast period…

Figure 2.5 – Components of OBEGAL by segment



Source: The Treasury

Following the movements in core Crown revenue and core Crown expenses, the operating balance before gains and losses (OBEGAL) is forecast to be in deficit across the forecast.

As mentioned earlier, strength in the 2020/21 fiscal year results in an initial decrease in the OBEGAL deficit, before it is expected to increase between 2020/21 and 2021/22 as growth in core Crown expenditure exceeds the growth in core Crown tax revenue. The OBEGAL deficit is then expected to reduce across the remainder of the forecast period, with a $2.3 billion OBEGAL deficit forecast by 2024/25 (Figure 2.5).

The total Crown operating balance, which includes gains and losses on assets and liabilities, reflects the initial strength in the 2020/21 fiscal year, with an operating balance surplus of $1.3 billion expected.

However, smaller net gains are forecast from the 2021/22 fiscal year, as long-term benchmark rates of return are used. In addition, long-term liabilities are not revalued beyond the 2020/21 fiscal year. As a result, the expected total Crown operating balance more closely reflects the narrowing OBEGAL deficits forecast, with a return to surplus of $3.0 billion expected in the 2024/25 fiscal year.

…driving the decline in net worth

As total liabilities grow at a faster rate than total assets through to 2023/24, net worth attributable to the Crown is forecast to decline from $110.3 billion in 2019/20 to $90.8 billion in 2023/24, a $19.5 billion reduction. The final year of the forecast sees a small increase of $3.2 billion in net worth attributable to the Crown, reaching $94.0 billion. As a percentage of GDP, net worth attributable to the Crown decreases to 22.7% in 2024/25. This mainly reflects higher levels of debt required to fund the overall total Crown operating balance deficit, which flows directly into the Crown's balance sheet through taxpayers' funds.

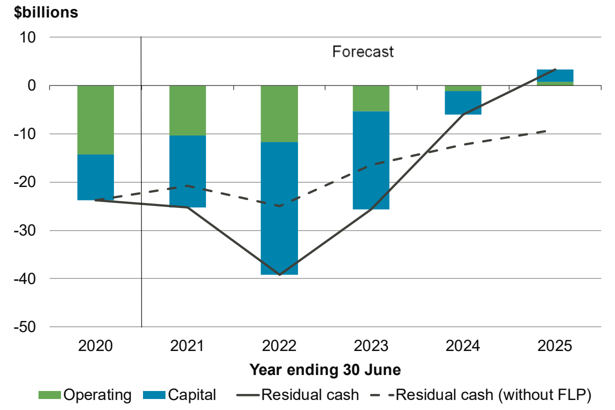
More information on the Government's net issuance of Government bonds and short-term borrowings is on page 41.

The operating results largely flow into the residual cash position, while capital spending has a significant impact across the forecast period…

Residual cash deficits are forecast until 2023/24 before returning to a forecast cash surplus of $3.3 billion in the 2024/25 (Figure 2.6). The operating cash deficits to 2023/24 broadly reflect the expected trends in OBEGAL, driven largely by growth in tax forecasts and additional spending decisions made through Budget 2021.

The surplus in 2024/25 is largely attributable to the cash impact of the FLP, as advances are expected to be repaid in the later years of the forecast.

Figure 2.6 – Core Crown residual cash



Source: The Treasury

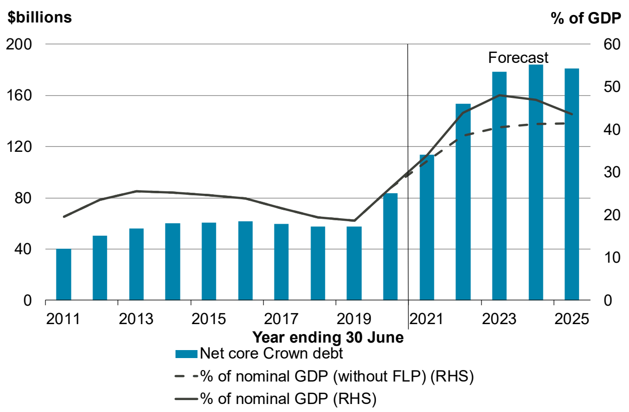
Looking through the impact of the FLP, the cash position of the Government is expected to improve in the near term, but then worsen. Smaller deficits would be expected in the near term, as cash advances to banks are removed, adding back $28.0 billion by the 2022/23 fiscal year. However, removing the corresponding repayment of FLP loans in the later part of the forecast would result in an expected residual cash deficit of $9.2 billion in 2024/25. The Government is forecast to invest a net total of $65.2 billion in capital over the forecast period.

…resulting in a continued rise in nominal net core Crown debt

In nominal terms, net core Crown debt is expected to increase in each year to 2023/24 and peak at $184.2 billion. This increase is mainly driven by the need to fund the residual cash deficits expected. As a percentage of GDP, net core Crown debt is expected to peak a year earlier at 48.0% of GDP in 2022/23 (Figure 2.7).

As core Crown residual cash returns to an expected surplus in the 2024/25 fiscal year, net core Crown debt in both nominal and GDP terms also reduces, finally reaching $180.8 billion (43.6% of GDP) by 2024/25.

Figure 2.7 – Net core Crown debt



Source: The Treasury

Excluding the FLP, the level of net core Crown debt is lower across the forecast period and is expected to increase to $171.5 billion (41.4% of GDP) in the final year of the forecast.

Table 2.7 shows net capital expenditure that has an impact on core Crown residual cash and net core Crown debt. It excludes capital spending undertaken directly by SOEs and Crown entities funded from their own resources (including third-party financing).

Table 2.7 – Net capital expenditure activity[7]

Year ending 30 June $billions	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**5-year Total**
Education	1.3	1.9	1.4	1.1	1.0	6.7
Defence	0.7	1.2	1.3	1.2	0.7	5.1
Corrections	0.3	0.3	0.2	0.1	0.1	1.0
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
Justice	0.1	0.1	0.1	0.1	0.1	0.5
Business, Innovation and Employment	0.1	0.1	0.1	0.1	0.1	0.5
Internal Affairs	0.1	0.1	0.1	0.1	-	0.4
Foreign Affairs	-	0.1	0.1	0.1	0.1	0.4
Inland Revenue	0.1	0.2	-	-	-	0.3
Other	0.7	0.4	0.2	0.3	0.2	1.8
Net purchase of physical assets	**3.6**	**4.6**	**3.7**	**3.3**	**2.5**	**17.7**
Funding for Lending Programme	4.5	14.2	9.3	(6.2)	(12.5)	9.3
Housing Infrastructure Fund	0.1	0.2	0.4	0.1	-	0.8
Provincial Growth Fund	0.2	0.2	0.1	-	-	0.5
Progressive Home Ownership	-	0.1	0.1	0.1	-	0.3
Student Loans	-	0.1	0.1	-	-	0.2
NZTA	0.2	(0.1)	(0.2)	(0.1)	-	(0.2)
Small Business Cash Flow Loan Scheme	0.3	(0.1)	(0.2)	(0.3)	(0.4)	(0.7)
Other	0.4	(0.4)	-	(0.1)	0.1	-
Net advances	**5.7**	**14.2**	**9.6**	**(6.5)**	**(12.8)**	**10.2**
NZTA	1.6	1.6	1.2	1.6	1.8	7.8
District Health Boards	0.5	1.4	1.0	0.7	0.4	4.0
KiwiRail	0.6	0.8	0.7	0.8	0.2	3.1
City Rail Link	0.4	0.6	0.4	0.2	0.1	1.7
Housing Acceleration Fund	-	0.7	0.4	0.3	0.3	1.7
Provincial Growth Fund Limited	0.4	0.2	0.1	-	-	0.7
Crown Infrastructure Partners	0.2	-	0.1	0.1	0.1	0.5
New Zealand Green Investment Finance	0.1	0.2	-	-	-	0.3
Ōtākaro	0.1	0.2	-	-	-	0.3
New Zealand Venture Capital Fund	-	-	0.1	0.1	0.1	0.3
Tāmaki	0.1	-	-	-	0.1	0.2
School Boards of Trustees	-	0.1	0.1	-	-	0.2
Other	0.3	0.9	0.1	0.3	-	1.6
Net investments	**4.3**	**6.7**	**4.2**	**4.1**	**3.1**	**22.4**
Future new capital spending	-	2.0	2.9	3.4	3.7	12.0
Top-down capital adjustment	(0.8)	(2.4)	(1.4)	(1.0)	(0.9)	(6.5)
Contribution to NZS Fund	2.1	2.4	1.4	1.6	1.9	9.4
Net capital spending	**14.9**	**27.5**	**20.4**	**4.9**	**(2.5)**	**65.2**

Source: The Treasury

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

Cyclically-adjusted balance and fiscal impulse

The cyclically-adjusted balance

Calculating the cyclically-adjusted balance

The COVID-19 shock is having a significant impact on the Government's fiscal position. This reflects discretionary policy choices as well as a reduction in tax revenues and increase in benefit expenses that happen as the economy weakens (known as automatic stabilisers). The cyclically-adjusted balance (CAB) provides a measure of medium-term fiscal sustainability by adjusting for the effects of the economic cycle on the government's operating balance.

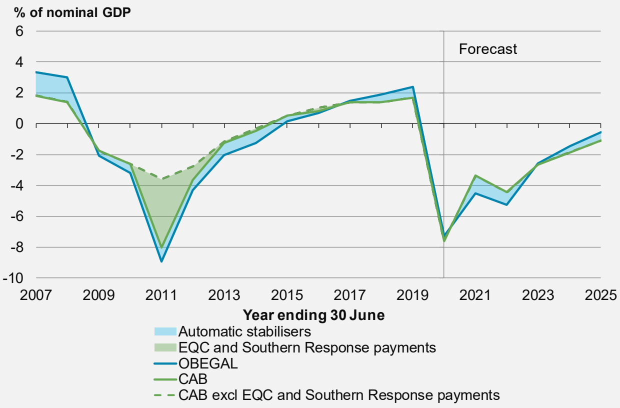
Key insights

The positive trajectory of the CAB shows fiscal sustainability improving over the forecast period.

Figure 2.8 illustrates that the automatic stabilisers (shaded blue) are expected to support the economy and OBEGAL until June 2023.[8]

At the end of the forecast period a cyclically-adjusted deficit of 1.1% of GDP remains. This deficit reflects the effects of a small positive output gap in combination with nominal GDP, and therefore tax revenue, still below its pre-COVID-19 trend.

Figure 2.8 – OBEGAL cyclically-adjusted balance (CAB)



Source: The Treasury

The small dip in the CAB below OBEGAL in 2020 can be explained by the Treasury's change to the estimation of potential output in the June 2020 quarter. Previously, we assumed that potential output was unchanged while the output gap fell, since production could technically take place but did not due to Alert Level restrictions. We now assume that there was a temporary fall in potential output since, even though the inputs to production were available, restrictions meant that they could not be employed, and potential output temporarily fell.

The structural balance

The structural balance is defined as the CAB, less any one-off operating expenditure. We have previously calculated the structural balance by excluding all CRRF expenditure. However, it is not possible to continue applying this approach, as temporary CRRF expenditure is not individually identified in the actual and forecast financial statements. We are developing an alternative method of calculating the structural balance that addresses this issue, alongside other technical adjustments to the CAB and fiscal impulse. A detailed analytical note outlining these changes will be released later this year prior to publishing a revised structural balance at the *2021 Half Year Update*.

[8] The green shaded area in Figure 2.8 represents the Earthquake Commission (EQC) and Southern Response payments from the Christchurch and Kaikōura earthquakes.

The fiscal impulse

Calculating the fiscal impulse

The fiscal impulse provides an estimate of how much discretionary fiscal policy decisions in that year are adding to, or subtracting from, aggregate demand in the economy. The fiscal impulse in Figure 2.9 illustrates the change in magnitude of fiscal support from the previous year.[9]

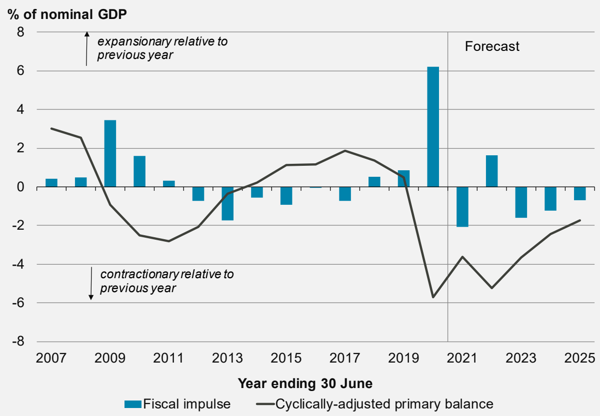
The fiscal impulse is the change in the government's cash balance, adjusted for the position of the economy and some expenditure items that do not directly affect domestic demand. This is referred to as the cyclically-adjusted primary balance (the black line in Figure 2.9). This is a cash measure, and therefore differs from OBEGAL and the CAB.[10]

The fiscal impulse is a simple indicator. It measures the change in the amount of discretionary fiscal support from one year to the next. It does not estimate absolute level of support or the economic impact of that support – which will vary depending on factors including the composition of spending. The cyclically-adjusted primary deficit in Figure 2.9 remains large over the forecast period, indicating discretionary fiscal policy is overall expansionary.

Key insights

The OBEGAL deficit in Figure 2.8 shows that fiscal policy remains stimulatory throughout the forecast period. The CAB deficit throughout the forecast period shows that this stimulus is being delivered through both automatic and discretionary fiscal policy settings.

Figure 2.9 – Fiscal impulse and cyclically-adjusted primary balance



Source: The Treasury

The fiscal impulse in Figure 2.9 becomes negative in 2020/21 and remains negative over most of the forecast period. A negative fiscal impulse indicates that fiscal support is estimated to have a contractionary impact on aggregate demand relative to the previous year, reflecting the gradual withdrawal of COVID-19 fiscal support measures. The positive fiscal impulse estimate in 2022 is driven by a large amount of expenditure (both operating and capital) which has shifted from the 2021 fiscal year into 2022.

The fiscal impulse is principally driven by changes in COVID-19 support expenditure and should be considered alongside the overall level of fiscal spending for a more complete view of the magnitude of fiscal support.

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.

10 Further information on the methodology, interpretation and limitations behind the indicators can be found in Treasury Working Papers 02/30 and 10/08.

Comparison to the *Half Year Update*

The fiscal forecasts are stronger than expected at the Half Year Update…

While the Government's fiscal outlook continues to be influenced by the COVID-19 pandemic, with operating deficits and high levels of debt still expected, fiscal indicators are generally forecast to improve when compared to the *Half Year Update* (Table 2.8).

Table 2.8 – Key fiscal indicators compared to the *Half Year Update*[11]

Year ending 30 June $billions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Core Crown tax revenue					
Budget Update	91.5	93.2	101.7	107.1	113.2
Half Year Update	88.3	89.1	96.9	102.5	108.8
Change	3.2	4.1	4.8	4.6	4.4
Core Crown expenses					
Budget Update	110.7	114.7	115.4	117.8	121.1
Half Year Update	114.2	109.1	112.0	115.3	118.7
Change	3.5	(5.6)	(3.4)	(2.5)	(2.4)
OBEGAL					
Budget Update	(15.1)	(18.4)	(9.5)	(5.7)	(2.3)
Half Year Update	(21.6)	(16.4)	(10.3)	(7.5)	(4.2)
Change	6.5	(2.0)	0.8	1.8	1.9
Core Crown residual cash					
Budget Update	(25.3)	(39.2)	(25.7)	(6.0)	3.3
Half Year Update	(40.2)	(36.3)	(23.7)	(5.5)	3.9
Change	14.9	(2.9)	(2.0)	(0.5)	(0.6)
Net core Crown debt					
Budget Update	113.7	153.3	178.5	184.2	180.8
Half Year Update	128.6	166.2	189.1	194.2	190.0
Change	14.9	12.9	10.6	10.0	9.2
Total borrowings					
Budget Update	173.2	215.2	245.2	254.5	255.1
Half Year Update	186.6	230.7	253.4	261.6	258.6
Change	13.4	15.5	8.2	7.1	3.5
Net worth attributable to the Crown					
Budget Update	112.0	96.6	91.5	90.8	94.0
Half Year Update	83.9	69.2	63.0	60.1	61.0
Change	28.1	27.4	28.5	30.7	33.0

Source: The Treasury

[11] Favourable variances against previous forecast have a positive sign and unfavourable variances against previous forecast have a negative sign.

…growing strength in the economy sees tax revenue improve significantly…

Core Crown tax revenue is forecast to be $21.1 billion higher over the forecast period when compared to the *Half Year Update*, an average increase of $4.2 billion per year (Table 2.9). The forecast change in core Crown tax revenue reflects a stronger starting point for the 2020/21 fiscal year based on current tax outturns and the improvement in the economic forecast since the *Half Year Update.* The expected increase is mostly reflected in the increases for GST, source deductions, and net other persons tax.

Table 2.9 – Change in core Crown tax revenue since the *Half Year Update*, by major tax type

Year ending 30 June $billions	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**Total Change**
Goods and services tax (GST)	1.3	1.6	2.0	2.2	2.0	9.1
Source deductions	0.8	1.7	1.9	1.6	1.3	7.3
Corporate tax	0.8	0.6	0.6	0.6	0.6	3.2
Net other persons tax	0.4	0.5	0.2	0.1	0.2	1.4
Other taxes	(0.1)	(0.4)	(0.1)	(0.1)	0.1	(0.6)
Total forecasting changes	**3.2**	**4.0**	**4.6**	**4.4**	**4.2**	**20.4**
PAYE effects of welfare changes	-	0.1	0.2	0.2	0.2	0.7
Total changes	**3.2**	**4.1**	**4.8**	**4.6**	**4.4**	**21.1**
Plus *Half Year Update* tax base	88.3	89.1	96.9	102.5	108.8	
Core Crown tax revenue	**91.5**	**93.2**	**101.7**	**107.1**	**113.2**	

Source: The Treasury

GST forecasts have increased by $9.1 billion across the forecast period. From the 2021/22 fiscal year onwards, changes in the forecast for consumption and residential investment drive the change for GST, which begins to grow more in line with revised nominal GDP levels for the remaining forecast period.

Source deduction revenue is higher over the forecast period by $7.3 billion, mainly owing to a stronger outlook for employment and wage growth compared to the *Half Year Update*.

The increase in corporate tax of $3.2 billion is mainly caused by an improved outlook for taxable profits across the forecast.

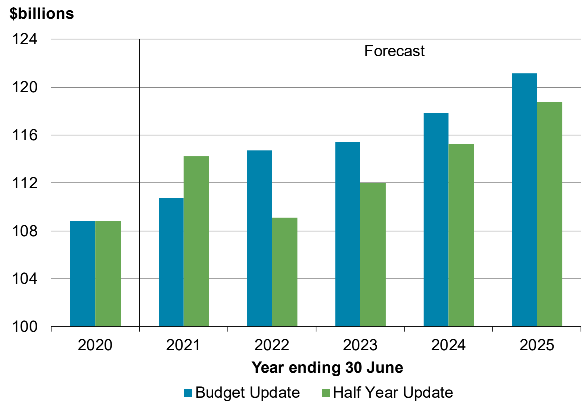
Additionally, the 2021 Budget decision to increase welfare benefits has increased the forecasts for PAYE by around $0.7 billion across the forecast period.

…however this is partially offset by rephased core Crown expenses and Budget decisions exceeding signalled allowances

Overall, core Crown expenses are expected to increase by $10.4 billion when compared to the *Half Year Update*, as new spending decisions are expected to be higher than those previously forecast and net core Crown finance costs increase as interest and inflation rates rise (Figure 2.10).

The timing of expenditure and savings initiatives from the CRRF is the main reason for the expected drop in core Crown expenses in the 2020/21 fiscal year.

Figure 2.10 – Core Crown expenses compared to the *Half Year Update*



Source: The Treasury

Savings initiatives as part of the Budget 2021 Package have resulted in $0.8 billion in core Crown operating expenditure being returned to the CRRF. This has primarily reduced education and transport forecast expenditure in the 2020/21 fiscal year.

Revisions to the timing for expected government expenditure by entities and contingencies held centrally has seen core Crown expenses reduce in the 2020/21 fiscal year and spread into the remaining years of the forecast period, though primarily the 2021/22 fiscal year.

Budget 2021 new operating spending has increased expenses across the forecast period, primarily from 2021/22 onwards largely reflecting a higher final Budget 2021 Package. This is illustrated in the difference seen between the net Budget 2021 package and what was signalled in the *Budget Policy Statement (BPS)* (see Table 2.10).

Table 2.10 – Budget 2021 package compared to signalled allowances in the *Budget Policy Statement 2021*

Year ending 30 June $millions	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**Total Forecast**
Budget 2021 package (net)	263	4,003	3,956	3,683	3,232	15,137
Budget Policy Statement 2021	-	2,625	2,625	2,625	2,625	10,500
Difference	**(263)**	**(1,378)**	**(1,331)**	**(1,058)**	**(607)**	**(4,637)**

Source: The Treasury

Although the Government’s bond programme has decreased overall since the *Half Year Update*, net core Crown finance costs have increased by $3.3 billion across the forecast period. This is largely owing to an increase in forecast interest rates and inflation rates since the *Half Year Update*.

Additionally, the top-down adjustment, which reduces overall expenditure, has decreased since the *Half Year Update* (Table 2.11). When compared to the *Half Year Update*, the change to the top-down adjustment adds an additional $3.8 billion over the forecast period to core Crown expenses.

Table 2.11 – Top-down adjustment compared to the *Half Year Update*

Year ending 30 June $billions	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**
Operating top-down					
Budget Update	2.0	2.8	0.8	0.7	0.7
Half Year Update	4.2	2.6	1.4	1.3	1.3
Change	**(2.2)**	**0.2**	**(0.6)**	**(0.6)**	**(0.6)**

Source: The Treasury

When considering the top-down adjustment for the *Budget Update*, it is assumed it is now more likely that the remaining unallocated portion of the CRRF will be spent across the forecast period and so the operating top-down adjustment has been reduced.

Partially offsetting this, social assistance spending, excluding benefit policy decisions, has decreased since the *Half Year Update,* with expenditure revised down by $1.2 billion. Decreases in jobseeker support and accommodation assistance are driven by lower forecast growth in recipient numbers, which outweighed the impact of higher wage forecasts. Partially offsetting these decreases were New Zealand Superannuation expenses and the supported living payment, which increased owing to the higher wage forecasts.

When the results of SOEs and CEs are added, this leads to OBEGAL deficits narrowing by the end of the forecast period

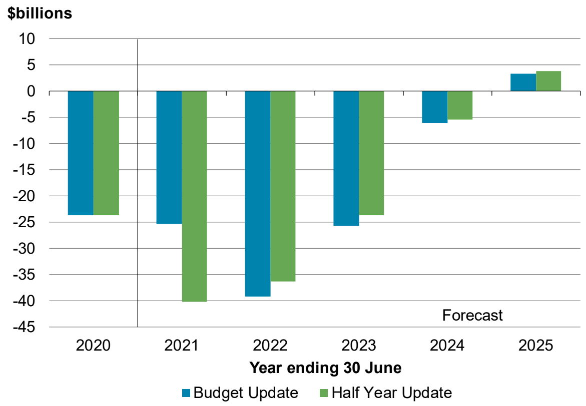
Overall SOE and Crown entity results are expected to be weaker across the forecast period. On average, operating results are expected to be $0.6 billion weaker per year than at the *Half Year Update*. The results of ACC are expected to be on average around $0.3 billion lower per year, primarily owing to lower forecast levies from 2022/23 onwards compared to the *Half Year Update,* as insurance expenses are expected to remain relatively constant.

Increases in capital spending and alternative monetary policy impact the phasing of expected cash requirements…

In total, residual cash deficits of $92.9 billion are expected over the forecast period, a reduction of $8.9 billion from the *Half Year Update*.

This is primarily attributable to the 2020/21 fiscal year, where the deficit is expected to be $14.9 billion lower than at the *Half Year Update*. Over the remaining years of the forecast, the residual cash position is expected to be weaker by an average of $1.5 billion per year from 2021/22 to 2024/25 when compared to the *Half Year Update* (Figure 2.11).

Figure 2.11 – Core Crown residual cash compared to the *Half Year Update*



Source: The Treasury

While the operating cash flow movements broadly reflect the OBEGAL changes previously discussed, capital decisions made through Budget 2021 (totalling $3.9 billion) and the Government's decision to increase the multi-year capital envelope also contribute to the expected trend in core Crown residual cash. The net impact of these decisions is $3.4 billion of additional capital spending across the forecast period.

In addition, the Reserve Bank's FLP has been rephased since the *Half Year Update*. While the peak of the programme at $28.0 billion in 2022/23 remains unchanged, the uptake of the programme and the expected repayment profile are now forecast to be slower to better reflect actual results to date. As a result, when compared to the *Half Year Update,* the FLP is expected to have an impact of $3.5 billion on core Crown residual cash by 2024/25.

…with the initial strength in the current fiscal year resulting in lower net core Crown debt than previously forecast

Across all five years of the forecast, net core Crown debt has reduced when compared to the *Half Year Update.* This expected improvement in net core Crown debt has been driven mainly by the improvement of $14.9 billion in the core Crown residual cash deficit forecast for the 2020/21 fiscal year, which flows directly through to net core Crown debt.

However, from the 2021/22 fiscal year, the slightly weaker cash position compared to the *Half Year Update* begins to narrow the forecast improvement in net core Crown debt, reflecting the impact of the increased capital spend and the FLP.

Overall, nominal net core Crown debt is expected to be $9.2 billion lower by 2024/25 than previously forecast.

Stronger-than-expected operating balances improve the Crown balance sheet…

The total Crown operating balance (including gains and losses) directly flows through to impact net worth attributable to the Crown. When compared to the *Half Year Update,* the total Crown operating balance is expected to improve in the 2020/21 year, before remaining broadly consistent with what was previously forecast (Table 2.12).

Table 2.12 – Total Crown operating balance compared to the *Half Year Update*

Year ending 30 June $billions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Total Crown operating balance					
Budget Update	1.3	(15.6)	(5.2)	(0.9)	3.0
Half Year Update	(25.6)	(15.0)	(6.4)	(3.2)	0.7
Change	**26.9**	**(0.6)**	**1.2**	**2.3**	**2.3**

Source: The Treasury

As a result, by the end of the forecast period, net worth attributable to the Crown is forecast to be $94.0 billion, an increase of $33.0 billion from the *Half Year Update*.

…and forecast issuance of Government bonds reduces as lower funding is required

The improvement in the economic outlook has led to a lower borrowing requirement, reflected through a reduction in the forecast of net Government bond issuance and short-term borrowing.

The core Crown borrowing programme includes the issuance of both New Zealand Government Bonds and short-term borrowings (eg, Treasury Bills). Consistent with the profile of core Crown residual cash, net Government bond issuance is predominantly weighted towards the early part of the forecast period.

In total, the bond programme is expected to raise funds of $155.4 billion over the forecast period. Bond maturities will result in repayments of $54.8 billion of existing debt. In addition, short-term borrowing is expected to be $8.8 billion lower at the end of the forecast period, relative to the end of 2019/20 (Table 2.13). Overall, the core Crown borrowing programme will provide net funds of $91.8 billion to cover core Crown residual cash deficits and to ensure cash is available for upcoming bond maturities in the 2025/26 fiscal year.

Table 2.13 – Net issuance of Government bonds and short-term borrowing[12]

Year ending 30 June $billions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	5-year Total
Face value of Government bonds issued (market)	45.0	30.0	25.0	25.0	25.0	150.0
Debt programme cash flows						
Cash proceeds from issue of market bonds	49.5	31.0	25.0	25.1	24.8	155.4
Repayment of market bonds	(11.1)	-	(15.9)	(12.6)	(15.2)	(54.8)
Net issue/(repayment) of short-term borrowing	(5.4)	(2.8)	(0.6)	-	-	(8.8)
Net debt programme cash flows	33.0	28.2	8.5	12.5	9.6	91.8

Source: The Treasury

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

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 average weekly earnings is needed because social assistance benefits are generally indexed to wage growth, 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 2.14.

Table 2.14 – Summary of key economic forecasts used in the Forecast Financial Statements

Year ending 30 June	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Real GDP[1] (annual average % change)	(1.7)	2.9	3.2	4.4	3.3	2.9
Nominal GDP[2] ($billions)	316.6	334.4	349.7	371.7	392.9	414.4
CPI (annual average % change)	1.8	1.7	2.0	1.8	1.9	2.1
Govt 10-year bonds (annual average %)	1.2	1.2	2.1	2.4	2.6	2.8
5-year bonds (annual average %)	0.9	0.6	1.5	1.8	2.0	2.2
90-day bill rate (annual average %)	1.0	0.3	0.3	0.3	0.3	0.6
Unemployment rate (annual average %)	4.1	5.1	5.1	4.5	4.3	4.1
Employment (annual average % change)	1.7	0.2	1.4	2.4	1.9	1.8
Average weekly earnings[3] (annual % change)	0.5	6.2	3.3	2.3	2.8	3.1

Notes: 1 Production measure.
2 Expenditure measure.
3 Ordinary time.

Sources: The Treasury, Stats NZ, RBNZ

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 and variances associated with existing policies	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.

COVID-19

The COVID-19 pandemic has had a significant impact on the Government's finances, with an operating balance before gains and losses (OBEGAL) deficit of $23.1 billion reported last year, while net core Crown debt increased by close to 8% of GDP.

The continued uncertainty created by the COVID-19 pandemic poses a risk to the fiscal forecasts presented in the *Budget Economic and Fiscal Update 2021.* The statement of specific fiscal risks in this chapter identifies a number of fiscal risks directly and indirectly affected by COVID-19. Despite the disclosure of risks in this chapter, the level of uncertainty means there are risks to the fiscal forecasts that remain too broad in nature to disclose in the statement of specific fiscal risks. These risks concern:

- *The impact on the economy* – the economic recovery from COVID-19 will be dependent on many unknown factors. Forecasts for tax revenue, benefit expenses and finance costs are particularly sensitive to economic conditions. The Economic Outlook chapter, from page 15, includes a scenario that models 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, mostly funded through the $50 billion COVID-19 Response and Recovery Fund (CRRF). Policies announced and communicated up to 30 April 2021 have been included in the fiscal forecasts based on the best information available. There is a risk that the actual costs and/or timing of these policies may differ from the judgements and assumptions used to prepare the fiscal forecasts.

- *The Government's role in recovery and managing any future outbreaks* – the fiscal forecasts include funding of around $5.1 billion that is left in the CRRF to manage future costs of recovery and fight any further outbreaks of the virus. The inclusion of the unallocated portion of the CRRF in the fiscal forecasts has required some judgement around the nature (eg, operating or capital) and timing of future COVID-19 response initiatives. In addition, there is uncertainty about the level of funding that may be required for future costs of recovery and fighting any further outbreaks.

- *The impact on valuations of assets and liabilities, and contingent 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. In addition, 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.

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 2025, tax revenue would be around $5.8 billion higher than forecast in the June 2025 year. The sensitivities are broadly symmetric: if nominal GDP growth is one percentage point lower than expected each year, tax revenue would be around $5.6 billion lower than forecast in the June 2025 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**	**2025 Forecast**
Impact on tax revenue of a one percentage point increase in growth of					
Nominal GDP	925	1,905	3,120	4,400	5,840
Wages and salaries	420	900	1,435	2,030	2,690
Taxable business profits	175	395	690	990	1,335
Impact of 1% lower interest rates on					
Interest income[1]	-165	-388	-381	-329	-313
Interest expenses[1]	-53	-375	-637	-877	-1,098
Net impact on operating balance	-112	-13	256	548	785

Note: 1 Interest sensitivities relate only to funds managed by the Treasury. Exclusions therefore include impacts to the Reserve Bank's Large Scale Asset Purchases (LSAP).

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, such as 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. 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 size and nature of the Government's balance sheet is important to the financial resilience of New Zealand. It enables the Government to absorb shocks on behalf of New Zealanders, and to adapt to risks and trends. It therefore plays a significant role in macro-economic risk management.

The operational and financial capability that is reflected in the balance sheet is also itself subject to hazards and risks, which, if they crystallise, may impair the Government's ability to achieve its operating and financial objectives. For assessing these risks, the Government's balance sheet can be usefully categorised by function or purpose as illustrated in Table 3.2.

Table 3.2 – Balance sheet functional classifications[13]

Social	Assets and liabilities held to provide public services. These include assets such as roads, schools, and the national parks, and liabilities such as outstanding accident compensation claims. 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 financial assets and liabilities of the Crown Financial Institutions (CFIs), the Reserve Bank of New Zealand, and government borrowing via the Treasury.
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 the achievement of these objectives.

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 reallocate or repurpose assets rather than risk transfer instruments such as insurance in managing these risks. The Government is also developing a National Adaptation Plan in response to climate change risks the Climate Change Commission has identified.

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 *Budget Economic and Fiscal Update* forecasts incorporate valuations up to 28 February 2021. Some valuers have identified that only limited market

[13] 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

evidence is available in the post-COVID environment for the recent valuations they have provided. They have therefore warned that the timeframes during which these valuations can be relied upon may be shortened.

Social insurance and retirement liabilities (eg, Accident Compensation, Veterans' disability entitlements and the Government Superannuation Fund (GSF)) are prone to volatility through their actuarial valuations. As well as variability in claims experience, the valuations of these obligations are particularly subject to changes in the assessment of the future value of money, driven by changes to expectations of future interest rates and inflation rates.

Social assets also include significant concessionary lending made 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 counterparty 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 also faces contingent liabilities, for example, indemnities of activities in the public interest (eg, the Business Finance Guarantee Scheme), environmental claims, and legal proceedings.

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

The deployment of the Government's fiscal capacity since COVID-19 has meant that the balance sheet is now more highly leveraged than previously. In addition, monetary policy activities including the Large Scale Asset Purchases (LSAP) programme, the Funding for Lending Programme, foreign-exchange swaps to manage short-term interest rate pressures, and lending to the finance sector by the Reserve Bank have significantly increased interest-rate risk to the Government.

Financial assets held by the Accident Compensation Corporation (ACC) and the New Zealand Superannuation Fund (NZSF) 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.

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 Government’s funding strategy operates within a risk management framework approved by the Minister of Finance. This framework specifies policies for managing credit risk, market risk, operational risk, funding risk and liquidity risk that aim to ensure that risk is maintained within the organisational risk appetite while enabling the delivery of core roles and responsibilities.

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

Crown entities with commercial objectives are exposed to changes in customer demand for their products and services, the availability and price of business inputs in order to provide these products and services, changes to the competitive landscape brought about by new technologies they and their competitors adopt, new market entrants and externally generated shocks and trends.

Crown entities with commercial objectives are governed by boards that operate at arm's length from Ministers. Commercial balance sheet risks are managed through each board's accountability to Ministers for each entity's overall performance and through use of the levers provided to Ministers as shareholders of companies by the applicable legislation to influence the performance of entities and companies.

When there are opportunities or challenges for businesses that require or otherwise involve the Crown injecting new capital, this is effectively managed for most entities through the conditions set on accessing this capital.

For listed companies in which the Crown has ownership interests, the rules of the NZX apply. For 100% Crown-owned entities, the two most important levers available to Ministers are the appointment of effective boards and the annual business planning and reporting process.

Update on current management of balance sheet risk

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

The build-up and subsequent deployment of fiscal resilience in response to COVID-19 have underscored the importance of responsible fiscal management, including maintaining Crown debt at prudent levels – acknowledging that what is seen as prudent may change over time. The deployment of fiscal support is reflected in the reduction of Crown net worth attributable to the Crown from $136.9 billion at 30 June 2019 to a forecast $94.0 billion as at 30 June 2025. This change in net worth is currently mitigated by historically low interest rates on debt issued by the Crown.

The current risk management challenge is to shift from absorption to adaptation, as the Government moves from fighting the virus and cushioning its blow towards economic recovery, 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 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
- a statement of specific fiscal risks of the Government
- narrative summaries of all specific fiscal risks, and
- a table of risks that have been removed from the statement of specific fiscal risks since the *Half Year Update*.

The risks disclosed in this chapter reflect those that are known at the date of the finalisation of the fiscal forecasts, 30 April 2021. 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.

Within each category of risks (new, changed, updated, and unchanged), risks are grouped by portfolio and classified as either *policy change* or *cost pressure or variance* risks:

- *Policy change* risks relate to potential decisions likely to be taken by the Government relating to both new and existing policy settings.
- *Cost pressure or variance* risks relate to the cost pressures faced by agencies in the future owing to changes in demand or costs of inputs used in the delivery of existing services or products and/or the variance costs of items included in the fiscal forecasts. 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.

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, the Budget operating and capital allowances, policy choices and/or the CRRF). 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.

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

The *Budget Update* must incorporate, to the fullest extent possible that is consistent with section 26V of the Public Finance Act 1989 (the limitations on the disclosure requirements), all Government decisions and all other circumstances that may have a material effect on the fiscal and economic outlook. Specific criteria based on section 26U of the Public Finance Act 1989 determine what is included in the forecast financial statements as opposed to what is disclosed as a specific fiscal risk.

The forecast financial statements must include all quantified fiscal implications of Government decisions and all other circumstances (excluding those that are not required to be disclosed by section 26V) that may have a material effect on the fiscal and economic outlook and which can be quantified for particular years with reasonable certainty by the day on which the forecast financial statements are finalised. Where the fiscal implications of those Government decisions and other circumstances cannot be quantified for or assigned to particular years with reasonable certainty they are required to be disclosed in the statement of specific fiscal risks.

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[14] that the matter will be approved or the situation will occur.	Matters are disclosed as specific fiscal risks if the likely impact is $100 million or more over the forecast period and either: • a decision has not yet been taken but it is reasonably possible[15] (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.

[14] 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).

[15] 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, the most significant of which have been recognised elsewhere in this chapter and the *Budget 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.

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 to determine that:

- incorporating the decision and/or circumstance in the *Budget Update* is likely to result in one of the consequences listed above, and
- there is no reasonable way that the Government can avoid this prejudice, compromise or material loss by:
  - in the case of a circumstance, making a decision before the day the fiscal forecasts are finalised, or
  - in the case of a decision or circumstance, incorporating in the update the fiscal implications of that decision or circumstance, or the nature of that decision or circumstance, but without reference to its fiscal implications.

Statement of Specific Fiscal Risks

New Risks		
Portfolio	**Risk Title**	**Type of Risk**
Children	Oranga Tamariki Partnering with Māori to Find Appropriate Solutions for Children in Need	Policy Change – Expenses
Climate Change	Recycling Emissions Trading Scheme Proceeds	Policy Change – Expenses
Finance	Air New Zealand's Proposed Capital Raise	Cost Pressure or Variance – Capital
Housing	Housing Acceleration Fund	Cost Pressure or Variance – Expenses and Capital
Revenue	Tax Treatment of Rental Property	Policy Change – Revenue
Tourism	Proposed Changes to the International Visitor Levy	Policy Change – Revenue
Transport	Incentivising Uptake of Low Emissions Vehicles	Policy Change – Expenses

Changed Risks		
Portfolio	**Risk Title**	**Type of Risk**
COVID-19 Response	COVID-19 Vaccine Strategy	Cost Pressure or Variance – Expenses
	Managed Isolation and Quarantine	Cost Pressure or Variance – Expenses
Education	Free and Healthy Lunch Programme	Policy Change – Expenses and Capital
Finance	Business Finance Guarantee Scheme	Cost Pressure or Variance – Expenses
Health	Health and Disability System Reform	Policy Change – Expenses
	Health Capital Pressure	Cost Pressure or Variance – Capital
	Health System Sustainability	Cost Pressure or Variance – Expenses
Housing	Large-scale Housing and Urban Development Projects	Cost Pressure or Variance – Expenses and Capital
Local Government	Three Waters Infrastructure Investment and Reform Programme	Policy Change – Expenses and Capital
Transport	City Centre to Māngere Rapid Transit Project	Policy Change – Expenses and Capital
	Future of Rail Commitments	Policy Change – Capital
	New Zealand Upgrade Programme	Cost Pressure or Variance – Expenses and Capital
Cross-portfolio	Further COVID-19 Business Support	Policy Change – Expenses

Updated Risks		
Portfolio	**Risk Title**	**Type of Risk**
ACC	ACC Levies	Cost Pressure or Variance – Expenses and Revenue
Climate Change	Emissions Trading Scheme – Fixed Price Option and Auctioning	Cost Pressure or Variance – Revenue and Expenses
Defence	Defence Funding Requirements to Deliver New Zealand's Defence Strategy	Policy Change – Expenses and Capital
Economic and Regional Development	New Zealand Screen Production Grant – International	Cost Pressure or Variance – Expenses
	Provincial Growth Fund	Cost Pressure or Variance – Expenses and Capital
	Regional Strategic Partnership Fund	Policy Change – Expenses and Capital
Education	Change in Demand for Tertiary Education and Training	Cost Pressure or Variance – Expenses
	Education Operating Cost Pressures	Cost Pressure or Variance – Expenses
	Education Workforce Strategy	Policy Change – Expenses
	Learning Support	Cost Pressure or Variance – Expenses
	Replacing Deciles with the Equity Index	Policy Change – Expenses
	Response to the Tomorrow's Schools Review	Policy Change – Expenses
Finance	Alternative Monetary Policy Tools	Cost Pressure or Variance – Expenses
	Deposit Insurance Scheme	Policy Change – Revenue and Expenses
Finance, Earthquake Commission	Earthquake Commission	Cost Pressure or Variance – Expenses
Foreign Affairs	Official Development Assistance	Policy Change – Expenses
Health	Mental Health Support for Children	Policy Change – Expenses
	Reducing Planned Care Waiting Lists	Policy Change – Expenses
Māori Development	Waitangi Tribunal Recommendations and Claims	Policy Change – Expenses
Revenue	International Tax	Policy Change – Revenue
	Potential Tax Policy Changes	Policy Change – Revenue
	Research and Development Tax Incentive	Cost Pressure or Variance – Expenses
	Small Business Cashflow Scheme	Cost Pressure or Variance – Expenses and Capital
	Student Loans – Valuation	Cost Pressure or Variance – Expenses

Updated Risks		
Social Development and Employment	Changes to the Welfare System	Policy Change – Expenses
	Implications for New Zealand Superannuation from Quarterly Employment Survey Redevelopment	Cost Pressure or Variance – Expenses
Speaker of the House of Representatives	Future Parliamentary Accommodation	Cost Pressure or Variance – Capital
Transport	Auckland City Rail Link Ownership Issues	Policy Change – Expenses
	Wellington Transport Investment Programme	Policy Change – Expenses and Capital
Cross-portfolio	Pay Equity Claims	Cost Pressure or Variance – Expenses
	Progressively Extending Living Wage Guarantees to Contractors in the Public Sector	Policy Change – Expenses
	Services Funded by Third Parties	Cost Pressure or Variance – Expenses
	State Sector Employment Agreements	Cost Pressure or Variance – Expenses

Unchanged Risks		
Portfolio	**Risk Title**	**Type of Risk**
ACC	Impacts of Changes to Accident Compensation Policy Settings	Policy Change – Expenses
	Non-Earners' Account	Cost Pressure or Variance – Expenses
	Work-related Gradual Process Disease and Infection	Policy Change – Expenses
Biosecurity	*Mycoplasma Bovis* Biosecurity Response	Policy Change – Revenue and Expenses
Broadcasting and Media	Delivery of the Government's Public Media Outcomes	Policy Change – Expenses and Capital
Conservation	Department of Conservation Compliance with Drinking Water Supply Infrastructure Requirements	Cost Pressure or Variance – Expenses and Capital
Defence	Disposal of New Zealand Defence Force Assets	Policy Change – Revenue and Expenses
Education	Early Learning Action Plan	Policy Change – Expenses
	Reform of Vocational Education (RoVE)	Policy Change – Expenses and Capital
Finance, Earthquake Commission	Southern Response Earthquake Services Support	Cost Pressure or Variance – Expenses and Capital

Unchanged Risks		
Housing	Divestment and Development of Kāinga Ora – Homes and Communities' Housing	Cost Pressure or Variance – Expenses
	Emergency Housing Special Needs Grants	Cost Pressure or Variance – Expenses
	Increases to Market Rent	Cost Pressure or Variance – Expenses
	KiwiBuild – Fiscal and Delivery Risks	Cost Pressure or Variance – Revenue, Expenses and Capital
Internal Affairs	Archives New Zealand Storage Capacity	Policy Change – Expenses and Capital
Research, Science and Innovation	Research and Development Spending Target	Policy Change – Expenses
Revenue	Cash Held in Tax Pools	Cost Pressure or Variance – Revenue
	Transformation and Technology Renewal	Cost Pressure or Variance – Expenses
Social Development and Employment	Increasing Special Needs Grant Limits for Emergency Dental Treatment	Policy Change – Expenses
Transport	Auckland City Rail Link	Cost Pressure or Variance – Expenses and Capital
Treaty of Waitangi Negotiations	Relativity Clause	Cost Pressure or Variance – Expenses
	Treaty Settlement Forecasts	Cost Pressure or Variance – Expenses
Veterans	Veterans' Disability Entitlements	Cost Pressure or Variance – Expenses
Cross-portfolio	Achieving New Zealand's International and Domestic Climate Change Targets	Policy Change – Expenses and Capital
	Carbon Neutral Public Service	Policy Change – Expenses and Capital
	Information and Communications Technology Operating and Capital Pressures	Cost Pressure or Variance – Expenses and Capital
	Non-Government Providers Receiving Funding from the Crown	Cost Pressure or Variance – Expenses
	Other Capital Cost Pressures	Cost Pressure or Variance – Capital
	Other Operating Cost Pressures	Cost Pressure or Variance – Expenses
	Outcomes from Other Government Inquiries and Reviews	Policy Change – Expenses
	Unexpected Maintenance for Crown-owned Buildings	Cost Pressure or Variance – Capital

New Risks by Portfolio

The following section outlines *policy change* and *cost pressure or variance* risks that have been newly identified or disclosed since the *Half Year Update*. The expectation is that these risks will be managed through existing funding sources and/or the Budget operating and capital allowances.

Children

Oranga Tamariki Partnering with Māori to Find Appropriate Solutions for Children in Need (Policy Change – Expenses)

The Government is committed to ensuring that Oranga Tamariki partners with iwi, hapū and Māori organisations to find appropriate solutions for children in need. This is in line with the statutory National Care Standards Oranga Tamariki is required to meet. Any changes to the way Oranga Tamariki partners with Māori will likely have operational and fiscal implications. Initial funding was provided for this in Budget 2021, however more funding will likely be required.

Climate Change

Recycling Emissions Trading Scheme Proceeds (Policy Change – Expenses)

The Government is exploring options for funding and financing the transition to a low-emissions economy, including the use and fiscal treatment of cash proceeds from the Emissions Trading Scheme (ETS). At present the forecast cash proceeds from the ETS are available to help fund the Government's operating and capital spending. Linking ETS cash proceeds to specific initiatives could reduce the cash available to the Government to meet other operating and capital spending as well as increasing operating expenses, therefore resulting in an adverse impact to net core Crown debt and the operating balance.

Finance

Air New Zealand's Proposed Capital Raise (Cost Pressure or Variance – Capital)

The Crown has provided Air NZ with a $1.5 billion interest bearing loan facility, of which $350 million had been drawn at 31 March 2021, to assist it through the difficult trading period that has arisen due to COVID-19's impact on air travel volumes. Air NZ has also announced that it will raise new debt and equity capital by 30 September 2021. Subject to Cabinet being satisfied with the terms of the company's proposed capital raise, the Crown would participate in an equity capital raise by purchasing the number of new shares necessary to maintain a majority shareholding. Air NZ's intention is that the Crown loan will be repaid from the proceeds of the proposed capital raise. The size and terms of the capital raise and the future debt/equity mix for Air NZ are still being determined, and therefore the fiscal impacts on the Government cannot be determined at this time.

Housing

Housing Acceleration Fund (Cost Pressure or Variance – Expenses and Capital)

The Housing Acceleration Fund includes contestable funding for infrastructure projects across New Zealand. There is a risk that the phasing of funding and delivery will be different from what is currently forecast, which would affect Crown fiscal indicators. There is also a risk that while the fiscal forecasts are based on a best estimate of the current split between operating and capital costs, this will be subject to change, as costs are further refined.

Revenue

Tax Treatment of Rental Property (Policy Change – Revenue)

The Government has extended the bright-line test and to remove deductions for interest incurred to earn income from residential property. While the impact of the bright-line test is outside the forecast period, the removal of interest deductions could have positive fiscal impacts within the forecast period. The fiscal impact of this policy has not yet been quantified as this depends on final policy decisions.

Tourism

Proposed Changes to the International Visitor Levy (Policy Change – Revenue)

The Government is reviewing the International Visitor Conservation and Tourism Levy and there are a range of options under consideration which could increase the levy, impacting revenue. Prior to COVID-19 the levy was forecast to collect around $75 million per annum. However, future levels of international tourism are uncertain. It is intended that revenue remain hypothecated, so the impact of any change should be fiscally neutral overall. There is a risk that the expected increase in revenue does not occur.

Transport

Incentivising Uptake of Low Emissions Vehicles (Policy Change – Expenses)

The Government is considering how to incentivise uptake of low-emission vehicles in order to meet its emissions reduction targets. Future policy decisions are likely to have fiscal implications to the fiscal forecasts.

Changed Risks by Portfolio

The following section outlines *policy change* and *cost pressure or variance* risks that have significantly changed in nature or substance since the *Half Year Update*. This may relate to a change in the underlying driver(s) of the risk and/or the risk's scope. Risks that have been updated, but which do not meet this definition of change, are listed in the Updated Risks by Portfolio section of this Statement.

COVID-19 Response

COVID-19 Vaccine Strategy (Cost Pressure or Variance – Expenses)

The Government has provided for ongoing costs of COVID-19 vaccines, and the costs of vaccinating New Zealanders throughout this year. There is a risk that further funding may be required (for example for booster vaccines in the future), or that liability may materialise under any indemnities given by the Minister of Finance in relation to COVID-19 vaccines.

Managed Isolation and Quarantine (Cost Pressure or Variance – Expenses)

The changing global situation and uncertainty with respect to COVID-19 remains. Demand for space in Managed Isolation and Quarantine (MIQ) and the health and security arrangements required may change rapidly. Any changes in demand will put pressure on current MIQ supply and appropriated funding. Updated fiscal forecasts may lead to further funding being required to deliver additional services or MIQ places. MIQ is currently funded to June 2022, but might be required to continue for a further six months beyond this date in some form.

Education

Free and Healthy Lunch Programme (Policy Change – Expenses and Capital)

The Free and Healthy Lunch Programme was a prototype to test different models of delivery to students in selected schools. Funding for the Programme runs until December 2023. If the Government confirms an extension or expansion of the programme, additional ongoing funding will be required.

Finance

Business Finance Guarantee Scheme (Cost Pressure – Expenses)

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 (see page 82 in the Contingent Liabilities section). The scheme is available for loans originated up to 30 June 2021. The fiscal forecasts are based on utilisation of approximately $2-3 billion of the possible $6.25 billion facility. The usage of the scheme may increase before close-off, increasing the expense arising from revising the fair value of expected losses.

Health

Health and Disability System Reform (Policy Change – Expenses)

The Government has announced its intention to reform the health and disability system. Funding has been provided in Budget 2021 for the establishment of Health New Zealand and a Māori Health Authority. Further decisions are required on the ongoing funding to support reform, including policy and funding changes to support the transformation of Hauora Māori and primary and community services, digital enablement and consumer-centred digital services, and any remaining costs of structural changes and system improvements.

Health Capital Pressure (Cost Pressure or Variance – Capital)

These capital pressures relate to DHBs, the Ministry of Health, and other parts of the health system. DHBs have submitted updated capital intentions, identifying the indicative prioritisation for Crown funding over the next three years. Over $2.7 billion combined in capital funding has been announced for DHBs in previous budgets and 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 System Sustainability (Cost Pressure or Variance – Expenses)

District Health Boards (DHBs) are expected to continue running operating deficits over the 2021/22 financial year until their disestablishment in 2022. There is a significant risk that DHBs' deficits over the 2021/22 financial year 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. The fiscal forecasts assume that future expenditure growth will be met from future Budget allowances. The cost of operating the health system under Health New Zealand, including additional investment in such areas as digital services and primary health care and any efficiency savings in the longer term, has yet to be costed. In addition, the health system is likely to face significant volume and cost pressures to maintain the delivery of existing services which may increase as a result of the COVID-19 response. This risk replaces the previous DHB Sustainability risk and incorporates the previous Health Operating Pressure risk and the previous Primary Care Services risk.

Housing

Large-scale Housing and Urban Development Projects (Cost Pressure or Variance – Expenses and Capital)

Kāinga Ora is currently carrying out a number of large-scale infrastructure redevelopment projects, including the Tāmaki Regeneration Project. Some projects will be funded from sale proceeds from land sold for affordable and market housing. There is ongoing risk around cost overrun, given the scale and complexity of the projects. Risks also remain around the sale proceeds of land sold for affordable and market housing not meeting expectations. The funding source for any future cost overruns or reduced proceeds would need to be identified. There is also a risk that while the fiscal forecasts are based on our best estimate of the current split between operating and capital costs, these will be subject to change, as costs are further refined. In addition, if the sale of land to be used for affordable and market housing is lower than its carrying value this may necessitate expense write-offs in the future.

Local Government

Three Waters Infrastructure Investment and Reform Programme (Policy Change – Expenses and Capital)

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. Budget 2021 provides funding to support the establishment of multi-regional water services entities and the transfer of associated assets, liabilities, staff and services from local authorities to those entities. It is possible that further funding is required in the future to implement, or to incentivise territorial authorities to support and deliver, the reform programme.

Transport

City Centre to Māngere Rapid Transit Project (Policy Change – Expenses and Capital)

The cost of the preferred rapid transit solution for the City Centre to Māngere corridor is uncertain at this stage. An indication of costs will be provided through the business case process undertaken by the Establishment Unit. The Cabinet decision signals an expectation that significant Crown funding will be needed to deliver the preferred solution. It also signals that other funding tools, including value capture will be further considered.

Future of Rail Commitments (Policy Change – Capital)

Further Crown funding may be sought through future Budgets to progress these projects as part of implementing the Future of Rail Review.

New Zealand Upgrade Programme (Cost Pressure or Variance – Expenses and Capital)

The transport component of the New Zealand Upgrade Programme (the Programme) consists of projects delivered by both Waka Kotahi and KiwiRail (delivery agencies) within a fixed funding envelope of $6.8 billion. Waka Kotahi has advised that its component of the Programme is facing a significant increase in forecast costs, primarily due to property price escalations and acquisitions, inflation, and revised standards and assumptions behind cost estimates. A baselining exercise has been undertaken across delivery agencies Waka Kotahi and KiwiRail to better define the scope, costs, outcomes, and schedules for the projects, and identify options for moving the Programme forward.

Cross-portfolio

Further COVID-19 Business Support (Policy Change – Expenses)

Through various policy decisions, the Government has committed to supporting businesses in response to COVID-19. Were the Government to provide additional support including resurgence support payments to businesses at various COVID-19 alert levels, this would represent a fiscal risk. This risk relates to the extent that the timing, extent and/or nature of COVID-19 business support may differ from that included in the fiscal forecasts, and where additional costs cannot be met from existing underspends.

Updated Risks by Portfolio

The following section outlines *policy change* and *cost pressure or variance* risks that are unchanged in nature and substance since the *Half Year Update*, but have been updated to reflect present circumstances. Any necessary update to the narrative of a risk since the *Half Year Update*, no matter how small, is reflected in this section. Among other reasons risks may, for example, be classified as updated risks as a result of the progression of legislation or the provision of more complete information.

ACC

ACC Levies (Cost Pressure or Variance – Expenses and Revenue)

ACC levies will remain unchanged until at least 2022/23, 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.

Climate Change

Emissions Trading Scheme – Fixed Price Option and Auctioning (Cost Pressure or Variance – Revenue and Expenses)

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), how that market price differs from the Fixed Price Option (FPO), and the extent to which participants elect to use the FPO. Participants in the ETS who emit greenhouse gases are required to surrender NZUs to account for those emissions. Participants who do not have sufficient NZUs are able to meet their obligations by purchasing NZUs from other participants or from the Crown at a fixed price of $35. In addition, 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, reducing net core Crown debt. The extent of this depends on the future price realised for auctioned units, which is inherently uncertain. As a result of both of these factors, actual revenue and expenses may vary from the fiscal forecasts, which for both revenue and expenses assume a carbon price value based on the market price at 31 March 2021 of $36.90.

Defence

Defence Funding Requirements to Deliver New Zealand's Defence Strategy (Policy Change – Expenses and Capital)

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 decisions.

Economic and Regional Development

New Zealand Screen Production Grant – International (Cost Pressure or Variance – Expenses)

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). In the *Pre-election Update*, this risk was published under the ‘Economic Development’ portfolio.

Provincial Growth Fund (Cost Pressure or Variance – Expenses and Capital)

The capital and operating split and timing of this funding, as set out in the fiscal forecasts, are subject to change due to uncertainty about recipients reaching milestones necessary to receive payment. There is also a risk of losses and write-offs being incurred for funding provided in the form of debt or equity.

Regional Strategic Partnership Fund (Policy Change – Expenses and Capital)

The Regional Strategic Partnership is a $200 million fund to support regional economic development plans and initiatives. The exact nature and timing of this funding are not sufficiently certain to be included in the fiscal forecasts but will likely have an impact during the forecast period.

Education

Change in Demand for Tertiary Education and Training (Cost Pressure or Variance – Expenses)

There is ongoing uncertainty about the impact of COVID-19 on unemployment, changes in the net migration of New Zealand residents, transitions of school leavers, and the scale of the increased enrolments in tertiary education that may 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. At the start of March 2021, there are indications of increases in demand for tertiary education and training (particularly for apprenticeships). There is funding pressure related to apprentices over 2021-2023, but funding pressure from provider-based enrolments in 2021 will be assessed after tertiary enrolments to April 2021 are reported and analysed.

Education Operating Cost Pressures (Cost Pressure or Variance – Expenses)

The education sector is exposed to changing levels of demand in early childhood education (ECE) and schooling, which can result from factors such as population growth and changes in participation levels. 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 as a result of the increasing demand for, and the 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 funding that does not entirely cover all demand.

Education Workforce Strategy (Policy Change – Expenses)

The Ministry of Education is working in partnership with the Education Workforce Strategy Governance Group (EWSG), MoE internal stakeholders and the Accord with NZEI Te Riu Roa and the Post Primary Teachers' Association to develop a comprehensive Education Workforce Strategy (EWS) for the education workforce. The aim is for the strategy to go out for public consultation in the first half of this year, with an action plan finalised later in the year.

Learning Support (Cost Pressure or Variance – Expenses)

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 support to attend regularly, 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.

Replacing Deciles with the Equity Index (Policy Change – Expenses)

The Government has committed to replacing deciles with the Equity Index as part of its manifesto commitments and fiscal plan. The index provides a more refined measure to understand whether there are socio-economic factors present in the lives of learners that can impact educational outcomes. This will inform how the schooling system can be resourced to provide all learners 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 (Policy Change – Expenses)

The Government's response to the Tomorrow's Schools Review commits to reform of the schools system. Continued policy development and relevant service and implementation design have begun, with a focus on enhancing frontline services and support for learners/ākonga, whānau and education providers. Accordingly, future decisions are still required, including decisions on changes in investment. The Government 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 (Cost Pressure or Variance – Expenses)

The fiscal forecasts already include an assumed fiscal impact from the Large Scale Asset Purchase programme and the Funding for Lending Programme that have been announced by the Reserve Bank. There is a risk that the fiscal impact of both of these programmes may differ from what is assumed in the fiscal forecasts, and this may include the size of the programmes as well as any gains or losses due to factors such as interest rate risk and credit risk. Any additional Alternative Monetary Policy tools that the Reserve Bank may deploy could potentially impact key fiscal indicators.

Deposit Insurance Scheme (Policy Change – Revenue and Expenses)

Cabinet has agreed to implement a deposit insurance scheme (DIS) with a target timeframe of 2023. The DIS will have a coverage limit of $100,000 per eligible depositor, per licensed deposit taker. The DIS will be administered by the Reserve Bank of New Zealand and will be fully funded over time by levies on licensed deposit takers. The funding framework for the DIS will be determined through a funding strategy and levy regulations set by the Minister of Finance. The funding strategy and levies are expected to be determined prior to implementation of the DIS. The DIS will impact on the Reserve Bank's revenue and expenses. An estimate of the levy revenue is included in the fiscal forecasts. However, as further policy work is required to develop the funding strategy and levies, there is significant uncertainty around the estimates. Because the full scope and accounting treatment of the insurance liability are also yet to be determined, expenses relating to the insurance liability have not been included in the fiscal forecasts. They may need to be included in future fiscal forecasts once the accounting treatment and full scope of deposit takers and depositors eligible for deposit insurance are confirmed.

Finance, Earthquake Commission

Earthquake Commission (Cost Pressure or Variance – Expenses)

The Earthquake Commission's (EQC's) independent actuary undertakes half-yearly valuations of the total EQC 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 and any associated reinsurance recoveries. Based on these valuations, a profile of the yet-to-settle claims is included in the fiscal forecasts. There are risks that EQC's remaining settlement expenditure relating to the Canterbury 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 recognises expected future costs only where it is liable for such costs under the Earthquake Commission Act 1993. The risks include litigation and 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 variance from what is in the fiscal forecasts could be material.

Foreign Affairs

Official Development Assistance (Policy Change – Expenses)

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 0.30% of GNI from 0.28% of GNI. If the Government wants to maintain the ratio at or around 0.30% beyond June 2021, a different level of funding may be required, depending on the scale of the economic impact of COVID-19.

Health

Mental Health Support for Children (Policy Change – Expenses)

The Speech from the Throne reaffirmed the Government's commitment to expand the Mana Ake programme throughout the rest of the country over the next five years and ensure that every primary and intermediate age child has access to mental health support. Budget 2021 provided funding to continue the existing Mana Ake programme in 2021/22 in Canterbury and Kaikōura and to enable the co-design of mental wellbeing supports in primary and intermediate schools in five new areas, including Northland, Counties Manukau, Lakes, Bay of Plenty and the West Coast. The exact nature and timing of the rest of the costs of the nationwide rollout are not sufficiently certain to be included in the fiscal forecasts, but will likely have an impact during the forecast period.

Reducing Planned Care Waiting Lists (Policy Change – Expenses)

The New Zealand Labour Party's 2020 election manifesto includes a commitment to provide $200 million of additional funding to reduce waiting lists for planned surgery and diagnostic services so that New Zealanders can access procedures in a timely manner close to where they live.

Māori Development

Waitangi Tribunal Recommendations and Claims (Policy Change – Expenses)

The Waitangi Tribunal has recommended government action in its reports on a number of claims including WAI262, which focuses on the protection of Māori culture and identity and the nature of the Māori-Crown relationship in a post-settlement environment. In April 2019, the Coalition Government initiated a whole-of-government approach to addressing issues raised in the WAI262 claim and the Tribunal's report on that claim. This commitment was confirmed in the current Government's Māori manifesto. These and other issues raised through Waitangi Tribunal claims that the Government is working to address, such as WAI2698 (relating to Te Wānanga o Raukawa), represent a fiscal risk to the extent that additional funding may be required to address the issues raised. In the *Pre-election Update*, this risk was published as 'Government Response to WAI262'.

Revenue

International Tax (Policy Change – Revenue)

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 may consider a digital services tax if the OECD does not make sufficient progress on a multilateral solution. The revenue impact of a digital services tax or OECD solution would depend on how it is designed.

Potential Tax Policy Changes (Policy Change – Revenue)

The Government is in the process of refreshing the tax policy work programme. The measures on the work programme, and their collective fiscal implications, are subject to change.

Research and Development Tax Incentive (Cost Pressure or Variance – Expenses)

The Research and Development (R&D) Tax Incentive allows eligible firms to receive a tax credit based on a percentage of their expenditure on R&D. 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.

Small Business Cashflow Scheme (Cost Pressure or Variance – Expenses and Capital)

The Small Business Cashflow Scheme was introduced to support small-to-medium businesses affected by COVID-19. There is a risk that the total value of the lending may differ, either positively or negatively, from what is currently forecast, as the lending under the scheme is dependent on demand until the application closing date of 31 December 2023. As new lending occurs, an initial write-down to fair value is made based on assumptions about when and how much borrowers will repay in the future. The fair value write-down reflects the cost the Crown incurs in making a loan at below-market terms. The fair value of the loan portfolio may change over time and will depend on borrower repayments and defaults over the life of the scheme, which are based on volatile factors that are subject to change.

Student Loans – Valuation (Cost Pressure or Variance – Expenses)

The value of student loans is sensitive to assumptions such as the borrower's future income and general economic factors such as risk-free interest rates, risk premiums, unemployment levels, salary inflation and the Consumers Price Index (CPI). 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.

Social Development and Employment

Changes to the Welfare System (Policy Change – Expenses)

The Government's 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 with 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. Cabinet will be provided with detailed information on the scale of change, implications and associated costs as part of future decisions.

Implications for New Zealand Superannuation from Quarterly Employment Survey Redevelopment (Cost Pressure or Variance – Expenses)

Stats NZ is redeveloping the Quarterly Employment Survey and will implement the new design from the March 2021 quarter. Current estimates indicate the redevelopment is expected to increase the average wage used in calculating New Zealand Superannuation and the Veteran's Pension by 1% to 2%. Although the fiscal forecasts include an estimate of the impact from April 2022, there is still some residual uncertainty, which means the final figures published by Stats NZ could be higher or lower.

Speaker of the House of Representatives

Future Parliamentary Accommodation (Cost Pressure or Variance – Capital)

The Parliamentary Service is considering options for the future provision of accommodation for Parliament. This includes exploring the remediation of the earthquake-prone Executive Wing Annex, a new Secure Deliveries building and the construction of a Members' Building. Further work is still required to finalise the design, enter the consenting process and refine costings.

Transport

Auckland City Rail Link Ownership Issues (Policy Change – Expenses)

The Government has committed to fund 50% of the current budgeted costs for City Rail Link Limited (CRLL) to deliver the City Rail Link project (CRL). This is a co-funding arrangement with Auckland Council, which has also committed to fund 50% of the project. Both the Crown and Auckland Council currently treat the funding as capital expenditure, and each have a 50% equity holding in CRLL. Depending on the final decisions on ownership of the CRL assets, it is possible that the Crown's equity holding may need to be written down. The Crown's final net asset position will also depend on how the assets are split between the Crown and Auckland Council and the valuation of these assets. It is likely that the value of the Crown's final assets will differ from a 50% equity investment in CRLL. Current estimates suggest this difference will not be large, however this will only become clear closer to construction completion. Decisions on final ownership will likely be made when sufficient information is available to accurately allocate the assets to the appropriate transport network operators.

Wellington Transport Investment Programme (Policy Change – Expenses and Capital)

The Government Policy Statement on land transport 2021 was developed with the expectation that Let's Get Wellington Moving (LGWM), along with the Government's other priorities, could be funded from the National Land Transport Fund (NLTF), based on available information at the time. LGWM Board partners have indicated that the LGWM indicative package in the GPS 2021 is expected to cost significantly more than previously estimated, increasing the risk that it may not be delivered in full. The ability to deliver LGWM in full also relies on local government providing its own share. Due to competing funding priorities of local councils, it is possible that central government is asked to contribute funding to LGWM.

Cross-portfolio

Pay Equity Claims (Cost Pressure or Variance – Expenses)

A number of claims have been raised in relation to the Equal Pay Act 1972 providing for pay equity (equal pay for work of equal value) and further claims may be raised following commencement of the Equal Pay Amendment Act 2020 in November 2020. 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, and any subsequent funding decisions.

Progressively Extending Living Wage Guarantees to Contractors in the Public Sector (Policy Change – Expenses)

The Speech from the Throne reaffirmed the Government's commitment to progressively extend Living Wage guarantees to contractors in the public sector. Implementing this policy will involve costs to the Crown that may not all be able to be met from baselines.

Services Funded by Third Parties (Cost Pressure or Variance – Expenses)

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. In particular, measures related to COVID-19, such as the border closure have significantly reduced the third-party revenue some agencies receive.

State Sector Employment Agreements (Cost Pressure or Variance – Expenses)

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 for other employers across the sector.

Unchanged Risks by Portfolio

The following section outlines *policy change* and *cost pressure or variance* risks that are unchanged in nature and substance since the *Half Year Update*.

ACC

Impacts of Changes to Accident Compensation Policy Settings (Policy Change – Expenses)

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.

Non-Earners' Account (Cost Pressure or Variance – Expenses)

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.

Work-related Gradual Process Disease and Infection (Policy Change – Expenses)

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 (Policy Change – Revenue and Expenses)

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 2021/22 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 2022/23 and subsequent years will be considered depending on progress in eradicating the disease.

Broadcasting and Media

Delivery of the Government's Public Media Outcomes (Policy Change – Expenses and Capital)

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.

Conservation

Department of Conservation Compliance with Drinking Water Supply Infrastructure Requirements (Cost Pressure or Variance – Expenses and Capital)

Three waters reforms 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.

Defence

Disposal of New Zealand Defence Force Assets (Policy Change – Revenue and Expenses)

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 (Policy Change – Expenses)

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.

Reform of Vocational Education (RoVE) (Policy Change – Expenses and Capital)

Te Pūkenga – New Zealand Institute of Skills and Technology may seek significant additional Crown funding in the future for the transformation and management of its national network of education providers (the 16 former Institutes of Technology and Polytechnics), 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 UFS is a core component of RoVE and is crucial to incentivising and delivering the changes in behaviour and delivery models that are necessary to achieve the Government's objectives for RoVE. The Speech from the Throne reaffirmed the Government's commitment to complete the RoVE.

Finance, Earthquake Commission

Southern Response Earthquake Services Support (Cost Pressure or Variance – Expenses and Capital)

The ultimate cost to the Crown of settling earthquake claims is 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.

Housing

Divestment and Development of Kāinga Ora – Homes and Communities' Housing (Cost Pressure or Variance – Expenses)

The Crown's fiscal forecasts include business-as-usual divestments, acquisitions and the redevelopment of land and housing as part of Kāinga Ora's asset management strategy. The Crown 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 (Cost Pressure or Variance – Expenses)

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 (Cost Pressure or Variance – Expenses)

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 (Cost Pressure or Variance – Revenue, Expenses and Capital)

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.

Internal Affairs

Archives New Zealand Storage Capacity (Policy Change – Expenses and Capital)

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.

Research, Science and Innovation

Research and Development Spending Target (Policy Change – Expenses)

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

Cash Held in Tax Pools (Cost Pressure or Variance – Revenue)

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 the depositor, resulting in a reduction in the Crown's available cash reserves.

Transformation and Technology Renewal (Cost Pressure or Variance – Expenses)

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 and Employment

Increasing Special Needs Grant Limits for Emergency Dental Treatment (Policy Change – Expenses)

The New Zealand Labour Party's 2020 election manifesto includes a commitment to increase the maximum grant limit for Special Needs Grants for emergency dental treatments from $300 to $1000. The exact nature and timing of this funding are not sufficiently certain to be included in the fiscal forecasts but will likely have an impact during the forecast period.

Transport

Auckland City Rail Link (Cost Pressure or Variance – Expenses and Capital)

The Government has committed to funding 50% of the costs associated with the City Rail Link project, which is estimated to cost $4.4 billion. Based on this estimate, the Crown contribution to the project will be around $2.2 billion. There is a risk that the timing, scope and amount of the Crown contribution to the project could be different from what is included in the fiscal forecasts, in particular because of additional costs arising from the COVID-19 lockdowns, as well as the costs associated with the delays in obtaining key skilled workers from outside New Zealand's border.

Treaty of Waitangi Negotiations

Relativity Clause (Cost Pressure or Variance – Expenses)

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 (Cost Pressure or Variance – Expenses)

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 (Cost Pressure or Variance – Expenses)

The fiscal forecasts include a $3.5 billion liability in respect of veterans' entitlements, including the additional qualifying operational service announced since July 2020. The amount of the liability is an estimate based on the limited data currently available to value it. There is a risk that the amount of the liability may be under- or over-stated. As more data are collected over time, this uncertainty will reduce and the estimate of the liability will become more accurate.

Cross-portfolio

Achieving New Zealand's International and Domestic Climate Change Targets (Policy Change – Expenses and Capital)

The Climate Change Response (Zero Carbon) Amendment Act 2019 requires the Government to set and achieve domestic greenhouse gas emissions targets and achieve emissions budgets starting in 2022 to 2025, and to contribute to the global effort under the Paris Agreement to limit global average temperature increases. New Zealand will need to pursue sizeable domestic or offshore abatement to meet its 2021 to 2030 emissions budget commitments under the Paris Agreement. Emissions Trading Scheme settings will affect government revenue and expenses, while complementary decarbonisation initiatives could result in substantial fiscal costs. The Government has choices around how it achieves these climate targets. It is likely that fulfilling its commitments will involve significant costs to the Crown, starting within the current fiscal forecast period.

Carbon Neutral Public Service (Policy Change – Expenses and Capital)

The Government has agreed to establish the Carbon Neutral Government Programme, with the aim of making the public sector carbon neutral by 2025. This programme is supported by the existing State Sector Decarbonisation Fund and possible mechanisms to achieve carbon neutrality include phasing out coal-fired boilers, transitioning the government vehicle fleet to electric vehicles, and ensuring government-occupied buildings are more energy efficient. Funding was provided for this in Budget 2021, however a fiscal risk exists to the extent that government commitments are unable to be met through existing provisions for funding.

Information and Communications Technology Operating and Capital Pressures (Cost Pressure or Variance – Expenses and Capital)

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.

Non-government Providers Receiving Funding from the Crown (Cost Pressure or Variance – Expenses)

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 (Cost Pressure or Variance – Capital)

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 (Cost Pressure or Variance – Expenses)

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 (Policy Change – Expenses)

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.

Unexpected Maintenance for Crown-owned Buildings (Cost Pressure or Variance – Capital)

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 *Half Year Update*

The following table outlines risks that were published in the *Half Year Update* but are no longer disclosed as specific fiscal risks, because these are provided for in the forecasts, or are adequately captured by existing risks, or no longer meet the materiality threshold for publication.

Portfolio	Title	Reason for expiry
Corrections	Waikeria Mental Health and Addiction Service Operating Funding	The Government approved funding for this initiative in Budget 2021.
Education	School Transport Services	This no longer meets the materiality threshold for publication due to funding approved in Budget 2021.
Finance	Closure of Tiwai Point Aluminium Smelter	With the closure date of Tiwai Point Aluminium Smelter moving out to December 2024, the fiscal risk of the economic impact from the smelter's closure over the forecast period no longer meets the materiality threshold for publication.
	Government Commitments to International Financial Institutions	This is included in contingent liabilities.
Foreign Affairs	Antarctica New Zealand – Redevelopment of Scott Base	The Government approved funding for this initiative in Budget 2021.
Health	Boosting PHARMAC Purchasing	The Government approved funding for this initiative in Budget 2021.
	Health Operating Pressure	This is now included in the specific fiscal risk "Health System Sustainability".
	Primary Care Services	This is now included in the specific fiscal risk "Health System Sustainability".
Housing	Tāmaki Regeneration Project	This is now included in the specific fiscal risk "Large-scale Housing and Urban Development Projects".
Internal Affairs	Royal Commission of Inquiry into Abuse in State Care	The Government approved funding for this initiative in Budget 2021.
Justice	Legal Aid Demand Pressures	This no longer meets the materiality threshold for publication due to funding approved in Budget 2021.
Police	Firearms Reform Programme	The Government approved funding for this initiative at Cabinet in April 2021.
Social Development and Employment	Increasing Benefit Abatement Thresholds Further	This no longer meets the materiality threshold for publication due to funding approved by Cabinet in December 2020.
	Reinstating the Training Incentive Allowance	The Government approved funding for this initiative in Budget 2021.

Portfolio	Title	Reason for expiry
Transport	Upper North Island Supply Chain Strategy (UNISCS) – Independent Working Group Recommendations	This is unlikely to exceed the materiality threshold during the forecast period.
Cross-portfolio	Increasing the Minimum Wage	The Government's commitment to increase the minimum wage to $20 has been implemented.
	Policy Responses to the 15 March 2019 Terror Attacks	This no longer meets the materiality threshold for publication due to funding approved in Budget 2021.

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 in excess of $20 million and are not expected to be remote.[16]

The contingencies have been stated as at 31 March 2021, being the latest set of published contingencies.

[16] Remote' is defined as being an item with less than a 10% chance of occurring.

Statement of Contingent Liabilities and Contingent Assets

Quantifiable contingent liabilities

	Status[17]	31 March 2021 ($millions)	30 June 2020 ($millions)
Uncalled capital			
Asian Development Bank	Unchanged	3,140	3,315
International Monetary Fund – promissory notes	Unchanged	1,887	2,058
International Bank for Reconstruction and Development	Unchanged	1,808	1,724
International Monetary Fund – arrangements to borrow	Unchanged	1,358	693
Asian Infrastructure Investment Bank	Unchanged	529	575
Other uncalled capital	Unchanged	18	19
		8,740	**8,384**
Guarantees and indemnities			
New Zealand Export Credit guarantees	Unchanged	178	127
Other guarantees and indemnities[18]	Unchanged	124	136
		302	**263**
Legal proceedings and disputes			
Inland Revenue - legal tax proceedings	Unchanged	189	189
New Zealand Transport Agency	Unchanged	102	80
Other legal proceedings and disputes	Unchanged	158	222
		449	**491**
Other quantifiable contingent liabilities			
Unclaimed monies	Unchanged	204	183
Ministry for Primary Industries – Biosecurity Act 1993 compensation	Unchanged	130	132
Other quantifiable contingent liabilities	Unchanged	228	170
		562	**485**
Total quantifiable contingent liabilities		**10,053**	**9,623**

Quantifiable contingent assets

		31 March 2021 ($millions)	30 June 2020 ($millions)
Other contingent assets	Unchanged	48	45
Total quantifiable contingent assets		**48**	**45**

17 Status of contingent liabilities or assets when compared with the Financial Statements of the Government for the year ended 30 June 2020, (based on the nature of the contingency, not the dollar value of contingencies is updated regularly) published on 24 November 2020.

18 These include the Business Finance Guarantee Scheme. Note the actual call on the Business Finance Guarantee Scheme is not quantifiable.

Unquantifiable contingent liabilities

Indemnities	**Status**
Contact Energy Limited	Unchanged
Earthquake Commission	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
Reserve Bank	Unchanged
Southern Response Earthquake Services Limited	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
Legal proceedings and disputes	
Accident Compensation Corporation litigation	Unchanged
Aquaculture Settlements	Unchanged
Ministry for Primary Industries – Biosecurity Act 1993 compensation	Unchanged
Treaty of Waitangi claims	Unchanged
Wakatū	Unchanged
Other unquantifiable contingent liabilities	
Accident Compensation Corporation sensitive claims	Unchanged
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Holidays Act 2003 compliance	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged

The following contingent liabilities have been removed:

- Kiwifruit vine PSA-V – removed as a settlement has now been reached.
- Canterbury insurance disputes – Southern Response Earthquake Services – removed as an estimate has now been reflected in the Forecast Financial Statements.
- New Zealand Transport Agency Limited (NZTA) – Deed of indemnity – removed as this is now deemed to be remote.

Description of 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 outlined on page 80.

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 or to help businesses recover from the impact 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 using an accepted methodology, and incorporated into the forecasts. The Crown's maximum exposure under the indemnity was originally capped at $5 billion. However, the maximum exposure, if called upon, is 80% of the aggregate lending written under the scheme, which is currently forecast to reach around $2-3 billion.

New Zealand Export Credit guarantees

The Treasury's New Zealand Export Credit 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.

Legal proceedings and disputes

Inland Revenue – 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.

New Zealand Transport Agency

Legal proceedings and disputes represent the amounts claimed by plaintiffs relating to roading and other contract disputes. In addition, there is regular dialogue between the New Zealand Transport Agency and its contractors over technical and commercial matters that may result in disputes between the parties.

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.

Ministry for Primary Industries – Biosecurity Act 1993 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 of Primary Industries has been notified compensation will be sought following its responses for incursions including *Bonamia ostraea*, kauri dieback, *Mycoplasma bovis* and other minor incursions, as well as claims for losses incurred following the destruction of bud-stock, known as the Post Entry Quarantine (PEQ) response. Infectious Bursal Disease Virus (IBDV) claims have also been received. While these claims can be quantified, they do not meet the tests for recognising a provision.

Description of 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 core Crown net 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 Energy 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 if required to do so by an appropriate authority.

Party indemnified	Instrument of indemnification	Actions indemnified
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.
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 New Zealand domestic government 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.

Party indemnified	Instrument of indemnification	Actions indemnified
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 for that litigation on 25 September 2018.
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 drawn in favour of the Crown.

Legal proceedings and disputes

There are numerous legal actions that 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, although 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.

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 ongoing and includes prospective settlement. As aquaculture in New Zealand grows, settlement obligations arise. Iwi may choose to accept settlement as cash, or as marine rights, or as a combination following the negotiation process. The amounts 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 regards to reliably estimating the Crown's potential obligations. The contingency is therefore unquantified.

Ministry for Primary Industries – Biosecurity Act 1993 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 has been notified compensation will be sought for incursions including fruit fly, pea weevil, *Bonamia ostreae*, myrtle rust, *Mycoplasma bovis* and the PEQ response. Due to the complexity and uncertainty of the amount of these claims, the amounts are unquantified. To the extent that an obligation can be quantified, provision of $130 million has been made in these accounts as at 31 March 2021.

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.

Wakatū

Crown Law is acting for the Attorney-General on behalf of the Crown in right of New Zealand in Proprietors of *Wakatū 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 he says 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

Accident Compensation Corporation sensitive claims

ACC provides victims of sexual violence and abuse who suffer mental injury support (sensitive claims) in the form of counselling services, weekly compensation and other entitlements. Due to the nature of these injuries, many years may pass before the individual starts receiving treatment. Based on section 36 of the Accident Compensation Act 2001, the date of mental injury is generally recorded as the date the person first receives treatment for that injury. Once a client starts receiving treatment, a liability is recorded in ACC's Outstanding Claims Liability (OCL). With the information ACC holds for these claims, a reliable estimate of the mental injuries incurred but not yet reported as sensitive claims is unable to be made and therefore no liability is recorded in the OCL for these unreported claims.

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 2003 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 74

Description of Contingent Assets

There are no material quantifiable or unquantifiable contingent assets as at 31 March 2021.

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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.

These 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 30 April 2021, where these can be reliably measured (eg, these forecasts do not include the recent health reform announcements).

The finalisation dates and key assumptions that underpin the preparation of the Forecast Financial Statements are outlined in the Fiscal Outlook chapter (pages 21 to 42).

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 43 to 89. Key forecast assumptions are set out on pages 23 to 24.

Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2021 to 30 June 2025. The "Previous Budget" figures are the original forecasts to 30 June 2021 as presented in the 2020 *Budget Update* and the "2020 Actual" figures are the audited actual results reported in the Financial Statements of Government (FSG) for the year ended 30 June 2020.

Government Reporting Entity as at 30 April 2021

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 a 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 (services Strategic Planning Reform Board as an interdepartmental executive board)

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 a departmental agency)

Ministry of Housing and Urban Development

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

Ministry of Māori Development – Te Puni Kōkiri

Ministry of Social Development

Ministry of Transport

New Zealand Customs Service (services Border Executive Board as an interdepartmental executive board)

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
Mental Health and Wellbeing Commission
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 Limited (previously New Zealand Venture Investment Fund Limited)
New Zealand Infrastructure Commission/ Te Waihanga
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 (2,424)
Social Workers Registration Board
Sport and Recreation New Zealand
Takeovers Panel
Taumata Arowai—the Water Services Regulator
Te Pūkenga—New Zealand Institute of Skills and Technology
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

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

Crown Regional Holdings Limited (formerly Provincial Growth Fund Limited)

Education Payroll Limited

New Zealand Green Investment Finance Limited

Ngāpuhi Investment Fund Limited

Ōtākaro Limited

Predator Free 2050 Limited

Research and Education Advanced Network New Zealand Limited

Southern Response Earthquake Services Limited

Tāmaki Redevelopment Company Limited

The Network for Learning Limited

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

Te Urewera

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	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Revenue								
Taxation revenue	1	84,521	79,331	90,939	92,674	101,103	106,468	112,555
Other sovereign revenue	1	6,269	6,012	6,614	6,895	7,372	8,133	8,672
Total Revenue Levied through the Crown's Sovereign Power		**90,790**	**85,343**	**97,553**	**99,569**	**108,475**	**114,601**	**121,227**
Sales of goods and services		18,437	17,137	17,729	17,676	18,843	19,315	19,627
Interest revenue	2	2,300	2,513	2,015	2,020	2,216	2,427	2,617
Other revenue		4,476	5,074	3,890	4,604	4,595	4,928	4,913
Total revenue earned through the Crown's operations		**25,213**	**24,724**	**23,634**	**24,300**	**25,654**	**26,670**	**27,157**
Total revenue (excluding gains)		**116,003**	**110,067**	**121,187**	**123,869**	**134,129**	**141,271**	**148,384**
Expenses								
Transfer payments and subsidies	3	42,607	35,712	35,636	36,955	38,373	39,406	40,471
Personnel expenses		27,775	28,563	29,313	29,981	29,297	29,240	29,231
Depreciation		5,294	5,714	5,634	5,756	5,944	6,112	6,280
Other operating expenses	4	52,583	50,154	58,032	58,973	55,544	53,945	52,813
Finance costs	2	3,754	3,615	2,527	2,351	2,670	3,279	3,826
Insurance expenses	5	6,903	5,811	6,585	6,538	6,984	7,422	7,904
Forecast new operating spending	6	-	10,991	500	4,221	5,251	7,884	10,558
Top-down operating expense adjustment	6	-	(975)	(2,025)	(2,775)	(800)	(700)	(700)
Total expenses (excluding losses)		**138,916**	**139,585**	**136,202**	**142,000**	**143,263**	**146,588**	**150,383**
Gains/(losses)								
Net gains/(losses) on large scale asset purchases		(3,258)	(2,236)	(4,586)	(791)	-	-	-
Net gains/(losses) on financial instruments	2	1,908	2,576	12,792	3,769	4,311	4,789	5,321
Net gains/(losses) on non-financial instruments	7	(7,372)	(139)	8,837	(135)	(63)	(68)	(68)
Total gains/(losses) (including minority interests)		**(8,722)**	**201**	**17,043**	**2,843**	**4,248**	**4,721**	**5,253**
Net surplus/(deficit) from associates and joint ventures		1,193	67	(535)	(98)	(1)	59	138
Less minority interests share of operating balance		402	(76)	(219)	(262)	(358)	(344)	(347)
Operating balance (excluding minority interests)		**(30,040)**	**(29,326)**	**1,274**	**(15,648)**	**(5,245)**	**(881)**	**3,045**
Minority interest share of operating balance		(402)	76	219	262	358	344	347
Operating balance (including minority interests)		**(30,442)**	**(29,250)**	**1,493**	**(15,386)**	**(4,887)**	**(537)**	**3,392**

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

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Operating Balance (including minority interest)	**(30,442)**	**(29,250)**	**1,493**	**(15,386)**	**(4,887)**	**(537)**	**3,392**
Other comprehensive revenue and expense							
Revaluation of physical assets	5,233	-	(340)	-	-	-	-
Revaluation of defined benefit retirement plan schemes	(1,271)	181	635	216	214	206	194
Net revaluations of veterans' disability entitlements	(311)	-	-	-	-	-	-
Transfers to/(from) reserves	(48)	45	(151)	-	-	-	-
(Gains)/losses transferred to the statement of financial performance	(75)	(6)	(12)	-	-	-	-
Foreign currency translation differences on foreign operations	2	24	12	4	-	-	-
Other movements	(58)	17	42	(14)	(11)	(14)	(17)
Total other comprehensive revenue and expense	**3,472**	**261**	**186**	**206**	**203**	**192**	**177**
Total comprehensive revenue and expense	**(26,970)**	**(28,989)**	**1,679**	**(15,180)**	**(4,684)**	**(345)**	**3,569**
Attributable to:							
- minority interest	(341)	85	9	259	359	346	348
- the Crown	(26,629)	(29,074)	1,670	(15,439)	(5,043)	(691)	3,221
Total comprehensive revenue and expense	**(26,970)**	**(28,989)**	**1,679**	**(15,180)**	**(4,684)**	**(345)**	**3,569**

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Opening net worth	143,339	106,018	115,943	117,263	102,187	97,145	96,439
Operating balance (including minority interest)	(30,442)	(29,250)	1,493	(15,386)	(4,887)	(537)	3,392
Net revaluations of physical assets	5,233	-	(340)	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	(1,271)	181	635	216	214	206	194
Net revaluations of veterans' disability entitlements	(311)	-	-	-	-	-	-
Transfers to/(from) reserves	(48)	45	(151)	-	-	-	-
(Gains)/losses transferred to the Statement of Financial Performance	(75)	(6)	(12)	-	-	-	-
Foreign currency translation differences on foreign operations	2	24	12	4	-	-	-
Other movements	(58)	17	42	(14)	(11)	(14)	(17)
Comprehensive income	**(26,970)**	**(28,989)**	**1,679**	**(15,180)**	**(4,684)**	**(345)**	**3,569**
Transactions with minority interest	(426)	(539)	(359)	(373)	(358)	(361)	(365)
Closing net worth	**115,943**	**76,490**	**117,263**	**102,187**	**97,145**	**96,439**	**99,643**

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

Forecast Statement of Cash Flows

for the years ending 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Cash Flows from Operations							
Cash was provided from							
Taxation receipts	83,156	76,576	89,621	92,582	99,690	105,599	111,567
Other sovereign receipts	5,294	5,288	6,473	6,008	6,469	6,978	7,377
Sales of goods and services	18,289	17,165	16,830	17,995	18,752	19,165	19,477
Interest receipts	2,307	2,190	1,959	1,737	1,925	2,103	2,294
Other operating receipts	4,544	5,101	4,264	4,257	4,458	4,733	4,887
Total cash provided from operations	**113,590**	**106,320**	**119,147**	**122,579**	**131,294**	**138,578**	**145,602**
Cash was disbursed to							
Transfer payments and subsidies	42,945	35,966	35,885	37,271	38,732	39,683	41,778
Personnel and operating payments	77,192	80,272	88,737	91,242	86,758	85,671	84,690
Interest payments	3,849	4,519	3,793	2,962	3,268	3,521	4,002
Forecast new operating spending	-	10,991	500	4,221	5,251	7,884	10,558
Top-down operating expense adjustment	-	(975)	(2,025)	(2,775)	(800)	(700)	(700)
Total cash disbursed to operations	**123,986**	**130,773**	**126,890**	**132,921**	**133,209**	**136,059**	**140,328**
Net cash flows from operations	**(10,396)**	**(24,453)**	**(7,743)**	**(10,342)**	**(1,915)**	**2,519**	**5,274**
Cash Flows from Investing Activities							
Cash was provided from/(disbursed to)							
Net (purchase)/sale of physical assets	(9,071)	(10,929)	(11,312)	(16,039)	(13,211)	(11,756)	(10,333)
Net (purchase)/sale of shares and other securities[1]	(14,149)	(28,974)	11,559	(4,749)	8,132	(1,079)	(1,261)
Net (purchase)/sale of intangible assets	(855)	(912)	(944)	(951)	(768)	(660)	(637)
Net (issue)/repayment of advances	(1,290)	(6,383)	(6,870)	(16,195)	(11,561)	4,070	10,673
Net acquisition of investments in associates	(286)	(622)	(401)	(674)	(450)	(192)	(100)
Forecast new capital spending	-	(1,990)	-	(2,033)	(2,895)	(3,353)	(3,660)
Top-down capital adjustment	-	650	800	2,425	1,400	1,000	850
Net cash flows from investing activities	**(25,651)**	**(49,160)**	**(7,168)**	**(38,216)**	**(19,353)**	**(11,970)**	**(4,468)**
Net cash flows from operating and investing activities	**(36,047)**	**(73,613)**	**(14,911)**	**(48,558)**	**(21,268)**	**(9,451)**	**806**
							-
Cash Flows from Financing Activities							
Cash was provided from/(disbursed to)							
Net Issue/(repayment) of circulating currency	1,209	215	397	84	85	86	87
Net issue/(repayment) of government bonds[1,2]	7,598	30,856	(2,103)	464	20,427	22,661	18,874
Net issue/(repayment) of foreign-currency borrowings	1,192	(106)	(2,820)	(210)	1	306	902
Net issue/(repayment) of other New Zealand dollar borrowings	27,366	43,354	13,801	45,958	366	(14,165)	(20,705)
Dividends paid to minority interests[3]	(479)	(549)	(239)	(267)	(206)	(214)	(223)
Net cash flows from financing activities	**36,886**	**73,770**	**9,036**	**46,029**	**20,673**	**8,674**	**(1,065)**
Net movement in cash	**839**	**157**	**(5,875)**	**(2,529)**	**(595)**	**(777)**	**(259)**
Opening cash balance	20,248	31,496	21,927	14,947	12,422	11,834	11,064
Foreign-exchange gains/(losses) on opening cash	840	(2)	(1,105)	4	7	7	9
Closing cash balance	**21,927**	**31,651**	**14,947**	**12,422**	**11,834**	**11,064**	**10,814**

1. The '2021 Previous Budget' numbers have been restated to show repurchases of Government bonds by the Reserve Bank within net issue/(repayment) of government bonds. These amounts were previously disclosed as investing cashflows within net (purchase)/sale of shares and other securities.
2. Further information on the proceeds and repayments of government bonds is available in the core Crown residual cash summary included in the attached Fiscal Indicator Analysis section.
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

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
Net Cash Flows from Operations	**(10,396)**	**(24,453)**	**(7,743)**	**(10,342)**	**(1,915)**	**2,519**	**5,274**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses) and Other Interests							
Net gains/(losses) on large scale asset purchases	(3,258)	(2,236)	(4,586)	(791)	-	-	-
Net gains/(losses) on financial instruments	1,908	2,576	12,792	3,769	4,311	4,789	5,321
Net gains/(losses) on non-financial instruments	(7,372)	(139)	8,837	(135)	(63)	(68)	(68)
Net surplus/(deficit) from associates and joint ventures	1,193	67	(535)	(98)	(1)	59	138
Minority interest share of operating balance	(402)	(76)	(219)	(262)	(358)	(344)	(347)
Total gains/(losses) and other interests	**(7,931)**	**192**	**16,289**	**2,483**	**3,889**	**4,436**	**5,044**
Other Non-cash Items in Operating Balance							
Depreciation	(5,294)	(5,714)	(5,634)	(5,756)	(5,944)	(6,112)	(6,280)
Amortisation	(2,375)	(822)	(786)	(831)	(885)	(880)	(874)
Cost of concessionary lending	(1,279)	(636)	(934)	(746)	(687)	(612)	(628)
Impairment of financial assets (excluding receivables)	(53)	(4)	(51)	(100)	(85)	(64)	(38)
Decrease/(increase) in insurance liabilities	(2,351)	(1,420)	(1,308)	(1,445)	(1,727)	(1,931)	(2,182)
Other	453	(6)	-	-	-	-	-
Total other non-cash Items	**(10,899)**	**(8,602)**	**(8,713)**	**(8,878)**	**(9,328)**	**(9,599)**	**(10,002)**
Working Capital and Other Movements							
Increase/(decrease) in receivables	631	3,012	675	(550)	1,177	764	892
Increase/(decrease) in accrued interest	21	1,202	1,391	983	917	580	492
Increase/(decrease) in inventories	254	33	302	424	419	250	245
Increase/(decrease) in prepayments	108	(83)	60	12	5	4	2
Decrease/(increase) in deferred revenue	(68)	45	259	(339)	(143)	(128)	(253)
Decrease/(increase) in payables/provisions	(956)	(1,380)	(1,924)	(192)	(1,037)	(491)	568
Defined benefit retirement plan net expenditure	(804)	708	678	751	771	784	783
Total working capital and other movements	**(814)**	**3,537**	**1,441**	**1,089**	**2,109**	**1,763**	**2,729**
Operating balance (excluding minority interests)	**(30,040)**	**(29,326)**	**1,274**	**(15,648)**	**(5,245)**	**(881)**	**3,045**

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

Forecast Statement of Financial Position

as at 30 June

	Note	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Assets								
Cash and cash equivalents	8	21,927	31,651	14,947	12,422	11,834	11,064	10,814
Receivables	8	24,743	28,787	25,001	24,660	25,730	26,595	27,579
Marketable securities, deposits and derivatives in gain	8	61,005	74,510	57,741	57,208	58,303	60,040	62,699
Share investments	8	33,791	33,581	43,494	46,248	48,656	51,382	54,692
Advances	8	37,629	43,752	47,044	63,739	75,665	71,919	62,005
Investments in controlled enterprises	8	4,220	5,693	4,276	5,126	6,218	7,511	8,660
Inventory		1,773	1,616	2,075	2,499	2,918	3,168	3,413
Other assets		3,610	3,399	3,326	3,447	3,350	3,260	3,180
Property, plant and equipment	10	186,502	190,846	191,557	201,003	207,582	213,010	216,662
Equity accounted investments[1]		14,308	14,205	14,162	14,695	15,173	15,428	15,661
Intangible assets and goodwill		3,892	4,197	4,129	4,384	4,411	4,338	4,222
Forecast for new capital spending	6	-	2,202	-	2,033	4,928	8,281	11,941
Top-down capital adjustment		-	(1,700)	(800)	(3,225)	(4,625)	(5,625)	(6,475)
Total assets		**393,400**	**432,739**	**406,952**	**434,239**	**460,143**	**470,371**	**475,053**
Liabilities								
Issued currency		8,022	7,366	8,419	8,503	8,588	8,674	8,761
Payables	12	16,971	18,397	16,005	15,402	15,359	15,843	15,312
Deferred revenue		2,590	2,735	2,331	2,670	2,813	2,941	3,194
Borrowings	15	152,717	238,164	173,227	215,234	245,218	254,457	255,084
Insurance liabilities	5	66,690	61,952	58,529	59,973	61,701	63,632	65,815
Retirement plan liabilities	13	13,983	12,264	12,725	11,859	10,997	10,155	9,346
Provisions	14	16,484	15,371	18,453	18,411	18,322	18,230	17,898
Total liabilities		**277,457**	**356,249**	**289,689**	**332,052**	**362,998**	**373,932**	**375,410**
Total assets less total liabilities		**115,943**	**76,490**	**117,263**	**102,187**	**97,145**	**96,439**	**99,643**
Net Worth								
Taxpayers' funds		3,154	(29,724)	4,600	(11,061)	(16,318)	(17,218)	(14,197)
Property, plant and equipment revaluation reserve		112,334	106,857	112,003	112,003	112,003	112,003	112,003
Defined benefit plan revaluation reserve		(3,886)	(2,691)	(3,251)	(3,035)	(2,821)	(2,615)	(2,421)
Veterans' disability entitlements reserve		(1,095)	(3,500)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)
Other reserves		(187)	77	(267)	(261)	(261)	(258)	(252)
Total net worth attributable to the Crown		**110,320**	**71,019**	**111,990**	**96,551**	**91,508**	**90,817**	**94,038**
Net worth attributable to minority interest		5,623	5,471	5,273	5,636	5,637	5,622	5,605
Total net worth	16	**115,943**	**76,490**	**117,263**	**102,187**	**97,145**	**96,439**	**99,643**

1. Equity accounted investments include Universities, Wānanga and City Rail Link Limited.

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

Statement of Actual Commitments

as at 31 March

	As at 31 March 2021 $m	As at 30 June 2020 $m
Capital Commitments		
State highways	5,172	4,788
Specialist military equipment	2,718	2,677
Land and buildings	5,789	5,395
Other property, plant and equipment	3,842	3,833
Other capital commitments	1,593	1,694
Universities and Wānanga	400	400
Total capital commitments	**19,514**	**18,787**
Operating Commitments		
Non-cancellable accommodation leases	5,018	5,095
Other non-cancellable leases	3,901	3,969
Universities and Wānanga	1,084	1,084
Total operating commitments	**10,003**	**10,148**
Total commitments	**29,517**	**28,935**
Total Commitments by Segment		
Core Crown	13,694	14,484
Crown entities	10,557	9,690
State-owned Enterprises	6,632	6,646
Inter-segment eliminations	(1,366)	(1,885)
Total commitments	**29,517**	**28,935**

Statement of Actual Contingent Liabilities and Assets

as at 31 March

	As at 31 March 2021 $m	As at 30 June 2020 $m
Quantifiable Contingent Liabilities		
Uncalled capital	8,740	8,384
Guarantees and indemnities	302	263
Legal proceedings and disputes	449	491
Other contingent liabilities	562	485
Total quantifiable contingent liabilities	**10,053**	**9,623**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	9,897	9,453
Crown entities	177	89
State-owned Enterprises	203	210
Inter-segment eliminations	(224)	(129)
Total quantifiable contingent liabilities	**10,053**	**9,623**
Quantifiable Contingent Assets by Segment		
Core Crown	22	17
Crown entities	26	28
State-owned Enterprises	-	-
Total quantifiable contingent assets	**48**	**45**

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

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation Revenue (accrual)							
Individuals							
Source deductions	34,963	34,838	37,090	39,449	41,776	44,014	46,517
Other persons	7,128	6,694	7,785	7,076	7,813	8,469	9,042
Refunds	(1,887)	(1,859)	(1,947)	(2,015)	(2,027)	(2,161)	(2,320)
Fringe benefit tax	593	555	611	648	669	690	715
Total individuals	**40,797**	**40,228**	**43,539**	**45,158**	**48,231**	**51,012**	**53,954**
Corporate Tax							
Gross companies tax	11,958	9,588	13,209	13,009	16,355	16,948	18,172
Refunds	(424)	(283)	(314)	(389)	(313)	(338)	(370)
Non-resident withholding tax	570	431	456	472	503	543	555
Total corporate tax	**12,104**	**9,736**	**13,351**	**13,092**	**16,545**	**17,153**	**18,357**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,529	1,016	1,110	1,016	1,108	1,183	1,347
Resident w/holding tax on dividend income	828	596	958	713	892	964	1,034
Total other direct income tax	**2,357**	**1,612**	**2,068**	**1,729**	**2,000**	**2,147**	**2,381**
Total direct income tax	**55,258**	**51,576**	**58,958**	**59,979**	**66,776**	**70,312**	**74,692**
Goods and Services Tax							
Gross goods and services tax	35,861	32,964	38,510	40,118	42,879	45,578	48,005
Refunds	(14,112)	(12,925)	(13,986)	(15,070)	(16,369)	(17,404)	(18,285)
Total goods and services tax	**21,749**	**20,039**	**24,524**	**25,048**	**26,510**	**28,174**	**29,720**
Other Indirect Taxation							
Road user charges	1,716	1,663	1,897	1,953	2,051	2,136	2,217
Petroleum fuels excise – domestic production	1,075	1,185	1,163	1,212	1,215	1,222	1,227
Alcohol excise – domestic production	710	761	758	829	861	894	929
Tobacco excise – domestic production	485	200	41	2	2	2	2
Petroleum fuels excise – imports[1]	802	837	973	1,016	1,019	1,024	1,030
Alcohol excise – imports[1]	354	358	474	446	463	481	500
Tobacco excise – imports[1]	1,683	1,980	1,427	1,461	1,455	1,450	1,446
Other customs duty	164	177	145	161	172	181	189
Gaming duties	200	221	245	235	243	253	262
Motor vehicle fees	226	227	224	222	226	229	231
Approved issuer levy and cheque duty	76	81	80	80	80	80	80
Energy resources levies	23	26	30	30	30	30	30
Total other indirect taxation	**7,514**	**7,716**	**7,457**	**7,647**	**7,817**	**7,982**	**8,143**
Total indirect taxation	**29,263**	**27,755**	**31,981**	**32,695**	**34,327**	**36,156**	**37,863**
Total taxation revenue	**84,521**	**79,331**	**90,939**	**92,674**	**101,103**	**106,468**	**112,555**
Other Sovereign Revenue (accrual)							
ACC levies	3,032	2,925	3,171	3,278	3,542	3,881	4,264
Emissions Trading revenue	1,043	1,152	1,366	1,467	1,527	1,726	1,807
Fire and Emergency levies	596	604	588	600	612	624	637
EQC levies	446	500	520	527	532	537	543
Child support and working for families penalties	254	249	231	203	206	217	217
Court fines	134	115	115	115	115	115	115
Other miscellaneous items	764	467	623	705	838	1,033	1,089
Total other sovereign revenue	**6,269**	**6,012**	**6,614**	**6,895**	**7,372**	**8,133**	**8,672**
Total sovereign revenue	**90,790**	**85,343**	**97,553**	**99,569**	**108,475**	**114,601**	**121,227**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation Receipts (cash)							
Individuals							
Source deductions	34,485	34,638	36,805	39,229	41,537	43,767	46,256
Other persons	7,485	5,813	7,391	7,588	8,054	8,640	9,019
Refunds	(2,638)	(2,313)	(2,428)	(2,448)	(2,560)	(2,466)	(2,467)
Fringe benefit tax	590	555	606	648	669	690	715
Total individuals	**39,922**	**38,693**	**42,374**	**45,017**	**47,700**	**50,631**	**53,523**
Corporate Tax							
Gross companies tax	13,560	10,653	14,201	14,685	16,754	17,696	18,704
Refunds	(1,538)	(2,180)	(1,204)	(1,456)	(1,239)	(1,141)	(1,066)
Non-resident withholding tax	526	431	456	472	503	543	555
Total corporate tax	**12,548**	**8,904**	**13,453**	**13,701**	**16,018**	**17,098**	**18,193**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,514	1,016	1,110	1,016	1,108	1,183	1,347
Resident w/holding tax on dividend income	787	596	938	713	892	964	1,034
Total other direct income tax	**2,301**	**1,612**	**2,048**	**1,729**	**2,000**	**2,147**	**2,381**
Total direct income tax	**54,771**	**49,209**	**57,875**	**60,447**	**65,718**	**69,876**	**74,097**
Goods and Services Tax							
Gross goods and services tax	34,878	32,474	38,076	39,419	42,366	44,988	47,455
Refunds	(14,001)	(12,765)	(13,826)	(14,910)	(16,209)	(17,244)	(18,125)
Total goods and services tax	**20,877**	**19,709**	**24,250**	**24,509**	**26,157**	**27,744**	**29,330**
Other Indirect Taxation							
Road user charges	1,705	1,663	1,897	1,953	2,051	2,136	2,217
Petroleum fuels excise – domestic production	1,090	1,185	1,163	1,212	1,215	1,222	1,227
Alcohol excise – domestic production	696	761	758	829	861	894	929
Tobacco excise – domestic production	486	200	49	2	2	2	2
Customs duty	3,035	3,299	3,050	3,063	3,107	3,133	3,162
Gaming duties	200	216	245	235	243	253	262
Motor vehicle fees	199	227	224	222	226	229	231
Approved issuer levy and cheque duty	74	81	80	80	80	80	80
Energy resources levies	23	26	30	30	30	30	30
Total other indirect taxation	**7,508**	**7,658**	**7,496**	**7,626**	**7,815**	**7,979**	**8,140**
Total indirect taxation	**28,385**	**27,367**	**31,746**	**32,135**	**33,972**	**35,723**	**37,470**
Total taxation receipts	**83,156**	**76,576**	**89,621**	**92,582**	**99,690**	**105,599**	**111,567**
Other Sovereign Receipts (cash)							
ACC levies	2,925	2,914	3,071	3,197	3,494	3,828	4,208
Emissions Trading receipts	215	486	1,375	707	699	661	603
Fire and Emergency levies	592	601	592	602	610	622	635
EQC levies	478	499	518	526	531	536	542
Child support and working for families penalties	163	241	204	191	194	199	198
Court fines	133	114	102	102	102	102	102
Other miscellaneous items	788	433	611	683	839	1,030	1,089
Total other sovereign receipts	**5,294**	**5,288**	**6,473**	**6,008**	**6,469**	**6,978**	**7,377**
Total sovereign receipts	**88,450**	**81,864**	**96,094**	**98,590**	**106,159**	**112,577**	**118,944**

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 2: Investment Revenue/(Expenditure)							
Interest revenue	**2,300**	**2,513**	**2,015**	**2,020**	**2,216**	**2,427**	**2,617**
Interest Expenses							
Interest on financial liabilities	3,499	3,424	2,411	2,232	2,537	3,120	3,641
Interest unwind on provisions	255	191	116	119	133	159	185
Total interest expenses	**3,754**	**3,615**	**2,527**	**2,351**	**2,670**	**3,279**	**3,826**
Net interest revenue/(expense)	**(1,454)**	**(1,102)**	**(512)**	**(331)**	**(454)**	**(852)**	**(1,209)**
Dividend revenue	906	1,095	878	1,101	1,170	1,246	1,338
Net gains/(losses) on large scale asset purchases	(3,258)	(2,236)	(4,586)	(791)	-	-	-
Net gains/(losses) on financial instruments	1,908	2,576	12,792	3,769	4,311	4,789	5,321
Total investment revenue/(expenditure)	**(1,898)**	**333**	**8,572**	**3,748**	**5,027**	**5,183**	**5,450**
NOTE 3: Transfer Payments and Subsidies							
New Zealand superannuation	15,521	16,346	16,554	17,691	18,931	19,977	21,022
Wage subsidy scheme	12,095	-	1,337	500	-	-	-
Family tax credit	2,189	2,139	2,130	2,064	2,230	2,206	2,243
Jobseeker support and emergency benefit	2,285	4,521	3,273	3,857	3,868	3,742	3,559
Accommodation assistance	1,923	2,607	2,337	2,498	2,398	2,378	2,386
Supported living payment	1,650	1,807	1,831	2,061	2,231	2,297	2,355
Sole parent support	1,231	1,577	1,470	1,720	1,878	1,888	1,868
KiwiSaver subsidies	893	935	929	974	1,015	1,051	1,083
Official development assistance	736	777	825	820	858	861	861
Other working for families tax credits	641	653	623	647	688	683	692
Student allowances	567	641	610	656	667	636	667
Winter energy payment	669	880	816	530	535	539	543
Disability assistance	395	419	408	417	422	427	429
Hardship assistance	418	623	495	591	633	666	693
Orphan's/unsupported child's benefit	248	268	294	332	378	401	421
Best start tax credit	184	336	276	405	443	444	449
Income related rent subsidy	63	157	80	80	80	80	80
Other social assistance benefits	899	1,026	1,348	1,112	1,118	1,130	1,120
Total transfer payments and subsidies	**42,607**	**35,712**	**35,636**	**36,955**	**38,373**	**39,406**	**40,471**
NOTE 4: Other Operating Expenses							
Grants and subsidies	10,499	7,000	10,984	10,675	10,034	9,544	9,275
Repairs and maintenance	2,420	2,108	1,939	2,082	2,122	2,323	2,285
Rental and leasing costs	1,480	1,513	1,534	1,551	1,533	1,539	1,544
Amortisation and impairment of non-financial assets	2,375	822	786	831	885	880	874
Impairment of financial assets	1,493	987	1,474	1,114	1,075	1,056	1,033
Cost of concessionary lending	1,279	636	934	746	687	612	628
Lottery prize payments	754	711	824	737	759	766	772
Inventory expenses and clinical supplies	1,773	1,884	2,011	2,177	2,374	2,653	2,530
Other operating expenses	30,510	34,493	37,546	39,060	36,075	34,572	33,872
Total other operating expenses	**52,583**	**50,154**	**58,032**	**58,973**	**55,544**	**53,945**	**52,813**

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 5: Insurance							
Insurance expense by entity							
ACC	6,246	5,612	6,282	6,313	6,726	7,138	7,596
EQC	614	201	214	223	246	267	289
Southern Response	27	(17)	68	(18)	(9)	(5)	(2)
Other (incl. inter-segment eliminations)	16	15	21	20	21	22	21
Total insurance expenses	**6,903**	**5,811**	**6,585**	**6,538**	**6,984**	**7,422**	**7,904**
Insurance liability by entity							
ACC	64,946	61,391	57,608	59,328	61,226	63,257	65,479
EQC	1,528	470	765	542	400	314	283
Southern Response	168	49	106	53	23	9	-
Other (incl. inter-segment eliminations)	48	42	50	50	52	52	53
Total insurance liabilities	**66,690**	**61,952**	**58,529**	**59,973**	**61,701**	**63,632**	**65,815**

ACC liability

Calculation information
Taylor Fry has prepared an independent actuarial estimate of the ACC outstanding claims liability as at 31 December 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 28 February 2021. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 3.13% and allows for a long-term discount rate of 4.30% from 2051.

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 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.

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Gross ACC Liability							
Opening gross liability	56,611	59,540	64,946	57,608	59,328	61,226	63,257
Net change	8,335	1,851	(7,338)	1,720	1,898	2,031	2,222
Closing gross liability	**64,946**	**61,391**	**57,608**	**59,328**	**61,226**	**63,257**	**65,479**
Less Net Assets Available to ACC							
Opening net asset value	46,598	45,426	48,987	50,831	51,091	51,570	52,398
Net change	2,389	736	1,844	260	479	828	1,213
Closing net asset value	**48,987**	**46,162**	**50,831**	**51,091**	**51,570**	**52,398**	**53,611**
Net ACC Reserves (Net Liability)							
Opening reserves position	(10,013)	(14,114)	(15,959)	(6,777)	(8,237)	(9,656)	(10,859)
Net change	(5,946)	(1,115)	9,182	(1,460)	(1,419)	(1,203)	(1,009)
Closing reserves position (net liability)/net asset	**(15,959)**	**(15,229)**	**(6,777)**	**(8,237)**	**(9,656)**	**(10,859)**	**(11,868)**

Notes to the Forecast Financial Statements

	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 6: Forecast New Spending and Top-down Adjustments					
Forecast New Operating Spending					
Unallocated operating contingencies	-	3,079	2,118	2,296	2,260
COVID-19 response and recovery funding	500	1,142	1,142	1,142	1,142
Forecast new spending for Budget 2022	-	-	1,991	1,746	1,756
Forecast new spending for Budget 2023	-	-	-	2,700	2,700
Forecast new spending for Budget 2024	-	-	-	-	2,700
Total forecast new operating spending	**500**	**4,221**	**5,251**	**7,884**	**10,558**

Unallocated operating contingencies represent operating expenses included in Budget 2021 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 2022 is $2,700 million. Some of this allowance has been pre-committed as at the forecast finalisation date of 30 April 2021, with only the unallocated portion of the allowance included in this note.

	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	Post-2025 $m	Total $m
Forecast New Capital Spending (annual)							
Unallocated capital contingencies	-	2,033	2,010	1,583	1,384	531	7,541
Forecast new spending for Budgets 2022 - 2024	-	-	885	1,770	2,276	2,655	7,586
Total forecast new capital spending	**-**	**2,033**	**2,895**	**3,353**	**3,660**	**3,186**	**15,127**
Forecast new capital spending (cumulative)	**-**	**2,033**	**4,928**	**8,281**	**11,941**		

The Government has signalled a capital allowance of $12.0 billion for Budget 2021 through to Budget 2024. As at 30 April 2021, $7.6 billion of funding is assumed to remain available. Unallocated capital contingencies represent capital spending from departments. Forecast new spending indicates the funding available for capital spending from future Budgets.

	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Top-down Adjustments					
Top-down operating expense adjustment	(2,025)	(2,775)	(800)	(700)	(700)
Top-down capital adjustment (cumulative)	(800)	(3,225)	(4,625)	(5,625)	(6,475)

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 7: Net Gains and Losses on Non-Financial Instruments							
Actuarial gains/(losses) on ACC outstanding claims	(5,974)	-	9,469	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	(1,097)	-	(586)	-	-	-	-
Other	(301)	(139)	(46)	(135)	(63)	(68)	(68)
Net gains/(losses) on non-financial instruments	**(7,372)**	**(139)**	**8,837**	**(135)**	**(63)**	**(68)**	**(68)**
NOTE 8: Financial Assets (including receivables)							
Cash and cash equivalents	21,927	31,651	14,947	12,422	11,834	11,064	10,814
Tax receivables	14,290	16,648	14,612	13,942	14,607	14,678	14,933
Trade and other receivables	10,453	12,139	10,389	10,718	11,123	11,917	12,646
Student loans (refer note 9)	10,395	10,782	10,833	10,615	10,369	10,081	9,749
Kiwibank mortgages	22,189	24,335	24,615	26,800	29,242	31,915	34,827
Long-term deposits	5,443	3,693	4,046	3,997	3,954	3,930	3,556
IMF financial assets	2,538	2,383	2,420	2,420	2,420	2,420	2,420
FLP advances	-	-	4,540	18,620	27,900	21,760	9,280
Other advances	5,045	8,635	7,056	7,704	8,154	8,163	8,149
Share investments	33,791	33,581	43,494	46,248	48,656	51,382	54,692
Investments in controlled enterprises	4,220	5,693	4,276	5,126	6,218	7,511	8,660
Derivatives in gain	7,166	3,650	7,274	5,811	5,463	5,129	4,893
Other marketable securities	45,858	64,784	44,001	44,980	46,466	48,561	51,830
Total financial assets (including receivables)	**183,315**	**217,974**	**192,503**	**209,403**	**226,406**	**228,511**	**226,449**
Financial Assets by Segment							
The Treasury	35,474	38,086	45,984	47,233	37,173	35,865	34,317
Reserve Bank of New Zealand	37,759	81,862	52,545	94,474	90,514	72,436	49,344
NZS Fund	48,221	50,416	61,260	64,862	69,658	75,230	81,407
Other core Crown	28,883	34,509	30,034	27,855	29,204	29,374	30,006
Intra-segment eliminations	(30,068)	(46,659)	(69,299)	(99,029)	(77,102)	(65,079)	(52,922)
Total core Crown segment	**120,269**	**158,214**	**120,524**	**135,395**	**149,447**	**147,826**	**142,152**
ACC	51,135	47,973	51,945	51,340	51,837	52,679	53,907
EQC	808	300	469	452	507	605	744
Other Crown entities	15,899	10,573	14,616	13,834	13,584	13,841	13,438
Intra-segment eliminations	(4,603)	(1,676)	(3,433)	(2,991)	(2,967)	(2,962)	(3,088)
Total Crown entities segment	**63,239**	**57,170**	**63,597**	**62,635**	**62,961**	**64,163**	**65,001**
Total State-owned Enterprises segment	**30,004**	**30,809**	**34,291**	**35,827**	**38,274**	**40,884**	**44,025**
Inter-segment eliminations	(30,197)	(28,219)	(25,909)	(24,454)	(24,276)	(24,362)	(24,729)
Total financial assets (including receivables)	**183,315**	**217,974**	**192,503**	**209,403**	**226,406**	**228,511**	**226,449**
NOTE 9: Student Loans							
Nominal value (including accrued interest)	16,135	16,073	16,280	16,491	16,682	16,827	16,940
Opening book value	10,731	10,819	10,395	10,833	10,615	10,369	10,081
Net new lending (including fees)	1,413	1,574	1,453	1,576	1,600	1,594	1,619
Less initial write-down to fair value	(506)	(564)	(476)	(515)	(539)	(553)	(588)
Repayments made during the year	(1,477)	(1,347)	(1,453)	(1,508)	(1,540)	(1,577)	(1,634)
Interest unwind	331	353	234	194	198	213	236
Unwind of administration costs	36	34	37	35	35	35	35
Experience/actuarial adjustments:							
- Expected repayment adjustments	(476)	-	106	-	-	-	-
- Discount rate adjustments	343	(87)	537	-	-	-	-
Closing book value	**10,395**	**10,782**	**10,833**	**10,615**	**10,369**	**10,081**	**9,749**

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 10: Property, Plant and Equipment							
Net Carrying Value[1]							
By class of asset							
Land	57,835	55,412	58,086	58,185	57,957	58,121	58,279
Buildings	45,054	48,325	47,835	53,466	56,714	58,624	60,113
State highways	39,410	40,072	41,135	43,348	44,900	46,442	48,249
Electricity generation assets	17,091	17,366	16,676	16,583	16,632	16,636	16,643
Electricity distribution network (cost)	4,291	4,131	4,220	4,485	4,692	4,879	4,981
Aircraft (excluding military)	3,794	5,543	3,715	4,005	4,581	5,396	6,152
Specialist military equipment	3,339	4,005	3,652	4,194	5,015	5,847	6,056
Specified cultural and heritage assets	3,025	3,180	3,087	3,103	3,115	3,122	3,128
Rail network	6,872	6,869	6,750	6,755	6,868	7,082	6,860
Other plant and equipment (cost)	5,791	5,943	6,401	6,879	7,108	6,861	6,201
Total property, plant and equipment	**186,502**	**190,846**	**191,557**	**201,003**	**207,582**	**213,010**	**216,662**
Land breakdown by usage							
Housing	19,910	19,104	19,980	20,065	20,122	20,219	20,292
State highway corridor land	14,724	13,344	14,698	14,323	13,914	13,854	13,834
Conservation estate	6,741	6,626	6,724	6,726	6,727	6,729	6,731
Rail network	3,779	3,503	3,820	3,875	3,927	3,966	3,994
Schools	6,055	5,847	6,085	6,165	6,245	6,325	6,405
Commercial (SOEs) excluding Rail	1,146	1,287	1,176	1,196	1,250	1,255	1,252
Other	5,480	5,701	5,603	5,835	5,772	5,773	5,771
Total land	**57,835**	**55,412**	**58,086**	**58,185**	**57,957**	**58,121**	**58,279**
Schedule of Movements							
Cost or Valuation							
Opening balance	192,808	206,270	205,689	215,933	230,883	243,202	254,517
Additions[2]	9,568	11,649	11,481	16,094	13,514	11,810	10,221
Disposals	(1,202)	(613)	(861)	(1,062)	(1,188)	(448)	(508)
Net revaluations	2,477	-	(443)	-	-	-	-
Other[3]	2,038	(9)	67	(82)	(7)	(47)	17
Total cost or valuation	**205,689**	**217,297**	**215,933**	**230,883**	**243,202**	**254,517**	**264,247**
Accumulated Depreciation and Impairment							
Opening balance	15,189	20,888	19,187	24,376	29,880	35,620	41,507
Eliminated on disposal	(686)	(140)	(239)	(252)	(204)	(225)	(202)
Eliminated on revaluation	(2,086)	-	(192)	-	-	-	-
Impairment losses charged to operating balance	1,193	-	-	-	-	-	-
Depreciation expense	5,294	5,714	5,634	5,756	5,944	6,112	6,280
Other[3]	283	(11)	(14)	-	-	-	-
Total accumulated depreciation and impairment	**19,187**	**26,451**	**24,376**	**29,880**	**35,620**	**41,507**	**47,585**
Total property, plant and equipment	**186,502**	**190,846**	**191,557**	**201,003**	**207,582**	**213,010**	**216,662**

1. Using a revaluation methodology unless otherwise stated.
2. 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).
3. The other movements in 2020 mainly relates to the establishment of Te Pūkenga New Zealand Institute of Skills and Technology and constitutes land, buildings and other plant and equipment.

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 11: NZ Superannuation Fund							
Revenue	803	798	690	864	967	1,053	1,152
Less current tax expense	448	753	2,260	993	1,106	1,197	1,305
Less other expenses	150	195	125	217	238	254	272
Add gains/(losses)	17	2,543	9,058	3,514	3,905	4,218	4,586
Operating balance	**222**	**2,393**	**7,363**	**3,168**	**3,528**	**3,820**	**4,161**
Opening net worth	42,445	39,988	43,997	53,480	59,068	63,947	69,397
Gross contribution from the Crown	1,460	2,120	2,120	2,420	1,351	1,630	1,898
Operating balance	222	2,393	7,363	3,168	3,528	3,820	4,161
Other movements in reserves	(130)	-	-	-	-	-	-
Closing net worth	**43,997**	**44,501**	**53,480**	**59,068**	**63,947**	**69,397**	**75,456**
Comprising:							
Financial assets	48,221	50,416	61,260	64,862	69,658	75,230	81,407
Financial liabilities	(4,226)	(5,906)	(7,776)	(5,784)	(5,698)	(5,818)	(5,933)
Net other assets	2	(9)	(4)	(10)	(13)	(15)	(18)
Closing net worth	**43,997**	**44,501**	**53,480**	**59,068**	**63,947**	**69,397**	**75,456**
NOTE 12: Payables							
Accounts payable	11,928	12,017	10,880	10,235	10,144	10,584	10,013
Taxes repayable	5,043	6,380	5,125	5,167	5,215	5,259	5,299
Total payables	**16,971**	**18,397**	**16,005**	**15,402**	**15,359**	**15,843**	**15,312**

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 13: Retirement Plan Liabilities							
Government Superannuation Fund	13,970	12,246	12,711	11,846	10,983	10,141	9,332
Other funds	13	18	14	13	14	14	14
Total retirement plan liabilities	**13,983**	**12,264**	**12,725**	**11,859**	**10,997**	**10,155**	**9,346**

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 31 January 2021. 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 31 January 2021, based on membership data as at 30 June 2020. 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 31 January 2021.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 1.54% p.a. for the year ended 30 June 2021, increasing to 1.64% p.a. in 2022, 1.85% p.a. in 2023, and to 1.96% p.a. in the year ended 30 June 2024. CPI then increases to 1.99% p.a. in the year ended 30 June 2025 and stays at this level until 2051 when it increases to 2.0% p.a. and remains 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 2020).

The 2020/21 projected decrease in the net GSF liability is $1,259 million, reflecting a decrease in the GSF liability of $910 million and an increase in the GSF net assets of $349 million.

The overall decrease in the GSF liability of $910 million includes an actuarial loss (which increases the liability) between 1 July 2020 and 30 June 2021, of $96 million, largely owing to movements in the discount rates ($1,065 million) which are largely offset by changes in the CPI rates ($968 million). The difference of $814 million is owing to the current service cost and interest unwind (increases the liability) which is more than offset by benefits paid to members (reducing the liability).

The increase in the value of the net assets of GSF of $349 million includes a revaluation gain of $538 million reflecting the updated market value of assets at 31 January 2021. The balance of $189 million is owing to the total of the expected investment returns and expected investment gains/losses and contributions received/receivable, which is more than offset by expenses and the benefits paid/payable to members.

The changes in the projected net GSF liability from 2020/21 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
GSF Liability							
Opening GSF liability	17,692	17,595	18,238	17,328	16,497	15,668	14,860
Net projected change	546	(684)	(910)	(831)	(829)	(808)	(774)
Closing GSF liability	**18,238**	**16,911**	**17,328**	**16,497**	**15,668**	**14,860**	**14,086**
Less Net Assets Available to GSF							
Opening net asset value	4,531	4,641	4,268	4,617	4,651	4,685	4,719
Investment valuation changes	(51)	227	547	226	228	229	231
Contribution and other income less benefit payments	(212)	(203)	(198)	(192)	(194)	(195)	(196)
Closing net asset value	**4,268**	**4,665**	**4,617**	**4,651**	**4,685**	**4,719**	**4,754**
Net GSF Liability							
Opening unfunded liability	13,161	12,954	13,970	12,711	11,846	10,983	10,141
Net projected change	809	(708)	(1,259)	(865)	(863)	(842)	(809)
Closing unfunded liability	**13,970**	**12,246**	**12,711**	**11,846**	**10,983**	**10,141**	**9,332**

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 14: Provisions							
Provision for employee entitlements	5,535	4,888	5,848	6,396	6,421	6,692	6,896
Provision for NZ ETS credits	3,804	3,502	5,255	5,339	5,353	5,125	4,723
Provision for National Provident Fund guarantee	857	763	777	709	646	587	531
Veterans Disability Entitlements	3,483	3,500	3,507	3,452	3,402	3,357	3,312
Other provisions	2,805	2,718	3,066	2,515	2,500	2,469	2,436
Total provisions	**16,484**	**15,371**	**18,453**	**18,411**	**18,322**	**18,230**	**17,898**

Provision for NZ ETS credits

The New Zealand Emissions Trading Scheme (NZ ETS) was established to assist New Zealand in meeting its domestic and international climate change targets. The scheme puts a price on greenhouse gas (GHG) emissions to create a financial incentive for businesses to reduce their emissions, and landowners to plant forests to absorb carbon. The NZ ETS creates tradable New Zealand Units (NZUs) which the Government can allocate for free to certain business to recognise the impact that the additional costs imposed by the NZ ETS could have on their international competitiveness. The Government also allocates NZUs to participants for GHG emissions removals. 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. From 2020/21 the Government will begin to sell a limited volume of NZUs directly to the market via auction. The NZ ETS provision represents the tradeable NZUs outstanding that will be accepted as emitters honour the emissions obligations under the NZ ETS.

Emitters can meet their emissions obligations by either surrendering NZUs they hold, or by purchasing units from the Government directly at a fixed price of $35 per unit (known as the fixed price option, or FPO) before immediately surrendering them. NZUs purchased through Government auctions or FPO result in cash receipts for the Crown. NZUs purchased at Government auctions result in an increase to the NZ ETS provision as new units are created, but not immediately surrendered.

At 31 March 2021, the market price of NZUs ($36.90 per unit) is higher than the FPO. Therefore, for obligations that are due to be met in the 2020/21 fiscal year, it is assumed that the majority will be met through use of the FPO (as opposed to surrendering NZUs they already hold and reducing the NZ ETS provision). After 2020/21, the FPO will no longer be available for use for emitting activities that are carried out from the start of 2021, and so emissions obligations will have to be satisfied through surrendering units. Decisions on the cap on emissions are due to be made towards the end of 2021 and the outcome of these decisions may have a significant impact on these fiscal forecasts.

The prices for NZUs used to calculate the NZ ETS provision are assumed to remain constant over the forecast period and are based on market prices during the last week of March 2021.

The movement in the NZ ETS provision is as follows:

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Opening provision	2,884	3,526	3,804	5,255	5,339	5,353	5,125
Additional provision	650	641	856	844	842	838	802
Provision utilised	(827)	(1,151)	(342)	(1,467)	(1,527)	(1,726)	(1,807)
Auctioned units	-	486	351	707	699	660	603
(Gains)/losses	1,097	-	586	-	-	-	-
Closing provision for NZ ETS credits	**3,804**	**3,502**	**5,255**	**5,339**	**5,353**	**5,125**	**4,723**

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 15: Borrowings							
Borrowings							
Government bonds	64,363	102,215	68,561	69,350	89,126	111,275	129,613
Treasury bills	11,269	10,461	7,526	4,797	4,192	4,189	4,184
Government retail stock	242	164	214	214	214	214	214
Settlement deposits with Reserve Bank	23,027	66,839	38,791	79,152	84,634	67,284	45,937
Derivatives in loss	5,567	8,013	4,389	2,982	2,619	2,307	2,041
Finance lease liabilities	1,495	1,237	1,484	1,309	1,329	1,057	1,088
Other borrowings	46,754	49,235	52,262	57,430	63,104	68,131	72,007
Total borrowings	**152,717**	**238,164**	**173,227**	**215,234**	**245,218**	**254,457**	**255,084**
By guarantee							
Sovereign-guaranteed debt	109,547	192,064	125,571	162,365	185,916	191,655	189,383
Non sovereign-guaranteed debt	43,170	46,100	47,656	52,869	59,302	62,802	65,701
Total borrowings	**152,717**	**238,164**	**173,227**	**215,234**	**245,218**	**254,457**	**255,084**

This note constitutes a Statement of Borrowings as required by the Public Finance Act 1989.

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.

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 16: Changes in Net Worth							
Taxpayers' funds	3,154	(29,724)	4,600	(11,061)	(16,318)	(17,218)	(14,197)
Property, plant and equipment revaluation reserve	112,334	106,857	112,003	112,003	112,003	112,003	112,003
Defined benefit plan revaluation reserve	(3,886)	(2,691)	(3,251)	(3,035)	(2,821)	(2,615)	(2,421)
Veterans' disability entitlements reserve	(1,095)	(3,500)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)
Intangible asset reserve	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Cash flow hedge reserve	(389)	(31)	(435)	(433)	(433)	(430)	(424)
Fair value hedge reserve	277	176	236	236	236	236	236
Foreign currency translation reserve	(68)	(61)	(61)	(57)	(57)	(57)	(57)
Net worth attributable to minority interests	5,623	5,471	5,273	5,636	5,637	5,622	5,605
Total net worth	**115,943**	**76,490**	**117,263**	**102,187**	**97,145**	**96,439**	**99,643**
Taxpayers' funds							
Opening taxpayers' funds	33,966	(519)	3,154	4,600	(11,061)	(16,318)	(17,218)
Operating balance excluding minority interests	(30,040)	(29,326)	1,274	(15,648)	(5,245)	(881)	3,045
Transfers from/(to) other reserves	(692)	98	130	-	-	-	-
Other movements	(80)	23	42	(13)	(12)	(19)	(24)
Closing taxpayers' funds	**3,154**	**(29,724)**	**4,600**	**(11,061)**	**(16,318)**	**(17,218)**	**(14,197)**
Property, Plant and Equipment Revaluation							
Opening property, plant and equipment revaluation reserve	106,495	106,941	112,334	112,003	112,003	112,003	112,003
Net revaluations	5,233	-	(340)	-	-	-	-
Transfers from/(to) other reserves	663	(84)	(82)	-	-	-	-
Net revaluations attributable to minority interests	(57)	-	91	-	-	-	-
Closing property, plant and equipment revaluation reserve	**112,334**	**106,857**	**112,003**	**112,003**	**112,003**	**112,003**	**112,003**

Statement of Segments

	Core Crown 2020 Actual $m	Crown entities 2020 Actual $m	State-owned Enterprises 2020 Actual $m	Inter-segment eliminations 2020 Actual $m	Total Crown 2020 Actual $m
Statement of Financial Performance for the year ended 30 June 2020					
Revenue					
Taxation revenue	85,102	-	-	(581)	84,521
Other sovereign revenue	2,120	5,688	-	(1,539)	6,269
Revenue from core Crown funding	-	34,107	441	(34,548)	-
Sales of goods and services	1,553	2,400	15,100	(616)	18,437
Interest revenue	850	947	953	(450)	2,300
Other revenue	2,298	3,463	906	(2,191)	4,476
Total revenue (excluding gains)	**91,923**	**46,605**	**17,400**	**(39,925)**	**116,003**
Expenses					
Social assistance and official development assistance	43,616	-	-	(1,009)	42,607
Personnel expenses	8,480	16,317	3,023	(45)	27,775
Other operating expenses	53,508	27,281	14,194	(37,106)	57,877
Interest expenses	3,228	164	901	(539)	3,754
Insurance expenses	-	6,896	5	2	6,903
Total expenses (excluding losses)	**108,832**	**50,658**	**18,123**	**(38,697)**	**138,916**
Total gains/(losses) and other items	(3,974)	(3,143)	382	(392)	(7,127)
Operating balance	**(20,883)**	**(7,196)**	**(341)**	**(1,620)**	**(30,040)**
Expenses by functional classification					
Social security and welfare	*44,028*	*7,663*	*-*	*(1,791)*	*49,900*
Health	*19,891*	*17,788*	*-*	*(17,210)*	*20,469*
Education	*16,322*	*13,705*	*-*	*(12,446)*	*17,581*
Transport and communications	*3,179*	*3,824*	*8,915*	*(2,956)*	*12,962*
Other	*22,184*	*7,514*	*8,307*	*(3,755)*	*34,250*
Finance costs	*3,228*	*164*	*901*	*(539)*	*3,754*
Total expenses (excluding losses)	***108,832***	***50,658***	***18,123***	***(38,697)***	***138,916***
Statement of Financial Position as at 30 June 2020					
Assets					
Cash and cash equivalents	16,943	3,931	1,611	(558)	21,927
Receivables	19,338	7,249	2,071	(3,915)	24,743
Other financial assets	83,988	52,059	26,323	(25,725)	136,645
Property, plant and equipment	45,167	101,509	39,828	(2)	186,502
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	3,210	1,264	1,082	(173)	5,383
Total assets	**219,821**	**179,684**	**73,003**	**(79,108)**	**393,400**
Liabilities					
Borrowings	126,341	11,111	36,002	(20,737)	152,717
Other liabilities	46,364	79,891	8,923	(10,438)	124,740
Total liabilities	**172,705**	**91,002**	**44,925**	**(31,175)**	**277,457**
Total assets less total liabilities	**47,116**	**88,682**	**28,078**	**(47,933)**	**115,943**
Net worth					
Taxpayers' funds	24,592	24,850	7,139	(53,427)	3,154
Reserves	22,524	63,832	15,014	5,796	107,166
Net worth attributable to minority interest	-	-	5,925	(302)	5,623
Total net worth	**47,116**	**88,682**	**28,078**	**(47,933)**	**115,943**

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	91,543	-	-	(604)	90,939
Other sovereign revenue	2,260	6,155	-	(1,801)	6,614
Revenue from core Crown funding	-	37,263	371	(37,634)	-
Sales of goods and services	1,493	3,278	13,538	(580)	17,729
Interest revenue	715	787	841	(328)	2,015
Other revenue	1,931	3,726	569	(2,336)	3,890
Total revenue (excluding gains)	**97,942**	**51,209**	**15,319**	**(43,283)**	**121,187**
Expenses					
Social assistance and official development assistance	36,773	-	-	(1,137)	35,636
Personnel expenses	9,274	17,989	2,084	(34)	29,313
Other operating expenses	64,253	29,092	12,428	(42,107)	63,666
Interest expenses	1,967	263	656	(359)	2,527
Insurance expenses	3	6,576	6	-	6,585
Forecast for future new spending	500	-	-	-	500
Top-down operating expense adjustment	(2,025)	-	-	-	(2,025)
Total expenses (excluding losses)	**110,745**	**53,920**	**15,174**	**(43,637)**	**136,202**
Total gains/(losses) and other items	4,238	10,540	36	1,475	16,289
Operating balance	**(8,565)**	**7,829**	**181**	**1,829**	**1,274**
Expenses by functional classification					
Social security and welfare	*37,411*	*7,832*	*-*	*(1,717)*	*43,526*
Health	*23,837*	*19,521*	*-*	*(19,578)*	*23,780*
Education	*16,326*	*13,486*	*-*	*(11,975)*	*17,837*
Transport and communications	*5,859*	*4,520*	*5,601*	*(4,379)*	*11,601*
Other	*26,870*	*8,298*	*8,917*	*(5,629)*	*38,456*
Finance costs	*1,967*	*263*	*656*	*(359)*	*2,527*
Forecast for future new spending	*500*	*-*	*-*	*-*	*500*
Top-down operating expense adjustment	*(2,025)*	*-*	*-*	*-*	*(2,025)*
Total expenses (excluding losses)	***110,745***	***53,920***	***15,174***	***(43,637)***	***136,202***
Statement of Financial Position as at 30 June 2021					
Assets					
Cash and cash equivalents	9,461	3,970	2,634	(1,118)	14,947
Receivables	18,488	6,584	2,365	(2,436)	25,001
Other financial assets	92,575	53,043	29,292	(22,355)	152,555
Property, plant and equipment	46,211	106,190	39,156	-	191,557
Equity accounted investments	54,781	12,351	508	(53,478)	14,162
Intangible assets and goodwill	1,767	815	1,567	(20)	4,129
Inventory and other assets	2,945	1,412	1,107	(63)	5,401
Forecast for new capital spending	-	-	-	-	-
Top-down capital adjustment	(800)	-	-	-	(800)
Total assets	**225,428**	**184,365**	**76,629**	**(79,470)**	**406,952**
Liabilities					
Borrowings	139,892	12,811	39,977	(19,453)	173,227
Other liabilities	46,317	71,110	8,748	(9,713)	116,462
Total liabilities	**186,209**	**83,921**	**48,725**	**(29,166)**	**289,689**
Total assets less total liabilities	**39,219**	**100,444**	**27,904**	**(50,304)**	**117,263**
Net worth					
Taxpayers' funds	16,051	36,637	7,650	(55,738)	4,600
Reserves	23,168	63,807	14,703	5,712	107,390
Net worth attributable to minority interest	-	-	5,551	(278)	5,273
Total net worth	**39,219**	**100,444**	**27,904**	**(50,304)**	**117,263**

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	93,188	-	-	(514)	92,674
Other sovereign revenue	2,419	6,405	-	(1,929)	6,895
Revenue from core Crown funding	-	38,814	270	(39,084)	-
Sales of goods and services	1,509	2,721	14,039	(593)	17,676
Interest revenue	677	716	932	(305)	2,020
Other revenue	1,985	4,075	896	(2,352)	4,604
Total revenue (excluding gains)	**99,778**	**52,731**	**16,137**	**(44,777)**	**123,869**
Expenses					
Social assistance and official development assistance	38,178	-	-	(1,223)	36,955
Personnel expenses	9,479	18,436	2,100	(34)	29,981
Other operating expenses	63,924	30,236	12,901	(42,332)	64,729
Interest expenses	1,688	332	692	(361)	2,351
Insurance expenses	2	6,530	6	-	6,538
Forecast for future new spending	4,221	-	-	-	4,221
Top-down operating expense adjustment	(2,775)	-	-	-	(2,775)
Total expenses (excluding losses)	**114,717**	**55,534**	**15,699**	**(43,950)**	**142,000**
Total gains/(losses) and other items	2,820	4	(260)	(81)	2,483
Operating balance	**(12,119)**	**(2,799)**	**178**	**(908)**	**(15,648)**
Expenses by functional classification					
Social security and welfare	*38,917*	*7,895*	*-*	*(1,807)*	*45,005*
Health	*25,048*	*20,029*	*-*	*(20,468)*	*24,609*
Education	*17,869*	*14,490*	*-*	*(13,193)*	*19,166*
Transport and communications	*4,371*	*4,503*	*7,135*	*(4,049)*	*11,960*
Other	*25,378*	*8,285*	*7,872*	*(4,072)*	*37,463*
Finance costs	*1,688*	*332*	*692*	*(361)*	*2,351*
Forecast for future new spending	*4,221*	*-*	*-*	*-*	*4,221*
Top-down operating expense adjustment	*(2,775)*	*-*	*-*	*-*	*(2,775)*
Total expenses (excluding losses)	***114,717***	***55,534***	***15,699***	***(43,950)***	***142,000***
Statement of Financial Position as at 30 June 2022					
Assets					
Cash and cash equivalents	7,245	3,566	2,605	(994)	12,422
Receivables	18,060	6,457	2,224	(2,081)	24,660
Other financial assets	110,090	52,612	30,998	(21,379)	172,321
Property, plant and equipment	48,416	112,893	39,694	-	201,003
Equity accounted investments	61,333	12,275	530	(59,443)	14,695
Intangible assets and goodwill	2,064	826	1,514	(20)	4,384
Inventory and other assets	3,179	1,717	1,113	(63)	5,946
Forecast for new capital spending	2,033	-	-	-	2,033
Top-down capital adjustment	(3,225)	-	-	-	(3,225)
Total assets	**249,195**	**190,346**	**78,678**	**(83,980)**	**434,239**
Liabilities					
Borrowings	177,605	15,185	40,757	(18,313)	215,234
Other liabilities	44,275	72,851	8,655	(8,963)	116,818
Total liabilities	**221,880**	**88,036**	**49,412**	**(27,276)**	**332,052**
Total assets less total liabilities	**27,315**	**102,310**	**29,266**	**(56,704)**	**102,187**
Net worth					
Taxpayers' funds	3,932	38,502	8,646	(62,141)	(11,061)
Reserves	23,383	63,808	14,708	5,713	107,612
Net worth attributable to minority interest	-	-	5,912	(276)	5,636
Total net worth	**27,315**	**102,310**	**29,266**	**(56,704)**	**102,187**

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	101,693	-	-	(590)	101,103
Other sovereign revenue	2,614	6,821	-	(2,063)	7,372
Revenue from core Crown funding	-	37,851	290	(38,141)	-
Sales of goods and services	1,768	2,855	14,821	(601)	18,843
Interest revenue	767	729	1,025	(305)	2,216
Other revenue	2,095	4,085	790	(2,375)	4,595
Total revenue (excluding gains)	**108,937**	**52,341**	**16,926**	**(44,075)**	**134,129**
Expenses					
Social assistance and official development assistance	39,683	-	-	(1,310)	38,373
Personnel expenses	9,161	18,033	2,138	(35)	29,297
Other operating expenses	60,309	29,352	13,321	(41,494)	61,488
Interest expenses	1,830	461	736	(357)	2,670
Insurance expenses	2	6,975	7	-	6,984
Forecast for future new spending	5,251	-	-	-	5,251
Top-down operating expense adjustment	(800)	-	-	-	(800)
Total expenses (excluding losses)	**115,436**	**54,821**	**16,202**	**(43,196)**	**143,263**
Total gains/(losses) and other items	4,005	299	(339)	(76)	3,889
Operating balance	**(2,494)**	**(2,181)**	**385**	**(955)**	**(5,245)**
Expenses by functional classification					
Social security and welfare	*40,242*	*8,307*	-	*(1,923)*	*46,626*
Health	*22,538*	*19,130*	-	*(19,779)*	*21,889*
Education	*17,564*	*14,371*	-	*(13,009)*	*18,926*
Transport and communications	*4,291*	*4,475*	*7,639*	*(4,464)*	*11,941*
Other	*24,520*	*8,077*	*7,827*	*(3,664)*	*36,760*
Finance costs	*1,830*	*461*	*736*	*(357)*	*2,670*
Forecast for future new spending	*5,251*	-	-	-	*5,251*
Top-down operating expense adjustment	*(800)*	-	-	-	*(800)*
Total expenses (excluding losses)	***115,436***	***54,821***	***16,202***	***(43,196)***	***143,263***
Statement of Financial Position as at 30 June 2023					
Assets					
Cash and cash equivalents	6,607	3,612	2,609	(994)	11,834
Receivables	18,913	6,642	2,238	(2,063)	25,730
Other financial assets	123,927	52,707	33,427	(21,219)	188,842
Property, plant and equipment	50,008	116,987	40,587	-	207,582
Equity accounted investments	65,420	12,291	551	(63,089)	15,173
Intangible assets and goodwill	2,102	821	1,507	(19)	4,411
Inventory and other assets	3,102	2,087	1,142	(63)	6,268
Forecast for new capital spending	4,928	-	-	-	4,928
Top-down capital adjustment	(4,625)	-	-	-	(4,625)
Total assets	**270,382**	**195,147**	**82,061**	**(87,447)**	**460,143**
Liabilities					
Borrowings	201,661	18,144	43,531	(18,118)	245,218
Other liabilities	43,686	73,949	8,605	(8,460)	117,780
Total liabilities	**245,347**	**92,093**	**52,136**	**(26,578)**	**362,998**
Total assets less total liabilities	**25,035**	**103,054**	**29,925**	**(60,869)**	**97,145**
Net worth					
Taxpayers' funds	1,438	39,246	9,310	(66,312)	(16,318)
Reserves	23,597	63,808	14,709	5,712	107,826
Net worth attributable to minority interest	-	-	5,906	(269)	5,637
Total net worth	**25,035**	**103,054**	**29,925**	**(60,869)**	**97,145**

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	107,108	-	-	(640)	106,468
Other sovereign revenue	3,019	7,321	-	(2,207)	8,133
Revenue from core Crown funding	-	36,980	138	(37,118)	-
Sales of goods and services	1,715	2,927	15,281	(608)	19,315
Interest revenue	843	757	1,132	(305)	2,427
Other revenue	2,198	4,469	954	(2,693)	4,928
Total revenue (excluding gains)	**114,883**	**52,454**	**17,505**	**(43,571)**	**141,271**
Expenses					
Social assistance and official development assistance	40,807	-	-	(1,401)	39,406
Personnel expenses	9,101	18,006	2,167	(34)	29,240
Other operating expenses	58,375	28,959	13,941	(41,218)	60,057
Interest expenses	2,334	551	759	(365)	3,279
Insurance expenses	2	7,413	7	-	7,422
Forecast for future new spending	7,884	-	-	-	7,884
Top-down operating expense adjustment	(700)	-	-	-	(700)
Total expenses (excluding losses)	**117,803**	**54,929**	**16,874**	**(43,018)**	**146,588**
Total gains/(losses) and other items	4,339	512	(323)	(92)	4,436
Operating balance	**1,419**	**(1,963)**	**308**	**(645)**	**(881)**
Expenses by functional classification					
Social security and welfare	*41,062*	*8,767*	*-*	*(2,043)*	*47,786*
Health	*22,609*	*19,080*	*-*	*(19,872)*	*21,817*
Education	*17,407*	*14,266*	*-*	*(12,860)*	*18,813*
Transport and communications	*4,014*	*3,881*	*8,102*	*(4,222)*	*11,775*
Other	*23,193*	*8,384*	*8,013*	*(3,656)*	*35,934*
Finance costs	*2,334*	*551*	*759*	*(365)*	*3,279*
Forecast for future new spending	*7,884*	*-*	*-*	*-*	*7,884*
Top-down operating expense adjustment	*(700)*	*-*	*-*	*-*	*(700)*
Total expenses (excluding losses)	***117,803***	***54,929***	***16,874***	***(43,018)***	***146,588***
Statement of Financial Position as at 30 June 2024					
Assets					
Cash and cash equivalents	5,978	3,669	2,409	(992)	11,064
Receivables	19,474	6,944	2,278	(2,101)	26,595
Other financial assets	122,374	53,550	36,197	(21,269)	190,852
Property, plant and equipment	51,196	120,504	41,310	-	213,010
Equity accounted investments	69,402	12,333	581	(66,888)	15,428
Intangible assets and goodwill	2,067	808	1,482	(19)	4,338
Inventory and other assets	2,954	2,350	1,187	(63)	6,428
Forecast for new capital spending	8,281	-	-	-	8,281
Top-down capital adjustment	(5,625)	-	-	-	(5,625)
Total assets	**276,101**	**200,158**	**85,444**	**(91,332)**	**470,371**
Liabilities					
Borrowings	206,397	19,939	46,245	(18,124)	254,457
Other liabilities	43,046	76,114	8,707	(8,392)	119,475
Total liabilities	**249,443**	**96,053**	**54,952**	**(26,516)**	**373,932**
Total assets less total liabilities	**26,658**	**104,105**	**30,492**	**(64,816)**	**96,439**
Net worth					
Taxpayers' funds	2,856	40,296	9,895	(70,265)	(17,218)
Reserves	23,802	63,809	14,712	5,712	108,035
Net worth attributable to minority interest	-	-	5,885	(263)	5,622
Total net worth	**26,658**	**104,105**	**30,492**	**(64,816)**	**96,439**

Forecast Statement of Segments (continued)

	Core Crown 2025 Forecast $m	Crown entities 2025 Forecast $m	State-owned Enterprises 2025 Forecast $m	Inter-segment eliminations 2025 Forecast $m	Total Crown 2025 Forecast $m
Statement of Financial Performance for the year ended 30 June 2025					
Revenue					
Taxation revenue	113,245	-	-	(690)	112,555
Other sovereign revenue	3,157	7,876	-	(2,361)	8,672
Revenue from core Crown funding	-	36,477	136	(36,613)	-
Sales of goods and services	1,724	2,990	15,527	(614)	19,627
Interest revenue	916	762	1,250	(311)	2,617
Other revenue	2,301	4,358	674	(2,420)	4,913
Total revenue (excluding gains)	**121,343**	**52,463**	**17,587**	**(43,009)**	**148,384**
Expenses					
Social assistance and official development assistance	41,886	-	-	(1,415)	40,471
Personnel expenses	9,098	17,992	2,176	(35)	29,231
Other operating expenses	57,464	28,456	13,849	(40,676)	59,093
Interest expenses	2,837	574	793	(378)	3,826
Insurance expenses	2	7,895	7	-	7,904
Forecast for future new spending	10,558	-	-	-	10,558
Top-down operating expense adjustment	(700)	-	-	-	(700)
Total expenses (excluding losses)	**121,145**	**54,917**	**16,825**	**(42,504)**	**150,383**
Total gains/(losses) and other items	4,702	768	(320)	(106)	5,044
Operating balance	**4,900**	**(1,686)**	**442**	**(611)**	**3,045**
Expenses by functional classification					
Social security and welfare	*42,171*	*9,309*	-	*(2,204)*	*49,276*
Health	*22,740*	*19,072*	-	*(20,049)*	*21,763*
Education	*17,219*	*14,077*	-	*(12,602)*	*18,694*
Transport and communications	*3,677*	*3,623*	*8,047*	*(3,901)*	*11,446*
Other	*22,643*	*8,262*	*7,985*	*(3,370)*	*35,520*
Finance costs	*2,837*	*574*	*793*	*(378)*	*3,826*
Forecast for future new spending	*10,558*	-	-	-	*10,558*
Top-down operating expense adjustment	*(700)*	-	-	-	*(700)*
Total expenses (excluding losses)	***121,145***	***54,917***	***16,825***	***(42,504)***	***150,383***
Statement of Financial Position as at 30 June 2025					
Assets					
Cash and cash equivalents	5,554	3,623	2,628	(991)	10,814
Receivables	20,215	7,251	2,247	(2,134)	27,579
Other financial assets	116,383	54,127	39,150	(21,604)	188,056
Property, plant and equipment	51,123	124,172	41,367	-	216,662
Equity accounted investments	72,829	12,443	615	(70,226)	15,661
Intangible assets and goodwill	1,990	789	1,464	(21)	4,222
Inventory and other assets	2,887	2,579	1,190	(63)	6,593
Forecast for new capital spending	11,941	-	-	-	11,941
Top-down capital adjustment	(6,475)	-	-	-	(6,475)
Total assets	**276,447**	**204,984**	**88,661**	**(95,039)**	**475,053**
Liabilities					
Borrowings	203,441	20,776	49,279	(18,412)	255,084
Other liabilities	41,255	78,603	8,893	(8,425)	120,326
Total liabilities	**244,696**	**99,379**	**58,172**	**(26,837)**	**375,410**
Total assets less total liabilities	**31,751**	**105,605**	**30,489**	**(68,202)**	**99,643**
Net worth					
Taxpayers' funds	7,755	41,796	9,912	(73,660)	(14,197)
Reserves	23,996	63,809	14,714	5,716	108,235
Net worth attributable to minority interest	-	-	5,863	(258)	5,605
Total net worth	**31,751**	**105,605**	**30,489**	**(68,202)**	**99,643**

Fiscal Indicator Analysis

The purpose of the following fiscal indicator analysis is to provide a link between the Forecast Financial Statements (pages 97 to 119) based on GAAP, and the key fiscal indicators used to measure performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

The fiscal indicator analysis comprises five statements. These statements and their key purposes are described below:

Reconciliation between the Operating Balance and the Operating Balance before Gains and Losses

OBEGAL represents core Crown revenue less core Crown expenses plus surpluses from State-owned Enterprises and Crown Entities but does not include certain gains or losses from Government reporting entities. 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.

Expenses by Functional Classification

This analysis is based on the Classification of Functions of Government as produced by the Organisation for Economic Co-operation and Development (OECD) and permits trends in government expenditure on particular functions to be examined over time.

Core Crown Residual Cash

The core Crown residual cash statement measures the core Crown cash surplus (or deficit), after operating and investing cash requirements are met, that is available for the Government to invest, repay debt, or, in the case of a deficit, fund in any given year.

Debt Indicators

The debt statement presents the calculation of both gross debt and net core Crown debt indicators.

Gross debt is defined as gross-sovereign issued debt and represents debt issued by the sovereign (core Crown) and includes Government stock held by the NZS Fund, Accident Compensation Corporation, and the Earthquake Commission. Gross debt excludes Reserve Bank settlement cash and Reserve Bank bills.

Net core Crown debt represents gross sovereign-issued debt 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.

Reconciliation between the Financial Statements and the Key Fiscal Indicators

This statement shows how key lines in the financial statements flow through to the key fiscal indicators used to measure performance against the government’s fiscal objectives.

The Government's key fiscal indicators

Under the Public Finance Act (1989) the Government is required to prepare financial statements and forecast financial statements in accordance with generally accepted accounting practice (GAAP). As part of communicating its fiscal strategy, the Government must report a number of GAAP fiscal measures, such as the operating balance and net worth. In addition, the Government can choose to accompany the GAAP fiscal measures with non-GAAP fiscal indicators to help communicate progress towards its fiscal objectives.

Since the late 2000s, Governments have been using the operating balance before gains and losses (OBEGAL) and net core Crown debt, which are both non-GAAP measures, as headline indicators to communicate their fiscal strategy.

Review of the fiscal indicators

As signalled in the *Half Year Update*, the Treasury is reviewing the appropriateness of the Government's fiscal indicators, primarily focused on the current headline operating and debt indicator.

The main purpose of the review is to ensure that the headline fiscal indicators are fit for purpose, particularly with the greater impact of alternative monetary policy tools and Crown entities' borrowings on the Government's finances. As well as addressing these issues, this review also provides an opportunity to take a first-principles approach to analysing what makes a 'good' headline fiscal indicator, especially in relation to fiscal strategy.

The review will include taking a look at the approaches taken by other jurisdictions in setting headline fiscal indicators and will include views from domestic experts and international organisations.

Following initial advice provided to the Minister of Finance earlier this year, the Treasury is working towards providing further analysis and final advice from this review to the Government to consider after Budget 2021, with an aim for any changes to be implemented by Budget 2022.

Our work to date has highlighted the challenges in coming up with headline fiscal indicators that provide an all-purpose measure of the Government's finances. This is in part due to the varied uses of financial statements and forecast financial statements. This makes it important that the full suite of fiscal indicators should be considered when assessing the Government's finances.

Reconciliation Between the Operating Balance and the Operating Balance before Gains and Losses

for the years ending 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Operating Balance							
Total revenue	116,003	110,067	121,187	123,869	134,129	141,271	148,384
Total expenses	138,916	139,585	136,202	142,000	143,263	146,588	150,383
Total gains/(losses)	(8,722)	201	17,043	2,843	4,248	4,721	5,253
Net surplus from associates and joint ventures	1,193	67	(535)	(98)	(1)	59	138
Less Minority interests share of operating balance	402	(76)	(219)	(262)	(358)	(344)	(347)
Operating balance	**(30,040)**	**(29,326)**	**1,274**	**(15,648)**	**(5,245)**	**(881)**	**3,045**
Reconciliation Between the Operating Balance and the Operating Balance before Gains and Losses							
Operating balance	**(30,040)**	**(29,326)**	**1,274**	**(15,648)**	**(5,245)**	**(881)**	**3,045**
Less items excluded from OBEGAL:							
Net gains/(losses) on large scale asset purchases	(3,258)	(2,236)	(4,586)	(791)	-	-	-
Net gains/(losses) on financial instruments	1,908	2,576	12,792	3,769	4,311	4,789	5,321
Net gains/(losses) on non-financial instruments	(7,372)	(139)	8,837	(135)	(63)	(68)	(68)
Minority interests share of total gains/(losses)	546	5	(107)	16	(6)	(11)	(10)
Net surplus from associates and joint ventures	1,193	67	(535)	(98)	(1)	59	138
OBEGAL	**(23,057)**	**(29,599)**	**(15,127)**	**(18,409)**	**(9,486)**	**(5,650)**	**(2,336)**

Expenses by Functional Classification

for the years ending 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Total Crown expenses							
By functional classification[1]							
Social security and welfare	49,900	42,531	43,526	45,005	46,626	47,786	49,276
Health	20,469	20,791	23,780	24,609	21,889	21,817	21,763
Education	17,581	17,761	17,837	19,166	18,926	18,813	18,694
Core government services	5,869	5,265	5,011	5,641	5,767	5,165	4,952
Law and order	5,304	5,683	5,803	5,848	5,904	5,843	5,897
Transport and communications	12,962	10,792	11,601	11,960	11,941	11,775	11,446
Economic and industrial services	11,246	9,932	12,612	11,010	10,498	10,350	10,262
Defence	2,482	2,760	2,643	2,735	2,727	2,832	2,860
Heritage, culture and recreation	2,904	2,844	3,428	3,179	2,969	2,919	2,935
Primary services	2,430	2,751	2,794	2,439	2,242	2,164	2,030
Housing and community development	2,393	2,879	3,498	4,389	4,483	4,553	4,647
Environmental protection	1,472	1,324	1,882	1,905	1,774	1,701	1,534
GSF pension expenses	87	96	106	103	98	95	91
Other	63	545	679	214	298	312	312
Finance costs	3,754	3,615	2,527	2,351	2,670	3,279	3,826
Forecast new operating spending	-	10,991	500	4,221	5,251	7,884	10,558
Top-down operating expense adjustment	-	(975)	(2,025)	(2,775)	(800)	(700)	(700)
Total Crown expenses excluding losses	**138,916**	**139,585**	**136,202**	**142,000**	**143,263**	**146,588**	**150,383**

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.

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Core Crown expenses							
By functional classification[1]							
Social security and welfare	44,028	37,170	37,411	38,917	40,242	41,062	42,171
Health	19,891	20,919	23,837	25,048	22,538	22,609	22,740
Education	16,322	16,301	16,326	17,869	17,564	17,407	17,219
Core government services	6,083	5,317	6,161	5,639	5,856	5,258	5,131
Law and order	4,911	5,238	5,450	5,361	5,427	5,385	5,384
Transport and communications	3,179	4,035	5,859	4,371	4,291	4,014	3,677
Economic and industrial services	3,988	3,379	4,959	4,403	3,807	3,584	3,387
Defence	2,499	2,765	2,659	2,752	2,744	2,850	2,877
Heritage, culture and recreation	1,106	1,058	1,550	1,392	1,141	1,051	1,045
Primary services	961	1,242	1,304	1,063	910	845	823
Housing and community development	1,015	1,252	2,000	2,565	2,485	2,133	2,080
Environmental protection	1,485	1,332	2,034	1,918	1,787	1,714	1,547
GSF pension expenses	73	76	74	71	65	61	57
Other	63	545	679	214	298	312	312
Finance costs	3,228	2,884	1,967	1,688	1,830	2,334	2,837
Forecast new operating spending	-	10,991	500	4,221	5,251	7,884	10,558
Top-down operating expense adjustment	-	(975)	(2,025)	(2,775)	(800)	(700)	(700)
Total core Crown expenses excluding losses	**108,832**	**113,529**	**110,745**	**114,717**	**115,436**	**117,803**	**121,145**

1. 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.

Core Crown Residual Cash

for the years ending 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Core Crown Residual Cash							
Core Crown Cash Flows from Operations							
Tax receipts	84,310	77,202	90,495	95,986	101,237	107,334	113,404
Other sovereign receipts	1,226	1,410	2,219	1,612	1,763	1,922	1,922
Interest receipts	428	653	227	217	261	319	381
Sale of goods and services and other receipts	3,243	3,354	2,862	2,834	3,144	3,049	3,157
Transfer payments and subsidies	(43,916)	(37,001)	(37,021)	(38,492)	(40,042)	(41,084)	(43,191)
Personnel and operating costs	(56,583)	(60,143)	(67,981)	(70,364)	(64,959)	(63,098)	(62,253)
Interest payments	(3,016)	(3,776)	(2,723)	(2,082)	(2,213)	(2,364)	(2,802)
Forecast for future new operating spending	-	(10,991)	(500)	(4,221)	(5,251)	(7,884)	(10,558)
Top-down operating expense adjustment	-	975	2,025	2,775	800	700	700
Net core Crown operating cash flows	**(14,308)**	**(28,317)**	**(10,397)**	**(11,735)**	**(5,260)**	**(1,106)**	**760**
Core Crown Capital Cash Flows							
Net purchase of physical assets	(2,955)	(3,261)	(3,536)	(4,612)	(3,791)	(3,287)	(2,533)
Net increase in advances	(1,798)	(5,057)	(5,747)	(14,175)	(9,595)	6,484	12,897
Net purchase of investments	(3,171)	(3,218)	(4,277)	(6,682)	(4,162)	(4,107)	(3,132)
Contribution to NZS Fund	(1,460)	(2,120)	(2,120)	(2,420)	(1,351)	(1,630)	(1,898)
Forecast for future new capital spending	-	(1,990)	-	(2,033)	(2,895)	(3,353)	(3,660)
Top-down capital adjustment	-	650	800	2,425	1,400	1,000	850
Net core Crown capital cash flows	**(9,384)**	**(14,996)**	**(14,880)**	**(27,497)**	**(20,394)**	**(4,893)**	**2,524**
Residual cash (deficit)/surplus	**(23,692)**	**(43,313)**	**(25,277)**	**(39,232)**	**(25,654)**	**(5,999)**	**3,284**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt Programme Cash Flows							
Market:							
Issue of government bonds	31,951	65,605	49,487	31,046	25,001	25,061	24,823
Repayment of government bonds	(5,380)	(11,059)	(11,059)	-	(15,945)	(12,600)	(15,200)
Net issue/(repayment) of short-term borrowing[1]	8,415	490	(5,441)	(2,800)	(600)	-	-
Total market debt cash flows	34,986	55,036	32,987	28,246	8,456	12,461	9,623
Non-market:							
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	-	-	-	-	-	-	-
Net issue/(repayment) of short-term borrowing[2]	-	-	-	(460)	(374)	-	-
Total non-market debt cash flows	-	-	-	(460)	(374)	-	-
Total debt programme cash flows	**34,986**	**55,036**	**32,987**	**27,786**	**8,082**	**12,461**	**9,623**
Other Borrowing Cash Flows							
Net (repayment)/issue of other New Zealand dollar borrowing[3]	(3,045)	14,868	(25,918)	13,095	7,233	(8,322)	(15,074)
Net (repayment)/issue of foreign currency borrowing	1,121	(109)	(1,700)	(229)	-	307	903
Total other borrowing cash flows	**(1,924)**	**14,759**	**(27,618)**	**12,866**	**7,233**	**(8,015)**	**(14,171)**
Investing Cash Flows							
Net sale/(purchase) of marketable securities and deposits[3]	(14,911)	(26,453)	12,401	(1,581)	10,260	1,470	1,172
Net issues/(repayments) of circulating currency	1,209	215	397	84	85	86	87
Decrease/(increase) in cash	4,332	(244)	7,110	77	(6)	(3)	5
Total investing cash flows	**(9,370)**	**(26,482)**	**19,908**	**(1,420)**	**10,339**	**1,553**	**1,264**
Residual cash deficit/(surplus) funding/(investing)	**23,692**	**43,313**	**25,277**	**39,232**	**25,654**	**5,999**	**(3,284)**

1. Short-term borrowing consists of Treasury Bills and may include Euro-Commercial Paper.
2. The repayments of short-term borrowings relates to the forecast cash repayments of a Treasury bill which was issued in 2020/21 in a non-cash transaction.
3. The '2020 Actual' and '2021 Previous Forecast' numbers have been restated to show repurchases of Government bonds by the Reserve Bank within net (repayment)/issue of other New Zealand dollar borrowing. These amounts were previously disclosed as investing cashflows within other net sale/(purchase) of marketable securities and deposits.

Debt Indicators

as at 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Net Debt:							
Gross sovereign-issued debt[1]	124,145	203,673	136,919	174,495	198,429	202,961	199,835
Less liquid financial assets (per net debt definition)	(40,770)	(74,184)	(23,264)	(21,184)	(19,951)	(18,718)	(19,051)
Net core Crown Debt	**83,375**	**129,489**	**113,655**	**153,311**	**178,478**	**184,243**	**180,784**
Analysis of financial liabilities and assets included in net debt							
Gross sovereign-issued debt:							
Core Crown borrowings[2]	126,820	208,243	139,892	177,605	201,661	206,397	203,441
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(2,675)	(4,570)	(2,973)	(3,110)	(3,232)	(3,436)	(3,606)
Gross sovereign-issued debt[1]	**124,145**	**203,673**	**136,919**	**174,495**	**198,429**	**202,961**	**199,835**
Liquid financial assets:							
Core Crown financial assets[3]	102,169	136,091	102,036	117,335	130,534	128,352	121,937
Less NZS Fund holdings of core Crown financial assets and NZS Fund financial assets	(46,843)	(46,725)	(58,363)	(61,895)	(66,974)	(72,721)	(79,035)
Less FLP advances	-	-	(4,540)	(18,720)	(28,000)	(21,760)	(9,280)
Less other advances	(14,556)	(15,182)	(15,869)	(15,536)	(15,609)	(15,153)	(14,571)
NZS Fund and advances	(61,399)	(61,907)	(78,772)	(96,151)	(110,583)	(109,634)	(102,886)
Liquid financial assets (per net debt definition)	**40,770**	**74,184**	**23,264**	**21,184**	**19,951**	**18,718**	**19,051**
Additional net debt analysis							
Net core Crown debt	83,375	129,489	113,655	153,311	178,478	184,243	180,784
Less NZS Fund and advances	(61,399)	(61,907)	(78,772)	(96,151)	(110,583)	(109,634)	(102,886)
Net core Crown debt (incl. NZS Fund and advances)	**21,976**	**67,582**	**34,883**	**57,160**	**67,895**	**74,609**	**77,898**
Net core Crown debt	83,375	129,489	113,655	153,311	178,478	184,243	180,784
less FLP advances	-	-	(4,540)	(18,720)	(28,000)	(21,760)	(9,280)
Net core Crown debt (incl. FLP advances)	**83,375**	**129,489**	**109,115**	**134,591**	**150,478**	**162,483**	**171,504**
Gross Debt:							
Gross sovereign-issued debt[1]	124,145	203,673	136,919	174,495	198,429	202,961	199,835
Less Reserve Bank settlement cash and Reserve Bank bills	(23,488)	(67,137)	(41,491)	(80,152)	(85,634)	(68,184)	(46,837)
Add back changes to government borrowing owing to settlement cash[4]	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	**102,257**	**138,136**	**97,028**	**95,943**	**114,395**	**136,377**	**154,598**
Monetary Liabilities							
Issued currency	8,022	7,366	8,419	8,503	8,588	8,674	8,761
Settlement deposits with Reserve Bank	23,027	66,839	38,791	79,152	84,634	67,284	45,937
Total Monetary Liabilities	**31,049**	**74,205**	**47,210**	**87,655**	**93,222**	**75,958**	**54,698**

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

Notes on borrowings

1. 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.
2. Core Crown borrowings in this instance include unsettled purchases of securities (classified as accounts payable in the Statement of Financial Position).
3. Core Crown financial assets exclude receivables, except for unsettled sales of securities.
4. 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.

Reconciliation between the Financial Statements and the Key Fiscal Indicators

Financial Results	2020 Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Core Crown taxation revenue...	85,102	91,543	93,188	101,693	107,108	113,245
...combined with other core Crown revenue...	6,821	6,399	6,590	7,244	7,775	8,098
...funds core Crown expenses...	(108,832)	(110,745)	(114,717)	(115,436)	(117,803)	(121,145)
...and with SOE and CE[1] results...	(6,148)	(2,324)	(3,470)	(2,987)	(2,730)	(2,534)
...this results in an operating balance before gains and losses **(OBEGAL)**...	(23,057)	(15,127)	(18,409)	(9,486)	(5,650)	(2,336)
...with gains/losses leading to **operating surplus/(deficit)...**	(30,040)	1,274	(15,648)	(5,245)	(881)	3,045
...with income in SOEs, CEs[1] and the NZS Fund retained...	8,935	(17,202)	361	(777)	(1,520)	(2,306)
...and some items do not impact cash	6,797	5,531	3,552	762	1,295	21
This leads to an operating residual cash surplus/(deficit)...	**(14,308)**	**(10,397)**	**(11,735)**	**(5,260)**	**(1,106)**	**760**
...used to make contributions to the NZS Fund...	(1,460)	(2,120)	(2,420)	(1,351)	(1,630)	(1,898)
...and to use for capital expenditure...	(2,955)	(3,536)	(4,612)	(3,791)	(3,287)	(2,533)
...and to make advances (eg, to students)	(4,969)	(10,024)	(20,857)	(13,757)	2,377	9,765
Adjusting for forecast adjustments (top-down/new spending)...	-	800	392	(1,495)	(2,353)	(2,810)
...results in a **borrowing requirement (cash (deficit)/surplus)**	**(23,692)**	**(25,277)**	**(39,232)**	**(25,654)**	**(5,999)**	**3,284**
Opening net core Crown debt...	57,736	83,375	113,655	153,311	178,478	184,243
...when combined with the residual cash (surplus)/deficit...	23,692	25,277	39,232	25,654	5,999	(3,284)
...and other fair value movements in financial assets and financial liabilities...	1,947	5,003	424	(487)	(234)	(175)
...results in a closing **net core Crown debt**...	**83,375**	**113,655**	**153,311**	**178,478**	**184,243**	**180,784**
...which as a % of GDP is	**26.3%**	**34.0%**	**43.8%**	**48.0%**	**46.9%**	**43.6%**

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

5

Core Crown Expense Tables

($millions)	2016 Actual	2017 Actual	2018 Actual	2019[1] Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Social security and welfare	24,081	25,294	25,999	28,740	44,028	37,411	38,917	40,242	41,062	42,171
Health	15,626	16,223	17,159	18,268	19,891	23,837	25,048	22,538	22,609	22,740
Education	13,158	13,281	13,629	14,293	16,322	16,326	17,869	17,564	17,407	17,219
Core government services[1]	4,102	3,957	4,670	5,166	6,083	6,161	5,639	5,856	5,258	5,131
Law and order	3,648	3,882	4,184	4,625	4,911	5,450	5,361	5,427	5,385	5,384
Transport and communications	2,178	2,176	2,559	2,889	3,179	5,859	4,371	4,291	4,014	3,677
Economic and industrial services	2,107	2,544	2,732	3,006	3,988	4,959	4,403	3,807	3,584	3,387
Defence	2,026	2,146	2,251	2,395	2,499	2,659	2,752	2,744	2,850	2,877
Heritage, culture and recreation	787	850	850	918	1,106	1,550	1,392	1,141	1,051	1,045
Primary services	749	644	807	960	961	1,304	1,063	910	845	823
Housing and community development	558	539	552	727	1,015	2,000	2,565	2,485	2,133	2,080
Environmental protection	587	871	1,238	1,119	1,485	2,034	1,918	1,787	1,714	1,547
GSF pension expenses[1]	271	217	150	66	73	74	71	65	61	57
Other	461	181	299	96	63	679	214	298	312	312
Finance costs[1]	3,590	3,534	3,497	3,691	3,228	1,967	1,688	1,830	2,334	2,837
Forecast new operating spending	..	..	..	..	..	500	4,221	5,251	7,884	10,558
Top-down operating expense adjustment	..	..	..	..	..	(2,025)	(2,775)	(800)	(700)	(700)
Core Crown expenses	**73,929**	**76,339**	**80,576**	**86,959**	**108,832**	**110,745**	**114,717**	**115,436**	**117,803**	**121,145**

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)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Welfare benefits (see below)	22,441	23,339	24,005	26,689	41,293	34,057	35,522	36,934	38,052	39,086
Social rehabilitation and compensation	151	220	241	249	260	333	358	385	414	445
Departmental expenses	1,339	1,417	1,593	1,784	2,062	2,456	2,650	2,562	2,360	2,375
Flexi-wage subsidy	..	..	..	..	..	26	131	142	..	..
COVID-19 Income Relief Assistance	..	..	..	..	15	184	..	..	..	..
Other non-departmental expenses[1]	150	318	160	18	398	355	256	219	236	265
Social security and welfare expenses	**24,081**	**25,294**	**25,999**	**28,740**	**44,028**	**37,411**	**38,917**	**40,242**	**41,062**	**42,171**

1. The '2020 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)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
New Zealand Superannuation	12,267	13,043	13,699	14,562	15,521	16,554	17,691	18,931	19,977	21,022
Jobseeker Support and Emergency Benefit	1,671	1,697	1,697	1,854	2,285	3,273	3,857	3,868	3,742	3,559
Supported living payment	1,523	1,533	1,541	1,556	1,650	1,831	2,061	2,231	2,297	2,355
Sole parent support	1,153	1,159	1,117	1,115	1,231	1,470	1,720	1,878	1,888	1,868
Family Tax Credit	1,793	1,723	1,639	2,131	2,189	2,130	2,064	2,230	2,206	2,243
Other working for families tax credits	559	596	556	635	641	623	647	688	683	692
Accommodation Assistance	1,164	1,127	1,204	1,640	1,923	2,337	2,498	2,398	2,378	2,386
Income-Related Rents	755	815	890	974	1,071	1,216	1,301	1,389	1,482	1,493
Disability Assistance	377	377	379	386	395	408	417	422	427	429
Winter energy	..	..	..	441	669	816	530	535	539	543
Best start	..	..	..	48	184	276	405	443	444	449
Orphan's/Unsupported Child's Benefit[1]	143	152	165	225	248	294	332	378	401	421
Hardship Assistance[1]	290	353	355	300	418	495	591	633	666	693
Paid Parental Leave	217	274	288	369	422	523	540	545	560	570
Childcare Assistance	182	199	196	183	144	151	163	169	168	174
Veterans Support Entitlement	107	98	93	90	66	..	..	..	..	..
Veteran's Pension	186	175	163	153	145	139	134	128	122	116
Wage Subsidy Scheme				..	12,095	1,337	500	..	..	..
Other benefits[1]	54	18	23	27	(4)	184	71	68	72	73
Benefit expenses	**22,441**	**23,339**	**24,005**	**26,689**	**41,293**	**34,057**	**35,522**	**36,934**	**38,052**	**39,086**

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)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
New Zealand Superannuation	691	717	741	767	795	825	851	879	907	937
Jobseeker Support and Emergency Benefit	130	131	129	139	162	214	222	203	191	178
Supported living payment	98	97	96	95	96	97	98	100	100	101
Sole parent support	67	64	60	59	61	67	71	74	72	70
Accommodation Supplement	292	290	285	295	318	367	379	373	370	365

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)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Departmental outputs	188	192	200	210	236	328	392	346	347	339
Health services purchasing (see below)	14,361	14,855	15,449	16,311	18,176	19,723	20,330	20,201	20,143	20,145
Other non-departmental outputs	356	365	816	937	634	627	652	682	694	708
Health payments to ACC[1]	694	697	682	782	812	1,032	1,148	1,258	1,374	1,499
COVID-19 Vaccine	..	..	..	..	..	668	715	..	..	..
National health response to COVID-19	..	..	..	..	..	714	894	4	4	4
Isolation and Quarantine Management	..	..	..	..	..	718	855	..	..	..
Other expenses	27	114	12	28	33	27	62	47	47	45
Health expenses	**15,626**	**16,223**	**17,159**	**18,268**	**19,891**	**23,837**	**25,048**	**22,538**	**22,609**	**22,740**

1. Health payments to ACC includes increases in funding for the non-earners funding.

Source: The Treasury

Table 5.4 – Health services purchasing

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Payments to District Health Boards	12,822	13,281	13,829	14,563	15,749	16,976	17,993	17,891	17,836	17,838
National disability support services	1,167	1,188	1,256	1,358	1,599	1,659	1,830	1,826	1,826	1,826
Public health services purchasing[1]	372	386	364	390	828	1,088	507	484	481	481
Health services purchasing	**14,361**	**14,855**	**15,449**	**16,311**	**18,176**	**19,723**	**20,330**	**20,201**	**20,143**	**20,145**

1. The '2020 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)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Early childhood education	1,735	1,805	1,844	1,896	2,007	2,181	2,280	2,388	2,450	2,518
Primary and secondary schools (see below)	6,044	6,116	6,334	6,823	7,104	8,245	8,064	8,020	8,038	7,968
Tertiary funding (see below)	4,235	4,051	4,112	4,112	5,621	3,697	5,181	5,055	4,984	5,027
Departmental expenses	1,112	1,190	1,281	1,416	1,534	1,698	1,754	1,720	1,716	1,664
Training Incentive Allowance	..	..	..	..	..	..	35	38	38	14
COVID-19 Apprentice Support	..	..	..	..	..	186	223	19	..	..
Other education expenses	32	119	58	46	56	319	332	324	181	28
Education expenses	**13,158**	**13,281**	**13,629**	**14,293**	**16,322**	**16,326**	**17,869**	**17,564**	**17,407**	**17,219**

Source: The Treasury

Number of places provided[1]	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual[2]	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Early childhood education	205,094	211,480	217,241	221,130	221,293	225,442	229,430	234,192	238,907	244,520

1. Full-time equivalent based on 1,000 funded child hours per calendar year.
Historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers.
2. The 2020 Actual calendar hours is comprised of 9 months of actual data and 3 months of forecast data.

Source: The Ministry of Education

Table 5.6 – Primary and secondary schools

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Primary	3,033	3,091	3,216	3,452	3,600	4,124	4,005	3,965	3,947	3,895
Secondary	2,329	2,336	2,407	2,606	2,683	3,088	3,043	3,059	3,091	3,087
School transport	185	186	195	206	208	225	218	200	200	200
Special needs support	396	410	429	447	515	658	657	653	657	656
Professional development	96	88	82	104	91	118	116	118	125	124
Schooling improvement	5	5	5	8	7	32	25	25	18	6
Primary and secondary education expenses	**6,044**	**6,116**	**6,334**	**6,823**	**7,104**	**8,245**	**8,064**	**8,020**	**8,038**	**7,968**

Source: The Treasury

Number of places provided[1]	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Primary	501,786	511,588	520,496	527,429	530,379	528,316	523,791	519,843	513,126	507,849
Secondary	276,473	278,428	277,734	279,904	286,511	293,270	299,363	305,114	308,972	309,881

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 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 to include Special School Roll, so may differ from figures published in previous Economic and Fiscal Updates.

Source: The Ministry of Education

Table 5.7 – Tertiary funding

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Tuition[1]	2,463	2,466	2,552	2,571	3,911	1,998	3,309	3,128	3,053	3,026
Other tertiary funding	487	520	561	606	637	719	701	721	742	746
Student allowances	486	465	511	583	567	610	656	667	636	667
Student loans	799	600	488	352	506	370	515	539	553	588
Tertiary education expenses	**4,235**	**4,051**	**4,112**	**4,112**	**5,621**	**3,697**	**5,181**	**5,055**	**4,984**	**5,027**

1. The '2020 Actual' includes increased funding to provide revenue certainty to tertiary education organisations for the June to December 2020 period due to the impact of COVID-19.
There is a corresponding reduction in the '2021 Forecast'.

Source: The Treasury

Number of places provided[1]	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Actual delivered and estimated funded places	231,413	223,645	220,717	217,767	213,715	243,300	243,200	236,200	226,900	226,900

1. Tertiary places are the number of equivalent full time (EFT) students 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.
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)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Official development assistance	534	520	643	708	736	825	820	858	861	861
Indemnity and guarantee expenses	30	22	18	16	14	2	2	3	4	5
Departmental expenses[1]	1,845	1,835	2,119	2,199	2,249	2,373	2,645	2,321	2,241	2,230
Non-departmental expenses	379	511	683	961	785	850	483	922	850	785
Tax receivable write-down and impairments	680	493	616	829	1,356	1,041	841	841	841	841
Science expenses	118	91	94	103	113	122	116	119	119	117
Crown Research Institutes: COVID-19	..	..	..	..	45	72	..	..	..	..
Shovel Ready Project Funding to Otakaro	..	..	..	..	..	122	18	..	..	..
Other expenses[2,3]	516	485	497	350	785	754	714	792	342	292
Core government service expenses	**4,102**	**3,957**	**4,670**	**5,166**	**6,083**	**6,161**	**5,639**	**5,856**	**5,258**	**5,131**

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 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)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Police	1,498	1,539	1,629	1,760	1,997	2,107	2,040	2,057	2,044	2,040
Ministry of Justice	468	479	502	542	591	662	666	657	654	654
Department of Corrections	1,068	1,145	1,301	1,417	1,527	1,681	1,631	1,702	1,693	1,697
NZ Customs Service	153	171	174	187	201	207	202	204	203	203
Other departments	83	121	132	111	163	185	207	190	185	184
Departmental expenses	**3,270**	**3,455**	**3,738**	**4,017**	**4,479**	**4,842**	**4,746**	**4,810**	**4,779**	**4,778**
Non-departmental outputs	359	397	445	457	419	584	614	616	606	606
Other expenses	19	30	1	151	13	24	1	1	..	..
Law and order expenses	**3,648**	**3,882**	**4,184**	**4,625**	**4,911**	**5,450**	**5,361**	**5,427**	**5,385**	**5,384**

Source: The Treasury

Table 5.10 – Transport and communication expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
New Zealand Transport Agency	1,982	1,888	2,280	2,601	2,719	2,913	3,197	3,728	3,437	3,412
Departmental outputs	45	52	55	60	70	87	95	88	82	82
Other non-departmental expenses	106	168	177	158	145	315	395	169	146	159
Rail funding	3	3	3	3	3	16	269	285	330	4
Funding to support the Aviation and Transport Industry	..	..	..	..	78	514	120	..	..	..
Funding to support NZTA due to impact of COVID-19	..	..	..	..	..	500	..	..	..	..
Shovel Ready Project Funding to Crown Infrastructure Partners	..	..	..	..	..	1,056	209	..	..	..
Other expenses[1]	42	65	44	67	164	458	86	21	19	20
Transport and communication expenses	**2,178**	**2,176**	**2,559**	**2,889**	**3,179**	**5,859**	**4,371**	**4,291**	**4,014**	**3,677**

1. The '2020 Actual' to the '2022 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)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Departmental outputs	389	465	447	499	561	613	643	566	565	564
Employment initiatives	3	3	4	10	5	4	4	4	4	4
Non-departmental outputs[1,3]	798	1,085	1,155	1,328	1,614	2,164	2,131	1,784	1,731	1,608
KiwiSaver (includes HomeStart grant)[2]	763	743	897	951	893	929	974	1,015	1,051	1,083
Initial fair value write-down on the Small Business Cashflow Scheme loans	..	..	..	..	686	180	84	83	43	..
COVID-19 Resurgence Support Payments	..	..	..	..	..	200	..	..	..	..
Shovel Ready Funding to support energy projects	..	..	..	..	..	50	87	..	..	..
Shovel Ready Project Funding to support the regional projects	..	..	..	..	..	200	200	150	58	..
Worker Redeployment Package	..	..	..	..	19	46	5	..	..	..
Other expenses[4]	154	248	229	218	210	573	275	205	132	128
Economic and industrial services expenses	**2,107**	**2,544**	**2,732**	**3,006**	**3,988**	**4,959**	**4,403**	**3,807**	**3,584**	**3,387**

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 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)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
NZDF core expenses	1,986	2,084	2,172	2,286	2,418	2,584	2,612	2,602	2,685	2,738
Other expenses	40	62	79	109	81	75	140	142	165	139
Defence expenses	**2,026**	**2,146**	**2,251**	**2,395**	**2,499**	**2,659**	**2,752**	**2,744**	**2,850**	**2,877**

Source: The Treasury

Table 5.13 – Heritage, culture and recreation expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Departmental outputs	274	282	302	305	326	403	416	352	348	360
Non-departmental outputs	477	512	503	538	627	907	770	680	644	629
Other expenses[1]	36	56	45	75	153	240	206	109	59	56
Heritage, culture and recreation expenses	**787**	**850**	**850**	**918**	**1,106**	**1,550**	**1,392**	**1,141**	**1,051**	**1,045**

1. The '2020 Actual' to the '2021 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)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Departmental expenses[2]	424	458	549	677	727	852	793	682	661	650
Non-departmental outputs	100	92	188	110	89	181	106	75	72	83
Biological research[1]	95	..	..	..	..	..	..	..	..	..
Other expenses[2,3]	130	94	70	173	145	271	164	153	112	90
Primary services expenses	**749**	**644**	**807**	**960**	**961**	**1,304**	**1,063**	**910**	**845**	**823**

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 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)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Housing subsidies	5	5	5	4	4	4	4	4	4	4
Community Services[1]	189	189	179	183	235	370	377	336	350	350
Departmental outputs	171	187	150	195	220	260	264	248	226	226
Other non-departmental expenses[2]	114	127	193	283	523	818	1,220	1,205	891	816
Warm up New Zealand	22	..	..	..	..	..	..	..	..	..
Shovel Ready Project Funding to support Housing project	..	..	..	..	..	183	64	16	8	..
Housing Acceleration Fund	..	..	..	..	..	..	343	587	566	551
Water Infrastructure	..	..	..	..	..	302	212	..	..	..
Other expenses	57	31	25	62	33	63	81	89	88	133
Housing and community development expenses	**558**	**539**	**552**	**727**	**1,015**	**2,000**	**2,565**	**2,485**	**2,133**	**2,080**

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.

Source: The Treasury

Table 5.16 – Environmental protection expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Emissions Trading Scheme	163	295	720	543	650	856	844	842	838	802
Departmental outputs	383	404	412	460	542	660	755	720	666	586
Non-departmental outputs	1	64	72	82	257	486	298	209	197	147
Other expenses	40	108	34	34	36	32	21	16	13	12
Environmental protection expenses	**587**	**871**	**1,238**	**1,119**	**1,485**	**2,034**	**1,918**	**1,787**	**1,714**	**1,547**

Source: The Treasury

Table 5.17 – Finance costs

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Interest on financial liabilities	3,553	3,505	3,454	3,398	2,971	1,862	1,581	1,710	2,190	2,667
Interest unwind on provisions[1]	37	29	43	293	257	105	107	120	144	170
Finance costs expenses	**3,590**	**3,534**	**3,497**	**3,691**	**3,228**	**1,967**	**1,688**	**1,830**	**2,334**	**2,837**

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 93 to 96).

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) and structural balance

The Treasury's CAB is an estimate of OBEGAL adjusted for fluctuations of actual GDP around potential GDP. The CAB aims to provide a picture of the underlying fiscal position by excluding the impacts of the economic cycle. Like OBEGAL, the CAB is an accrual-based measure.

The Treasury's structural balance removes from the cyclically-adjusted balance (CAB) significant expenditure or revenue associated with one-off events. The structural balance aims to provide a better picture of fiscal sustainability. One-off impacts are excluded if the item can be individually identified in the Crown accounts; has a cumulative impact over the forecast period of 0.5% of the current year's GDP; and is either one-off spending, or results from a change in accounting treatment with no impact on the Crown's cashflow. Like the CAB, the structural balance is accrual-based.

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.

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.

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 (refer the 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 cost index (LCI)

The LCI measures changes in labour costs, including base wages, overtime, and non-wage labour-related costs such as annual leave and insurance.

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).

Loan-to-value ratio restrictions

A loan-to-value ratio (LVR) is the value of a home loan divided by the value of the mortgaged property. The Reserve Bank first introduced LVR restrictions in October 2013 in response to rapid house price growth, placing limits on how much banks are allowed to lend to high-LVR borrowers.

Long-term objectives and short-term intentions for fiscal policy

These refer to the Government's short-term (at least the next three years) and long-term (at least the next ten years) goals for operating expenses, operating revenues, the operating balance, debt and net worth. The fiscal strategy report must assess the consistency of these intentions and objectives with the defined principles of responsible fiscal management, as outlined in the Public Finance Act 1989.

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 Purchase (LSAP) programme and the Funding for Lending (FLP) 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 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 attributable to the Crown

Represents the Crown's share of total assets and liabilities and excludes minority interests' share of those assets and liabilities.

New Zealand Activity Index (NZAC)

The NZAC summarises several monthly indicators of economic activity, including consumer spending, unemployment, job vacancies, traffic volumes, electricity grid demand, business outlook, and manufacturing activity. It is intended to be interpreted as a broad measure of economic activity.

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 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 measure of taxation. It is a measure of tax over a given period 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. In addition to department forecasts, unallocated funding (contingencies) also attract a top-down adjustment where it is considered unlikely that all of the contingencies indicatively phased to a particular year is expected to be allocated and spent in that year.

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 93 to 96.

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.

Underutilisation rate

The underutilisation rate is a broad measure of untapped labour market capacity. In addition to the unemployed, it includes part-time workers who want and are able to work longer hours (the under-employed), people who want a job and are available to work but not currently looking for a job, and people who are currently unavailable but looking for a job and will be able to start working within the next month.

Votes

When Parliament considers legislation relating to appropriations, the appropriations are grouped within 'Votes'. Generally, a 'Vote' will group 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 2020/21 or 2021 will mean the year ended 30 June.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June years	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
$millions															
Revenue and expenses															
Core Crown tax revenue	51,557	55,081	58,651	61,563	66,636	70,445	75,644	80,244	86,468	85,102	91,543	93,188	101,693	107,108	113,245
Core Crown revenue	57,199	60,428	63,805	67,093	72,213	76,121	81,782	86,778	93,474	91,923	97,942	99,778	108,937	114,883	121,343
Core Crown expenses	70,099	68,939	69,962	71,174	72,363	73,929	76,339	80,576	86,959	108,832	110,745	114,717	115,436	117,803	121,145
Surpluses															
Total Crown OBEGAL	(18,396)	(9,240)	(4,414)	(2,802)	414	1,831	4,069	5,534	7,429	(23,057)	(15,127)	(18,409)	(9,486)	(5,650)	(2,336)
Total Crown operating balance	(13,360)	(14,897)	6,925	2,939	5,771	(5,369)	12,317	8,396	389	(30,040)	1,274	(15,648)	(5,245)	(881)	3,045
Cash position															
Core Crown residual cash	(13,343)	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)	(25,277)	(39,232)	(25,654)	(5,999)	3,284
Debt															
Gross debt[1]	72,420	79,635	77,984	81,956	86,125	86,928	87,141	88,053	84,449	102,257	97,028	95,943	114,395	136,377	154,598
Gross debt incl RB settlement cash and bank bills	77,290	84,168	84,286	88,468	93,156	93,283	92,620	95,437	90,930	124,145	136,919	174,495	198,429	202,961	199,835
Net core Crown debt (incl NZS Fund)[2]	23,969	33,475	34,428	34,174	30,862	32,102	23,619	19,460	14,060	36,532	55,292	91,416	111,504	111,522	101,749
Net core Crown debt[2]	40,128	50,671	55,835	59,931	60,631	61,880	59,480	57,495	57,736	83,375	113,655	153,311	178,478	184,243	180,784
Total borrowings	90,245	100,534	100,087	103,419	112,580	113,956	111,806	115,652	110,248	152,717	173,227	215,234	245,218	254,457	255,084
Net worth															
Total Crown net worth	80,887	59,780	70,011	80,697	98,236	95,521	116,472	135,637	143,339	115,943	117,263	102,187	97,145	96,439	99,643
Total net worth attributable to the Crown	80,579	59,348	68,071	75,486	86,454	89,366	110,532	129,644	136,949	110,320	111,990	96,551	91,508	90,817	94,038
Nominal expenditure GDP (revised actuals)	205,650	214,978	218,814	236,873	245,576	258,716	275,737	296,056	310,261	316,552	334,399	349,742	371,677	392,862	414,390
% GDP															
Revenue and expenses															
Core Crown tax revenue	25.1	25.6	26.8	26.0	27.1	27.2	27.4	27.1	27.9	26.9	27.4	26.6	27.4	27.3	27.3
Core Crown revenue	27.8	28.1	29.2	28.3	29.4	29.4	29.7	29.3	30.1	29.0	29.3	28.5	29.3	29.2	29.3
Core Crown expenses	34.1	32.1	32.0	30.0	29.5	28.6	27.7	27.2	28.0	34.4	33.1	32.8	31.1	30.0	29.2
Surpluses															
Total Crown OBEGAL	(8.9)	(4.3)	(2.0)	(1.2)	0.2	0.7	1.5	1.9	2.4	(7.3)	(4.5)	(5.3)	(2.6)	(1.4)	(0.6)
Total Crown operating balance	(6.5)	(6.9)	3.2	1.2	2.3	(2.1)	4.5	2.8	0.1	(9.5)	0.4	(4.5)	(1.4)	(0.2)	0.7
Cash position															
Core Crown residual cash	(6.5)	(5.0)	(2.6)	(1.7)	(0.7)	(0.5)	0.9	0.5	(0.2)	(7.5)	(7.6)	(11.2)	(6.9)	(1.5)	0.8
Debt															
Gross debt[1]	35.2	37.0	35.6	34.6	35.1	33.6	31.6	29.7	27.2	32.3	29.0	27.4	30.8	34.7	37.3
Gross debt incl RB settlement cash and bank bills	37.6	39.2	38.5	37.3	37.9	36.1	33.6	32.2	29.3	39.2	40.9	49.9	53.4	51.7	48.2
Net core Crown debt (incl NZS Fund)[2]	11.7	15.6	15.7	14.4	12.6	12.4	8.6	6.6	4.5	11.5	16.5	26.1	30.0	28.4	24.6
Net core Crown debt[2]	19.5	23.6	25.5	25.3	24.7	23.9	21.6	19.4	18.6	26.3	34.0	43.8	48.0	46.9	43.6
Total borrowings	43.9	46.8	45.7	43.7	45.8	44.0	40.5	39.1	35.5	48.2	51.8	61.5	66.0	64.8	61.6
Net worth															
Total Crown net worth	39.3	27.8	32.0	34.1	40.0	36.9	42.2	45.8	46.2	36.6	35.1	29.2	26.1	24.5	24.0
Total net worth attributable to the Crown	39.2	27.6	31.1	31.9	35.2	34.5	40.1	43.8	44.1	34.9	33.5	27.6	24.6	23.1	22.7

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	1.9	3.4	2.5	3.6	3.5	4.8	6.4	4.6	4.3	-0.9	5.0	3.0	2.9	2.5	2.4
Public consumption	2.6	0.8	0.0	3.1	3.4	1.5	2.9	3.8	3.6	6.7	4.1	3.1	1.4	1.5	2.0
TOTAL CONSUMPTION	2.0	2.8	1.9	3.5	3.5	4.0	5.6	4.4	4.1	0.8	4.8	3.0	2.5	2.2	2.3
Residential investment	-3.0	9.9	18.2	13.2	6.3	10.1	3.7	-0.1	3.7	-6.1	16.0	1.7	5.2	2.7	2.6
Business investment	8.2	6.3	1.0	8.9	7.2	1.6	1.7	12.3	4.1	-4.8	0.6	5.1	9.4	5.1	3.6
TOTAL INVESTMENT	5.6	7.1	4.8	10.0	6.9	3.8	2.2	8.9	4.0	-5.1	4.4	4.2	8.3	4.5	3.4
Stock change (contribution to growth)	-0.1	0.2	-0.3	0.5	0.0	-0.3	0.4	0.2	-0.5	-0.5	0.3	0.3	0.0	0.0	0.0
GROSS NATIONAL EXPENDITURE	2.6	4.0	2.2	4.8	4.0	3.5	5.2	5.8	3.4	-1.1	5.1	3.6	3.9	2.8	2.6
Exports	2.2	2.1	3.0	0.3	6.4	5.9	0.6	4.0	3.2	-5.6	-10.3	6.1	6.8	5.5	4.7
Imports	11.4	4.4	2.6	9.0	6.9	1.5	6.7	8.4	2.4	-6.0	-5.0	10.7	6.0	4.0	3.5
EXPENDITURE ON GDP	0.1	3.3	2.4	2.4	4.0	4.6	3.5	4.6	3.7	-1.0	4.3	1.9	3.8	3.0	2.8
GDP (production measure)	1.1	2.7	2.3	2.8	4.1	3.8	3.5	3.7	2.9	-1.7	2.9	3.2	4.4	3.3	2.9
- annual % change	0.8	2.6	2.7	2.9	3.9	4.3	3.5	3.7	2.3	-11.4	13.4	4.9	3.7	3.2	2.7
Real GDP per capita	0.1	2.0	1.6	1.5	2.1	1.6	1.3	1.7	1.2	-3.7	1.5	2.4	3.4	2.2	1.7
Nominal GDP (expenditure basis)	4.5	4.5	1.8	8.3	3.7	5.4	6.6	7.4	4.8	2.0	5.6	4.6	6.3	5.7	5.5
GDP deflator	4.4	1.2	-0.6	5.7	-0.3	0.7	2.9	2.6	1.1	3.1	1.2	2.6	2.4	2.6	2.6
Output gap (% deviation, June year average)	-1.8	-1.2	-1.4	-1.5	-0.7	-0.1	0.2	0.9	1.2	0.4	-2.4	-1.7	0.0	0.7	0.9
Employment	1.4	0.9	0.1	3.4	3.6	2.7	5.3	3.6	1.9	1.7	0.2	1.4	2.4	1.9	1.8
Unemployment (% June quarter s.a.)	6.1	6.4	6.0	5.3	5.5	5.1	4.8	4.5	4.0	4.0	5.2	5.0	4.4	4.2	4.2
Wages (average ordinary-time hourly, ann % change)	3.0	2.9	2.1	2.5	2.7	2.0	1.5	3.0	4.4	3.0	3.5	3.0	2.4	2.8	3.2
CPI inflation (ann % change)	5.3	1.0	0.7	1.6	0.4	0.4	1.7	1.5	1.7	1.5	2.4	1.7	1.8	2.0	2.1
Merchandise terms of trade (SNA basis)	9.7	-1.7	-3.8	16.4	-4.8	-2.7	4.9	4.6	-3.5	4.6	0.3	1.0	-0.9	-0.4	-0.3
House prices (ann % change)	-0.2	4.0	8.9	6.3	11.8	15.0	6.5	3.6	1.5	6.8	17.3	0.9	2.1	2.1	2.5
Current account balance - $billion	-6.0	-7.7	-7.9	-5.9	-8.4	-5.7	-7.7	-10.7	-11.6	-5.7	-9.0	-11.8	-13.0	-13.1	-12.9
Current account balance - % of GDP	-2.9	-3.6	-3.6	-2.5	-3.4	-2.2	-2.8	-3.6	-3.8	-1.8	-2.7	-3.4	-3.5	-3.3	-3.1
TWI (June quarter)	70.8	72.4	76.3	81.5	76.2	73.6	76.5	73.8	72.7	69.7	74.5	74.5	74.5	74.7	75.1
90-day bank bill rate (June quarter)	2.7	2.6	2.6	3.4	3.5	2.4	2.0	2.0	1.7	0.3	0.3	0.3	0.3	0.3	0.9
10-year bond rate (June quarter)	5.3	3.7	3.5	4.4	3.6	2.7	2.9	2.8	1.8	0.8	1.8	2.2	2.4	2.7	2.9

Data for 2021 and subsequently are forecasts. Data for 2020 and prior years are those that were available when the forecasts were finalised.