TE TAI ŌHANGA
THE TREASURY

Half Year Economic and Fiscal Update 2021

15 December 2021

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

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

Internet

The URL for this document on the Treasury's website at December 2021 is
https://treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2021

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Statement of Responsibility

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

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in preparing, and supplying the Minister of Finance with, this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications of government decisions and other circumstances as at 25 November 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 25 November 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

10 December 2021

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured all government decisions and other circumstances as at 25 November 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

10 December 2021

Executive Summary

June years	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Real production GDP (annual average % change)	5.1	0.8	4.9	2.2	2.3	2.3
Unemployment rate (June quarter)	4.0	3.2	3.3	3.6	3.8	4.1
CPI inflation (annual % change)	3.3	5.1	3.1	2.7	2.4	2.2
Current account (annual, % of GDP)	-3.3	-5.8	-5.4	-4.8	-4.4	-4.0
Fiscal measures ($billions)						
Core Crown tax revenue	98.0	102.6	113.8	120.1	127.3	134.5
Core Crown expenses	107.8	128.0	120.2	124.8	128.5	133.6
Total Crown OBEGAL[1]	-4.6	-20.8	-0.8	2.1	5.9	8.2
Core Crown residual cash	-13.8	-34.1	-21.7	-8.0	14.5	12.5
Net core Crown debt	102.1	136.3	157.9	165.5	150.6	137.9
as a percentage of GDP	30.1	37.6	40.1	39.9	34.6	30.2
Net worth attributable to the Crown	151.5	127.3	131.4	139.3	151.5	166.4

Note: 1 Operating balance before gains and losses.

Sources: Stats NZ, the Treasury

- After a year and a half of successfully eliminating COVID-19 in the community, the arrival of the Delta variant of the virus has changed New Zealand's course from an elimination to a minimisation and protection strategy. Consequently, while New Zealand has transitioned away from the Alert Level System to the more permissive COVID-19 Protection Framework, COVID-19 developments will continue to be a major influence on economic and fiscal outcomes and represent a major source of uncertainty and risk.

- Strong demand leading up to the Delta outbreak resulted in stronger-than-expected economic activity, tax revenues exceeding forecasts and record-low unemployment. GDP rose by 4.1% over the first half of 2021 and the unemployment rate fell to 3.4% in the September 2021 quarter. Stronger economic activity and the need for less COVID-19 fiscal support measures have led to a recovery in the Government's fiscal position in the first half of 2021, with actual results outperforming expectations.

- Activity has fallen in the September quarter owing to restrictions, but we expect a rebound in subsequent quarters, supported by pent-up demand, continued strength in building construction, and the more permissive COVID-19 Protection Framework.

- The combination of supply chain disruptions and strong demand has seen capacity pressures intensify, contributing to higher inflation. Consumers Price Index (CPI) inflation is forecast to peak at 5.6% in the March 2022 quarter, significantly higher than the peak expected in the *2021 Budget Economic and Fiscal Update (Budget Update),* before trending down. As a result, interest rates are expected to rise faster and to a higher level than forecast in the *Budget Update*. Higher inflation is a major contributor to higher nominal GDP over the forecast period compared to the *Budget Update.*

- The labour market outlook has continued to improve since the *Budget Update*. The unemployment rate is expected to fall to 3.1% in the March 2022 quarter before slowly increasing to 4.1% by the end of the forecast period. This continued tightness in the labour market, together with higher CPI inflation is expected to maintain wage inflation above 4.0% throughout the forecast period.

- The strong growth in tax revenue experienced in the first half of 2021 is expected to continue and, when combined with the above-mentioned changes in economic conditions, core Crown tax revenue is forecast to grow on average by just over $7.0 billion in each year of the forecast period.

- With the emergence of the Delta variant, the growth in core Crown tax revenue expected in the current fiscal year is offset by the Government's fiscal support measures. An operating balance before gains and losses (OBEGAL) deficit of $20.8 billion is expected in the current year, which is $16.2 billion more than the deficit reported in the 2020/21 fiscal year.

- As the majority of the Government's fiscal support measures in response to the Delta variant are temporary in nature, they quickly unwind, resulting in a sharp recovery from the 2022/23 fiscal year. OBEGAL is expected to return to surplus in the 2023/24 fiscal year and reach $8.2 billion by the end of the forecast period.

- In the *2022 Budget Policy Statement*, the Government signalled an operating allowance of $6.0 billion per annum for Budget 2022, $4.0 billion per annum for Budget 2023, and $3.0 billion per annum for Budgets 2024 and 2025. While the Budget 2022 operating allowance is higher than normal, this is expected to be a one-off, reflecting a number of significant reform programmes expected to be funded through Budget 2022.

- Higher allowances increase the level of nominal government consumption, but because higher inflation and wage costs flow through to higher costs for the government, the rate of growth in real government consumption is forecast to be lower than at the *Budget Update.*

- Overall, a core Crown residual cash shortfall of $36.8 billion is expected over the forecast period. Net core Crown debt is forecast to increase by $35.8 billion by 2025/26, primarily to fund the expected cash shortfall over the forecast period. Net core Crown debt is expected to peak at $165.5 billion in 2023/24, $18.7 billion lower than forecast in the *Budget Update*. As a percentage of GDP, net core Crown debt peaks a year earlier at 40.1% of GDP in 2022/23.This is owing to the stronger starting position from the audited results at 30 June 2021, as well as the stronger residual cash position.

- Net worth attributable to the Crown also improves, growing to $166.4 billion by the 2025/26 fiscal year, owing to the cumulative improvement in the operating balance.

- The Economic Outlook chapter presents alternative upside and downside scenarios. Compared to our main forecast, the upside scenario explores better COVID-19 outcomes both in New Zealand and abroad, resulting in a faster domestic recovery, a stronger terms of trade and an improved fiscal position. In the downside scenario, we explore the possibility of worse COVID-19 outcomes internationally and domestically, resulting in a higher unemployment rate, a slower recovery in domestic activity and higher net debt.
- In addition, the Risks to the Fiscal Forecasts chapter discusses the key risks to the fiscal forecasts, including COVID-19 and climate change.

Finalisation dates for the *Half Year Update*

Economic forecasts – 10 November 2021

Tax revenue forecasts – 16 November 2021

Fiscal forecasts – 25 November 2021

Risks to the fiscal forecasts – 25 November 2021

Text finalised – 10 December 2021

The economic forecasts do not include the annual national accounts data released on 19 November 2021. See page 11 for further details.

1

Economic Outlook

Overview

- New Zealand's economic performance has been stronger than expected since the publication of the *Budget Economic and Fiscal Update 2021* (*Budget Update*), reflecting that the economy has been more adaptable and resilient to the COVID-19 pandemic than previously thought.
- Robust demand throughout the first half of 2021 has catalysed broad-based growth, with stronger-than-expected economic activity, tax revenues exceeding forecasts, and the unemployment rate dropping to record-low levels.
- We forecast an approximately 6% fall in GDP in the September 2021 quarter owing to the Delta outbreak, although we are expecting activity to return in subsequent quarters supported by pent-up demand, continued strength in building construction, and the more permissive COVID-19 Protection Framework boosting activity at the start of 2022.
- The labour market remains tight, and unemployment is expected to drop to 3.1% in the March 2022 quarter and remain below 4.0% for most of the forecast period. This is expected to lead to wages rising more rapidly.
- Aggregate demand and wage pressures have combined with ongoing supply chain disruptions to push Consumers Price Index (CPI) inflation well outside the Reserve Bank of New Zealand's target range of 1% to 3%.
- Interest rates are now anticipated to rise more rapidly and to a higher level than previously assumed, placing downward pressure on aggregate demand and house price growth and returning inflation to within the target range from late 2023. We anticipate a slight fall in house prices in 2023.
- Higher inflation translates to nominal GDP being a cumulative $78.5 billion higher over the forecast period to June 2025 relative to the *Budget Update*. This is the major driver of the additional $48.6 billion in core Crown tax revenue over the five years to June 2025. However, higher inflation adds to cost pressures associated with the provision of public services.
- The global economic recovery has lost some momentum owing to the emergence of Delta and ongoing supply chain disruptions, but remains positive with vaccination, policy support, savings drawdown, and the reopening of economic activity all supporting growth.

- The ongoing progression of the Delta and newer variants of COVID-19 continues to represent a key source of uncertainty to our forecasts. As we go to print, the emergence of Omicron is causing growing concern and highlights this risk. Two alternative scenarios looking at the impacts of a more contained spread of COVID-19 and a faster spread are presented to illustrate the level of uncertainty in the forecasts.

Table 1.1 – Economic forecasts

Year ending June Annual average % change	2021	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Private consumption	7.5	1.2	3.4	1.1	2.0	2.2
Public consumption	6.8	4.8	1.8	0.6	0.8	1.1
Total consumption	**7.3**	**2.1**	**3.0**	**1.0**	**1.7**	**2.0**
Residential investment	17.8	8.9	3.4	-2.1	-0.5	-1.1
Business investment[1]	4.5	2.9	9.8	4.0	2.6	2.1
Total investment	**7.8**	**4.5**	**8.0**	**2.4**	**1.8**	**1.3**
Stock change[2]	0.5	0.3	-0.3	0.0	0.0	0.0
Gross national expenditure	**7.9**	**3.1**	**4.2**	**1.3**	**1.7**	**1.8**
Exports	-11.4	2.1	7.1	6.3	5.0	4.2
Imports	-4.2	12.2	4.9	3.0	2.7	2.5
GDP (expenditure measure)	**5.9**	**0.3**	**4.3**	**2.0**	**2.2**	**2.2**
GDP (production measure)	**5.1**	**0.8**	**4.9**	**2.2**	**2.3**	**2.3**
Real GDP per capita	3.8	0.1	4.1	1.2	1.2	1.1
Nominal GDP (expenditure measure)	7.1	6.8	8.6	5.3	5.1	4.8
GDP deflator	1.1	6.5	4.1	3.2	2.8	2.5
Potential GDP	5.5	-0.3	4.6	2.6	2.7	2.7
Output gap (% of potential, June quarter)[3]	1.5	1.5	1.3	0.9	0.5	0.2
Employment	0.7	3.7	0.9	0.9	1.1	1.2
Unemployment rate[4]	4.0	3.2	3.3	3.6	3.8	4.1
Participation rate[5]	70.5	71.0	71.0	71.0	71.0	70.9
Hourly wages (annual % change)[6]	4.0	4.1	4.5	4.6	4.4	4.2
CPI inflation (annual % change)	3.3	5.1	3.1	2.7	2.4	2.2
Terms of trade (goods)[7]	-0.2	0.5	0.4	-0.4	-0.4	-0.4
House prices (annual % change)[8]	29.0	10.4	-0.2	-0.4	0.5	0.6
Current account balance (annual)						
$billions	-11.2	-20.9	-21.4	-20.1	-19.1	-18.5
% of GDP	-3.3	-5.8	-5.4	-4.8	-4.4	-4.0
Net international investment position (% of GDP)	-45.8	-48.6	-50.2	-52.5	-54.4	-55.9
Exchange rate (TWI)[9]	74.7	77.2	78.3	78.7	78.9	78.9
90-day bank bill rate[10]	0.3	2.0	3.2	3.1	3.1	3.1
10-year bond rate[10]	1.7	2.6	2.9	3.2	3.4	3.4

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 System of National Accounts.
8 CoreLogic Quarterly House Price Index.
9 Trade-weighted index (TWI), average for the June quarter.
10 Average for the June quarter.

Key economic forecast judgements and assumptions

These forecasts cover the period through to June 2026 and are based on the following judgements and assumptions:

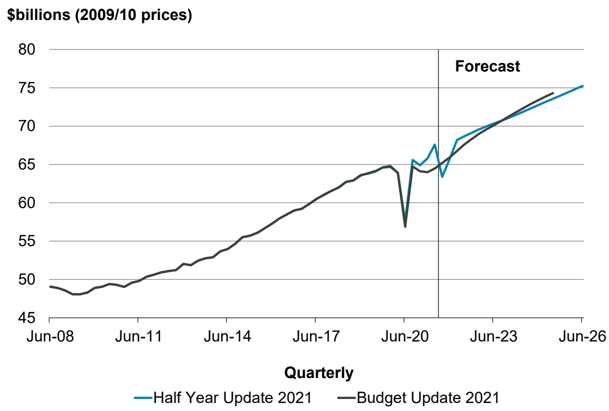
- At the time of finalising these forecasts, preliminary information was available on the proposed COVID-19 Protection Framework. We estimate that the impact of maintaining restrictions on the New Zealand border, in the context of COVID-19 globally, is approximately 2% of GDP. In addition, initial estimates of the likely impacts on economic activity under the new settings are as follows:
  - 2% to 3% of GDP at Red (approximately $190 million per week)
  - 1% to 3% of GDP at Amber (approximately $140 million per week)
  - 0% to 2% of GDP at Green (approximately $100 million per week).
- It is important to note that if localised lockdowns are used in addition to the Red or Amber settings this would result in additional economic impacts.
- The Treasury's working assumption is that public health restrictions will average an Amber setting over the first half of 2022 and the international border is assumed to have a phased reopening from the start of 2022, although some restrictions are expected to remain in place for longer.
- We assume that monetary policy support is gradually withdrawn through a combination of rising policy rates contributing to 90-day rates increasing to 3.2% by 2023, and the cessation of the Large-Scale Asset Purchase (LSAP) programme.
- The trade-weighted index (TWI) is assumed to rise steadily from 74.4 in the September 2021 quarter up to the end of 2023 as monetary conditions tighten, when it begins levelling off, reaching 78.9 by the June 2026 quarter.
- Net migration is assumed to have fallen to around 2,500 in the year ended December 2021. As international travel restrictions are lifted throughout the world, annual net migration is assumed to increase to around 40,000 by the June 2026 quarter.
- Oil prices increased to US$71 per barrel in the September 2021 quarter and are assumed to continue rising as the global economy recovers, reaching US$83 at the beginning of 2022, before falling to US$58 in June 2026 as global production increases.
- Economic activity in our top three trading partners (China, Australia and the United States of America) is forecast to grow by 5.8% in the December 2021 year and by 4.0% in 2022, supporting demand for New Zealand's goods exports.
- Our potential output assumptions have been revised lower from the *Budget Update* by 0.5% over the forecast period. This reflects ongoing disruptions related to the pandemic, including the need for elevated public health restrictions over the medium term in managing the Delta variant, the risk of further episodes, and relatively fewer hours worked and lower productivity levels owing to sickness.
- Our long-run assumption for the non-accelerating inflation rate of unemployment (NAIRU) is unchanged at 4.25%, and the assumed long-run neutral 90-day interest rate is 3.0%.

Economic Outlook

Aggregate demand has held up better than expected

Since the beginning of 2021, the economy has performed strongly (Figure 1.1). Strength has been broad-based across most industry groups and sectors with strong domestic spending boosting consumption and record building consents boosting construction. Tourism, however, remains a key area of weakness, reflecting the impact of ongoing border restrictions on international tourism.

Figure 1.1 – Real production GDP



Sources: Stats NZ, the Treasury

Strong aggregate demand has been reflected in ongoing labour demand, with unemployment falling throughout 2021 and an environment where firms are finding it increasingly difficult to find labour.

However, the emergence of Delta in Auckland and its spread to other regions saw New Zealand re-enter lockdowns again in August, stalling the momentum that the economy had in the first half of 2021. The spread of Delta internationally, and the ensuing efforts to contain it with lockdowns, has restricted the movement of both goods and people in a number of countries, causing further disruptions to supply chains. Domestically this has seen inflation peak at a 10-year high of 4.9% in the September quarter and unemployment reach a low of 3.4%, the equal lowest on record, matching the result in the December 2007 quarter.

With Auckland remaining at higher alert levels since the lockdown began in August and other regions dipping in and out of higher alert levels, we now forecast an approximately 6% fall in real GDP in the September 2021 quarter. This is followed by a gradual recovery over the December 2021 and March 2022 quarters of 3.7% and 3.8%, respectively. The recovery is underpinned by pent-up demand, higher employment, continued strength in building consents, and the more permissive COVID-19 Protection Framework boosting activity at the start of 2022.

Latest developments

The economic forecasts were finalised on 10 November, to allow sufficient time for the production of the fiscal forecasts. Data and events released after this have not, on balance, materially changed the outlook provided in the main economic forecasts.

The potential for a slightly earlier than assumed return of international visitors provides a small degree of demand dependent upside risk to the forecasts. But offsetting this, the emergence of Omicron is a source of downside risk.

Annual national accounts data for the year to March 2021 indicate relatively minor upward revisions to quarterly GDP data.

Developments over the second half of 2021 appear in line with forecast…

We remain comfortable with our forecasts of a 6% decline in GDP for the September quarter and a 3.7% lift in GDP for the December quarter overall, although there is the potential that the decline in September and subsequent recovery are both smaller. Indicators for September quarter GDP show mixed performance across industries. This includes an 8.1% decline in September quarter retail sales volumes (in June 2020 retail sales volumes fell 15.6%), a 6.4% fall in residential building activity, but a rise in wholesale trade. Developments in other parts of the services sector will be crucial, but on balance there is risk that the decline in GDP in the September quarter may be smaller than forecast.

Signs of the anticipated gradual recovery in the December quarter are apparent in electronic card spending which increased 9.5% in October following a 22% decline in August. Economic activity continued to rise in the month of October as the more comprehensive New Zealand Activity (NZAC) Index rose 0.6% from a year ago.

… but there is more uncertainty with how 2022 will evolve

In early November the Government announced plans for a phased reopening of the border. providing the possibility of slightly earlier return of international tourism than included in the forecasts. However, there is considerable uncertainty over the initial strength of demand.

The emergence of the Omicron variant of COVID 19 in late November has caused concern from both a health perspective and initially to international financial markets. The full implications of this new strain will continue to emerge over time and highlights the ongoing nature of uncertainty associated with COVID-19. Initial reaction, including in financial markets has been on the downside risks, while in early December there has been some reporting that Omicron may cause milder illness than earlier variants. This would be promising if it were to become the dominant variant, but experts caution that it is too soon to be sure.

Annual national accounts

Annual national accounts provide more comprehensive but less timely estimates of GDP. The 2021 annual national accounts showed nominal expenditure GDP for the year ending March 2021 that is $1.7 billion (0.5%) higher than current quarterly data. This is much smaller than the $7.9 billion difference in the 2020 release. As a result, there are few implications for the forecasts and the upward revision will only have modest impact on variables expressed as a percentage of GDP.

Supply-side constraints have also become prevalent…

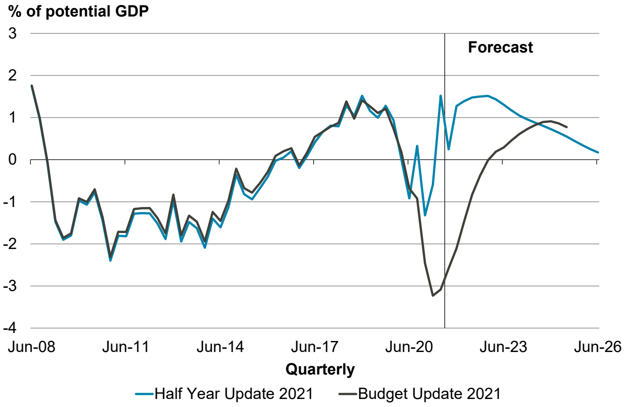
In addition to demand pressures, COVID-19 disruptions have also led to supply-side constraints both domestically and internationally (discussed later in this chapter) that have varying degrees of persistence. These include delays associated with shipping and reduced availability of key inputs in areas such as construction of electronic components.

The labour market provides further evidence of capacity constraints. The September quarter Quarterly Survey of Business Opinion (QSBO) reported record-high difficulty finding skilled labour and near-record difficulty finding unskilled labour in the September quarter, and a net 42% of businesses planned to increase their headcount in the next quarter.

With ongoing border restrictions limiting the potential supply of additional labour, employment growth is likely to be more constrained than it has been.

The greater-than-expected strength in activity, together with upwards historical revisions that were incorporated in the June 2021 quarter GDP release, has resulted in growth exceeding what the economy can sustain over the long run. The difference between actual and long-run potential economic activity, a key measure of spare capacity in the economy known as the output gap, has been more positive than previously thought. This lack of capacity is a strong indication of domestic inflationary pressure (Figure 1.2).

Figure 1.2 – Output gap

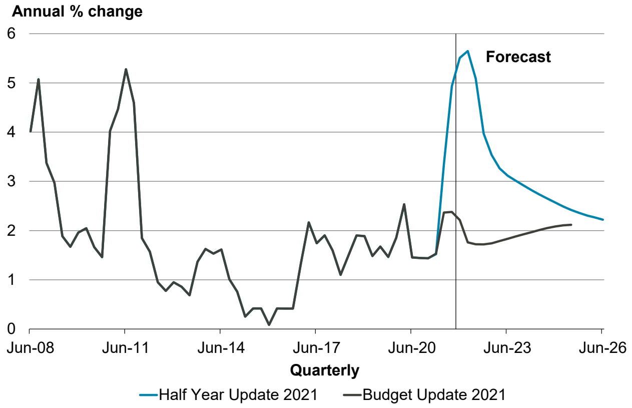


Sources: Stats NZ, the Treasury

…which, along with strong demand, has seen inflation surge…

With supply-side pressures emerging rapidly since the *Budget Update*, and inflation jumping to 4.9%, the highest in 10 years, CPI inflation forecasts have been revised upward across the forecast period relative to the *Budget Update* forecasts (Figure 1.3). Annual CPI inflation is forecast to peak at 5.6% in the March 2022 quarter. Inflation then falls across 2022 and continues to decline towards the Reserve Bank of New Zealand's 2.0% target midpoint over the remainder of the forecast period.

Figure 1.3 – Consumers Price Index



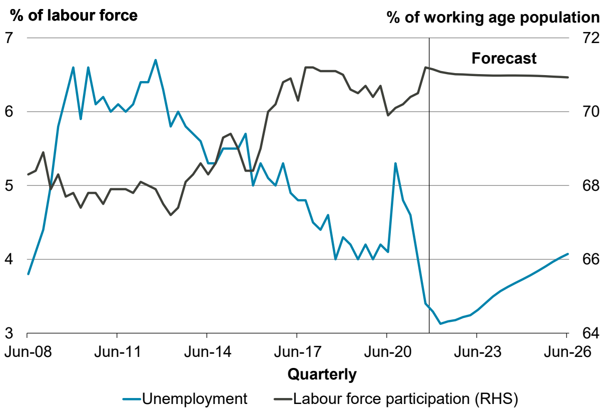
Sources: Stats NZ, the Treasury

Tradables inflation is expected to ease in the near term as elevated world energy prices and price effects of supply-chain disruptions unwind. Higher interest rates, as the Reserve Bank increases the Official Cash Rate (OCR) throughout 2022 to subdue domestic demand, sees non-tradables inflation gradually dampen over rest of the forecast period.

…and a tighter-than-expected labour market…

The labour market continues to be remarkably resilient despite the Delta outbreak and remains characterised by a state of tightness. In the September quarter, unemployment fell to 98,000, or 3.4%, the equal lowest since current records began in 1986 (Figure 1.4).

Figure 1.4 – Unemployment and participation



Sources: Stats NZ, the Treasury

Combined with lower underemployment, and the labour force participation rate sitting at a historical high of 71.2%, this has resulted in a marked reduction in what little spare capacity there was in the labour market. This employment growth occurred despite Auckland being in lockdown for around half the reference quarter, suggesting that firms are retaining staff in expectation of future reopening.

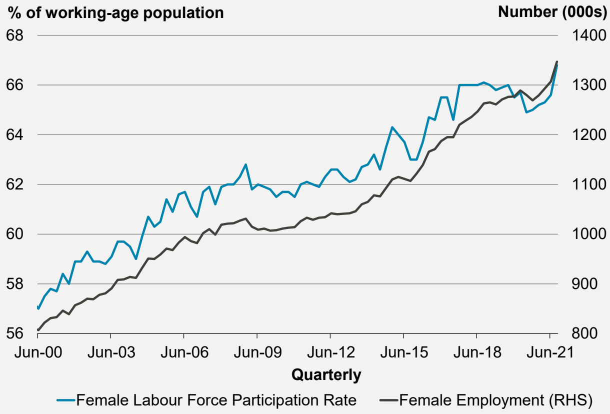
Given the tightness in the labour market, the absence of short-term opportunities to increase labour supply, and an anticipated lift in spending and activity as New Zealand shifts to the new COVID-19 Protection Framework, the unemployment rate is forecast to drop to 3.1% in the March 2022 quarter, before gradually rising towards 4.1% at the end of the forecast period. Employment is expected to grow quarter-on-quarter, but at a slower rate than the *Budget Update* forecasts (reflecting the increased tightness in the most recent data), while the labour force participation rate slowly declines to 70.9% by June 2026.

Labour market activity

The labour market has been characterised by continued strength over 2021…

At *Budget Update 2021*, there remained significant uncertainty surrounding the near-term position of the labour market. The last six months, though, have since provided assurance of an efficient labour market despite the ongoing impacts of the COVID-19 pandemic, which has constrained net inward migration.

Figure 1.5 – Female employment and participation



Source: Stats NZ

Continued growth in employment and decreases in unemployment have led to a reduction in labour market slack, highlighting a labour market more adaptable and resilient than previously thought. There are signs, however, that constraints on labour supply are beginning to bind, with firms reporting record-high difficulty finding both skilled and unskilled labour over 2021 according to the Quarterly Survey of Business Opinion. The September 2021 Household Labour Force Survey (HLFS) data substantiates this strength across a number of key demographics.

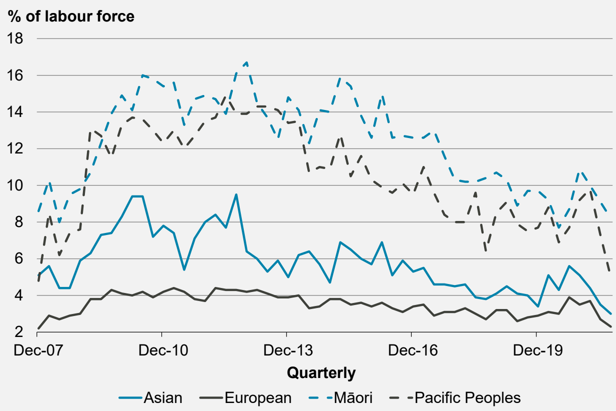
…with the highest female labour force participation on record…

First, a surge in employment over the quarter comprised more than 50,000 additional people in full-time employment, supporting higher household incomes and consumption. This strength was primarily driven by more women in employment, stemming from an increase in the female labour force and fewer women in unemployment. As a result, female labour force participation increased 1.2 percentage points to 66.8% – the highest level on record (Figure 1.5).

…and unemployment below pre-pandemic levels for every ethnic group

Second, the decrease in unemployment was broad-based across ethnicity. Across all ethnic groups that Stats NZ monitors, the unemployment rate fell in the September 2021 quarter so that the rate of unemployment was lower than pre-pandemic levels (Figure 1.6).

Figure 1.6 – Unemployment rate, by ethnicity



Sources: Stats NZ

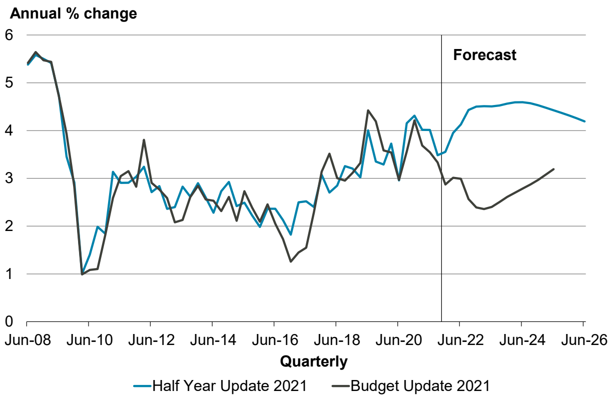
This is especially relevant for Māori and Pacific peoples. Historically, recessions have resulted in the unemployment rates of Māori and Pacific peoples rising to higher levels than the rest of the population and persisting for longer. The rapid return to unemployment rates lower than pre-pandemic levels – at 8.2% for Māori and 5.0% for Pacific peoples in the September 2021 quarter – indicates that this precedent will not hold with respect to COVID-19, further indicating a low incidence of labour market scarring related to the pandemic. Disparities between ethnicities predating the COVID-19 pandemic, however, clearly remain, with higher unemployment rates for Māori and Pacific peoples.

…leading to increased wage pressures…

This increased tightness in the labour market is expected to fuel additional wage growth and maintain an elevated rate of labour force participation.

Annual ordinary time average hourly wage growth is forecast to reach a peak of 4.6% starting in the December 2023 quarter, before tapering off to annual growth of 4.2% by the end of the forecast period (Figure 1.7).

Figure 1.7 – Wage growth



Sources: Stats NZ, the Treasury

These wage pressures are likely to be felt unevenly across the economy, as tourism-exposed industries (accommodation and transport, for example) will not experience wage growth to the same extent as growing sectors such as construction and primary manufacturing industries.

…while government consumption growth is subdued

Annual average growth in real government consumption is forecast to be lower than in the *Budget Update* forecasts for most of the forecast period. Although the fiscal allowances will support an increase in the dollar-value of government consumption, higher inflation and wage costs will increase the cost of providing government services. The balance of these forces is such that in real terms, government consumption will still grow, but at a slower pace than forecast in the *Budget Update.* This is reflected in a significantly higher government consumption deflator, the price measure for government services used in the national accounts.

Generalised price pressures mean interest rates are likely to continue to increase sharply…

In response to the strength in demand and inflation exceeding the target band, the Reserve Bank has removed monetary policy stimulus since the *Budget Update* and we expect this trend to continue over the forecast period.

In July 2021, the Reserve Bank halted the LSAP programme and, having initially delayed raising the OCR owing to the Delta outbreak, increased the OCR by 0.25% in October and again in November to reach 0.75%. The Reserve Bank is expected to continue responding to the stronger-than-expected inflationary pressures by lifting the OCR further during 2022 and 2023.

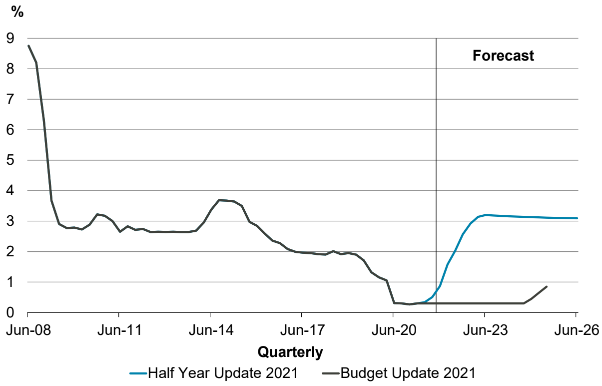
As a consequence, the 90-day interest rate is forecast to rise to 3.2% by the June 2023 quarter before moderating slightly over the forecast period to the assumed long-run neutral 90-day rate of 3.0% (Figure 1.8).

…which moderates the pace of house price growth…

Annual house price growth is forecast to ease over the year ahead after peaking at approximately 30% in the June 2021 quarter (Figure 1.9). The high rates of house price growth seen recently are expected to support consumption and residential investment activity for some time yet, boosting aggregate demand and adding to inflationary pressures. However, as the housing market cools, these forces are expected to wane.

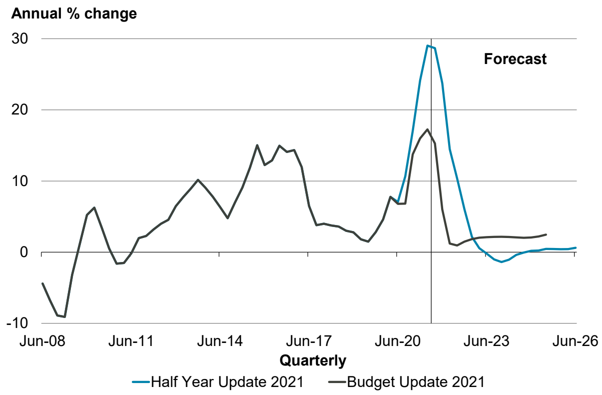
The key reason we expect house price inflation to slow is rising interest rates. The higher OCR will translate to higher mortgage rates, reducing demand for housing. House prices are forecast to fall slightly on an annual basis over 2023 and 2024, shortly after interest rates peak. The box below explores in more detail the role of interest rates in influencing house prices.

Figure 1.8 – 90-day interest rates



Sources: RBNZ, the Treasury

Figure 1.9 – House prices



Sources: CoreLogic, the Treasury

Other factors will also be working to address supply and demand imbalances in the housing market. These include changes around tax deductible interest for rental property owners, tightening loan-to-value ratio restrictions and elevated price-to-income ratios reducing affordability and credit availability, and ongoing measures to expand the supply of housing.

House prices, interest rates and impacts on the wider economy

This box discusses the rise in house prices over the past year and highlights the impact house price inflation has on the wider New Zealand economy. Household consumption is closely linked to house price movements via wealth effects. Changes in the housing market are therefore an important driver of the economic cycle, alongside many other factors. The Treasury also recognises that housing affordability – both prices and rents – is very important to the wellbeing of New Zealanders, and to the distribution of wealth.

The experience in the past year has demonstrated that house price forecasts carry a great deal of uncertainty. This box highlights the potential impacts on the economy if house prices prove weaker or stronger than expected in the main forecast scenario.

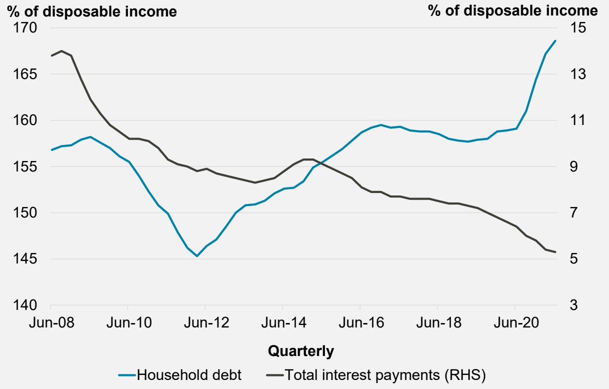
House prices have risen sharply in the past year…

New Zealand house prices rose 29.0% in the year to June 2021, the fastest since the 1980s, and considerably higher than our previous forecasts. This occurred despite near-zero net migration and booming residential construction activity that increased supply. The Treasury has invested in understanding the causes of the lift in house prices, including by forming a technical working group in collaboration with the Reserve Bank and the Ministry of Housing and Urban Development. In our assessment, the key driver of prices was a decline in mortgage rates following the onset of COVID-19, in the context of constrained urban land supply.

…increasing household debt, which raises debt servicing costs as interest rates rise

The combination of low interest rates and high house price growth has stimulated household consumption, and led to households taking on more debt. Household debt reached 169% of disposable household income in June 2021, having risen 10 percentage points from the same period a year ago. While the level of household debt is at a record high, debt servicing costs have been kept moderate by low interest rates. In fact, at 5.3%, the household debt servicing-to-income ratio reached its lowest level on record in the June 2021 quarter (Figure 1.10).

Figure 1.10 – Household debt and interest payments



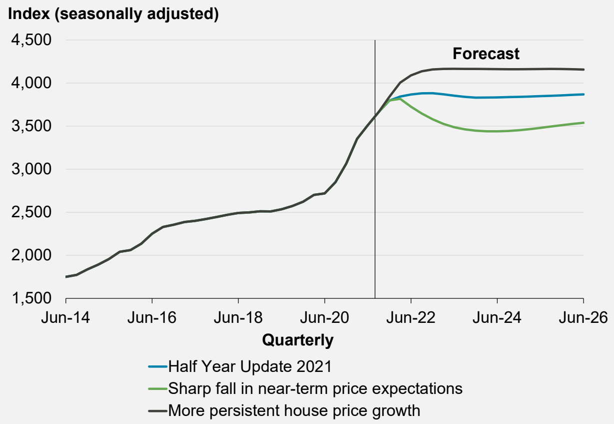
Source: Reserve Bank of New Zealand

There is considerable momentum in the housing market at present, and we expect that will remain the case for the rest of this year. However, as interest rates rise, we expect house price inflation will slow, culminating in a moderate decline in prices during 2023. Additional reasons to anticipate a slowdown in house price inflation include strong supply relative to population growth, the reimposition of loan-to-value lending constraints, and recent tax changes. Slower house price growth will, over time, curb consumer spending via wealth effects. Higher mortgage rates will also directly impact consumer spending by squeezing disposable incomes for highly indebted households (although households living off savings will experience an income boost).

…but house prices can evolve differently from expected in the main forecast scenario

Different house price assumptions can lead to considerably different outcomes for the economy. The following examines what might happen to the economy if house prices behave differently from forecast (Figure 1.11).

Figure 1.11 – House prices

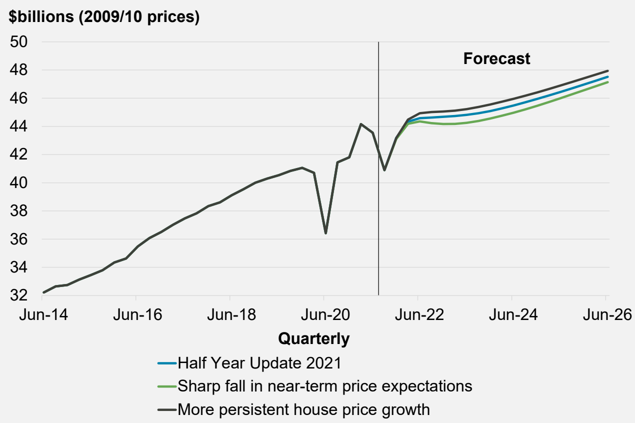


Sources: CoreLogic, the Treasury

If house price growth remains stronger for longer, consumer spending will remain elevated. Sustained higher house price growth would increase aggregate demand, keeping unemployment lower than in the main forecast. However, the resulting inflationary pressure would require the Reserve Bank to lift interest rates by more than in our main forecast. Depending on how high they go and the persistence of the flow-on effects of higher house prices, aggregate demand is likely to fall, leading to a gradual rise in unemployment over time.

If house prices slow more sharply than in our central forecast then the converse chain of reasoning would apply. Consumer spending would be weaker (Figure 1.12), and unemployment higher. However, the Reserve Bank may not need to lift interest rates as far in order to meet its inflation and employment objectives. With interest rates not rising as far as in the central forecast, house prices and consumer spending would grow faster in the later years of the forecast, and unemployment would rise more slowly.

Figure 1.12 – Private consumption

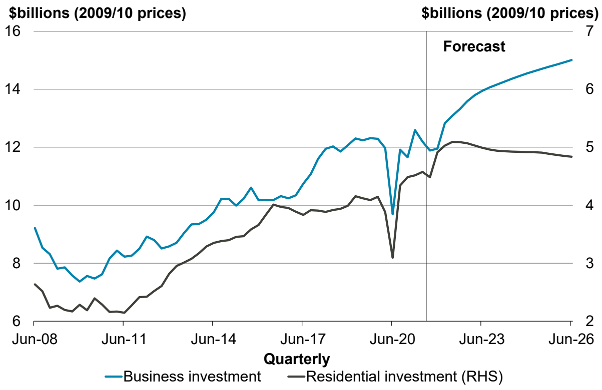


Sources: Stats NZ, the Treasury

…and acts as a drag on investment activity in the medium term…

Record-high building consents issuance over the past year indicates that residential construction activity will stay strong over the year ahead. However, growth in residential investment is expected to slow over time as interest rates rise and the rate of house price inflation diminishes (Figure 1.13).

Figure 1.13 – Real investment



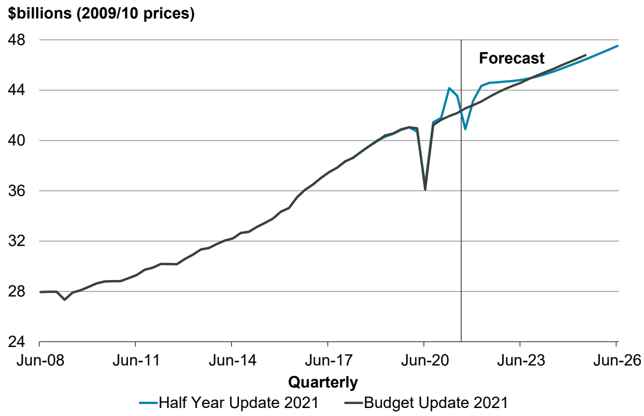
Sources: Stats NZ, the Treasury

Business investment is expected to be subdued in the short-term due to the impact of Delta restrictions. Deferred investment post lockdown, ongoing household demand and a progressive re-opening of the borders see a pick-up in business investment in the first half of 2022, before rising interest rates slow the rate of growth over the remainder of the forecast period.

…although household spending remains strong in the short term…

In the short term, household consumption is expected to recover as restrictions on activity ease, with the impact of remaining public health restrictions offset by recent higher house price growth and elevated employment levels and wages (Figure 1.14).

Figure 1.14 – Real private consumption



Sources: Stats NZ, the Treasury

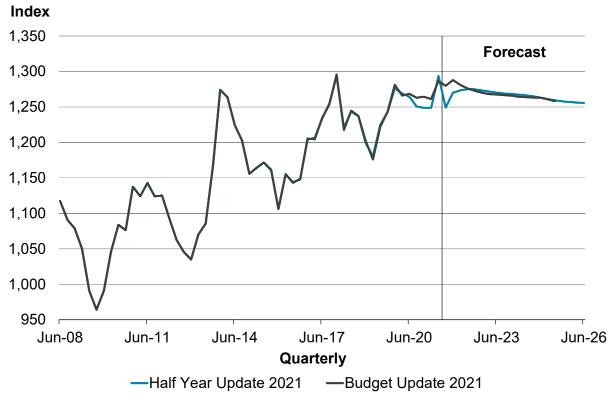
In the medium term, higher household incomes and employment levels will support consumption. However, relative to the *Budget Update* we now expect the cost of living to rise more rapidly. This will erode consumers' purchasing power and is a countervailing constraint on household spending. Rising interest rates and the housing market slowdown will also contribute to slower growth in consumption over 2023 and 2024.

…while goods exports are supported by elevated commodity prices

Despite a slowdown in global growth, demand for New Zealand's goods exports is expected to remain strong. Global supply chain disruption is causing challenges for exporters and is expected to have lingering impacts, with real goods exports now forecast to be 1.1% lower in 2025 compared to the *Budget Update*.

Commodity export prices have risen to record highs, driven by the strength in global consumer demand as well as stockpiling behaviour from buyers motivated by supply chain concerns. Commodity prices are expected to ease over 2022 as global agricultural supply recovers and demand normalises.

Figure 1.15 – Goods terms of trade



Sources: Stats NZ, the Treasury

The rise in export prices boosted the goods terms of trade to a record high in the June 2021 quarter. However, higher import prices driven by supply chain disruption are forecast to result in a drop in the terms of trade in the September quarter. The medium-term outlook for the terms of trade is similar to the *Budget Update*, with persistently rising import prices contributing to a modest easing across the forecast period. (Figure 1.15).

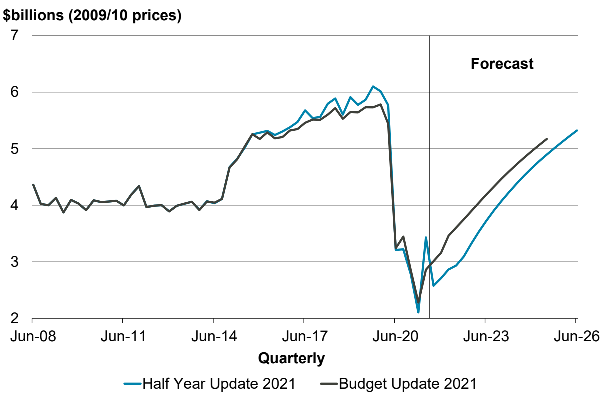
Rising domestic interest rates see a steady increase in the exchange rate, with the trade-weighted Index (TWI), reaching 78 by 2023, and 79 by the end of the forecast period.

Delta results in services exports recovering later than expected...

The short-lived trans-Tasman travel bubble saw services exports increase 63% in the June quarter. However, the arrival of the Delta variant of COVID-19 brought this partial recovery to an abrupt halt and has pushed out the expected recovery in inbound tourism.

Services exports are forecast to begin to recover from the second half of 2022 in line with the Reconnecting New Zealand plan. The return of international visitors, however, is assumed to be more gradual in the short term (Figure 1.16).

Figure 1.16 – Services exports



Sources: Stats NZ, the Treasury

The current account balance is expected to widen in the near term, with stronger imports, a weaker terms of trade, and a weaker income balance (resulting from higher interest rates increasing debt-servicing costs) leading to an annual current account deficit of 5.8% of GDP in the June 2022 quarter. By the end of the forecast period, the recovery in services exports and rising services terms of trade combine to narrow the deficit to 4.0% of GDP.

…and acts as a drag on global growth...

The global economic recovery has lost some momentum owing to the emergence of Delta and ongoing supply chain disruptions, but the growth outlook remains positive, with vaccination, policy support, savings drawdown, and the reopening of economic activity all supporting growth prospects.

Delta has led to a slowing of growth in real GDP in the United States and China, and Australia's GDP contracted 1.9% in the September 2021 quarter but is expected to bounce back relatively quickly in 2022. While growth in the United States is expected to pick up in the December quarter, China faces a number of headwinds including energy shortages, COVID-19 lockdowns, and firms in difficulty in the property market.

…with ongoing supply chain disruptions fuelling global inflationary pressures

Inflation has resurfaced as a key international risk; specifically, there are concerns about stagflation in some economies. Global inflation pressures were already high as a result of the massive monetary and fiscal stimulus that had been provided by central banks and governments. These pressures have risen further, driven by temporary factors such as higher oil prices and once-off pandemic impacts, more persistent factors such as supply chain issues and energy costs, and factors whose persistence is yet to be determined, such as increasing inflation expectations.

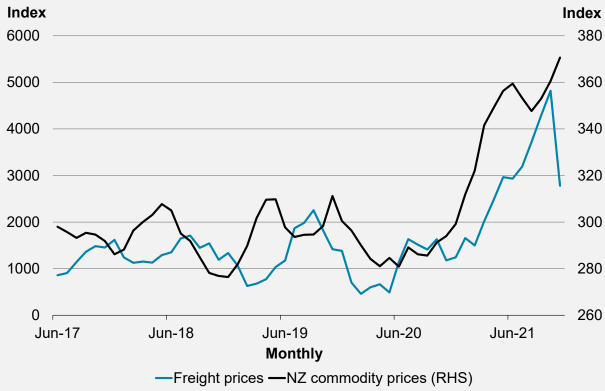
Accordingly, inflation has surprised on the upside in a number of regions – reaching 6.2% in October in the United States – which could lead to monetary policy tightening earlier. To date, central banks have generally held back from raising policy rates; however, the Korean and Norwegian central banks have hiked interest rates recently and the Bank of England and United States Federal Reserve have communicated an earlier start to tightening monetary policy settings.

The economic impacts of global supply chain disruption

Strong demand for goods and constrained shipping capacity have boosted prices…

One consequence of the COVID-19 pandemic has been a sharp lift in demand for goods, as consumers substituted away from in-person services. The global supply chain has struggled to keep up with the extra demand, given the time involved in expanding shipping capacity, causing freight prices to rise sharply (Figure 1.17). A similar dynamic has also pushed up global commodity prices, as food security concerns have led buyers to stock up on agricultural goods at a time when global production has been constrained. This has resulted in record-high prices for New Zealand's major commodity exports.

Figure 1.17 – World commodity and freight prices



Sources: ANZ, Baltic Exchange/Haver

High freight costs mean that importers are paying significantly more to have goods shipped to New Zealand, adding to inflationary pressures as some retailers pass on the additional cost to consumers, while reducing margins for businesses who are unable to pass on the cost. Supply chain congestion and elevated freight costs are contributing to high CPI inflation around the world, including in New Zealand where annual CPI inflation reached 4.9% in the September 2021 quarter. Delays and shortages of materials are also weakening economic activity, stoking fears of 'stagflation' (stagnant economic growth and high price inflation) in the world economy, and central banks may be forced to raise interest rates if high inflation continues.

…as port congestion and competition for shipping space cause challenges for exporters…

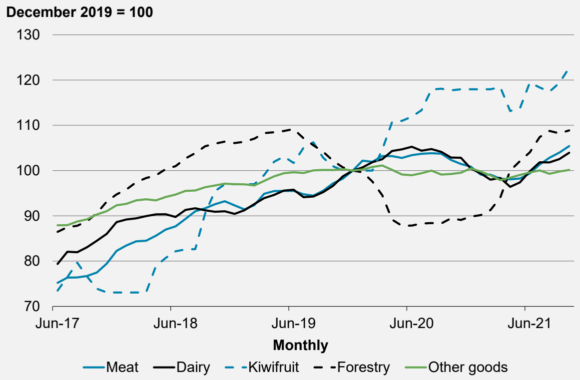
Elevated demand for goods and a limited number of ships have resulted in increased volumes of cargo per vessel. This has meant that each vessel requires a longer time in port to unload, resulting in backlogs of ships waiting to enter and creating congestion throughout the global supply chain. This has been compounded by port lockdowns, notably in China. In New Zealand, overall import and export volumes have recovered from the initial shock in mid-2020, with both exceeding pre-pandemic levels by the start of 2021. Ships are visiting our ports less frequently, however, and carrying more cargo per vessel, creating congestion as in other parts of the world. Domestic ports have suffered additional challenges, struggling with labour shortages after COVID-19 disrupted the flow of overseas workers.

Overseas demand remains strong, but some sectors are missing opportunities because of supply chain disruption. There have been reports of exporters struggling to get hold of empty containers and space on ships, with smaller producers more at risk of missing out and being unable to deliver goods to customers. Larger exporters have generally been able to secure space or charter their own vessels to avoid disruption, limiting the overall impact on goods export volumes.

…with impacts varying by export sector

New Zealand's largest export sectors have performed well following the initial shock in mid-2020 (Figure 1.18), masking the poor performance of other significant goods exports like mechanical machinery, aluminium, apples[1] and fish, which make up around 7% of total goods exports. Meat, dairy, kiwifruit and forestry, which comprise just over half of the total, have recovered in quantity terms and benefited from rising prices in 2021.

Figure 1.18 – Goods export values, annual sum



Source: Stats NZ

The outlook is uncertain, and while freight prices appear to be easing…

Industry commentators believe that only a slowdown in consumer demand will give the supply chain the necessary time to catch up, thereby easing the disruption. Forecasters expect disruption to extend throughout 2022 as sustained high container demand slows progress in clearing freight backlogs. Domestically, the shift to the COVID-19 Protection Framework is expected to reduce the likelihood of lockdowns, lowering the risk of further disruption in the domestic supply chain. The easing in border restrictions from 2022 should allow greater inward migration, reducing the severity of labour shortages in the supply chain and primary industries.

As shown in Figure 1.17, global freight prices have recently fallen, reflecting easing container traffic as the pre-Christmas peak in international shipping comes to an end. Freight prices will likely remain above pre-pandemic levels as the shift toward more containers per vessel is expected to persist, resulting in a more resilient but less efficient and thus more expensive global supply chain.

…disruption could reduce long-term growth and put New Zealand's international connections at risk

The impacts of supply chain disruption, combined with the ongoing uncertainty that the pandemic brings, will likely be damaging the confidence of internationally-facing businesses. This effect will be particularly severe for smaller businesses that do not have firmly established relationships with international partners and lack the resources to absorb higher costs. This may result in a loss of long-term opportunities as investments are foregone, businesses are forced to exit, and potential businesses are reluctant to enter.

While strong performance from New Zealand's largest export sectors and record-high terms of trade supports aggregate exports, supply chain disruption has weakened exports by smaller exporters. This may be reflected in around half of New Zealand's goods export sector ('Other goods' in Figure 1.18) experiencing zero growth since 2019 after growing 8.3% in the previous two years.

1 Apple growers have also been faced with a lack of pickers as the inflow of migrant workers has been disrupted.

Higher inflation in particular sees materially higher nominal GDP

Higher inflation than forecast in the *Budget Update*, combined with stronger near-term activity, translates to nominal GDP being $21.4 billion higher by the year to June 2025 and a cumulative $78.5 billion over the forecast period to June 2025 compared to the *Budget Update*. This is the main driver of the additional $48.6 billion in core Crown tax revenue across the four years to June 2025, leading to an improved fiscal position relative to the *Budget Update*, as outlined in the Fiscal Outlook chapter.

Risks are broadly balanced, and hinge on COVID-19 developments

The outlook is highly uncertain, with factors such as COVID-19, the duration of supply chain disruptions, or the persistence of house price inflation all adding to uncertainty. We view the risks as roughly balanced. The progression of COVID-19 both domestically and abroad remains the key source of uncertainty for our economic forecasts. The box below explores two indicative scenarios to give a sense of how sensitive the fiscal forecasts are to economic risks.

Alternative scenarios

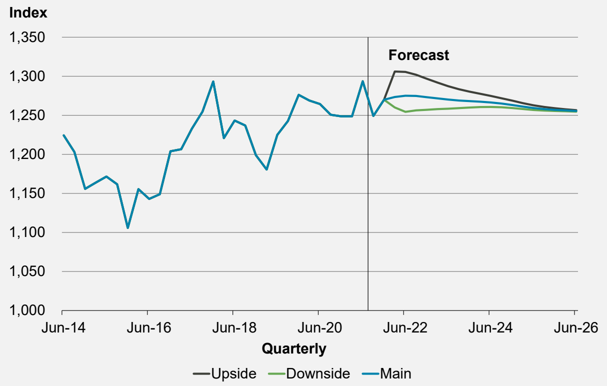
In the upside scenario, COVID-19 outcomes are better both here and abroad…

In the upside scenario, COVID-19 proves less disruptive, allowing a relaxation of restrictions both here and abroad. Domestic and international economic activity recovers more strongly than in the central forecast. International borders open earlier, allowing a faster and stronger recovery in exports of services and goods terms of trade are higher (Figure 1.19).

…speeding domestic recovery and boosting terms of trade

Stronger exports of services result in higher GDP growth over 2022. Higher terms of trade increase export revenue and encourage investment, providing a boost to GDP across the forecast period (Figure 1.20). Annual average GDP growth in December 2022 increases to 6.7%, compared to 5% in the main forecast.

Figure 1.19 – Goods terms of trade



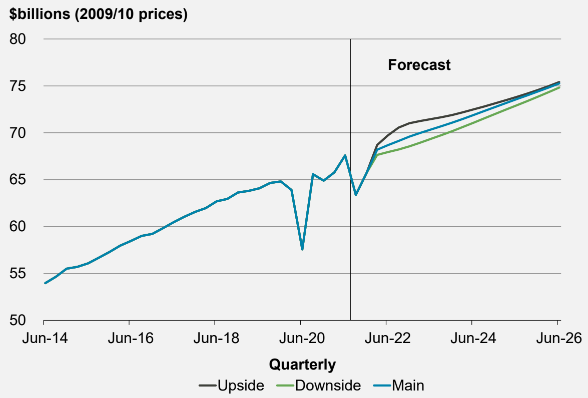
Sources: Stats NZ, the Treasury

This improves the labour market outlook, with the unemployment rate falling to 2.5% by September 2022. Faster recoveries in both employment and GDP imply less permanent scarring in the economy, and potential output is forecast to be 0.6% higher at the end of the forecast period.

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

In the downside scenario, COVID-19 remains very disruptive to daily life and poses a greater risk to the economic outlook. The downside scenario includes domestic resurgences in community transmission throughout 2022 that result in higher alert levels in certain parts of the country, as well as heighted restrictions abroad, resulting in weaker global growth. In each of the final three quarters of this year, alert levels on the new traffic light system are assumed to be Amber or Red for most of 2022.

Figure 1.20 – Real production GDP

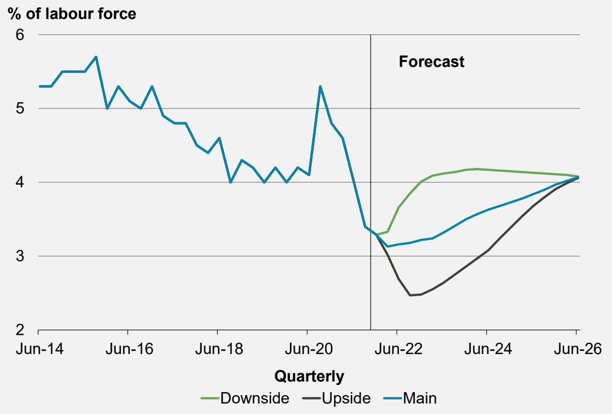


Sources: Stats NZ, the Treasury

…which pushes up the unemployment rate…

Increases in alert levels throughout 2022 and weaker global growth result in slower GDP growth over the year (Figure 1.20), as well as further increases in unemployment. Annual average GDP growth is 3.8% in December 2022, and the unemployment rate peaks at 4.2% (Figure 1.21). Ongoing virus transmission results in a delay in opening the international borders and a slower recovery in exports of services, as safe travel arrangements become less successful and people show a greater reluctance to travel.

Figure 1.21 – Unemployment rate



Sources: Stats NZ, the Treasury

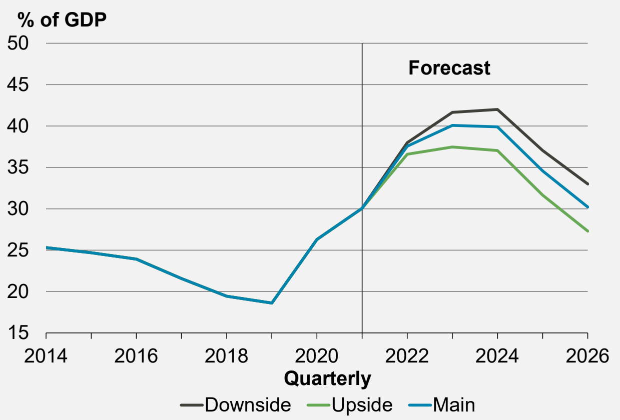
…and results in more permanent impacts on the economy

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 0.6% lower in the downside scenario.

Government debt is sensitive to the economic outlook

Cumulative nominal GDP over the forecast period is $25 billion higher in the upside scenario, resulting in an additional $9 billion in core Crown revenue. In the downside scenario, cumulative nominal GDP is $24 billion lower than in the main forecast, reducing core Crown revenue by $10 billion. Net core Crown debt is 33% of GDP in the year ending June 2026 in the downside scenario and 27% of GDP in the upside, compared to 30% in the main forecast (Figure 1.22).

Figure 1.22 – Net core Crown debt--to-GDP ratio



Sources: Stats NZ, the Treasury

2

Fiscal Outlook

Overview

- The fiscal outlook is expected to improve over the forecast period, after an initial weakening in the 2021/22 year as the Government responds to the recent Delta outbreak.
- The expected strength in economic activity and the stronger-than-expected base provided from the 30 June 2021 results have led to a significant improvement in tax revenue forecasts, which flows through to improve the key fiscal indicators when compared to the *Budget Economic and Fiscal Update 2021* (*Budget Update*).
- Core Crown tax revenue increases by $36.5 billion over the forecast period, an average of $7.3 billion higher each year. This growth is broadly in line with the economy, with core Crown tax revenue being around 29.0% of GDP over the five-year forecast.
- Core Crown expenses are initially forecast to increase to $128.0 billion in the 2021/22 year, from $107.8 billion at 30 June 2021. This is primarily owing to COVID-19 related expenditure to support the New Zealand economy through the outbreak of the Delta variant. As this expenditure eases, core Crown expenses are lower in the 2022/23 year, then increasing over the remaining years by $4.5 billion on average. This year-on-year lift is primarily attributable to future Budget allowances available across the forecast period, as well as an increase in benefit expenses and core Crown finance costs.
- The operating balance before gains and losses (OBEGAL) is now expected to return to surplus in the 2023/24 year, in contrast, at the *Budget Update* deficits were expected in all years of the forecast period.
- Net worth attributable to the Crown is $57.5 billion higher by 2024/25 than was expected at the *Budget Update* and is forecast to be $166.4 billion in the 2025/26 fiscal year. This is mainly owing to the stronger starting point from the results at 30 June 2021 and the cumulative improvement in the operating balance over the forecast period.
- Overall, core Crown residual cash broadly follows a similar trend to OBEGAL, with an improvement of $18.3 billion compared to the *Budget Update*. However, the capital cash flows associated with the Reserve Bank's Funding for Lending Programme (FLP) cause the residual cash trend to differ year-to-year compared to the OBEGAL trend. Residual cash is forecast to return to surplus in the 2024/25 year, one year after OBEGAL. Overall, there is a residual cash shortfall of $36.8 billion across the forecast period.

- The forecast for net core Crown debt is expected to increase by $35.8 billion by 2025/26, largely to fund the expected cash shortfall over the forecast period. However, net core Crown debt has improved compared to the *Budget Update* and is now forecast to peak nominally at $165.5 billion in 2023/24 and at 40.1% of GDP in 2022/23. This is $18.7 billion and 7.9 percentage points lower than the *Budget Update* and is largely a result of the stronger residual cash position and starting point from the results at 30 June 2021. When excluding the impact of the FLP, net core Crown debt peaks at 35.3% of GDP in 2023/24.

Table 2.1 – Fiscal indicators

Year ending 30 June	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
$billions						
Core Crown tax revenue	98.0	102.6	113.8	120.1	127.3	134.5
Core Crown expenses	107.8	128.0	120.2	124.8	128.5	133.6
Total Crown OBEGAL[1]	(4.6)	(20.8)	(0.8)	2.1	5.9	8.2
Total Crown operating balance	16.2	(23.8)	3.9	7.7	12.0	14.7
Core Crown residual cash	(13.8)	(34.1)	(21.7)	(8.0)	14.5	12.5
Net core Crown debt[2]	102.1	136.3	157.9	165.5	150.6	137.9
Net core Crown debt (including FLP assets)	99.0	124.4	135.9	146.5	141.2	137.9
Total borrowings	162.6	200.4	226.3	238.9	229.1	221.0
Net worth attributable to the Crown	151.5	127.3	131.4	139.3	151.5	166.4
% of GDP						
Core Crown tax revenue	28.8	28.3	28.9	29.0	29.2	29.5
Core Crown expenses	31.7	35.3	30.5	30.1	29.5	29.3
Total Crown OBEGAL[1]	(1.3)	(5.7)	(0.2)	0.5	1.4	1.8
Total Crown operating balance	4.8	(6.6)	1.0	1.9	2.8	3.2
Core Crown residual cash	(4.1)	(9.4)	(5.5)	(1.9)	3.3	2.7
Net core Crown debt[2]	30.1	37.6	40.1	39.9	34.6	30.2
Net core Crown debt (including FLP assets)	29.1	34.3	34.5	35.3	32.4	30.2
Total borrowings	47.9	55.2	57.5	57.6	52.6	48.4
Net worth attributable to the Crown	44.6	35.1	33.4	33.6	34.8	36.4

Notes: 1 Operating balance before gains and losses.
2 Net core Crown debt excluding the New Zealand Superannuation Fund and advances.

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 25 November 2021).

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

- Tax forecasts were completed on 16 November 2021 and are based on the economic forecast completed on 10 November 2021. There have been a number of tax policy changes, which are outlined in Table 2.5, as required under section 26R of the Public Finance Act 1989 (refer to page 33).
- 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, the multi-year capital allowance and the unallocated COVID-19 Response and Recovery Fund (CRRF) and Climate Emergency Response Fund (CERF) included in the fiscal forecasts.
- The funds remaining in the CRRF are assumed to be spent evenly over the first two years of the forecast period on operating expenditure.
- The Government has established the CERF and set aside funding of $4.5 billion for it. It is assumed that these funds will be split evenly between operating and capital expenditure and will be uniformly allocated over the forecast period from the 2022/23 year.
- 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.
- 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	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**
Estimated contributions as prescribed by formula[1]	1.8	2.0	2.0	2.0	1.9
Forecast contributions in *Half Year Update*	2.4	2.0	2.0	2.0	1.9

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

Source: The Treasury

- The 2021/22 year is the final year of the Government's committed capital contributions to the NZSF. The Government will contribute more than is required in this year, but in all further years of the *Half Year Update* both tracks of contributions are derived from the legislative formula.

Further information on the underlying economic assumptions used in these fiscal forecasts can be found on page 52.

Comparison to the *Budget Update*

The fiscal outlook is stronger than previously expected…

The financial results since the completion of the *Budget Update* have outperformed expectations, largely on the back of stronger-than-expected economic activity. This means the starting base for the *Half Year Update* fiscal forecast is stronger, and this strength in the economy is expected to continue, resulting in a significant upward revision in tax revenue forecasts compared to the *Budget Update*. In the current year, the Government's temporary fiscal support measures in response to the Delta outbreak have more than offset the increase in tax revenue forecast, while an increase in the level of Budget allowances partially offsets the increase in the tax revenue forecast from 2022/23. Overall, most key fiscal indicators have significantly improved since the *Budget Update* (Table 2.3).

Table 2.3 – Key fiscal indicators compared to the *Budget Update*[2]

Year ending 30 June $billions	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Core Crown tax revenue					
Half Year Update	98.0	102.6	113.8	120.1	127.3
Budget Update	91.5	93.2	101.7	107.1	113.2
Change	**6.5**	**9.4**	**12.1**	**13.0**	**14.1**
Core Crown expenses					
Half Year Update	107.8	128.0	120.2	124.8	128.5
Budget Update	110.7	114.7	115.4	117.8	121.1
Change	**2.9**	**(13.3)**	**(4.8)**	**(7.0)**	**(7.4)**
OBEGAL					
Half Year Update	(4.6)	(20.8)	(0.8)	2.1	5.9
Budget Update	(15.1)	(18.4)	(9.5)	(5.7)	(2.3)
Change	**10.5**	**(2.4)**	**8.7**	**7.8**	**8.2**
Core Crown residual cash					
Half Year Update	(13.8)	(34.1)	(21.7)	(8.0)	14.5
Budget Update	(25.3)	(39.2)	(25.7)	(6.0)	3.3
Change	**11.5**	**5.1**	**4.0**	**(2.0)**	**11.2**
Net core Crown debt					
Half Year Update	102.1	136.3	157.9	165.5	150.6
Budget Update	113.7	153.3	178.5	184.2	180.8
Change	**11.6**	**17.0**	**20.6**	**18.7**	**30.2**
Total borrowings					
Half Year Update	162.6	200.4	226.3	238.9	229.1
Budget Update	173.2	215.2	245.2	254.5	255.1
Change	**10.6**	**14.8**	**18.9**	**15.6**	**26.0**
Net worth attributable to the Crown					
Half Year Update	151.5	127.3	131.4	139.3	151.5
Budget Update	112.0	96.6	91.5	90.8	94.0
Change	**39.5**	**30.7**	**39.9**	**48.5**	**57.5**

Source: The Treasury

2 Favourable variances against previous forecast have a positive sign and unfavourable variances against previous forecast have a negative sign.

…as economic activity sees tax revenue improve…

Core Crown tax revenue is forecast to be higher by $12.2 billion per year on average and is $48.6 billion higher in total by the 2024/25 year when compared to the *Budget Update*.

The tax forecast shows strength in most of the major tax types, as summarised below (Table 2.4).

Table 2.4 – Change in core Crown tax revenue since the *Budget Update*, by major tax type

Year ending 30 June $billions	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**Total change**
Corporate tax	3.4	3.4	3.1	2.9	**12.8**
Source deductions	1.7	2.6	3.4	4.3	**12.0**
Goods and services tax (GST)	1.7	3.0	2.8	2.9	**10.4**
Net other persons tax	2.3	2.1	2.4	2.4	**9.2**
Resident withholding taxes	-	0.4	0.5	0.5	**1.4**
Other taxes	0.2	0.4	0.4	0.6	**1.6**
Total forecasting changes	**9.3**	**11.9**	**12.6**	**13.6**	**47.4**
Tax policy change effects	0.1	0.2	0.4	0.5	**1.2**
Total changes	**9.4**	**12.1**	**13.0**	**14.1**	**48.6**
Plus *Budget Update* tax base	93.2	101.7	107.1	113.2	
Core Crown tax revenue	**102.6**	**113.8**	**120.1**	**127.3**	

Source: The Treasury

New Zealand's economic performance has been stronger than expected since the *Budget Update*, reflecting that the economy has been more adaptable and resilient to the COVID-19 pandemic than previously thought. This increase in real activity, in combination with higher inflation, translates to a large increase in nominal GDP over the forecast period.

Most of the increase to the nominal GDP forecasts compared to the *Budget Update* fell into operating surplus (broadly, a measure of profits in the economy), which led to increases in the forecasts of corporate tax and other persons tax. Recent tax outturns were above forecast corporate and other persons tax revenue and receipts, indicating that taxable profits for the 2021 tax year were higher than forecast at the *Budget Update*.

Source deductions are expected to be $1.7 billion higher in the current year, rising to $4.3 billion by 2024/25, mainly owing to a stronger outlook for the labour market. However, most of the upward revision to the total compensation of employees forecast was in wages, rather than employment. As a result, there is a stronger contribution from fiscal drag (the effect on income tax as an individual's tax rate increases as their income increases) when compared to the *Budget Update*.

GST forecasts are expected to be on average $2.6 billion higher each year compared to the *Budget Update*, with the biggest drivers being an increase in the forecast for private consumption and residential investment. The expected reopening of the border will also see a small positive contribution from net migration, as non-resident spending in New Zealand is forecast to increase in the later years of the forecast period.

The resident withholding tax forecast is higher mainly as a result of a much stronger deposit interest rate forecast. The increase in other taxes is mostly owing to a higher customs and excise duty revenue forecast, which in turn is driven by indexation (inflation adjusted increases in excise rates).

Policy changes, as outlined in Table 2.5, also contribute to the change in core Crown tax revenue, mainly owing to the denial of interest deduction for residential rental properties.

Tax policy changes

This section details the material changes to forecast tax revenue since the *Budget Update* as a result of policy changes. Table 2.5 shows a breakdown of the changes and the supplementary text describes each change.

Table 2.5 – Estimated tax effects of policy changes announced since the *Budget Update*

Year ending 30 June $millions	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**Total change**
Denial of interest deduction for residential rental properties	80	200	350	490	**1,120**
Local Authority Taxation Package	-	-	48	24	**72**
Railway Track User Charges	8	16	21	21	**66**
COVID-19 Use-of-money interest provisions	(20)	-	-	-	**(20)**
Other changes	(8)	(3)	(4)	(4)	**(19)**
Total change	**60**	**213**	**415**	**531**	**1,219**

Source: The Treasury

Denial of interest deduction for residential rental properties

Interest deductibility for existing residential rental stock is to be phased out over a four-year period.

Local Authority Taxation Package

This includes changes in the taxation of local authorities, in particular relating to dividends, imputation credits and the charitable giving status of subsidiaries.

Railway Track User Charges

With effect from 15 November 2021, a railway track user charge will apply to any rail freight operator undertaking rail freight business on the national rail network.

COVID-19 Use-of-money interest provisions

The expiry date for some existing use of money interest arrangements related to the COVID-19 pandemic has been extended from 22 May 2022 to 31 March 2024.

Other changes

There are a number of policy changes, each of which is estimated to have an effect of less than $10 million per annum.

…and a rising carbon price has increased revenue from the Emissions Trading Scheme…

Overall, the net impact from the Emissions Trading Scheme (ETS) is expected to improve OBEGAL by an additional $3.5 billion over the forecast period compared to the *Budget Update*. ETS revenue is higher by $5.4 billion, partially offset by higher ETS expenses of $1.9 billion. The overall improvement is mainly owing to an increase in the price of tradeable New Zealand Units (NZUs) from $36.90 per unit at the *Budget Update* to $64.50 per unit used in the *Half Year Economic and Fiscal Update* (*Half Year Update*).

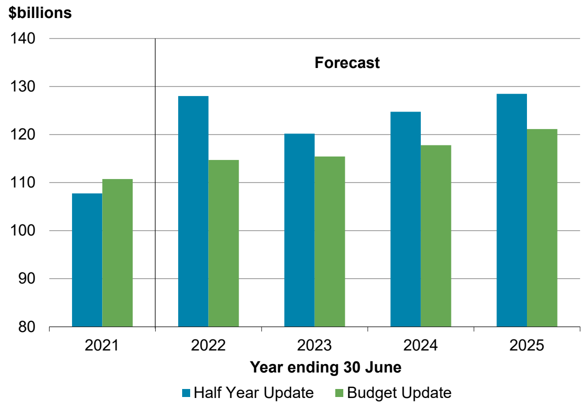
This increase in ETS revenue, in addition to higher tax revenue, accounts for the majority of the increase in core Crown revenue, which is higher across all years of the forecast period compared to the *Budget Update* by an average of $13.6 billion per year, amounting to $54.5 billion.

…while expenditure has also increased.

Core Crown expenses are expected to be higher than the *Budget Update* in the current year by $13.3 billion and then on average $6.4 billion higher over the following three years.

The increase of $13.3 billion in the current year is largely temporary in nature, relating to the Government's fiscal support measures in response to the COVID-19 pandemic. A number of decisions have been funded from the CRRF to support the economy during the Delta outbreak. However, this expenditure is not expected to persist in the later years of the forecast period. Further details on decisions charged against the CRRF since the *Budget Update* can be found in the box on pages 43 and 44.

Figure 2.1 – Core Crown expenses compared to the *Budget Update*



Source: The Treasury

Beyond the current year, core Crown expenses have increased compared to the *Budget Update* by an average of $6.4 billion each year. This is primarily owing to an increase in Budget operating allowances, the establishment of the CERF and increasing finance costs, partially offset by an increase in the operating top-down adjustment. Refer to Table 2.6.

Table 2.6 – Change in core Crown expenses since the *Budget Update*

Year ending 30 June $billions	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**Total change**
COVID-19 related spending	(11.6)	(1.8)	0.9	1.0	**(11.5)**
Budget operating allowances	-	(3.3)	(4.6)	(4.9)	**(12.8)**
CERF	-	(0.5)	(0.5)	(0.5)	**(1.5)**
Finance costs	(1.0)	(1.1)	(1.0)	(0.7)	**(3.8)**
Operating top-down adjustment	1.3	1.5	0.8	0.2	**3.8**
Benefit expenses	0.7	0.3	(0.3)	(1.3)	**(0.6)**
Other	(2.8)	0.1	(2.2)	(1.0)	**(5.9)**
Total change in core Crown expenses	**(13.4)**	**(4.8)**	**(6.9)**	**(7.2)**	**(32.3)**

Source: The Treasury

The Government has signalled its future Budget allowances for Budget 2022 through to Budget 2025 in the *Budget Policy Statement 2022* (BPS). The future Budget operating allowances have been increased compared to the *Budget Update*, resulting in an increase in core Crown expenses of $3.3 billion in 2022/23, rising to an increase of $4.9 billion by 2024/25 (Table 2.7).

Table 2.7 – Cumulative Budget operating allowances compared to the *Budget Update*

Year ending 30 June $billions	2023 Forecast	2024 Forecast	2025 Forecast	3-year Total
Cumulative Budget operating allowance				
Half Year Update	6.0	10.0	13.0	**29.0**
Budget Update	2.7	5.4	8.1	**16.2**
Change	**3.3**	**4.6**	**4.9**	**12.8**

Source: The Treasury

The Government has established the Climate Emergency Response Fund and set aside funding of $4.5 billion for it. This funding is assumed to be spent consistently across the forecast period from 2022/23, split evenly between operating and capital expenditure. Compared to the *Budget Update*, this has increased core Crown expenses by $0.5 billion in each year from 2022/23.

Core Crown finance costs have increased relatively consistently across the forecast period compared to the *Budget Update*, averaging $1.0 billion each year. This is in contrast to the Government's cash requirements, which have decreased compared to the *Budget Update* by an average of $4.6 billion per year (page 38).

Offsetting the allowances and finance costs is an increase in the operating top-down adjustment. When compared to the *Budget Update*, the change to the operating top-down adjustment reduces core Crown expenditure by $3.8 billion across the forecast period. The increase compared to the *Budget Update* is most notable in the initial years of the forecast. This is largely owing to a significant amount of unspent expenses from the 2020/21 year transferring into the 2021/22 year, likely delays to the implementation of projects owing to COVID-19 alert level restrictions and the impact of higher Budget operating allowances.

Benefit expenses have increased compared to the *Budget Update* by $0.6 billion over the forecast period as a whole. Benefit expenses are expected to be lower in the near term owing to improved economic conditions reducing beneficiary recipient numbers for the Jobseeker benefit. This trend reverses from 2023/24 with benefit expenses higher in the later years of the forecast period largely because of a stronger wage growth track, as most benefits are indexed against forecast wage growth.

The impact of higher interest and inflation rates on the fiscal forecast

The fiscal forecasts are prepared using inputs from key economic indicators. As outlined in the Economic Outlook chapter, the outlook for both inflation and interest rates have been revised up since the *Budget Update*, which has had a number of impacts on the fiscal forecasts.

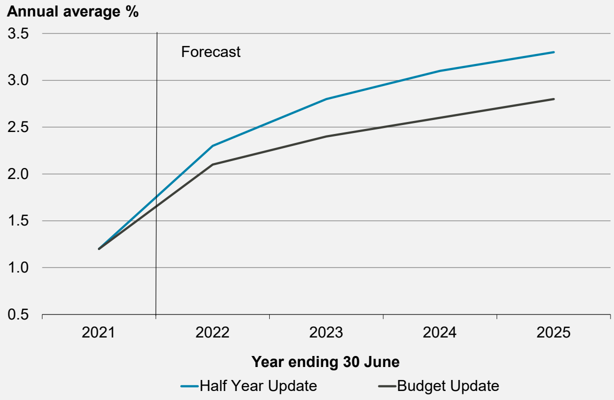
Interest rates

Increases in interest rates since the *Budget Update* have impacted on the expected financial performance, both to tax revenue and expenditure, and the expected fiscal position owing to the effect on the valuation of long-term liabilities.

The higher interest rates since the *Budget Update* have had the following impacts:

- increased resident withholding tax (RWT) on interest and dividends earned from bank accounts and investments held in New Zealand (a positive impact on OBEGAL)
- increased finance costs as the interest rates on interest-bearing lending goes up. The impact would be both immediate and delayed depending on the forms of borrowing (eg, short-term Treasury bills versus new issuances of Government Bonds)
- increased investments in interest bearing assets as returns increase, and
- increased gains from long-term valuations, as the present value of the liability decreases.

Figure 2.2 – Government 10-year bond rate (annual average %)



Source: The Treasury

Overall, the increase in interest rates has adversely impacted OBEGAL since the *Budget Update*, as the changes in finance costs have been greater than the improvements in RWT revenue and interest revenue. As mentioned, even though funding requirements have reduced since the *Budget Update*, this has been more than offset by the increase in interest rates (Figure 2.2).

Inflation

The increase to the inflation track since the *Budget Update*, has impacted on both the revenue and expenses of the Government. However, a lesser proportion of expenses are exposed to inflation rate risk, which means the expected impact on OBEGAL would not be neutral in any one year.

Most types of tax revenue are in some way sensitive to inflation changes directly or indirectly. For example, movements in the inflation track impact the nominal wage and consumption growth forecast which in turn impact the amount of source deductions and GST revenue collected by the Government.

Core Crown expenses are also impacted by inflation, however, unlike core Crown tax revenue only a portion of core Crown expenses (namely benefit expenses and finance costs) are immediately sensitive to inflation changes. For the year ended 30 June 2021, benefit expenses and finance costs totalled $38.4 billion, which is just over a third of core Crown expenses (35.6%).

Most main benefits are indexed to wage growth, so they are not directly impacted by inflation. However, to the extent that inflation changes impact wage growth, benefit payments would change. There is likely to be a lag before inflation starts to influence wage growth.

Finance costs will tend to increase as inflation increases. Generally, as inflation increases, so will interest rates on bonds. The impact of this would not start fully impacting until later in the forecast period as the existing stock of bonds is replaced by new bonds with higher yields.

The portion of finance costs relating to inflation-indexed bonds has a more instant impact on changing finance costs. The higher the proportion of inflation-indexed bonds is to other liabilities, the more sensitive total finance costs will be to changes in the inflation rate.

The majority of the rest of core Crown expenses are not directly sensitive to inflation changes, however, due to the nature of fixed-nominal baselines[3], increases in inflation rates will place future pressures on Budget Allowances. As the cost of salaries and operating expenditure increases, future cost pressure requests from Departments will also increase, which will have the effect of ‘crowding-out’ funding for new investments.

The increase in inflation also impacts on the valuation of long-term liabilities. In the current year, the valuation of the ACC outstanding claims liability has increased by $1.1 billion, while the GSF liability has increased by $207 million, owing to changes in inflation assumptions.

Risk to the fiscal forecasts

The fiscal forecasts reflect the future track for both interest rates and inflation rates; however, recent trends have seen the outcome for these indicators come in higher than the Treasury’s expectation. If this trend was to continue, this could have significant impacts on the fiscal forecast.

The Risks to the Fiscal Forecasts chapter includes some fiscal sensitivities to changes in the interest rate tracks, more detail is provided on page 57.

3 Fixed nominal baselines mean that the amount of funding an agency receives each year (the baseline) does not automatically increase to adjust for inflation. Instead agencies are expected to absorb price increases; in effect this acts as an annual efficiency dividend on Government expenditure.

Largely owing to the factors above, OBEGAL improves over much of the forecast period.

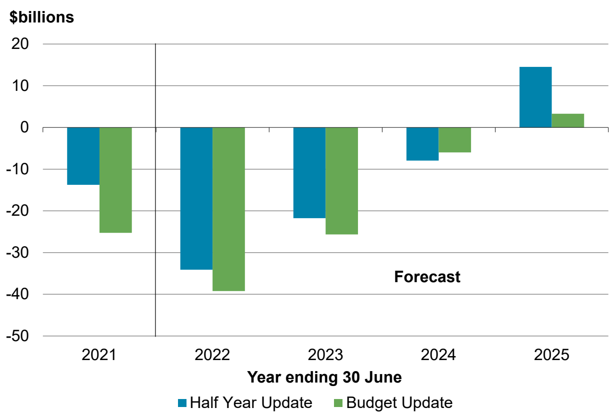
The OBEGAL deficit is expected to increase in the current year by $2.4 billion compared to the *Budget Update*, as the increase in core Crown expenses is greater than the increase in core Crown revenue. However, this trend reverses from 2022/23, resulting in an improvement to OBEGAL in the later years of the forecast period by approximately $8.2 billion per year. OBEGAL is now forecast to return to surplus in the 2023/24 year, which was not expected to occur within the forecast period in the *Budget Update* (which ended in 2024/25).

Core Crown residual cash returns to a surplus in the 2024/25 fiscal year…

In total, the core Crown residual cash position is expected to improve by $18.3 billion compared to the *Budget Update.* This is primarily attributable to the same factors that impact OBEGAL, mentioned above.

Tax receipts are forecast to be $48.2 billion higher compared to the *Budget Update*, and while the trend is usually expected to move in line with revenue, there can be differences in the timing of cash receipts which cause it to vary. This is the case in the 2023/24 and 2024/25 fiscal years as the timing of the 2023/24 Matariki holiday (which falls on 28 June 2024) pushes $4.5 billion of GST receipts from the 2023/24 year into the 2024/25 year.

Figure 2.3 – Core Crown residual cash compared to the *Budget Update*



Source: The Treasury

The operating cash flow movements broadly reflect the increases in core Crown expenses previously discussed. However, there are also capital cash flows which impact the residual cash trend only and cause it to differ from the trend in OBEGAL.

An increase to the multi-year capital allowance of $4.0 billion compared to the *Budget Update* is signalled in the *2022 BPS*, adding $2.2 billion of capital expenditure to the forecasts. The remaining $1.8 billion of the $4.0 billion increase to the multi-year capital allowance is expected to fall outside the forecast period.

The CERF is assumed to be spent evenly between operating and capital expenditure from the 2022/23 year onwards. While the operating expenditure is captured through OBEGAL, there is an additional $2.3 billion which impacts on residual cash from the expected capital expenditure to be funded from the CERF.

In addition, the amount of loans expected to be issued from the Reserve Bank's FLP is now forecast to peak at $22.0 billion by 2022/23, rather than $28.0 billion at the *Budget Update*. In the near term, this has improved the forecast for core Crown residual cash deficits by $5.3 billion as fewer loans are expected to be advanced; however, this consequently causes a weakening in the later years of the forecast period as fewer repayments are now expected.

…resulting in a significantly lower net core Crown debt track…

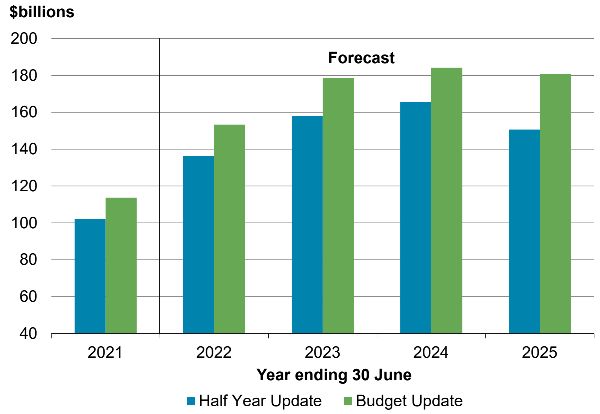
Net core Crown debt is expected to reduce by $30.2 billion and be 9.0 percentage points of GDP lower by 2024/25 compared to the *Budget Update*. This is driven by the overall improvements in residual cash, as well as a stronger starting point from the results to 30 June 2021.

The peak in net core Crown debt in nominal terms is still expected in the 2023/24 forecast year; however, it is expected to be $18.7 billion lower than was forecast at the *Budget Update*. Net core Crown debt as a percentage of GDP is still forecast to peak one year earlier than nominal net core Crown debt; however, it peaks at 40.1% of GDP rather than 48.0% of GDP as per the *Budget Update*. Net core Crown debt falls to 30.2% of GDP by the end of the forecast period.

Net core Crown debt includes the FLP liabilities but excludes the corresponding assets because they are classed as advances, and advances are excluded from the definition of net core Crown debt.

Net core Crown debt, including FLP advances, is forecast to peak at 35.3% of GDP in 2023/24, an improvement of around six percentage points and a year earlier than expected at the *Budget Update*.

Figure 2.4 – Net core Crown debt compared to the *Budget Update*



Source: The Treasury

…and a significantly improved balance sheet.

The total Crown operating balance (including gains and losses) flows through to impact net worth attributable to the Crown. When compared to the *Budget Update*, the operating balance has improved by $18.5 billion over the forecast period largely owing to changes in core Crown tax revenue and expenses, with the addition of the net gains/(losses) on financial and non-financial instruments.

Table 2.8 – Total Crown operating balance compared to the *Budget Update*

Year ending 30 June **$billions**	**2022** **Forecast**	**2023** **Forecast**	**2024** **Forecast**	**2025** **Forecast**
Total Crown operating balance				
Half Year Update	(23.8)	3.9	7.7	12.0
Budget Update	(15.6)	(5.2)	(0.9)	3.0
Change	**(8.2)**	**9.1**	**8.6**	**9.0**

Source: The Treasury

The improved operating balance, in addition to the stronger net worth starting position from the 30 June 2021 results (the actual result of $151.5 billion was $39.5 billion better than forecast at the *Budget Update*), has led to net worth attributable to the Crown being $57.5 billion higher than the *Budget Update* by the end of the forecast period.

Fiscal Outlook for the *Half Year Update*

The* Half Year Update *forecast illustrates the position of the New Zealand economy.

The results reported in the Financial Statements of Government for the year ended 30 June 2021 illustrated the resilience of the New Zealand economy as it rebounded swiftly from the initial impact of the COVID-19 pandemic. While this provided a stronger base for the *Half Year Update* forecast, it is evident that the 2021/22 year will be heavily impacted by COVID-19 support measures. The outlook after the initial year of the forecast significantly improves across the remaining period from the 2022/23 year.

Core Crown tax revenue is expected to grow broadly in line with the economy…

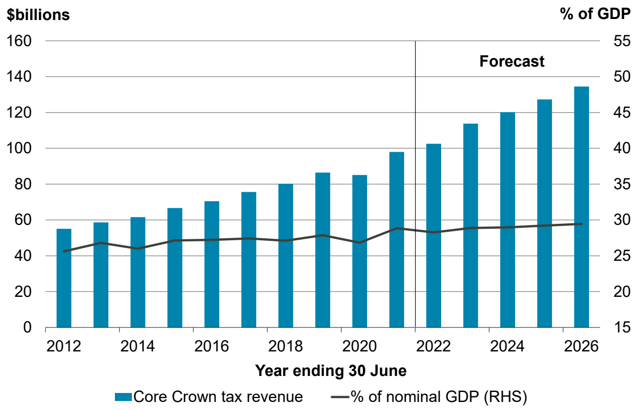
Core Crown tax revenue is forecast to increase by $36.5 billion across the forecast period, reaching $134.5 billion in 2025/26 at an average increase of $7.3 billion per year. As a percentage of GDP, core Crown tax revenue rises gradually over the forecast period and reaches 29.5% of GDP in 2025/26 (Figure 2.5).

When compared to growth in the economy, core Crown tax revenue is forecast to grow at a slower rate than nominal GDP in 2021/22; however, from 2022/23 it then grows at a stronger rate over the remainder of the forecast period (Figure 2.6).

The core Crown tax revenue results for the year to 30 June 2021 were stronger than expected and have provided a high starting base for the *Half Year Update*. The large tax-to-GDP increase in 2020/21 was a result of:

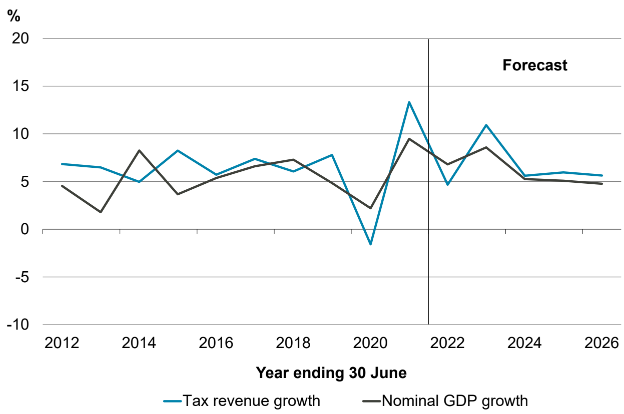
- source deductions, other persons tax and corporate tax growing at a faster rate than their underlying drivers (ie, compensation of employees and operating surplus), and
- an increase in the effective GST rate, which is likely linked to households spending more money in New Zealand instead of overseas.

Figure 2.5 – Core Crown tax revenue



Source: The Treasury

Figure 2.6 – Core Crown tax revenue and nominal GDP growth



Source: The Treasury

Following on from the 2020/21 year, there is expected to be slower growth in the 2021/22 year, which can be attributed to:

- resident withholding tax on dividends returning to its pre-2021 level, and the reversal of the higher-than-usual effective GST rate in 2021, and
- the impact of policy measures relating to commercial building depreciation and low-value asset expensing that were introduced last year to support businesses through the COVID-19 pandemic.

However, this slower growth was offset by an increase in terminal tax for companies in 2022 to make up for the under-accrual in provisional tax through 2021.

From the 2022/23 year onwards, tax revenue growth is forecast to marginally exceed nominal GDP growth. This is mainly because various components of the GDP forecast that affect tax revenue grow at a faster rate than nominal GDP. The major contributors to the rising tax-to-GDP ratio include fiscal drag, tax policy effects and increasing deposit interest rates.

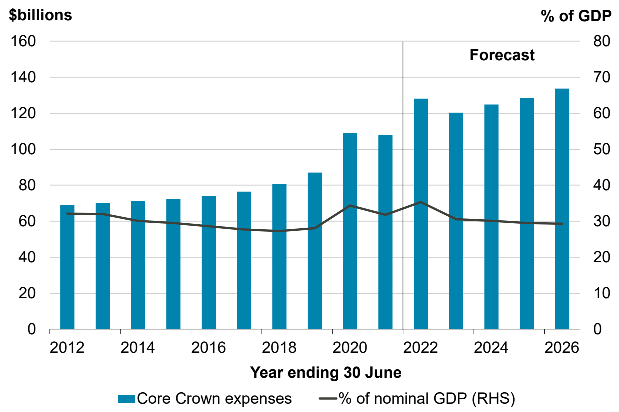
…and the level of expenditure increases in the 2021/22 year owing to temporary expenditure, which subsides in the 2022/23 year…

Core Crown expenses are expected to increase by $25.8 billion across the forecast period. While this increase is fairly steady at an average of $4.5 billion per year over the last three years of the forecast, the trend in the first two years reflects the Government's support measures in response to the COVID-19 pandemic.

Core Crown expenses are expected to reach $128.0 billion in the current year, an increase of $20.2 billion from the 2020/21 year, before declining to $120.2 billion in the 2022/23 year (Figure 2.7).

The higher level of core Crown expenses in the current year includes COVID-19 related spending, particularly from recent decisions in response to the outbreak of the Delta variant since August 2021. For example, $5.3 billion of wage subsidy scheme payments and $3.2 billion in COVID-19 resurgence support payments. These expenses are expected to be largely temporary in nature and subside in the second year of the forecast and beyond.

Figure 2.7 – Core Crown expenses



Source: The Treasury

From the 2022/23 year, core Crown expenses increase by $13.4 billion to reach $133.6 billion in the last year of the forecast period. While core Crown expenses are forecast to increase each year after 2022/23, as a percentage of GDP they decline across the forecast, falling to 29.3% of GDP by 2025/26.

The increase in spending from 2022/23 onwards is partly attributable to an increase of $8.9 billion in benefit expenses, primarily owing to a lift in New Zealand Superannuation. The increase in benefit expenses is driven by increasing wage growth to which the major benefit categories' payments are indexed, as well as a significant increase in the number of New Zealand Superannuation recipients towards the end of the forecast period.

Allowances for new spending in future Budgets also account for $16.0 billion of the growth in expenditure by the end of the forecast. In the *Budget Policy Statement 2022*, the Government has signalled an operating allowance of $6.0 billion for Budget 2022, $4.0 billion for Budget 2023 and $3.0 billion each for Budgets 2024 and 2025. Decisions averaging $1.3 billion per year have already been pre-committed against the Budget 2022 operating allowances.

Likewise, the CERF is expected to contribute $0.6 billion to the growth in core Crown expenses over the forecast period.

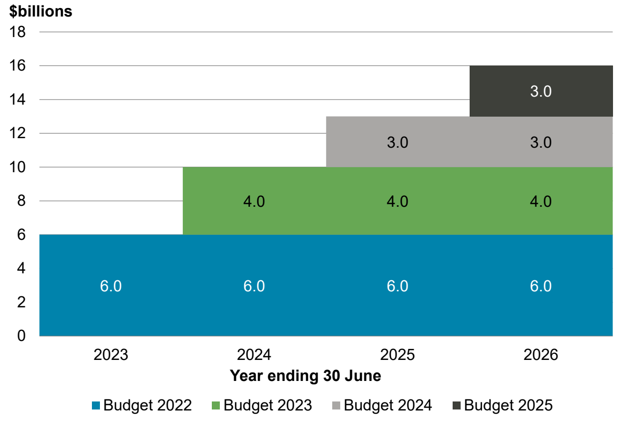
While the Budget 2022 operating allowance is higher than normal, this is expected to be a one-off, reflecting a number of significant reform programmes expected to be funded through Budget 2022. Budget allowances beyond Budget 2022 revert back to levels of investment similar to those announced in recent Budgets.

These allowances can be used for a combination of revenue and expenditure initiatives when allocated; however, for forecasting purposes, Budget allowances are assumed to be expenditure. 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 53).

Core Crown finance costs are also higher by $1.6 billion by 2025/26, largely driven by an increase in the Government's borrowing programme.

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 139.

Figure 2.8 – Operating allowances



Source: The Treasury

COVID-19 response and recovery

At the 2020 Budget, the Government signalled $62.1 billion of funding to support the COVID-19 response and recovery, consisting of a $12.1 billion initial package (17 March 2020 Economic Response Package) and the establishment of the CRRF of $50.0 billion.

The Government has made a large number of decisions since March 2020 and with the onset of the Delta outbreak additional funding has been made available in the CRRF.

In September 2021, the Government announced that the CRRF would be increased by $7.0 billion (with an additional $3.0 billion available to spend from amounts previously allocated from the fund but not spent), bringing the total funding to support the COVID-19 response and recovery to $69.1 billion. In total, the Government has allocated $64.8 billion of the funding that had been set aside, leaving $4.3 billion available to allocate in the future.

Since the 2021 *Budget Update*, the remaining unallocated portion of the CRRF has reduced by $0.8 billion. The top-up to the CRRF of $7.0 billion and the additional $3.0 billion made available have been more than offset by the number of decisions ($10.8 billion) managed against the CRRF since the *Budget Update* (Table 2.9).

Table 2.9 – Movements in the unallocated CRRF since the *Budget Update*

	$billions
Funding remaining at the *Budget Update*	5.1
Changes since the *Budget Update*	
Net operating decisions	(10.6)
Net capital decisions	(0.2)
Top-up to the CRRF	7.0
Reallocated amounts returned to the CRRF	3.0
Total change since the *Budget Update*	**(0.8)**
Funding unallocated at the *Half Year Update*	**4.3**

Source: The Treasury

The fiscal forecasts have assumed that the unallocated portion of the CRRF ($4.3 billion) will be spent over the next two years, phased evenly between 2021/22 and 2022/23. The Treasury has based the phasing on high-level assumptions, owing to the continued level of uncertainty.

Decisions managed against the CRRF since the *Budget Update*

Since the *Budget Update*, new decisions have allocated $10.6 billion of operating expenditure and $0.2 billion of capital expenditure from the CRRF, most of which is expected to impact the 2021/22 fiscal year. The impact to OBEGAL is shown below (Table 2.10).

Table 2.10 – COVID-19 operating decisions made since the *Budget Update*

Year ending 30 June $billions	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**Total**
Increase in social assistance expenditure	6.8	-	-	-	-	**6.8**
Increase in other operating expenditure	2.6	0.8	0.2	0.1	0.1	**3.8**
	9.4	**0.8**	**0.2**	**0.1**	**0.1**	**10.6**
Unspent expenses transferred from 2020/21	1.2	-	-	-	-	**1.2**
Change in unallocated CRRF phasing since the *Budget Update*[1]	1.0	1.0	(1.1)	(1.1)	-	**(0.2)**
Impact on OBEGAL from the COVID-19 response since the *Budget Update*	**(11.6)**	**(1.8)**	**0.9**	**1.0**	**(0.1)**	**(11.6)**

Note: 1 At the *Budget Update*, part of the unallocated CRRF was forecast for 2020/21 and is not included in the table above. Therefore, the overall change will not reconcile to Table 2.9.

Source: The Treasury

The forecast increases of $6.8 billion in social assistance and $3.8 billion in operating expenditure reflect a number of decisions made since the *Budget Update*. The most significant of these are:

- Wage Subsidy Support payments ($3.8 billion)[4]
- Resurgence Support Payments ($3.0 billion)[4], and
- other operating decisions totalling $3.8 billion. Most relate to decisions made to support New Zealand's health response to COVID-19 ($2.8 billion), which consists of:
  - COVID-19 testing, case investigation and contact tracing services
  - implementing New Zealand's COVID-19 vaccine strategy
  - raising the intensive care and inpatient capacity to meet COVID-19 demand, and
  - additional funding for Pharmac for COVID-19 treatments and products.

The Government may need to make further decisions in response to COVID-19 managed against the CRRF, after these fiscal forecasts were finalised on 25 November. Although these individual decisions will not be captured in the fiscal forecasts, they are unlikely to have a significant impact on the fiscal outlook as the fiscal costs will be managed against the remaining unallocated portion of the CRRF, which has been included in the fiscal forecasts.

Authority for expenditure for CRRF decisions since the *Budget Update*

As the above decisions have occurred after the finalisation for introduction of the Appropriation (2021/22 Estimates) Bill, the parliamentary authority to incur expenses and capital expenditure for these decisions has been provided by the Imprest Supply Acts for 2021/22.

The Imprest Supply Acts for each financial year ensure that the Government has legal authority to incur expenditure prior to the Appropriation (Estimates) Act coming into force and provides the flexibility to amend expenditure plans in case circumstances change. The Imprest Supply (Second for 2021/22) Act 2021 provides the Government with authority to incur expenses of $24 billion, capital expenditure of $15 billion and capital injections of $2 billion in advance of appropriation. It is important to note these amounts are upper limits so include a significant buffer in case of any unforeseen events. There is a high level of uncertainty around how much of the authority provided by the Imprest Supply (Second for 2021/22) Act may be required and as it is an upper limit there is not a direct correlation back to the fiscal forecasts (which are prepared on a best estimates basis) presented in the *Half Year Update*.

Any decisions where the Government has used Imprest Supply to provide authority to incur expenses or capital expenditure or make capital injections will be included in the Appropriation (2021/22 Supplementary Estimates) Bill. The process for passing this Bill provides an opportunity for Parliament to scrutinise the decisions that impact expenses, capital expenditure and capital injections since the finalisation for introduction of the Appropriation (2021/22 Estimates) Bill.

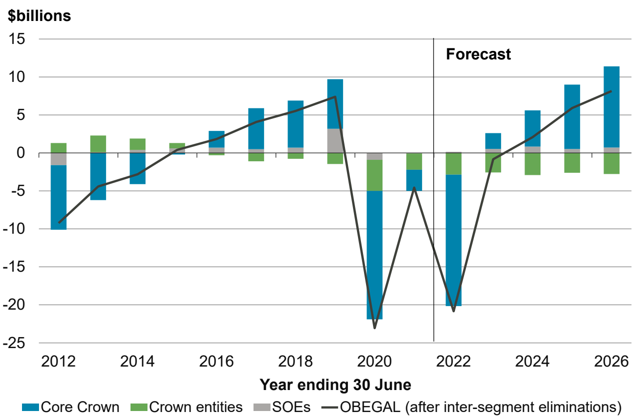
4 Note that this is in addition to existing funding and funding transferred from the previous year.

… contributing to an increase in the OBEGAL deficit in the current year before it improves, returning to a surplus in 2023/24.

While OBEGAL is initially expected to worsen to a deficit of $20.8 billion in 2021/22, it then returns to surplus in the 2023/24 year, reaching a surplus of $8.2 billion by the last year of the forecast period.

The initial increase in the OBEGAL deficit is owing to the significant increase in core Crown expenses relating to the fiscal support measures in response to COVID-19. This leads to the growth in core Crown expenses outpacing the growth in core Crown revenue. As the majority of COVID-19 spending is expected to be temporary, this trend reverses after 2021/22, leading to an improvement in OBEGAL across the rest of the forecast period.

Figure 2.9 – Components of OBEGAL by segment



Source: The Treasury

Crown entity and SOE results have remained relatively static across the forecast period…

Crown entity results fluctuate slightly year-on-year across the period but ultimately only contribute marginally to the OBEGAL improvement. Within this net change, ACC results have weakened owing to higher CPI inflation forecasts and updated information around claims costs, which together increase insurance expenses. This has been partially offset by improved results across several different Crown entities.

The State-owned enterprise segment contributes a further net positive change to OBEGAL across the forecast period of $0.8 billion.

… and the operating balance moves broadly in line with OBEGAL.

The total Crown operating balance largely follows the OBEGAL trend; however, it is also impacted by net gains and losses on financial and non-financial instruments. In the current year, a net loss on non-financial instruments causes the operating balance deficit to exceed the OBEGAL deficit by $3.0 billion, a trend which then reverses as the operating balance surpluses exceed those of OBEGAL by an average of $5.7 billion per year over the remaining forecast period.

In the 2021/22 year, the net loss on non-financial instruments is the result of actuarial losses on ACC outstanding claims of $3.2 billion and net losses on the ETS of $3.0 billion (largely owing to the increase in the market price of NZ units), both of which are not forecast beyond the current year.

Beyond the 2021/22 year, the operating balance improves by $38.5 billion. The operating balance is forecast to be back in surplus in the 2022/23 year and ends the forecast period in a surplus position of $14.7 billion.

A near-term decline in net worth attributable to the Crown is expected, which then improves over the latter half of the forecast period.

Net worth attributable to the Crown improves over the forecast period by $14.9 billion, mainly reflecting the forecast operating balance results.

While this represents a significant improvement, net worth attributable to the Crown initially falls from the 2020/21 position and only returns to that level in the 2024/25 fiscal year. By the end of the forecast period, net worth attributable to the Crown is forecast to be $166.4 billion.

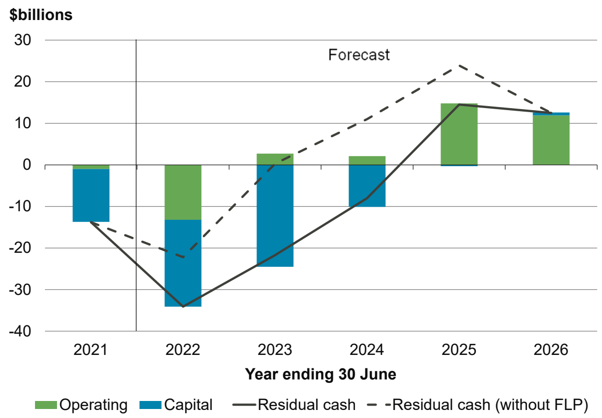
As a percentage of GDP, net worth attributable to the Crown is forecast to decline in the first two years of the forecast period, before increasing from 2023/24 onwards.

Core Crown residual cash deficits increase in the current year, then reduce over the forecast period, returning to surplus in 2024/25…

Core Crown residual cash strengthens across the forecast period and is forecast to return to a surplus of $14.5 billion in 2024/25, one year later than OBEGAL. Across the forecast period, the residual cash deficits total $36.8 billion.

Residual cash is broadly influenced by the same contributors to OBEGAL, reflected by the larger cash deficits expected in the first two years of the forecast, which are primarily in response to the COVID-19 related expenses mentioned above.

Figure 2.10 – Core Crown residual cash



Source: The Treasury

The timing difference causing residual cash to return to surplus one year after OBEGAL, has occurred owing to the inclusion of capital cash flows, as well as the Reserve Bank's FLP.

A multi-year capital allowance of $9.8 billion has been signalled in the BPS, in addition to the operating allowances mentioned previously. This will provide additional funding to be spent on capital and will consequently impact the core Crown residual cash position forecast.

Table 2.11 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). Capital spending is forecast to be greater in the first three years of the forecast period, which is reflected in the residual cash deficits forecast in those years.

Table 2.11 – Net capital expenditure activity[5]

Year ending 30 June $billions	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	5-year Total
Education	1.7	1.6	1.3	0.9	0.7	**6.2**
Defence	1.3	1.5	0.7	0.5	0.1	**4.1**
Health	0.2	0.2	0.2	0.2	0.2	**1.0**
Corrections	0.3	0.2	0.1	0.1	0.1	**0.8**
Social Development	0.2	0.2	0.1	0.1	0.1	**0.7**
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	0.1	**0.5**
Foreign Affairs	0.1	0.1	0.1	0.1	0.1	**0.5**
Other	0.6	0.1	0.1	0.1	0.1	**1.0**
Net purchase of physical assets	**4.8**	**4.3**	**3.0**	**2.4**	**1.8**	**16.3**
NZTA	0.4	0.5	0.8	(0.1)	(0.1)	**1.5**
Housing Infrastructure Fund	0.3	0.4	0.1	-	-	**0.8**
Student Loans	-	-	0.1	-	-	**0.1**
Small Business Cashflow Loan Scheme	0.1	(0.2)	(0.3)	(0.4)	(0.2)	**(1.0)**
Funding for Lending Programme	8.8	10.1	(3.1)	(9.5)	(9.4)	**(3.1)**
Other	(0.4)	0.1	(0.1)	(0.1)	(0.2)	**(0.7)**
Net advances	**9.2**	**10.9**	**(2.5)**	**(10.1)**	**(9.9)**	**(2.4)**
NZTA	1.6	1.3	1.1	1.8	1.6	**7.4**
District Health Boards	0.8	2.5	2.8	0.6	0.6	**7.3**
KiwiRail	0.6	0.8	0.9	0.5	0.3	**3.1**
Housing Acceleration Fund	0.4	0.5	0.5	0.3	0.1	**1.8**
City Rail Link	0.5	0.5	0.3	0.1	-	**1.4**
Ngāpuhi	0.2	0.2	0.2	0.2	-	**0.8**
Crown Infrastructure Partners	0.1	0.1	0.1	0.1	-	**0.4**
New Zealand Venture Capital Fund	-	0.1	0.1	0.1	-	**0.3**
Crown Regional Holdings Limited	0.2	-	-	-	-	**0.2**
New Zealand Green Investment Fund	0.2	-	-	-	-	**0.2**
Southern Response	0.1	0.1	-	-	-	**0.2**
Other	0.3	0.1	0.1	(0.1)	0.1	**0.5**
Net investments	**5.0**	**6.2**	**6.1**	**3.6**	**2.7**	**23.6**
Future new capital spending	1.7	2.5	2.8	3.2	3.3	**13.5**
Top-down capital adjustment	(2.2)	(1.4)	(1.3)	(0.8)	(0.5)	**(6.2)**
Contribution to NZS Fund	2.4	2.0	2.0	2.0	1.9	**10.3**
Net capital spending	**20.9**	**24.5**	**10.1**	**0.3**	**(0.7)**	**55.1**

Source: The Treasury

In addition to capital spending, advances are being forecast in the near term from the Reserve Bank's FLP, which reach a peak of $22.0 billion of issued loans by 2022/23. However, after 2022/23 these advances begin to be repaid and are expected to be fully repaid by the end of the forecast period. These repayments have a positive impact on residual cash supporting the return to surplus by 2024/25.

5 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.

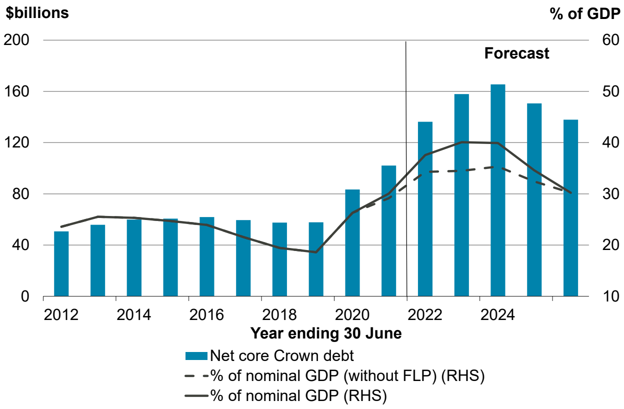
…with the residual cash balances flowing through to net core Crown debt…

To fund the residual cash deficits, net core Crown debt is forecast to increase in nominal terms until 2023/24, then reduce as residual cash returns to surplus. As a percentage of GDP, net core Crown debt peaks a year earlier at 40.1% of GDP in 2022/23, before reducing to 30.2% of GDP by the end of the forecast period.

Figure 2.11 shows net core Crown debt as a percentage of GDP as per the existing definition (ie, excluding the FLP assets) and also shows what net core Crown debt would look like across the forecast if the FLP assets were included.

When including the FLP assets, net core Crown debt is expected to peak a year later in 2023/24 at 35.3% of GDP. By the end of the forecast period in 2025/26, net core Crown debt, including FLP assets, is expected to be the same as without the FLP assets, at 30.2% of GDP as the FLP advances are expected to be fully repaid.

Figure 2.11 – Net core Crown debt



Source: The Treasury

Table 2.12 – Impact of FLP on net core Crown debt

Year ending 30 June $billions	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**
Net core Crown debt	136.3	157.9	165.5	150.6	137.9
Add financial assets from FLP	11.9	22.0	19.0	9.4	-
Net core Crown debt (incl FLP assets)	**124.4**	**135.9**	**146.5**	**141.2**	**137.9**
As a percentage of GDP					
Net core Crown debt	37.6	40.1	39.9	34.6	30.2
Net core Crown debt (incl FLP assets)	34.3	34.5	35.3	32.4	30.2

Source: The Treasury

…and increasing the forecast issuance of Government bonds.

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 in the first year of the forecast period.

In total, the bond programme is expected to raise funds of $83.0 billion over the forecast period. Bond maturities and repurchases will result in repayments of $60.2 billion of existing debt. In addition, short-term borrowing is expected to be $6.0 billion lower at the end of the forecast period, relative to the end of 2020/21 (Table 2.13). Overall, the core Crown borrowing programme will provide net funds of $16.8 billion to cover core Crown residual cash deficits and to ensure cash is available for upcoming bond maturities in the 2026/27 fiscal year.

However, the improvement in the fiscal outlook compared to the *Budget Update* has led to a lower borrowing requirement. In addition, a gradual reduction in financial asset holdings is forecast, reflecting the need for a lower cash buffer. Combined, these result in a decrease to the core Crown borrowing programme compared to the *Budget Update*.

Table 2.13 – Net issuance of market Government bonds and short-term borrowing[6]

Year ending 30 June $billions	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**5-year Total**
Face value of Government bonds issued	20.0	18.0	18.0	18.0	10.0	**84.0**
Debt programme cash flows						
Cash proceeds from issue of Government bonds	19.7	18.1	17.7	17.7	9.8	**83.0**
Repayment of Government bonds	(2.5)	(16.2)	(13.8)	(14.9)	(12.8)	**(60.2)**
Net issue/(repayment) of short-term borrowings	(5.4)	(0.6)	-	-	-	**(6.0)**
Net debt programme cash flows	**11.8**	**1.3**	**3.9**	**2.8**	**(3.0)**	**16.8**

Source: The Treasury

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

Cyclically-adjusted balance, structural balance, and total fiscal impulse

Cyclically-adjusted balance and structural balance[7]

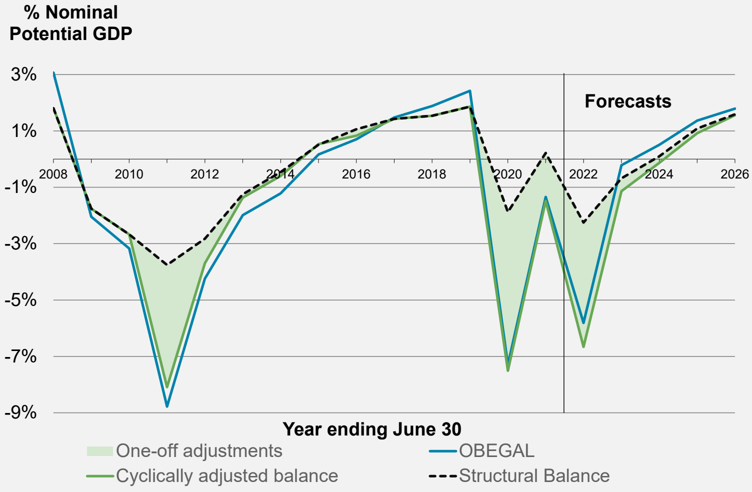
The cyclically-adjusted balance (CAB) and structural balance help illustrate the significant impacts the COVID-19 pandemic has had on the fiscal position, including on fiscal sustainability.

The CAB shows what the operating balance would have been in the absence of fluctuations in expenses and tax revenue that happen automatically with the economic cycle (known as automatic stabilisers). The structural balance helps show the underlying fiscal position by also adjusting for significant one-off expenditure items.[8]

Following the COVID-19 shock, OBEGAL moved into deficit as economic activity contracted. However, because much of the fiscal support provided by the Government was temporary, the structural balance fell by less. For example, Figure 2.12 shows that in 2019/20, OBEGAL was -7.3% of nominal potential GDP, whereas the structural balance was -1.9% of nominal potential GDP. OBEGAL and the CAB were very similar over 2019/20 and 2020/21. This reflects that on an annual basis the economy has operated close to its potential level, despite significant quarterly fluctuations in economic activity due to higher alert level restrictions and rebounds in activity when restrictions were eased. Together, the structural balance and CAB suggest that discretionary stimulus has played a greater role in supporting economic activity than the automatic stabilisers over the COVID-19 shock.

In 2021/22, the structural balance is expected to decline to -2.3% of nominal potential GDP due to additional one-off spending to respond to the Delta outbreak and some COVID-19 related spending being transferred into 2021/22. Then, the structural balance moves into surplus from 2023/24 onwards as one-off COVID-19 related support wanes. The CAB is expected to return to surplus in 2024/25, one year later than OBEGAL, and remain below OBEGAL. This reflects that the economy is expected to be operating slightly above potential.

Figure 2.12 – OBEGAL, CAB, and structural balance



Source: The Treasury

7 Note that we have made changes to the method for calculating the CAB and structural balance since the *Budget Update*. These changes are outlined in https://www.treasury.govt.nz/publications/guide/methodologies-cyclically-adjusted-structural-balance-fiscal-impulse. The CAB now cyclically adjusts Sole Parent Support payments and has been made more internationally comparable by realigning the tax categories with international standards and presenting the indicators as a percentage of nominal potential GDP rather than nominal GDP. The structural balance uses this new CAB measure and uses explicit criteria to guide judgements about which one-off impacts to exclude.

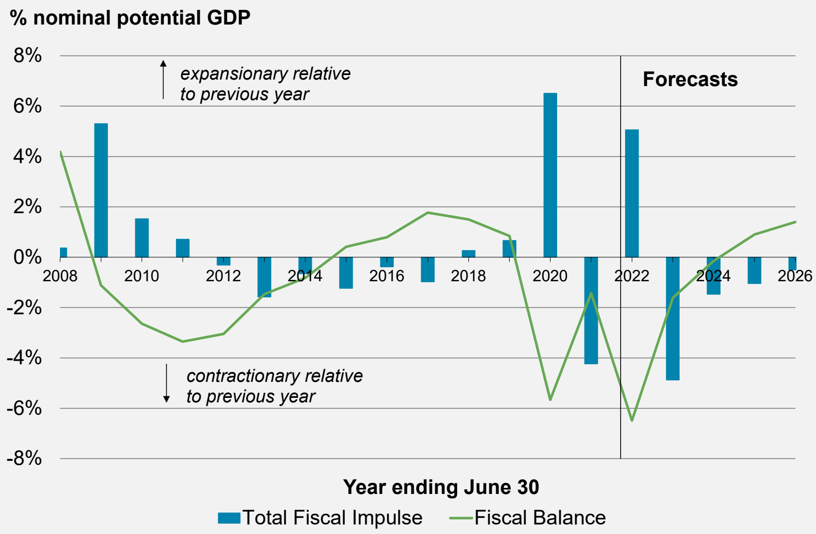
8 These one-offs include, for example, the Wage Subsidy Scheme, vaccine purchases, and payments relating to the Christchurch and Kaikōura earthquakes.

Total fiscal impulse[9]

The total fiscal impulse estimates the total impact of Government support on aggregate demand from one year to the next, including the impacts of discretionary fiscal policy, automatic stabilisers, and finance costs. It is calculated as the change in the fiscal balance, which is residual cash adjusted for some expenditure items that do not directly affect domestic demand. This is a cash measure and therefore differs from OBEGAL, the CAB, and the structural balance. A positive total fiscal impulse implies that the level of fiscal support is expanding compared to the previous year, while a negative total fiscal impulse implies it is contracting. The total fiscal impulse does not estimate the absolute level of support or the economic impact of that support, which will vary depending on factors such as the composition of spending.

As with the structural balance, the fiscal deficit decreased in 2020/21 and is forecast to increase in 2021/22 owing to additional one-off spending to respond to the Delta outbreak and some COVID-19 related spending being transferred into 2021/22. This resulted in a negative total fiscal impulse in 2020/21 as the Government contributed less to aggregate demand than it did in 2019/20. This is expected to reverse in 2021/22 as spending related to the Delta outbreak means the Government is contributing more to aggregate demand than it did the year before. From 2022/23, the total fiscal impulse is negative, and it then wanes over the forecast period as COVID-19 related fiscal support is withdrawn and the fiscal balance returns to surplus.[10]

Figure 2.13 – Total fiscal impulse and fiscal balance



Source: The Treasury

9 Note that we have replaced the fiscal impulse indicator with this total fiscal impulse measure. This new measure shows the total impact of fiscal support by including the impact of the automatic stabilisers and net finance costs. This change is outlined in https://www.treasury.govt.nz/publications/guide/methodologies-cyclically-adjusted-structural-balance-fiscal-impulse

10 With the Matariki holiday falling on 28 June 2024, tax due on this day will be received in the 2024/25 fiscal year. As a result, the fiscal impulse calculation has adjusted tax receipts between the 2023/24 and 2024/25 fiscal years to better reflect the economic impact.

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	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Real GDP[1] (annual average % change)	5.1	0.8	4.9	2.2	2.3	2.3
Nominal GDP[2] ($billions)	339.7	362.8	393.9	414.7	435.8	456.5
CPI (annual average % change)	1.9	5.3	3.5	2.9	2.5	2.3
Govt 10-year bonds (annual average %)	1.2	2.3	2.8	3.1	3.3	3.4
5-year bonds (annual average %)	0.5	2.1	2.8	3.1	3.3	3.3
90-day bill rate (annual average %)	0.3	1.2	3.0	3.2	3.1	3.1
Unemployment rate (annual average %)	4.7	3.2	3.2	3.5	3.8	4.0
Employment (annual average % change)	0.7	3.7	0.9	0.9	1.1	1.2
Average weekly earnings[3] (annual % change)	8.9	2.8	4.6	4.6	4.4	4.2

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

Sources: The Treasury, Stats NZ, Reserve Bank of New Zealand

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 August 2021 Delta outbreak of COVID-19 in the community has already had a significant fiscal impact on the Government's finances and has demonstrated the high degree of uncertainty from COVID-19. The fiscal forecasts for the 2021/22 year include Wage Subsidy payments of $5.3 billion and Resurgence Support Payments of $3.2 billion.

It is likely that the uncertainty created by the COVID-19 pandemic, in particular the Delta outbreak, will pose a risk to the fiscal forecasts presented in the *2021 Half Year Economic and Fiscal Update (Half Year Update).* The statement of specific fiscal risks in this chapter identifies a number of fiscal risks directly and indirectly caused or 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 depend on many unknown factors (eg, the shift to the COVID-19 Protection Framework, the easing of border restrictions). Forecasts for tax revenue, benefit expenses and finance costs are particularly sensitive to economic conditions. The Economic Outlook chapter, from page 25, includes scenarios that model the fiscal impact of how the economy might evolve if some of the key judgements around COVID-19 in the main forecast were altered.

- *The Government's response* – the Government has already implemented policies to respond to COVID-19, mostly funded through the $57 billion COVID-19 Response and Recovery Fund (CRRF). Policies announced and communicated up to 25 November 2021 have been included in the fiscal forecasts based on the best information available. There is a risk that actual costs and/or timing of these policies may differ from the judgements and assumptions used to prepare the fiscal forecasts, as well as that a larger fiscal response is needed in response to future outbreaks.

- *The Government's role in responding to the current and any future outbreaks* – the fiscal forecasts include funding of around $4.3 billion that is left in the CRRF to manage future costs from COVID-19. The inclusion of the unallocated portion of the CRRF in the fiscal forecasts has required some judgement on 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 the current outbreak and of 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's 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 that some Crown guarantees and indemnities may crystallise.

Climate Change

Climate change poses significant challenges to New Zealand's wellbeing and to the Government's fiscal position and operations. These risks appear in two domains:

- **Mitigation** (Reducing emissions)

  Mitigation represents New Zealand's contribution to the global effort to reduce emissions and prevent warming. This involves reducing emissions domestically as well as supporting overseas emissions reductions.

- **Adaptation** (Responding to the physical impacts of climate change)

  Adaptation is about taking steps within New Zealand to respond to challenges presented by the physical effects of climate change, such as more frequent and severe weather events.

Several mitigation measures are included in the fiscal forecasts…

The Emissions Trading Scheme (ETS) is the Government's key tool to mitigate emissions within New Zealand. The fiscal forecasts include the:

- forecast cash proceeds from New Zealand Unit (NZU) auctions
- revenues from NZU surrenders
- expenses from NZUs issued to foresters and trade-exposed industries, and
- consequent stock of outstanding NZUs, assuming a continuation of current policy settings (refer to Note 14 in the Forecast Financial Statements).

The market price of $64.50 as at 30 September 2021 was used to determine the size of forecast NZU provision.

The forecasts also include $4.5 billion allocated to the Climate Emergency Response Fund over the forecast period. This reflects the public commitment the Government has made to recycle ETS proceeds into climate-related actions. Over the longer term, mitigation costs to achieve international and domestic targets are likely to be significantly higher, but are not yet sufficiently certain for particular years to be included in the fiscal forecasts.

…while others appear as specific fiscal risks.

New Zealand's 'Nationally Determined Contribution' to global mitigation efforts is to reduce net greenhouse emissions by 50% below gross 2005 levels by 2030. This equates to an emissions budget for the target period (2021 to 2030) of 571Mt. To achieve this, New Zealand will need to pursue sizeable domestic or offshore abatement to mitigate emissions over 2021 to 2030.

The Climate Change Response (Zero Carbon) Amendment Act 2019 also requires the Government to set domestic greenhouse gas emissions budgets. Each emissions budget covers a period of five years (except the first emissions budget which will cover the period 2022 to 2025). Emissions budgets will act as stepping-stones, or interim targets, to reaching our 2050 emissions reduction targets. The Government has consulted on its choices around how it achieves its climate targets and must publish its first emissions reduction plan in May 2022.

Achieving both domestic and international emissions targets will involve significant costs to the Crown, starting in the current fiscal forecast period. There is an overview specific fiscal risk for this and several subsidiary specific fiscal risks.

Several adaptation measures appear in the fiscal forecasts…

Government agencies include expenditure in their forecasts to avoid, control or transfer (eg, through insurance) risks associated with their assets. Government agencies that have response and recovery functions in the event of natural hazard events make some provision for this activity and this is included in the forecasts, but actual costs may vary from this provision.

…and there is an adaptation-focused specific fiscal risk.

In August 2020, the Government released the first National Climate Change Risk Assessment. This highlighted risks from our ecosystems and communities to buildings and the financial system, including risks to governments from economic costs associated with lost productivity, disaster relief expenditure and unfunded contingent liabilities resulting from extreme events and ongoing, gradual changes.

The Government is now developing its response to the risks in the report, through the National Adaptation Plan, which must be consulted on early in 2022 and will be published by August 2022.

While significant adaptation planning is already in development and funded in these forecasts (eg, policy work on Resource Management Act reform), it is likely that the National Adaptation Plan will generate further adaptation activity that is not currently forecast. This activity is published as an adaptation-focused specific fiscal risk.

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 2026, tax revenue would be around $6.9 billion higher than forecast in the June 2026 year. The sensitivities are broadly symmetric: if nominal GDP growth is one percentage point lower than expected each year, tax revenue would be around $6.6 billion lower than forecast in the June 2026 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)	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**
Impact on tax revenue of a one percentage point increase in growth of					
Nominal GDP	1,025	2,270	3,640	5,185	6,900
Wages and salaries	465	995	1,610	2,310	3,105
Taxable business profits	220	540	885	1,275	1,705
Impact of 1% lower interest rates on					
Interest income[1]	-112	-269	-346	-300	-192
Interest expenses[1]	-370	-791	-988	-1,051	-1,018
Net impact on operating balance	258	522	642	751	826

Note: 1 Interest sensitivities now relate to consolidated external exposures of both the Treasury (Debt Management) and the Reserve Bank of New Zealand. Recent forecasts (including Budget 2021) reported interest sensitivities relating only to funds managed by the Treasury (Debt Management).

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 are important to the financial resilience of New Zealand. They enable the Government to absorb shocks on behalf of New Zealanders, and to adapt to risks and trends. They therefore play a significant role in macro-economic risk management.

The operational and financial capability that is reflected in the balance sheet is 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[11]

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, the impact of climate change and the quality of asset management in delivering services. In managing these risks, 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. 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, in demand and in the costs of construction. The *Half Year Update* forecasts incorporate valuations up to 30 September 2021.

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

Social insurance and retirement liabilities (eg, Accident Compensation, veterans' disability 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 in 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, the Small Business Cashflow Scheme, and 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, 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 (FLP), 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 the 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 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 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 *Budget Economic and Fiscal Update* (*Budget Update*).

The risks disclosed in this chapter reflect those that are known at the date of the finalisation of the fiscal forecasts, 25 November 2021. Although the process for disclosure of specific fiscal risks involves several entities, including government departments, the Treasury and the Minister of Finance, it is still possible 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, the CERF 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 *Half Year 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[12] 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[13] (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 for, or assigned to, particular years with reasonable certainty.

12 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).

13 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

There is a range of general risks to the fiscal forecasts but these are not separately disclosed as specific fiscal risks, such as:

- 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 in the *Half Year 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 *Half Year 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**
Climate Change	Emissions Trading Scheme – Abatement Obligations Arising from Price Ceilings Being Exceeded	Cost Pressure – Expenses
Education	ICT Capabilities to Support Future Education	Policy Change – Expenses and Capital
	Work Programme to Grow Māori Medium and Kaupapa Māori Education	Policy Change – Expenses and Capital
Foreign Affairs	Aid to Support Our Pacific Neighbours: Support for Pacific Fiscal Crises	Policy Change – Expenses
	Time-limited International Climate Financing Funding: Unfunded 2026-29 Commitment Period	Policy Change – Expenses
Health	Enhanced Immunisation Programmes in 2022	Cost Pressure or Variance – Expenses
	COVID-19 Response – Ongoing Costs of Current Response	Cost Pressure or Variance – Expenses
Justice	Legal Aid Demand Pressures	Cost Pressure or Variance – Expenses
Ocean and Fisheries	Aquaculture Settlements	Cost Pressure or Variance – Expenses
Social Development and Employment	Social Unemployment Insurance	Policy Change - Expenses
Transport	Increases in the Fuel Excise Duty and/or Road User Charges	Policy Change – Revenue
	Maintaining International Air Connectivity (MIAC) Scheme	Policy Change – Expenses
Cross-portfolio	Adverse Weather Events	Cost Pressure or Variance – Expenses and Capital
	National Adaptation Plan	Policy Change – Expenses

Changed Risks		
Portfolio	**Risk Title**	**Type of Risk**
Children	Enabling Community and Iwi to Help Children	Policy Change – Expenses
Education	Learning Support	Cost Pressure or Variance – Expenses and Capital
Health	Health System Sustainability	Cost Pressure or Variance - Expenses
Transport	Auckland City Rail Link	Cost Pressure or Variance – Expenses and Capital

Updated Risks		
Portfolio	**Risk Title**	**Type of Risk**
ACC	ACC Levies	Cost Pressure or Variance – Expenses and Revenue
Broadcasting and Media	Delivery of the Government's Public Media Outcomes	Policy Change – Expenses and Capital
Climate Change	Emissions Trading Scheme – Variations in Revenue and Expenses	Cost Pressure or Variance – Revenue and Expenses
Conservation	Department of Conservation's Compliance with the Water Services Act 2021	Cost Pressure or Variance – Expenses and Capital
COVID-19 Response	Managed Isolation and Quarantine	Cost Pressure or Variance – Expenses
Economic and Regional Development	New Zealand Screen Production Grant – International	Cost Pressure or Variance – Expenses
	Regional Strategic Partnership Fund	Policy Change – Expenses and Capital
Education	Change in Demand for Tertiary Education and Training	Cost Pressure or Variance – Expenses
	Ka Ora, Ka Ako | Healthy School Lunch Programme	Policy Change – Expenses and Capital
	Reform of Vocational Education	Policy Change – Expenses and Capital
Finance	Air New Zealand's Proposed Capital Raise	Cost Pressure or Variance – Capital
	Alternative Monetary Policy Tools	Cost Pressure or Variance – Expenses
	Depositor Compensation Scheme	Policy Change – Revenue and Expenses
Health	Health Capital Pressure	Cost Pressure or Variance – Capital
Internal Affairs	National Archival and Library Services Storage Capacity	Policy Change – Expenses and Capital
Local Government	Three Waters Infrastructure Investment and Reform Programme	Policy Change – Expenses and Capital
Māori Development	Waitangi Tribunal Recommendations and Claims	Policy Change – Expenses
Revenue	International Tax	Policy Change – Revenue
	Potential Tax Policy Changes	Policy Change – Revenue
Transport	Auckland City Rail Link Ownership Issues	Policy Change – Expenses
	City Centre to Māngere Rapid Transit Project	Policy Change – Expenses and Capital
	Future of Rail Commitments	Policy Change – Expenses and Capital
	New Zealand Upgrade Programme	Cost Pressure or Variance – Expenses and Capital
	Wellington Transport Investment Programme	Policy Change – Expenses and Capital
Veterans	Veterans' Support Entitlements Liability	Cost Pressure or Variance – Expenses

Updated Risks		
Portfolio	**Risk Title**	**Type of Risk**
Cross-portfolio	Achieving New Zealand's International and Domestic Climate Change Targets	Policy Change – Expenses and Capital
	Carbon Neutral Government Programme	Policy Change – Expenses and Capital
	Further COVID-19 Business Support	Policy Change – Expenses
	Other Capital Cost Pressures	Cost Pressure or Variance – Capital
	Other Operating Cost Pressures	Cost Pressure or Variance – Operating

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
COVID-19 Response	COVID-19 Vaccine Strategy	Cost Pressure or Variance – Expenses
Defence	Disposal of New Zealand Defence Force Assets	Policy Change – Revenue and Expenses
	Defence Funding Requirements to Deliver New Zealand's Defence Strategy	Policy Change – Expenses and Capital
Education	Early Learning Action Plan	Policy Change – Expenses
	Education Operating Cost Pressures	Cost Pressure or Variance – Expenses
	Replacing Deciles with the Equity Index	Policy Change – Expenses
Finance, Earthquake Commission	Earthquake Commission	Cost Pressure or Variance – Expenses
	Southern Response Earthquake Services Support	Cost Pressure or Variance – Expenses and Capital
Health	Health and Disability System Reform	Policy Change – Expenses
	Mental Health Support for Children	Policy Change – Expenses
	Reducing Planned Care Waiting Lists	Policy Change – Expenses
Housing	Divestment and Development of Kāinga Ora – Homes and Communities' Housing	Cost Pressure or Variance – Expenses
	Emergency Housing Special Needs Grant	Cost Pressure or Variance – Expenses
	Housing Acceleration Fund	Cost Pressure or Variance – Expenses and Capital

Unchanged Risks		
Portfolio	**Risk Title**	**Type of Risk**
	Increases to Market Rent	Cost Pressure or Variance – Expenses
	KiwiBuild – Fiscal and Delivery Risks	Cost Pressure or Variance – Revenue, Expenses and Capital
	Large-scale Housing and Urban Development Projects	Cost Pressure or Variance – Expenses and Capital
Revenue	Cash Held in Tax Pools	Cost Pressure or Variance – 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
	Transformation and Technology Renewal	Cost Pressure or Variance – Expenses
Social Development and Employment	Changes to the Welfare System	Policy Change – Expenses
	Increasing Special Needs Grant Limits for Emergency Dental Treatment	Policy Change – Expenses
Speaker of the House of Representatives	Future Parliamentary Accommodation	Cost Pressure or Variance – Capital
Tourism	Proposed Changes to the International Visitor Levy	Policy Change – Revenue
Treaty of Waitangi Negotiations	Relativity Clause	Cost Pressure or Variance – Expenses
	Treaty Settlement Forecasts	Cost Pressure or Variance – Expenses
Cross-portfolio	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
	Outcomes from Other Government Inquiries and Reviews	Policy Change – Expenses
	Pay Equity Claims	Cost Pressure or Variance – Expenses
	Services Funded by Third Parties	Cost Pressure or Variance – Expenses
	State Sector Employment Agreements	Cost Pressure or Variance – 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 *Budget Update*. The expectation is that these risks will be managed through existing funding sources and/or the Budget operating and capital allowances to the greatest extent possible.

Climate Change

Emissions Trading Scheme – Abatement Obligations Arising from Price Ceilings Being Exceeded (Cost Pressure – Expenses)

New Zealand's Emissions Trading Scheme has a price ceiling, called the "Cost Containment Reserve" (CCR), which releases additional New Zealand Units (NZUs) at auction if a certain price threshold is reached. Under the Climate Change Response Act 2002, if releasing these units causes an emissions budget to be exceeded, the Minister of Climate Change must obtain equivalent emissions reductions to 'back' these NZUs. This obligation also applies to NZUs allocated through industrial allocation, or the stockpile of privately-held units. If this were to occur, there is a fiscal risk associated with the cost of obtaining the emissions reductions required. The overall fiscal impact of this risk is uncertain and depends on the cost of obtaining equivalent emissions-reductions, which could be achieved through domestic or offshore mitigation.

Education

ICT Capabilities to Support Future Education (Policy Change – Expenses and Capital)

The Government has agreed to establish an Education Service Agency, Te Mahau, within a redesigned Ministry of Education Te Tāhuhu o te Mātauranga. This will require changes to foundational ICT infrastructure and systems, and significant investment, which has yet to be quantified, will be needed in systems and capabilities to support business outcomes and future education reforms.

Work Programme to Grow Māori Medium and Kaupapa Māori Education (Policy Change – Expenses and Capital)

In September 2021, Cabinet agreed to the Ministry of Education developing a work programme to grow Māori medium education and Kaupapa Māori education (MME), with a target of 30% of Māori learners participating in MME by 2040 (up from 10% in 2020). Part of the work programme will be estimating the costings to 2040 of growing MME by this amount.

Foreign Affairs

Aid to Support Our Pacific Neighbours: Support for Pacific Fiscal Crises (Policy Change – Expenses)

The Government is committed to strengthening the long-term resilience of Pacific Island countries, while responding to the immediate impacts of COVID-19, and has been providing emergency budget support through grant financing to Pacific Island countries facing fiscal crises due to the continuing impact of COVID-19. This enables Pacific Island countries to lead their own COVID-19 response and recovery without increasing their debt. The need for, and scale of, additional emergency budget support depends in part on the countries' domestic revenues and may exceed what is provided for in the fiscal forecasts.

Time-limited International Climate Financing Funding: Unfunded 2026-29 Commitment Period (Policy Change – Expenses)

New Zealand's international climate finance commitment is increasing to $1.3 billion over the four year period 2022 to 2025. While the timing and quantum of New Zealand's next international climate finance commitment for the period 2026 to 2029 are unknown, continuing the 2022 to 2025 commitment is likely to require more than is provided for in the fiscal forecasts.

Health

Enhanced Immunisation Programmes in 2022 (Cost Pressure or Variance – Expenses)

With the reopening of the borders, viruses such as the flu virus that have been largely absent for the past two years are likely to re-enter New Zealand and may have more significant effects than they have had previously. There is a risk that the funding required for enhanced immunisation programmes will exceed what is provided for in the fiscal forecasts.

COVID-19 Response – Ongoing Costs of Current Response (Cost Pressure or Variance – Expenses)

The fiscal forecasts provide for the public health response to the current significant outbreaks of the COVID-19 Delta variant and for the purchase of COVID-19 therapeutics. If the scale of outbreaks increases, there is a risk that additional funding may be required for the public health response, including the distribution and use of therapeutics in the health system, as well as for additional therapeutic purchases.

Justice

Legal Aid Demand Pressures (Cost Pressure or Variance – Expenses)

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

Oceans and Fisheries

Aquaculture Settlements (Cost Pressure or Variance – Expenses)

Fisheries New Zealand delivers the Crown's aquaculture settlement obligations under the Māori Commercial Aquaculture Claims Settlement Act 2004. Based on current forecasts of settlements, what is provided for in the fiscal forecasts will be insufficient to fund all expected settlements.

Social Development and Employment

Social Unemployment Insurance (Policy Change – Expenses)

As part of Budget 2021, the Government announced its intention to design a Social Unemployment Insurance scheme jointly with BusinessNZ and the New Zealand Council of Trade Unions. The scheme that is being developed is intended to be funded from levies. Fiscal implications include the levy costs for public sector employees and as funder of start-up costs including the technical infrastructure and potentially the costs of initial claims until sufficient levy revenue is received. There is currently too much uncertainty to estimate the fiscal impact from a Social Unemployment Insurance scheme to include it in the fiscal forecasts.

Transport

Increases in the Fuel Excise Duty and/or Road User Charges (Policy Change – Revenue)

There is a risk that fuel excise duty (FED) and/or road user charges (RUC) will need to be increased in order to manage pressures on the National Land Transport Fund and enable repayment of a $2 billion loan, which is being provided to support delivery of the National Land Transport Plan 2021. If FED and/or RUC were to be increased, it is likely that any increases would take effect no sooner than 1 July 2024.

Maintaining International Air Connectivity (MIAC) Scheme (Policy Change – Expenses)

Current COVID-19 border settings limit the number of international flights that can operate commercially to and from New Zealand. The Maintaining International Air Connectivity (MIAC) scheme is in place to ensure a minimum level of international connectivity is maintained while border restrictions are in place. The fiscal forecasts include funding for the MIAC to 31 March 2022. If sufficient international flights have not resumed by this date, then funding additional to what is provided for in the fiscal forecasts may be required to ensure connectivity is maintained.

Cross-portfolio

Adverse Weather Events (Cost Pressure or Variance – Expenses and Capital)

There is an increasing risk that, in responding to the increased frequency of adverse weather events, the Crown will incur additional costs across a range of portfolios including, but not limited to, Emergency Management (essential infrastructure recovery), Earthquake Commission (Natural Disaster Fund guarantee), Housing (temporary accommodation), and Social Development and Employment (emergency benefits, rural support payments, and grants). The likelihood, timing and fiscal impact are uncertain.

National Adaptation Plan (Policy Change – Expenses)

The first National Climate Change Risk Assessment prepared pursuant to the Climate Change Response (Zero Carbon) Amendment Act 2019 was released in August 2020. It identified 43 priority risks across five value domains (natural environment, human, economy, built environment and governance) and highlighted 10 risks considered to be the most significant. The Government is now working on developing its response to the risks in the report, through the National Adaptation Plan (NAP), which is due by August 2022. The NAP will be an all-of-government plan to guide how New Zealand will adapt to the effects of climate change over the next six years. Depending on the policy decisions taken in its development, implementation of the NAP is likely to impact on the Government's operating balance and net core Crown debt.

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 *Budget 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 chapter.

Children

Enabling Community and Iwi to Help Children (Policy Change – Expenses)

The Government is committed to ensuring that community, iwi, hapū and Māori organisations are able to find appropriate solutions for children in need. This is in line with the statutory National Care Standards and is likely to have fiscal implications in excess of what is in the fiscal forecasts.

Education

Learning Support (Cost Pressure or Variance – Expenses and Capital)

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 neuro-diverse learners and those who require alternatives to mainstream schooling, or 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 the existing provision in the fiscal forecasts.

Health

Health System Sustainability (Cost Pressure or Variance – Expenses)

There is a significant risk that District Health Boards' (DHBs) deficits for the 2021/22 financial year will be higher than what is in the fiscal forecasts. 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. The fiscal forecasts also assume that future health expenditure growth will be met from future Budget allowances, but 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 fully assessed. The Government has signalled an increase in the level of funding available for the Budget 2022 operating allowance to manage the costs of the investment in a reformed health system. As there is a degree of uncertainty on the funding required for a reformed health system, there remains a risk that the overall investments through Budget 2022 will exceed the signalled Budget 2022 operating allowance, which would adversely impact the operating balance and net core Crown debt.

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 and delays arising from the impact of COVID-19 (primarily Alert Levels 3 and 4), including supply chain disruption (delays and extra costs with shipping), obstacles/delays in obtaining and retaining skilled overseas workers, and higher-than-expected construction cost inflation.

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 *Budget Update*, but have been updated. Any necessary update to the narrative of a risk since the *Budget 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)

The fiscal forecasts reflect unchanged ACC levies until at least 1 April or 1 July 2022 and indicative future levy rates for the Work, Earners' and Motor Vehicle accounts. Final levy decisions made by the Government for the next three levy years (but not in time to be reflected in the fiscal forecasts) may differ from the forecast levy path. Actual revenue from the levies set for these accounts may be more or less than that required to cover the cost of claims. Also, 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.

Broadcasting and Media

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

Both public and privately owned media organisations are under increasing pressure from international competition, declining revenue shares and changes to the way people access content. The Government is committed to strengthening New Zealand's public media and has commissioned a detailed business case on the viability of a preferred approach. Significant additional investment may be required to deliver on the Government's public media outcomes, but the extent of this will not be clear until final decisions are made.

Climate Change

Emissions Trading Scheme – Variations in Revenue and Expenses (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) and the responses of participants (eg, the extent of afforestation and deforestation activity, and the timing of industrial responses such as the closure of Tiwai Point aluminium smelter). As a result 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 30 September 2021 of $64.50.

Conservation

Department of Conservation's Compliance with the Water Services Act 2021 (Cost Pressure or Variance – Expenses and Capital)

The Department of Conservation provides drinking, waste and storm water services and infrastructure across its recreational and corporate assets, including more than 2,000 huts, campsites, visitor centres and networked town supplies. The Water Services Act 2021 imposes significant new regulatory requirements on the Department, with upgrades to assets and changes in service provision required to become compliant. The associated extensive fiscal implications are likely to exceed what is provided for in the fiscal forecasts.

COVID-19 Response

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. While less MIQ capacity is expected to be required for international travellers over time, MIQ may have an ongoing role in the management of domestic COVID-19 outbreaks. MIQ is currently funded to June 2022, but may need to continue beyond this date in some form.

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. 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.

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. One-third of this amount was appropriated for 2021/22 and included in the fiscal forecasts. The exact nature and timing of the remaining two-thirds 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. Due to the uncertainty around the impact of COVID-19, learner demand could be higher, or lower, than the available number of funded places. During 2021, there has been significant growth in the demand for tertiary education and training (particularly for apprenticeships). There is funding pressure related to apprentices over 2021 to 2023, but ongoing funding pressure from provider-based enrolments over 2022 to 2024 is less certain.

Ka Ora, Ka Ako | Healthy School Lunch Programme (Policy Change – Expenses and Capital)

The Ka Ora, Ka Ako | Healthy School Lunch Programme was established as a prototype to test different models of delivery to students in selected schools. The programme has been expanded in both 2020 and 2021 and the fiscal forecasts provide for funding for the programme until December 2023. If the Government confirms an extension or expansion of the programme, additional ongoing funding will be required.

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

Te Pūkenga – New Zealand Institute of Skills and Technology, established in 2020, is transforming its national network of education providers (the 16 former Institutes of Technology and Polytechnics), including integrating support for work-based training such as apprenticeships. It may seek significant additional Crown funding to complete the transformation, including implementing a Unified Funding System (UFS) for vocational education and training.

Finance

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

The Crown has provided Air New Zealand with a $1.5 billion interest-bearing loan facility, of which $455 million had been drawn at 26 October 2021, to assist it through the difficult trading period that has arisen from COVID-19's impact on air travel volumes. Air New Zealand has also announced that it will raise new debt and equity capital. 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 New Zealand'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 New Zealand are still being determined, and therefore the fiscal impacts on the Government cannot be determined at this time.

Alternative Monetary Policy Tools (Cost Pressure or Variance – Expenses)

The fiscal forecasts already include an assumed fiscal impact from the Large Scale Asset Purchases (LSAP) programme and the Funding for Lending Programme, which have been implemented by the Reserve Bank. There is a risk that the fiscal impact of both these programmes may differ from what is assumed in the fiscal forecasts. This may include changes to expenses from the LSAP programme as a result of interest rate risk. Any additional use of Alternative Monetary Policy tools in response to future shocks could impact key fiscal indicators.

Depositor Compensation Scheme (Policy Change – Revenue and Expenses)

Cabinet has agreed to implement a depositor compensation scheme (DCS) with a target timeframe of 2023. The DCS will have a coverage limit of $100,000 per eligible depositor, per licensed deposit taker. The DCS 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 DCS 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 DCS. 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 of the uncertainty of the losses that might arise under the scheme, and uncertainty around the accounting treatment of them, expenses relating to the scheme 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 the DCS are confirmed.

Health

Health Capital Pressure (Cost Pressure or Variance – Capital)

Capital pressures relating mainly to hospitals, but also to the Ministry of Health and other parts of the health system, remain significant over the forecast period. Asset condition issues, pressures arising from demographic change (population growth and an ageing population), and information technology capability all need to be addressed and will require more resourcing than is in the fiscal forecasts.

Internal Affairs

National Archival and Library Services 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 and 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). Funding in excess of what is provided for in the fiscal forecasts will be needed for the construction of the new RSR to respond to forecast storage growth to 2050 for the three institutions (Archives New Zealand, National Library of New Zealand and Ngā Taonga Sound & Vision).

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. The Crown is providing 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 more funding than is provided for in the financial forecasts will be required to meet the establishment and transfer costs (including the possibility of costs resulting from litigation). There is also a risk that the Crown has a future financial exposure to the multi-regional water services entities that are to be established if the ownership and governance structures change from those currently agreed by Cabinet.

Māori Development

Waitangi Tribunal Recommendations and Claims (Policy Change – Expenses)

The Waitangi Tribunal has recommended government action in its reports on several claims including Wai 262, which focuses on the protection of Māori culture and identity and the nature of the Māori-Crown relationship in a post-settlement environment. The Government has identified addressing issues related to Wai 262 as a priority in its Māori manifesto. These and other issues raised through Waitangi Tribunal claims that the Government is working to address, such as Wai 2750 (relating to Housing Policy and Services), represent a fiscal risk.

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. There has been significant progress on this work during 2021, with 136 countries and territories agreeing to key design features of the solution in October. As part of this agreement, countries have agreed to a moratorium on imposing any new digital services tax on multinationals until 31 December 2023 in order to give the OECD-led solution a chance to be successfully implemented. However, the Government may consider a digital services tax if the OECD solution falters. 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's tax policy work programme (which includes international tax) was released on 20 July 2021 (see https://taxpolicy.ird.govt.nz/news/2021/2021-07-20-tax-policy-work-programme). The measures on the work programme, and their collective fiscal implications, are subject to change.

Transport

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

In addition to the risk of cost increases associated with the City Rail Link project (see separate risk on page 73), there is a risk relating to the value of the Crown's investment reflected in the fiscal forecasts. The value of the Crown's investment will depend on the final ownership structure of the City Rail Link, such as allocation of assets. The timeframe for decisions on future ownership has yet to be finalised. An agreement between Sponsors and City Rail Link Limited allows for a decision to be made as late as 2022, but this timeframe may be altered depending on the outcome of work currently underway.

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

The Auckland Light Rail Establishment Unit has prepared and provided to project sponsors an indicative business case (IBC) clarifying the strategic case for investment and presenting a short-list of options for mode and route. Three options have been shortlisted and there is a 50% likelihood that the costs of these options would be $9 billion for a surface light rail option, $14.6 billion for a tunnelled light rail option and $16.3 billion for a Light Metro option. Cabinet is yet to consider the IBC and determine a preferred mode and route. The costs and benefits of the project are expected to change as more detailed work is undertaken, informed by more detailed business case assessment, stakeholder and market engagement, detailed design, and associated master-planning. At this stage, it is not possible to determine the level of capital or operational funding contribution that may be needed from either the Crown or Auckland local government. A bespoke value capture mechanism will also be investigated. Notwithstanding the need for a mix of funding sources, a significant Crown contribution will be required to fund the project.

Future of Rail Commitments (Policy Change – Expenses and Capital)

The Crown has already provided some funding to implement the outcomes of the Future of Rail review. Further Crown funding may be sought for investment into the rail network, for maintenance and renewal through the Rail Network Investment Programme (RNIP), and replacement of the remaining ageing rolling stock.

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 NZ Transport Agency and KiwiRail 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.

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

The Government Policy Statement on land transport (GPS) 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 information available 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. It is possible that central government will be asked to contribute funding to LGWM if these additional costs materialise and if these costs are not funded through the NLTF. 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 also possible that central government is asked to contribute funding to LGWM.

Veterans

Veterans' Support Entitlements Liability (Cost Pressure or Variance – Expenses)

The fiscal forecasts include a $3.0 billion liability for 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 by up to 20%. 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 and offshore abatement to meet its 2021 to 2030 emissions commitments under the Paris Agreement on top of its domestic commitments. 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 Government Programme (Policy Change – Expenses and Capital)

As part of its own contribution to achieving New Zealand's climate change targets, the Government has established the Carbon Neutral Government Programme, supported by the existing State Sector Decarbonisation Fund, with the aim of accelerating emission reductions and making a number of government organisations carbon neutral by 2025. 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 in the fiscal forecasts.

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, 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.

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 are likely to be exacerbated by the impact from COVID-19, supply chain disruption and the tight labour market. 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).

Other Operating Cost Pressures (Cost Pressure or Variance – Operating)

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, which are most significant in the education and health sectors, 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.

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 *Budget 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.

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 additional booster or updated vaccines in the future, or that liability may materialise under any indemnities given by the Minister of Finance in relation to COVID-19 vaccine purchase agreements.

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.

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.

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. There is a risk that these costs may not be met within the existing provision in the fiscal forecasts.

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.

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.

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.

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.

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.

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.

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 Grant (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.

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.

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.

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.

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.

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.

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

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.

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 $1,000. 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.

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.

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.

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.

Cross-portfolio

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.

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.

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.

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.

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 *Budget Update*

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

Portfolio	Title	Reason for removal
Climate Change	Recycling Emissions Trading Scheme Proceeds	This is included in the fiscal forecasts.
Economic and Regional Development	Provincial Growth Fund	This no longer meets the materiality threshold for publication.
Education	Education Workforce Strategy	This no longer meets the materiality threshold for publication.
	Response to the Tomorrow's Schools Review	This is included in the fiscal forecasts.
Finance	Business Finance Guarantee Scheme	As this scheme has closed, this risk no longer meets the materiality threshold for publication.
Foreign Affairs	Official Development Assistance	This has been divided into specific fiscal risks 'Aid to Support our Pacific Neighbours: Support for Pacific Fiscal Crises' and 'Time-limited International Climate Financing Funding: Unfunded 2026-29 Commitment Period'.
Research, Science and Innovation	Research and Development Spending Target	This no longer meets the materiality threshold for publication.
Revenue	Tax Treatment of Rental Property	This is included in the fiscal forecasts.
Social Development and Employment	Implications for New Zealand Superannuation from Quarterly Employment Survey Redevelopment	This is included in the fiscal forecasts.
Transport	Incentivising Uptake of Low Emissions Vehicles	This is included in the fiscal forecasts.
Cross-portfolio	Progressively Extending Living Wage Guarantees to Contractors in the Public Sector	The Government has directed core Public Service departments and agencies to absorb the costs arising from this within their baselines.

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.[14]

The contingencies have been stated as at 31 October 2021, being the latest set of published Financial Statements of the Government.

14 '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[15]	31 October 2021 ($millions)	30 June 2021 ($millions)
Uncalled capital			
Asian Development Bank	Unchanged	3,053	3,157
International Monetary Fund – promissory notes	Unchanged	1,801	1,862
International Bank for Reconstruction and Development	Unchanged	1,595	1,637
International Monetary Fund – arrangements to borrow	Unchanged	1,325	1,366
Asian Infrastructure Investment Bank	Unchanged	514	527
Other uncalled capital	Unchanged	18	19
		8,306	**8,568**
Guarantees and indemnities			
New Zealand Export Credit guarantees	Unchanged	178	181
Other guarantees and indemnities	Unchanged	164	167
		342	**348**
Legal proceedings and disputes			
Inland Revenue – legal tax proceedings	Unchanged	159	160
New Zealand Transport Agency	Unchanged	84	84
Other legal proceedings and disputes	Unchanged	70	69
		313	**313**
Other quantifiable contingent liabilities			
Unclaimed monies	Unchanged	199	186
Air New Zealand Partnership Agreement	Unchanged	169	100
Ministry for Primary Industries – *Biosecurity Act compensation*	Unchanged	127	127
Waitangi Tribunal Binding Recommendations	New	200	-
Other quantifiable contingent liabilities	Unchanged	153	154
		848	**567**
Total quantifiable contingent liabilities		**9,809**	**9,796**

15 Status of contingent liabilities or assets when compared with the Financial Statements of the Government for the year ended 30 June 2021, (based on the nature of the contingency, not the dollar value of contingencies which are regularly updated) for the year ended 30 June 2021, published on 12 October 2021.

Quantifiable Contingent Assets

	Status[16]	31 October 2021 ($millions)	30 June 2021 ($millions)
Other contingent assets	Unchanged	59	58
Total quantifiable contingent assets		**59**	**58**

Unquantifiable Contingent Liabilities

Indemnities	**Status**
Contact Energy Limited	Unchanged
Earthquake Commission (EQC)	Unchanged
Genesis Energy	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Partners	Unchanged
New Zealand Aluminium Smelters and Rio Tinto Aluminium (formerly Comalco)	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Reserve Bank	Unchanged
Southern Response Earthquake Services Limited (SRES)	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
Legal proceedings and disputes	
Accident Compensation Corporation (ACC) litigation	Unchanged
Aquaculture Settlements	Unchanged
Ministry for Primary Industries – Biosecurity Act 1993 compensation	Unchanged
Treaty of Waitangi claims	Unchanged
Proprietors of Wakatū	Unchanged
Other unquantifiable contingent liabilities	
Accident Compensation Corporation (ACC) Sensitive Claims	Unchanged
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Holidays Act 2003 compliance	Unchanged
Pay Equity Claims	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged

16 Status of contingent liabilities or assets when compared with the Financial Statements of the Government for the year ended 30 June 2021, (based on the nature of the contingency, not the dollar value of contingencies which are regularly updated) published on 12 October 2021.

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 92.

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.

New Zealand Export Credit guarantees

The 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

There are claims of $83.9 million relating to a variety of roading and other contract disputes including contractual claims arising from property acquisitions and disposals.

Waka Kotahi is currently working with roading contractors, and public-private partnership operators on COVID-19-related claims resulting from lockdowns and restrictions imposed by the Government since 17 August 2021.

Apart from the above matters, there is continual dialogue between Waka Kotahi and its contractors over technical and commercial matters that may result in material dispute 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 to or destruction of a person's property or restrictions on the movement of a person's goods. The Ministry for Primary Industries has been notified compensation will be sought following biosecurity responses for incursions including *Bonamia ostreae*, as well as claims for losses incurred following the destruction of bud-stock, known as the post-entry quarantine (PEQ) response. While these claims can be quantified, they do not meet the tests for recognising a provision.

Air New Zealand Partnership

The Air New Zealand Group has a partnership agreement with Pratt & Whitney in relation to the Christchurch Engine Centre (CEC), holding a 49% interest. By the nature of the agreement, joint and several liabilities exist between the two parties; the contingent liability represents Air New Zealand's share of CEC's liabilities.

Waitangi Tribunal Binding Recommendations (New)

On 29 September 2021, the Waitangi Tribunal issued interim recommendations under section 8A of the Treaty of Waitangi Act 1975 in relation to the transfer of 7,676 hectares of the Mangatū Crown forest licensed land to a trust comprising Te Aitanga a Māhaki, Ngā Uri o Tamanui and Te Whānau a Kai. Should the recommendation become final, compensation will be payable to the recipients under Schedule 1 to the Crown Forest Assets Act 1989. The Tribunal has indicated the value of the compensation is approximately $200 million. The Crown is considering whether to seek judicial review of the Tribunal's interim recommendations, including the Tribunal's approach to assessing compensation. If the Crown decides to seek review, a stay of the interim recommendations will be sought pending the outcome of judicial review.

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	A number of documents have been signed with Contact Energy to settle in full Contact Energy's outstanding land rights and geothermal asset rights at Wairākei	The documents contain two reciprocal indemnities with Contact to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Earthquake Commission (EQC)	Section 16 of the Earthquake Commission Act 1993	As set out in the Earthquake Commission Act 1993, the Crown shall fund any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions as the Minister of Finance determines. Such funding may be provided by means of an advance or a grant. As the contingency has no end date, it is not possible to quantify natural hazard events which are covered by the Earthquake Commission Act 1993.
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 Court 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.

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Aluminium Smelters Limited and Rio Tinto Aluminium Limited (formerly 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.
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 losses which the Reserve Bank incurs in respect of Indemnified Bonds under the Large Scale Asset Purchases (LSAP) programme. The indemnity was amended and restated several times, and the current indemnity came into effect on 12 August 2020. The Crown may terminate coverage for any additional purchases at any time after 31 August 2022 (Termination Date) 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 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 the termination date in respect of the Indemnified Bonds. Indemnified Bonds means all New Zealand domestic nominal government bonds, inflation-indexed government bonds and

Party indemnified	Instrument of indemnification	Actions indemnified
		Local Government Funding Agency bonds purchased by the Reserve Bank under the LSAP programme prior to the Termination Date – Including the reinvestments of maturing bonds up to the cap. As at 12 August 2020, the cap means 60% of the face value of all New Zealand government nominal bonds on issue on the date of purchase; 30% of the face value of all New Zealand government inflation-indexed bonds on issue on the date of purchase; and 30% of the face value all LGFA bonds on issue on the date of purchase of any LGFA bonds or such amount agreed between the Minister and the Reserve Bank from time to time.
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, many of the remaining claims are also complex or are otherwise challenging to settle through the internal process 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 certain litigation on 25 September 2018. Claims covered by this indemnity were extended on 11 December 2020 to include those settled by the company in connection with the package agreed by the Government on 7 December 2020.
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.

Party indemnified	Instrument of indemnification	Actions indemnified
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master	The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited was entered into on 24 September 2015. The Crown has indemnified Westpac New Zealand Limited: • 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 claims and proceedings

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, while they cannot be quantified, have the potential to exceed $20 million in costs.

Accident Compensation Corporation (ACC) litigation

Litigation involving ACC arises mainly from challenges to operational decisions made by ACC through the statutory review and appeal process. No accrual has been made for contingent liabilities, which could arise, as these disputes are issue based and ACC's active management of litigation means that it will be either settling or defending, depending on the merits of the issue in dispute.

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 either cash, marine rights, or a combination following the negotiation process. The amount and timing of settlements are therefore uncertain, as they are dependent on sector growth, as well as the preferred nature of settlement, this results in challenges with regards to reliably estimating the Crown's potential obligations.

Ministry for Primary Industries – Biosecurity Act compensation

Under section 162A of the Biosecurity Act 1993, compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property, or restrictions on the movement of a person's goods. The Ministry for Primary Industries has been notified that compensation will be sought for incursions including *Mycoplasma bovis* outbreak remains unquantified. This is due to the Ministry for Primary Industries being unable to reliably estimate the period of time losses will be incurred as a result of its actions under the Biosecurity Act 1993.

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge certain claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Government with respect to land that has been transferred by the Government to a State-owned enterprise (SOE), universities, wānanga or Te Pūkenga – 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 through higher courts. Failure to successfully defend such actions may result in a liability for historical Treaty grievances in excess of that currently anticipated.

Proprietors of 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 many years to resolve.

Other unquantifiable contingent liabilities

Accident Compensation Corporation (ACC) 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 compliance

A number of entities are undertaking or have 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, DHBs and schools).

Pay Equity Claims – See page 89

Treaty of Waitangi claims – settlement relativity payments – See page 88

Contingent Assets

There are no material quantifiable or unquantifiable contingent assets at 31 October 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 25 November 2021, where these can be reliably measured.

The finalisation dates and key assumptions that underpin the preparation of the Forecast Financial Statements are outlined in the Fiscal Outlook chapter (pages 27 to 52).

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://www.treasury.govt.nz/information-and-services/state-sector-leadership/guidance/reporting-financial/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 53 to 101. Key forecast assumptions are set out on pages 29 to 30.

Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2022 to 30 June 2026. The "Previous Budget" figures are the original forecasts to 30 June 2022 as presented in the 2021 *Budget Update* and the "2021 Actual" figures are the audited actual results reported in the Financial Statements of Government (FSG) for the year ended 30 June 2021.

Government Reporting Entity as at 25 November 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 are not listed separately).

Core Crown Segment

Departments

Crown Law Office

Department of Conservation

Department of Corrections

Department of Internal Affairs - (includes Ministry for Ethnic Communities as a departmental agency)

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, Health New Zealand and Māori Health Authority[17] as departmental agencies)

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

17 Health New Zealand and Māori Health Authority departmental agencies were established from 1 September 2021 and are transitional agencies in relation to the implementation of health and disability system reforms.

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
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 (2,423)
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	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Revenue								
Taxation revenue	1	97,362	92,674	102,081	113,254	119,459	126,530	133,662
Other sovereign revenue	1	7,038	6,895	8,083	8,593	9,494	9,976	10,470
Total Revenue Levied through the Crown's Sovereign Power		**104,400**	**99,569**	**110,164**	**121,847**	**128,953**	**136,506**	**144,132**
Sales of goods and services		18,500	17,676	17,271	18,689	20,032	20,696	20,925
Interest revenue	2	1,943	2,020	2,110	2,441	2,661	2,811	3,021
Other revenue		4,492	4,604	4,721	4,892	5,279	5,405	5,528
Total revenue earned through the Crown's operations		**24,935**	**24,300**	**24,102**	**26,022**	**27,972**	**28,912**	**29,474**
Total revenue (excluding gains)		**129,335**	**123,869**	**134,266**	**147,869**	**156,925**	**165,418**	**173,606**
Expenses								
Transfer payments and subsidies	3	35,427	36,955	44,182	38,245	40,026	42,069	44,073
Personnel expenses		29,817	29,981	31,700	31,079	30,348	30,257	30,361
Depreciation		5,566	5,756	6,145	6,330	6,458	6,685	6,740
Other operating expenses	4	53,802	58,973	62,901	54,954	55,356	53,286	52,487
Finance costs	2	2,272	2,351	3,121	3,566	4,319	4,747	4,972
Insurance expenses	5	6,838	6,538	6,763	7,454	8,142	8,724	9,257
Forecast new operating spending	6	-	4,221	4,412	9,128	11,270	14,164	17,876
Top-down operating expense adjustment	6	-	(2,775)	(4,130)	(2,300)	(1,475)	(850)	(750)
Total expenses (excluding losses)		**133,722**	**142,000**	**155,094**	**148,456**	**154,444**	**159,082**	**165,016**
Gains/(losses)								
Net gains/(losses) on large scale asset purchases		(3,976)	(791)	(1)	-	-	-	-
Net gains/(losses) on financial instruments	2	18,130	3,769	3,039	4,712	5,593	6,020	6,462
Net gains/(losses) on non-financial instruments	7	6,869	(135)	(5,939)	(74)	(80)	(80)	(80)
Total gains/(losses) (including minority interests)		**21,023**	**2,843**	**(2,901)**	**4,638**	**5,513**	**5,940**	**6,382**
Net surplus/(deficit) from associates and joint ventures		(360)	(98)	106	87	117	146	170
Less minority interests share of operating balance		(117)	(262)	(203)	(224)	(410)	(428)	(437)
Operating balance (excluding minority interests)		**16,159**	**(15,648)**	**(23,826)**	**3,914**	**7,701**	**11,994**	**14,705**
Minority interest share of operating balance		117	262	203	224	410	428	437
Operating balance (including minority interests)		**16,276**	**(15,386)**	**(23,623)**	**4,138**	**8,111**	**12,422**	**15,142**

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

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Operating Balance (including minority interest)	**16,276**	**(15,386)**	**(23,623)**	**4,138**	**8,111**	**12,422**	**15,142**
Other comprehensive revenue and expense							
Revaluation of physical assets	22,539	-	(69)	-	-	-	-
Revaluation of defined benefit retirement plan schemes	2,325	216	332	201	176	160	149
Net revaluations of veterans' disability entitlements	436	-	-	-	-	-	-
Transfers to/(from) reserves	(143)	-	(25)	22	9	4	(8)
(Gains)/losses transferred to the statement of financial performance	181	-	(138)	(9)	1	6	2
Foreign currency translation differences on foreign operations	8	4	(12)	-	-	-	-
Other movements	15	(14)	(459)	12	22	11	-
Total other comprehensive revenue and expense	**25,361**	**206**	**(371)**	**226**	**208**	**181**	**143**
Total comprehensive revenue and expense	**41,637**	**(15,180)**	**(23,994)**	**4,364**	**8,319**	**12,603**	**15,285**
Attributable to:							
- minority interest	488	259	193	229	411	424	431
- the Crown	41,149	(15,439)	(24,187)	4,135	7,908	12,179	14,854
Total comprehensive revenue and expense	**41,637**	**(15,180)**	**(23,994)**	**4,364**	**8,319**	**12,603**	**15,285**

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Opening net worth	115,943	117,263	157,193	132,830	136,832	144,797	157,042
Operating balance (including minority interest)	16,276	(15,386)	(23,623)	4,138	8,111	12,422	15,142
Net revaluations of physical assets	22,539	-	(69)	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	2,325	216	332	201	176	160	149
Net revaluations of veterans' disability entitlements	436	-	-	-	-	-	-
Transfers to/(from) reserves	(143)	-	(25)	22	9	4	(8)
(Gains)/losses transferred to the Statement of Financial Performance	181	-	(138)	(9)	1	6	2
Foreign currency translation differences on foreign operations	8	4	(12)	-	-	-	-
Other movements	15	(14)	(459)	12	22	11	-
Comprehensive income	**41,637**	**(15,180)**	**(23,994)**	**4,364**	**8,319**	**12,603**	**15,285**
Transactions with minority interest	(387)	(373)	(369)	(362)	(354)	(358)	(362)
Closing net worth	**157,193**	**102,187**	**132,830**	**136,832**	**144,797**	**157,042**	**171,965**

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

Forecast Statement of Cash Flows

for the years ending 30 June

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Cash Flows from Operations							
Cash was provided from							
Taxation receipts	95,382	92,582	100,978	111,757	113,699	131,162	132,737
Other sovereign receipts	6,424	6,008	6,775	6,867	7,393	7,769	8,081
Sales of goods and services	17,732	17,995	17,122	19,025	20,351	20,471	20,839
Interest receipts	1,670	1,737	1,671	2,090	2,072	2,217	2,432
Other operating receipts	4,814	4,257	4,307	5,159	6,217	6,646	6,890
Total cash provided from operations	**126,022**	**122,579**	**130,853**	**144,898**	**149,732**	**168,265**	**170,979**
Cash was disbursed to							
Transfer payments and subsidies	35,515	37,271	44,345	38,441	40,139	43,230	44,403
Personnel and operating payments	84,256	91,242	96,098	89,277	87,953	87,006	87,274
Interest payments	3,147	2,962	3,112	3,700	4,195	4,688	4,842
Forecast new operating spending	-	4,221	4,412	9,128	11,270	14,164	17,876
Top-down operating expense adjustment	-	(2,775)	(4,130)	(2,300)	(1,475)	(850)	(750)
Total cash disbursed to operations	**122,918**	**132,921**	**143,837**	**138,246**	**142,082**	**148,238**	**153,645**
Net cash flows from operations	**3,104**	**(10,342)**	**(12,984)**	**6,652**	**7,650**	**20,027**	**17,334**
Cash Flows from Investing Activities							
Cash was provided from/(disbursed to)							
Net (purchase)/sale of physical assets	(9,393)	(16,039)	(15,607)	(15,330)	(14,159)	(10,269)	(9,737)
Net (purchase)/sale of shares and other securities	4,189	(4,749)	15,302	7,354	3,739	(9,683)	(2,215)
Net (purchase)/sale of intangible assets	(898)	(951)	(1,208)	(901)	(701)	(633)	(611)
Net (issue)/repayment of advances	(5,663)	(16,195)	(11,260)	(13,168)	(479)	5,834	6,216
Net acquisition of investments in associates	(392)	(674)	(615)	(473)	(272)	(97)	4
Forecast new capital spending	-	(2,033)	(1,745)	(2,509)	(2,804)	(3,171)	(3,262)
Top-down capital adjustment	-	2,425	2,240	1,410	1,260	760	510
Net cash flows from investing activities	**(12,157)**	**(38,216)**	**(12,893)**	**(23,617)**	**(13,416)**	**(17,259)**	**(9,095)**
Net cash flows from operating and investing activities	**(9,053)**	**(48,558)**	**(25,877)**	**(16,965)**	**(5,766)**	**2,768**	**8,239**
Cash Flows from Financing Activities							
Cash was provided from/(disbursed to)							
Net Issue/(repayment) of circulating currency	234	84	326	86	87	88	88
Net issue/(repayment) of government bonds[1]	1,158	464	16,538	9,324	9,041	9,133	(1,355)
Net issue/(repayment) of foreign-currency borrowings	348	(210)	(3,628)	(115)	306	930	(194)
Net issue/(repayment) of other New Zealand dollar borrowings	5,847	45,958	11,230	6,602	(3,093)	(12,187)	(6,335)
Dividends paid to minority interests[2]	(373)	(267)	(365)	(359)	(349)	(367)	(384)
Net cash flows from financing activities	**7,214**	**46,029**	**24,101**	**15,538**	**5,992**	**(2,403)**	**(8,180)**
Net movement in cash	**(1,839)**	**(2,529)**	**(1,776)**	**(1,427)**	**226**	**365**	**59**
Opening cash balance	21,927	14,947	18,755	16,816	15,389	15,615	15,980
Foreign-exchange gains/(losses) on opening cash	(1,333)	4	(163)	-	-	-	-
Closing cash balance	**18,755**	**12,422**	**16,816**	**15,389**	**15,615**	**15,980**	**16,039**

1. 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.
2. 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

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
Net Cash Flows from Operations	**3,104**	**(10,342)**	**(12,984)**	**6,652**	**7,650**	**20,027**	**17,334**
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	(3,976)	(791)	(1)	-	-	-	-
Net gains/(losses) on financial instruments	18,130	3,769	3,039	4,712	5,593	6,020	6,462
Net gains/(losses) on non-financial instruments	6,869	(135)	(5,939)	(74)	(80)	(80)	(80)
Net surplus/(deficit) from associates and joint ventures	(360)	(98)	106	87	117	146	170
Minority interest share of operating balance	(117)	(262)	(203)	(224)	(410)	(428)	(437)
Total gains/(losses) and other interests	**20,546**	**2,483**	**(2,998)**	**4,501**	**5,220**	**5,658**	**6,115**
Other Non-cash Items in Operating Balance							
Depreciation	(5,566)	(5,756)	(6,145)	(6,330)	(6,458)	(6,685)	(6,740)
Amortisation	(1,198)	(831)	(873)	(926)	(931)	(907)	(904)
Cost of concessionary lending	(1,039)	(746)	(763)	(727)	(665)	(643)	(671)
Impairment of financial assets (excluding receivables)	(1)	(100)	(73)	(89)	(44)	(21)	(25)
Decrease/(increase) in insurance liabilities	(1,868)	(1,445)	(1,492)	(2,168)	(2,562)	(2,773)	(3,077)
Other	149	-	-	-	-	-	-
Total other non-cash Items	**(9,523)**	**(8,878)**	**(9,346)**	**(10,240)**	**(10,660)**	**(11,029)**	**(11,417)**
Working Capital and Other Movements							
Increase/(decrease) in receivables	1,481	(550)	(681)	1,229	5,507	(4,516)	741
Increase/(decrease) in accrued interest	1,126	983	377	398	400	460	372
Increase/(decrease) in inventories	421	424	137	362	428	386	330
Increase/(decrease) in prepayments	63	12	49	(5)	(25)	5	4
Decrease/(increase) in deferred revenue	40	(339)	(141)	(156)	(232)	(111)	(105)
Decrease/(increase) in payables/provisions	(1,832)	(192)	782	441	(1,297)	420	644
Defined benefit retirement plan net expenditure	733	751	979	732	710	694	687
Total working capital and other movements	**2,032**	**1,089**	**1,502**	**3,001**	**5,491**	**(2,662)**	**2,673**
Operating balance (excluding minority interests)	**16,159**	**(15,648)**	**(23,826)**	**3,914**	**7,701**	**11,994**	**14,705**

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

Forecast Statement of Financial Position

as at 30 June

	Note	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Assets								
Cash and cash equivalents	8	18,755	12,422	16,816	15,389	15,615	15,980	16,039
Receivables	8	26,829	24,660	25,809	27,213	32,804	28,288	29,030
Marketable securities, deposits and derivatives in gain	8	56,783	57,208	51,081	53,583	57,103	60,299	63,246
Share investments	8	48,539	46,248	52,436	55,683	59,177	62,981	66,939
Advances	8	45,612	63,739	57,409	70,218	70,451	64,367	57,871
Investments in controlled enterprises	8	4,718	5,126	5,273	6,267	7,618	9,235	10,949
Inventory		2,194	2,499	2,331	2,693	3,121	3,507	3,837
Other assets		3,928	3,447	3,614	3,693	3,454	3,358	3,456
Property, plant and equipment	10	213,216	201,003	223,315	231,959	239,083	242,002	244,419
Equity accounted investments[1]		14,421	14,695	15,084	15,644	16,028	16,271	16,435
Intangible assets and goodwill		3,601	4,384	4,061	4,202	4,131	3,980	3,849
Forecast for new capital spending	6	-	2,033	1,745	4,254	7,058	10,229	13,491
Top-down capital adjustment		-	(3,225)	(2,240)	(3,650)	(4,910)	(5,670)	(6,180)
Total assets		**438,596**	**434,239**	**456,734**	**487,148**	**510,733**	**514,827**	**523,381**
Liabilities								
Issued currency		8,256	8,503	8,582	8,668	8,755	8,842	8,931
Payables	12	17,577	15,402	16,088	16,864	18,249	18,861	19,584
Deferred revenue		2,549	2,670	2,690	2,846	3,078	3,189	3,294
Borrowings	15	162,560	215,234	200,357	226,323	238,855	229,132	220,972
Insurance liabilities	5	60,336	59,973	65,062	67,230	69,792	72,564	75,642
Retirement plan liabilities	13	11,038	11,859	10,040	9,333	8,679	8,054	7,443
Provisions	14	19,087	18,411	21,085	19,052	18,528	17,143	15,550
Total liabilities		**281,403**	**332,052**	**323,904**	**350,316**	**365,936**	**357,785**	**351,416**
Total assets less total liabilities		**157,193**	**102,187**	**132,830**	**136,832**	**144,797**	**157,042**	**171,965**
Net Worth								
Taxpayers' funds		19,857	(11,061)	(4,400)	(463)	7,265	19,272	33,977
Property, plant and equipment revaluation reserve		134,003	112,003	133,902	133,915	133,922	133,927	133,931
Defined benefit plan revaluation reserve		(1,560)	(3,035)	(1,228)	(1,027)	(851)	(691)	(542)
Veterans' disability entitlements reserve		(659)	(1,095)	(659)	(659)	(659)	(659)	(659)
Other reserves		(172)	(261)	(333)	(349)	(352)	(345)	(349)
Total net worth attributable to the Crown		**151,469**	**96,551**	**127,282**	**131,417**	**139,325**	**151,504**	**166,358**
Net worth attributable to minority interest		5,724	5,636	5,548	5,415	5,472	5,538	5,607
Total net worth	16	**157,193**	**102,187**	**132,830**	**136,832**	**144,797**	**157,042**	**171,965**

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 October

	As at 31 October 2021 $m	As at 30 June 2021 $m
Capital Commitments		
State highways	2,745	2,745
Specialist military equipment	2,354	5,166
Land and buildings	6,204	6,044
Other property, plant and equipment	4,473	1,863
Other capital commitments	942	1,031
Universities and Wānanga	875	875
Total capital commitments	**17,593**	**17,724**
Operating Commitments		
Non-cancellable accommodation leases	5,308	5,342
Other non-cancellable leases	3,855	3,866
Universities and Wānanga	1,137	1,137
Total operating commitments	**10,300**	**10,345**
Total commitments	**27,893**	**28,069**
Total Commitments by Segment		
Core Crown	13,796	14,090
Crown entities	9,151	9,063
State-owned Enterprises	6,897	6,896
Inter-segment eliminations	(1,951)	(1,980)
Total commitments	**27,893**	**28,069**

Statement of Actual Contingent Liabilities and Assets

as at 31 October

	As at 31 October 2021 $m	As at 30 June 2021 $m
Quantifiable Contingent Liabilities		
Uncalled capital	8,306	8,568
Guarantees and indemnities	342	348
Legal proceedings and disputes	313	313
Other contingent liabilities	848	567
Total quantifiable contingent liabilities	**9,809**	**9,796**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	9,483	9,538
Crown entities	157	157
State-owned Enterprises	264	196
Inter-segment eliminations	(95)	(95)
Total quantifiable contingent liabilities	**9,809**	**9,796**
Quantifiable Contingent Assets by Segment		
Core Crown	38	37
Crown entities	21	21
State-owned Enterprises	-	-
Total quantifiable contingent assets	**59**	**58**

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

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation Revenue (accrual)							
Individuals							
Source deductions	38,164	39,449	41,172	44,342	47,454	50,824	54,320
Other persons	8,773	7,076	9,244	10,095	11,089	11,744	12,446
Refunds	(1,716)	(2,015)	(1,829)	(2,027)	(2,136)	(2,237)	(2,340)
Fringe benefit tax	608	648	622	645	670	697	723
Total individuals	**45,829**	**45,158**	**49,209**	**53,055**	**57,077**	**61,028**	**65,149**
Corporate Tax							
Gross companies tax	15,640	13,009	16,350	19,888	20,085	21,131	22,212
Refunds	(344)	(389)	(407)	(435)	(436)	(448)	(463)
Non-resident withholding tax	472	472	579	641	689	712	732
Total corporate tax	**15,768**	**13,092**	**16,522**	**20,094**	**20,338**	**21,395**	**22,481**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,000	1,016	869	1,461	1,670	1,808	1,897
Resident w/holding tax on dividend income	1,519	713	859	940	994	1,045	1,091
Total other direct income tax	**2,519**	**1,729**	**1,728**	**2,401**	**2,664**	**2,853**	**2,988**
Total direct income tax	**64,116**	**59,979**	**67,459**	**75,550**	**80,079**	**85,276**	**90,618**
Goods and Services Tax							
Gross goods and services tax	39,814	40,118	41,984	45,888	48,100	50,464	52,764
Refunds	(14,252)	(15,070)	(15,242)	(16,377)	(17,138)	(17,837)	(18,535)
Total goods and services tax	**25,562**	**25,048**	**26,742**	**29,511**	**30,962**	**32,627**	**34,229**
Other Indirect Taxation							
Road and track user charges	1,930	1,953	1,929	2,067	2,152	2,226	2,294
Petroleum fuels excise – domestic production	1,084	1,212	1,008	33	33	34	34
Alcohol excise – domestic production	780	829	848	936	986	1,034	1,081
Petroleum fuels excise – imports[1]	1,061	1,016	1,075	2,077	2,108	2,141	2,168
Alcohol excise – imports[1]	469	446	509	526	555	582	608
Tobacco excise – imports[1]	1,637	1,463	1,761	1,793	1,810	1,818	1,821
Other customs duty	169	161	179	181	184	191	198
Gaming duties	237	235	245	258	265	273	281
Motor vehicle fees	231	222	231	227	230	233	235
Approved issuer levy and cheque duty	63	80	65	65	65	65	65
Energy resources levies	23	30	30	30	30	30	30
Total other indirect taxation	**7,684**	**7,647**	**7,880**	**8,193**	**8,418**	**8,627**	**8,815**
Total indirect taxation	**33,246**	**32,695**	**34,622**	**37,704**	**39,380**	**41,254**	**43,044**
Total taxation revenue	**97,362**	**92,674**	**102,081**	**113,254**	**119,459**	**126,530**	**133,662**
Other Sovereign Revenue (accrual)							
ACC levies	3,270	3,278	3,243	3,553	3,868	4,234	4,624
Emissions Trading revenue	1,634	1,467	2,741	2,831	3,180	3,223	3,317
Fire and Emergency levies	607	600	616	628	641	654	667
EQC levies	520	527	528	533	539	544	549
Child support and working for families penalties	383	203	285	221	232	231	231
Court fines	138	115	115	115	115	115	115
Other miscellaneous items	486	705	555	712	919	975	967
Total other sovereign revenue	**7,038**	**6,895**	**8,083**	**8,593**	**9,494**	**9,976**	**10,470**
Total sovereign revenue	**104,400**	**99,569**	**110,164**	**121,847**	**128,953**	**136,506**	**144,132**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation Receipts (cash)							
Individuals							
Source deductions	37,307	39,229	41,234	44,109	47,206	50,558	54,034
Other persons	8,302	7,588	9,608	10,440	11,290	12,429	12,822
Refunds	(2,307)	(2,448)	(2,425)	(2,631)	(2,693)	(2,857)	(2,991)
Fringe benefit tax	575	648	627	650	675	702	728
Total individuals	**43,877**	**45,017**	**49,044**	**52,568**	**56,478**	**60,832**	**64,593**
Corporate Tax							
Gross companies tax	16,973	14,685	16,759	20,258	20,809	22,848	23,348
Refunds	(1,116)	(1,456)	(1,319)	(1,249)	(1,406)	(1,440)	(1,539)
Non-resident withholding tax	456	472	579	641	689	712	732
Total corporate tax	**16,313**	**13,701**	**16,019**	**19,650**	**20,092**	**22,120**	**22,541**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,060	1,016	869	1,461	1,670	1,808	1,897
Resident w/holding tax on dividend income	1,491	713	859	940	994	1,045	1,091
Total other direct income tax	**2,551**	**1,729**	**1,728**	**2,401**	**2,664**	**2,853**	**2,988**
Total direct income tax	**62,741**	**60,447**	**66,791**	**74,619**	**79,234**	**85,805**	**90,122**
Goods and Services Tax							
Gross goods and services tax	38,576	39,419	41,379	45,277	43,032	54,414	52,181
Refunds	(13,604)	(14,910)	(15,082)	(16,217)	(16,978)	(17,677)	(18,375)
Total goods and services tax	**24,972**	**24,509**	**26,297**	**29,060**	**26,054**	**36,737**	**33,806**
Other Indirect Taxation							
Road and track user charges	1,913	1,953	1,929	2,067	2,152	2,226	2,294
Petroleum fuels excise – domestic production	1,087	1,212	1,075	33	33	34	34
Alcohol excise – domestic production	768	829	848	936	986	1,034	1,081
Customs duty	3,304	3,065	3,467	4,462	4,650	4,725	4,789
Gaming duties	241	235	245	258	265	273	281
Motor vehicle fees	272	222	231	227	230	233	235
Approved issuer levy and cheque duty	61	80	65	65	65	65	65
Energy resources levies	23	30	30	30	30	30	30
Total other indirect taxation	**7,669**	**7,626**	**7,890**	**8,078**	**8,411**	**8,620**	**8,809**
Total indirect taxation	**32,641**	**32,135**	**34,187**	**37,138**	**34,465**	**45,357**	**42,615**
Total taxation receipts	**95,382**	**92,582**	**100,978**	**111,757**	**113,699**	**131,162**	**132,737**
Other Sovereign Receipts (cash)							
ACC levies	3,098	3,197	3,123	3,414	3,818	4,180	4,571
Emissions Trading receipts	1,322	707	1,588	1,182	1,140	1,073	976
Fire and Emergency levies	607	602	614	626	638	651	664
EQC levies	525	526	528	532	538	543	548
Child support and working for families penalties	203	191	212	205	213	213	213
Court fines	142	102	93	93	93	93	93
Other miscellaneous items	527	683	617	815	953	1,016	1,016
Total other sovereign receipts	**6,424**	**6,008**	**6,775**	**6,867**	**7,393**	**7,769**	**8,081**
Total sovereign receipts	**101,806**	**98,590**	**107,753**	**118,624**	**121,092**	**138,931**	**140,818**

Notes to the Forecast Financial Statements

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
NOTE 2: Investment Revenue/(Expenditure)							
Interest revenue	**1,943**	**2,020**	**2,110**	**2,441**	**2,661**	**2,811**	**3,021**
Interest Expenses							
Interest on financial liabilities	2,188	2,232	3,019	3,386	4,097	4,508	4,728
Interest unwind on provisions	84	119	102	180	222	239	244
Total interest expenses	**2,272**	**2,351**	**3,121**	**3,566**	**4,319**	**4,747**	**4,972**
Net interest revenue/(expense)	**(329)**	**(331)**	**(1,011)**	**(1,125)**	**(1,658)**	**(1,936)**	**(1,951)**
Dividend revenue	903	1,101	1,069	1,225	1,330	1,439	1,546
Net gains/(losses) on large scale asset purchases	(3,976)	(791)	(1)	-	-	-	-
Net gains/(losses) on financial instruments	18,130	3,769	3,039	4,712	5,593	6,020	6,462
Total investment revenue/(expenditure)	**14,728**	**3,748**	**3,096**	**4,812**	**5,265**	**5,523**	**6,057**
NOTE 3: Transfer Payments and Subsidies							
New Zealand superannuation	16,569	17,691	17,794	19,342	20,745	22,050	23,593
Wage subsidy scheme	1,197	500	5,345	-	-	-	-
Family tax credit	2,103	2,064	2,098	2,293	2,333	2,511	2,538
Jobseeker support and emergency benefit	3,224	3,857	3,340	3,391	3,419	3,584	3,756
Accommodation assistance	2,302	2,498	2,325	2,241	2,188	2,239	2,296
Supported living payment	1,826	2,061	2,040	2,217	2,327	2,431	2,535
Sole parent support	1,455	1,720	1,698	1,803	1,836	1,858	1,893
KiwiSaver subsidies	916	974	977	1,026	1,074	1,123	1,171
Official development assistance	804	820	840	1,058	1,111	1,111	961
Other working for families tax credits	585	647	598	605	604	615	615
Student allowances	590	656	625	688	693	743	802
Winter energy payment	812	530	514	518	524	535	546
Disability assistance	409	417	414	424	434	443	452
Hardship assistance	479	591	505	548	589	638	689
Orphan's/unsupported child's benefit	293	332	319	366	388	406	422
Best start tax credit	271	405	374	413	414	417	418
COVID-19 resurgence support payment	200	-	3,157	-	-	-	-
Income related rent subsidy	106	80	110	111	110	110	110
Other social assistance benefits	1,286	1,112	1,109	1,201	1,237	1,255	1,276
Total transfer payments and subsidies	**35,427**	**36,955**	**44,182**	**38,245**	**40,026**	**42,069**	**44,073**
NOTE 4: Other Operating Expenses							
Grants and subsidies	9,594	10,675	11,585	10,126	10,057	9,298	9,358
Repairs and maintenance	2,368	2,082	1,939	1,976	2,066	2,148	2,161
Rental and leasing costs	1,516	1,551	1,599	1,597	1,594	1,607	1,605
Amortisation and impairment of non-financial assets	1,198	831	873	926	931	907	904
Impairment of financial assets	928	1,114	1,068	1,103	1,035	1,015	1,020
Cost of concessionary lending	1,039	746	763	727	665	643	671
Lottery prize payments	814	737	779	841	886	912	918
Inventory expenses and clinical supplies	2,096	2,177	2,166	2,425	2,592	2,813	2,717
Other operating expenses	34,249	39,060	42,129	35,233	35,530	33,943	33,133
Total other operating expenses	**53,802**	**58,973**	**62,901**	**54,954**	**55,356**	**53,286**	**52,487**

Notes to the Forecast Financial Statements

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
NOTE 5: Insurance							
Insurance expense by entity							
ACC	6,539	6,313	6,520	7,191	7,845	8,428	8,919
EQC	167	223	232	252	269	266	307
Southern Response	108	(18)	(18)	(19)	(2)	(1)	-
Other (incl. inter-segment eliminations)	24	20	29	30	30	31	31
Total insurance expenses	**6,838**	**6,538**	**6,763**	**7,454**	**8,142**	**8,724**	**9,257**
Insurance liability by entity							
ACC	59,133	59,328	64,309	66,633	69,287	72,214	75,291
EQC	803	542	632	516	434	283	286
Southern Response	353	53	58	18	7	2	-
Other (incl. inter-segment eliminations)	47	50	63	63	64	65	65
Total insurance liabilities	**60,336**	**59,973**	**65,062**	**67,230**	**69,792**	**72,564**	**75,642**

ACC liability

Calculation information

Taylor Fry has prepared an independent actuarial estimate of the ACC outstanding claims liability as at 30 June 2021. 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), the rate of inflation and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the latest discount rates as at 30 September 2021. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 2.87% and allows for a long-term discount rate of 4.30% from 2065.

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.

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Gross ACC Liability							
Opening gross liability	64,946	57,608	59,133	64,309	66,633	69,287	72,214
Net change	(5,813)	1,720	5,176	2,324	2,654	2,927	3,077
Closing gross liability	**59,133**	**59,328**	**64,309**	**66,633**	**69,287**	**72,214**	**75,291**
Less Net Assets Available to ACC							
Opening net asset value	48,987	50,831	53,143	53,703	54,500	55,594	56,874
Net change	4,156	260	560	797	1,094	1,280	1,390
Closing net asset value	**53,143**	**51,091**	**53,703**	**54,500**	**55,594**	**56,874**	**58,264**
Net ACC Reserves (Net Liability)							
Opening reserves position	(15,959)	(6,777)	(5,990)	(10,606)	(12,133)	(13,693)	(15,340)
Net change	9,969	(1,460)	(4,616)	(1,527)	(1,560)	(1,647)	(1,687)
Closing reserves position (net liability)/net asset	**(5,990)**	**(8,237)**	**(10,606)**	**(12,133)**	**(13,693)**	**(15,340)**	**(17,027)**

Notes to the Forecast Financial Statements

	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
NOTE 6: Forecast New Spending and Top-down Adjustments					
Forecast New Operating Spending					
Unallocated operating contingencies	2,255	2,086	2,286	2,299	2,216
COVID-19 response and recovery funding	2,157	2,157	-	-	-
Climate Emergency Response Fund	-	353	303	303	458
Forecast new spending for Budget 2022	-	4,532	4,681	4,562	5,202
Forecast new spending for Budget 2023	-	-	4,000	4,000	4,000
Forecast new spending for Budget 2024	-	-	-	3,000	3,000
Forecast new spending for Budget 2025	-	-	-	-	3,000
Total forecast new operating spending	**4,412**	**9,128**	**11,270**	**14,164**	**17,876**

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 $6.0 billion. Some of this allowance has been pre-committed as at the forecast finalisation date of 25 November 2021, with only the unallocated portion of the allowance included in this note.

As signalled in the *2022 Budget Policy Statement* there will be scope for the Government to use future Budget operating allowances to fund multi-year funding decisions. This is likely to mean the amounts allocated by Budget year in the above table may differ. However, the impacts by fiscal year may not be affected.

	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	Post-2026 $m	Total $m
Forecast New Capital Spending (annual)							
Unallocated capital contingencies	1,745	1,140	629	535	395	200	4,644
Climate Emergency Response Fund	-	563	563	563	563	-	2,252
Forecast new spending for Budgets 2022 - 2025	-	806	1,612	2,073	2,304	2,419	9,214
Total forecast new capital spending	**1,745**	**2,509**	**2,804**	**3,171**	**3,262**	**2,619**	**16,110**
Forecast new capital spending (cumulative)	**1,745**	**4,254**	**7,058**	**10,229**	**13,491**		

The Government has signalled a capital allowance of $9.8 billion for Budget 2022 through to Budget 2025. As at 25 November 2021, $9.2 billion of funding is assumed to remain available. Unallocated capital contingencies represent capital spending yet to be allocated to departments. Forecast new capital spending indicates the funding available for capital spending from future Budgets.

	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Top-down Adjustments					
Top-down operating expense adjustment	(4,130)	(2,300)	(1,475)	(850)	(750)
Top-down capital adjustment (cumulative)	(2,240)	(3,650)	(4,910)	(5,670)	(6,180)

Notes to the Forecast Financial Statements

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
NOTE 7: Net Gains and Losses on Non-Financial Instruments							
Actuarial gains/(losses) on ACC outstanding claims	8,222	-	(3,235)	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	(1,489)	-	(3,033)	-	-	-	-
Other	136	(135)	329	(74)	(80)	(80)	(80)
Net gains/(losses) on non-financial instruments	**6,869**	**(135)**	**(5,939)**	**(74)**	**(80)**	**(80)**	**(80)**
NOTE 8: Financial Assets (including receivables)							
Cash and cash equivalents	18,755	12,422	16,816	15,389	15,615	15,980	16,039
Tax receivables	15,642	13,942	15,020	15,701	20,720	15,382	15,622
Trade and other receivables	11,187	10,718	10,789	11,512	12,084	12,906	13,408
Student loans (refer note 9)	10,841	10,615	10,561	10,357	10,147	9,923	9,665
Kiwi Group Holdings loans and advances	25,155	26,800	27,769	30,446	33,461	36,518	39,724
Long-term deposits	5,108	3,997	4,939	4,450	4,376	4,413	4,457
IMF financial assets	2,479	2,420	5,031	5,031	5,031	5,031	5,031
FLP advances	2,558	18,620	11,894	22,000	18,959	9,420	-
Other advances	7,058	7,704	7,185	7,415	7,884	8,506	8,482
Share investments	48,539	46,248	52,436	55,683	59,177	62,981	66,939
Investments in controlled enterprises	4,718	5,126	5,273	6,267	7,618	9,235	10,949
Derivatives in gain	4,509	5,811	3,529	2,518	2,197	2,060	1,927
Other marketable securities	44,687	44,980	37,582	41,584	45,499	48,795	51,831
Total financial assets (including receivables)	**201,236**	**209,403**	**208,824**	**228,353**	**242,768**	**241,150**	**244,074**
Financial Assets by Segment							
The Treasury	54,903	47,233	43,304	31,933	25,137	32,161	31,276
Reserve Bank of New Zealand	44,935	94,474	51,780	53,402	44,358	27,639	16,205
NZS Fund	62,312	64,862	65,741	71,203	77,354	83,919	90,708
Other core Crown	35,095	27,855	33,803	33,189	37,807	32,012	32,719
Intra-segment eliminations	(68,586)	(99,029)	(58,158)	(36,800)	(23,625)	(23,224)	(21,032)
Total core Crown segment	**128,659**	**135,395**	**136,470**	**152,927**	**161,031**	**152,507**	**149,876**
ACC	54,271	51,340	54,498	54,577	55,680	56,968	58,364
EQC	602	452	566	641	743	787	950
Other Crown entities	16,788	13,834	15,360	16,932	19,292	20,636	21,369
Intra-segment eliminations	(4,132)	(2,991)	(4,671)	(5,515)	(5,534)	(5,565)	(5,615)
Total Crown entities segment	**67,529**	**62,635**	**65,753**	**66,635**	**70,181**	**72,826**	**75,068**
Total State-owned Enterprises segment	**32,872**	**35,827**	**35,215**	**38,192**	**41,840**	**45,659**	**49,313**
Inter-segment eliminations	(27,824)	(24,454)	(28,614)	(29,401)	(30,284)	(29,842)	(30,183)
Total financial assets (including receivables)	**201,236**	**209,403**	**208,824**	**228,353**	**242,768**	**241,150**	**244,074**
NOTE 9: Student Loans							
Nominal value (including accrued interest)	16,260	16,491	16,402	16,608	16,791	16,971	17,151
Opening book value	10,395	10,833	10,841	10,561	10,357	10,147	9,923
Net new lending (including fees)	1,430	1,576	1,488	1,613	1,647	1,704	1,756
Less initial write-down to fair value	(469)	(515)	(523)	(588)	(609)	(638)	(667)
Repayments made during the year	(1,495)	(1,508)	(1,518)	(1,562)	(1,620)	(1,684)	(1,750)
Interest unwind	235	194	235	296	336	359	368
Unwind of administration costs	38	35	38	37	36	35	35
Experience/actuarial adjustments:							
- Expected repayment adjustments	487	-	-	-	-	-	-
- Discount rate adjustments	220	-	-	-	-	-	-
Closing book value	**10,841**	**10,615**	**10,561**	**10,357**	**10,147**	**9,923**	**9,665**

Notes to the Forecast Financial Statements

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
NOTE 10: Property, Plant and Equipment							
Net Carrying Value[1]							
By class of asset							
Land	70,292	58,185	71,096	71,149	71,216	71,569	72,323
Buildings	53,507	53,466	58,247	62,804	66,072	66,420	66,105
State highways	42,666	43,348	44,752	46,390	48,148	49,670	50,949
Electricity generation assets	17,979	16,583	18,820	19,042	18,969	18,867	19,070
Electricity distribution network (cost)	4,318	4,485	4,240	4,414	4,590	4,836	5,091
Aircraft (excluding military)	3,611	4,005	3,901	4,176	4,786	5,370	5,953
Specialist military equipment	3,649	4,194	4,262	5,103	5,622	5,791	5,401
Specified cultural and heritage assets	3,156	3,103	3,173	3,190	3,197	3,203	3,209
Rail network	7,407	6,755	7,737	8,089	8,561	8,622	8,802
Other plant and equipment (cost)	6,631	6,879	7,087	7,602	7,922	7,654	7,516
Total property, plant and equipment	**213,216**	**201,003**	**223,315**	**231,959**	**239,083**	**242,002**	**244,419**
Land breakdown by usage							
Housing	25,826	20,065	26,481	26,607	27,002	27,268	27,924
State highway corridor land	18,469	14,323	18,243	17,999	17,555	17,515	17,475
Conservation estate	7,159	6,726	7,144	7,151	7,153	7,154	7,156
Rail network	3,802	3,875	3,855	3,907	3,946	3,973	4,001
Schools	7,106	6,165	7,239	7,319	7,399	7,479	7,559
Commercial (SOEs) excluding Rail	1,167	1,196	1,232	1,245	1,243	1,252	1,264
Other	6,763	5,835	6,902	6,921	6,918	6,928	6,944
Total land	**70,292**	**58,185**	**71,096**	**71,149**	**71,216**	**71,569**	**72,323**
Schedule of Movements							
Cost or Valuation							
Opening balance	205,689	215,933	231,234	247,093	261,858	275,247	284,663
Additions[2]	10,762	16,094	16,556	15,755	14,133	9,787	9,298
Disposals	(1,101)	(1,062)	(549)	(889)	(644)	(299)	(793)
Net revaluations	16,131	-	(69)	-	-	-	-
Other	(247)	(82)	(79)	(101)	(100)	(72)	(71)
Total cost or valuation	**231,234**	**230,883**	**247,093**	**261,858**	**275,247**	**284,663**	**293,097**
Accumulated Depreciation and Impairment							
Opening balance	19,187	24,376	18,018	23,778	29,899	36,164	42,661
Eliminated on disposal	(636)	(252)	(393)	(200)	(192)	(189)	(719)
Eliminated on revaluation	(5,979)	-	-	-	-	-	-
Impairment losses charged to operating balance	(58)	-	-	-	-	-	-
Depreciation expense	5,566	5,756	6,145	6,330	6,458	6,685	6,740
Other	(62)	-	8	(9)	(1)	1	(4)
Total accumulated depreciation and impairment	**18,018**	**29,880**	**23,778**	**29,899**	**36,164**	**42,661**	**48,678**
Total property, plant and equipment	**213,216**	**201,003**	**223,315**	**231,959**	**239,083**	**242,002**	**244,419**

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).

Notes to the Forecast Financial Statements

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
NOTE 11: NZ Superannuation Fund							
Revenue	742	864	800	911	1,014	1,127	1,252
Less current tax expense	2,156	993	838	1,174	1,279	1,394	1,524
Less other expenses	125	217	237	280	302	328	356
Add gains/(losses)	12,786	3,514	2,775	4,289	4,649	5,043	5,489
Operating balance	**11,247**	**3,168**	**2,500**	**3,746**	**4,082**	**4,448**	**4,861**
Opening net worth	43,997	53,480	57,365	62,285	68,015	74,057	80,509
Gross contribution from the Crown	2,120	2,420	2,420	1,984	1,960	2,004	1,851
Operating balance	11,247	3,168	2,500	3,746	4,082	4,448	4,861
Other movements in reserves	1	-	-	-	-	-	-
Closing net worth	**57,365**	**59,068**	**62,285**	**68,015**	**74,057**	**80,509**	**87,221**
Comprising:							
Financial assets	62,312	64,862	65,741	71,203	77,354	83,919	90,708
Financial liabilities	(4,949)	(5,784)	(3,442)	(3,169)	(3,276)	(3,386)	(3,458)
Net other assets	2	(10)	(14)	(19)	(21)	(24)	(29)
Closing net worth	**57,365**	**59,068**	**62,285**	**68,015**	**74,057**	**80,509**	**87,221**
NOTE 12: Payables							
Accounts payable	12,179	10,235	10,597	11,325	12,662	13,225	13,900
Taxes repayable	5,398	5,167	5,491	5,539	5,587	5,636	5,684
Total payables	**17,577**	**15,402**	**16,088**	**16,864**	**18,249**	**18,861**	**19,584**

Notes to the Forecast Financial Statements

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
NOTE 13: Retirement Plan Liabilities							
Government Superannuation Fund	11,038	11,846	10,034	9,327	8,673	8,048	7,437
Other funds	-	13	6	6	6	6	6
Total retirement plan liabilities	**11,038**	**11,859**	**10,040**	**9,333**	**8,679**	**8,054**	**7,443**

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 30 September 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 30 June 2022, based on membership data as at 30 June 2021. The funding method requires the benefits payable from GSF in respect of past service to be calculated and then discounted back to the valuation date. For these Forecast Financial Statements, the net GSF liability was updated for the latest discount rates derived from the market yield curve for New Zealand Government bonds as at 30 September 2021.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 2.01% p.a. for the year ended 30 June 2022 It stays at this level until 2058 when it decreases 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 2021/22 projected decrease in the net GSF liability is $1,004 million, reflecting a decrease in the GSF liability of $850 million and an increase in the GSF net assets of $154 million.

The overall decrease in the GSF liability of $850 million includes an actuarial gain (which decreases the liability) between 1 July 2021 and 30 June 2022, of $32 million, largely owing to movements in the demographic assumptions ($227 million) which are largely offset by changes in the CPI rates ($207 million). The difference of $818 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 $154 million includes a revaluation gain of $301 million reflecting the updated market value of assets at 30 September 2021. The balance of $147 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 2021/22 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
GSF Liability							
Opening GSF liability	18,238	17,328	16,240	15,390	14,679	14,017	13,384
Net projected change	(1,998)	(831)	(850)	(711)	(662)	(633)	(621)
Closing GSF liability	**16,240**	**16,497**	**15,390**	**14,679**	**14,017**	**13,384**	**12,763**
Less Net Assets Available to GSF							
Opening net asset value	4,268	4,617	5,202	5,356	5,352	5,344	5,336
Investment valuation changes	1,146	226	320	261	261	261	260
Contribution and other income less benefit payments	(212)	(192)	(166)	(265)	(269)	(269)	(270)
Closing net asset value	**5,202**	**4,651**	**5,356**	**5,352**	**5,344**	**5,336**	**5,326**
Net GSF Liability							
Opening unfunded liability	13,970	12,711	11,038	10,034	9,327	8,673	8,048
Net projected change	(2,932)	(865)	(1,004)	(707)	(654)	(625)	(611)
Closing unfunded liability	**11,038**	**11,846**	**10,034**	**9,327**	**8,673**	**8,048**	**7,437**

Notes to the Forecast Financial Statements

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
NOTE 14: Provisions							
Provision for employee entitlements	6,363	6,396	5,557	4,827	4,814	4,405	4,369
Provision for NZ ETS credits	5,824	5,339	9,092	8,782	8,031	7,131	6,046
Provision for National Provident Fund guarantee	762	709	694	631	572	516	460
Veterans' disability entitlements	3,036	3,452	2,944	2,862	2,789	2,723	2,663
Other provisions	3,102	2,515	2,798	1,950	2,322	2,368	2,012
Total provisions	**19,087**	**18,411**	**21,085**	**19,052**	**18,528**	**17,143**	**15,550**

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. The Government also sells 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 surrendering NZUs they hold to the Crown. NZUs purchased through Government auctions 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.

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 price at 30 September 2021 ($64.50).

The movement in the NZ ETS provision is as follows:

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Opening provision	3,804	5,255	5,824	9,092	8,782	8,031	7,131
Additional provision	938	844	1,388	1,339	1,289	1,250	1,256
Provision utilised	(529)	(1,467)	(2,674)	(2,831)	(3,180)	(3,223)	(3,317)
Auctioned units	336	707	1,521	1,182	1,140	1,073	976
(Gains)/losses	1,489	-	3,033	-	-	-	-
Other movements	(214)	-	-	-	-	-	-
Closing provision for NZ ETS credits	**5,824**	**5,339**	**9,092**	**8,782**	**8,031**	**7,131**	**6,046**

Notes to the Forecast Financial Statements

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
NOTE 15: Borrowings							
Borrowings							
Government bonds	70,653	69,350	87,410	96,542	105,206	113,880	112,068
Treasury bills	7,593	4,797	3,588	2,986	2,983	2,981	2,979
Government retail stock	182	214	170	170	170	170	170
Settlement deposits with Reserve Bank	29,466	79,152	48,296	61,076	59,118	35,568	24,387
Derivatives in loss	5,056	2,982	5,022	3,948	3,685	3,457	3,344
Finance lease liabilities	1,307	1,309	1,363	1,381	1,108	1,134	1,232
Other borrowings	48,303	57,430	54,508	60,220	66,585	71,942	76,792
Total borrowings	**162,560**	**215,234**	**200,357**	**226,323**	**238,855**	**229,132**	**220,972**
By guarantee							
Sovereign-guaranteed debt	117,641	162,365	149,675	171,016	178,009	163,235	150,577
Non sovereign-guaranteed debt	44,919	52,869	50,682	55,307	60,846	65,897	70,395
Total borrowings	**162,560**	**215,234**	**200,357**	**226,323**	**238,855**	**229,132**	**220,972**

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.

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
NOTE 16: Changes in Net Worth							
Taxpayers' funds	19,857	(11,061)	(4,400)	(463)	7,265	19,272	33,977
Property, plant and equipment revaluation reserve	134,003	112,003	133,902	133,915	133,922	133,927	133,931
Defined benefit plan revaluation reserve	(1,560)	(3,035)	(1,228)	(1,027)	(851)	(691)	(542)
Veterans' disability entitlements reserve	(659)	(1,095)	(659)	(659)	(659)	(659)	(659)
Intangible asset reserve	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Cash flow hedge reserve	(297)	(433)	(430)	(452)	(461)	(457)	(462)
Fair value hedge reserve	195	236	174	180	186	189	190
Foreign currency translation reserve	(63)	(57)	(70)	(70)	(70)	(70)	(70)
Net worth attributable to minority interests	5,724	5,636	5,548	5,415	5,472	5,538	5,607
Total net worth	**157,193**	**102,187**	**132,830**	**136,832**	**144,797**	**157,042**	**171,965**
Taxpayers' funds							
Opening taxpayers' funds	3,154	4,600	19,857	(4,400)	(463)	7,265	19,272
Operating balance excluding minority interests	16,159	(15,648)	(23,826)	3,914	7,701	11,994	14,705
Transfers from/(to) other reserves	536	-	32	-	-	-	-
Other movements	8	(13)	(463)	23	27	13	-
Closing taxpayers' funds	**19,857**	**(11,061)**	**(4,400)**	**(463)**	**7,265**	**19,272**	**33,977**
Property, Plant and Equipment Revaluation							
Opening property, plant and equipment revaluation reserve	112,334	112,003	134,003	133,902	133,915	133,922	133,927
Net revaluations	22,539	-	(69)	-	-	-	-
Transfers from/(to) other reserves	(439)	-	(32)	13	7	5	4
Net revaluations attributable to minority interests	(431)	-	-	-	-	-	-
Closing property, plant and equipment revaluation reserve	**134,003**	**112,003**	**133,902**	**133,915**	**133,922**	**133,927**	**133,931**

Statement of Segments

	Core Crown 2021 Actual $m	Crown entities 2021 Actual $m	State-owned Enterprises 2021 Actual $m	Inter-segment eliminations 2021 Actual $m	Total Crown 2021 Actual $m
Statement of Financial Performance for the year ended 30 June 2021					
Revenue					
Taxation revenue	97,983	-	-	(621)	97,362
Other sovereign revenue	2,745	6,220	-	(1,927)	7,038
Revenue from core Crown funding	-	36,138	761	(36,899)	-
Sales of goods and services	1,543	3,104	14,474	(621)	18,500
Interest revenue	716	785	791	(349)	1,943
Other revenue	1,981	3,804	839	(2,132)	4,492
Total revenue (excluding gains)	**104,968**	**50,051**	**16,865**	**(42,549)**	**129,335**
Expenses					
Social assistance and official development assistance	36,521	-	-	(1,094)	35,427
Personnel expenses	9,358	17,929	2,582	(52)	29,817
Other operating expenses	59,967	27,210	13,570	(41,379)	59,368
Interest expenses	1,918	218	592	(456)	2,272
Insurance expenses	-	6,831	6	1	6,838
Total expenses (excluding losses)	**107,764**	**52,188**	**16,750**	**(42,980)**	**133,722**
Total gains/(losses) and other items	7,500	11,927	139	980	20,546
Operating balance	**4,704**	**9,790**	**254**	**1,411**	**16,159**
Expenses by functional classification					
Social security and welfare	*36,759*	*7,968*	*-*	*(1,835)*	*42,892*
Health	*22,784*	*18,856*	*-*	*(19,042)*	*22,598*
Education	*16,039*	*12,841*	*-*	*(11,496)*	*17,384*
Transport and communications	*5,656*	*4,259*	*5,836*	*(5,416)*	*10,335*
Other	*24,608*	*8,046*	*10,322*	*(4,735)*	*38,241*
Finance costs	*1,918*	*218*	*592*	*(456)*	*2,272*
Total expenses (excluding losses)	***107,764***	***52,188***	***16,750***	***(42,980)***	***133,722***
Statement of Financial Position as at 30 June 2021					
Assets					
Cash and cash equivalents	13,129	4,686	1,993	(1,053)	18,755
Receivables	20,237	7,385	2,218	(3,011)	26,829
Other financial assets	95,294	55,457	28,662	(23,761)	155,652
Property, plant and equipment	51,920	119,682	41,614	-	213,216
Equity accounted investments	53,877	12,836	309	(52,601)	14,421
Intangible assets and goodwill	1,637	833	1,364	(233)	3,601
Inventory and other assets	3,261	1,595	1,490	(224)	6,122
Total assets	**239,355**	**202,474**	**77,650**	**(80,883)**	**438,596**
Liabilities					
Borrowings	132,543	11,836	38,433	(20,252)	162,560
Other liabilities	46,274	74,494	9,702	(11,627)	118,843
Total liabilities	**178,817**	**86,330**	**48,135**	**(31,879)**	**281,403**
Total assets less total liabilities	**60,538**	**116,144**	**29,515**	**(49,004)**	**157,193**
Net worth					
Taxpayers' funds	29,364	38,227	7,494	(55,228)	19,857
Reserves	31,174	77,917	15,965	6,556	131,612
Net worth attributable to minority interest	-	-	6,056	(332)	5,724
Total net worth	**60,538**	**116,144**	**29,515**	**(49,004)**	**157,193**

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	102,561	-	-	(480)	102,081
Other sovereign revenue	3,751	6,355	-	(2,023)	8,083
Revenue from core Crown funding	-	39,577	653	(40,230)	-
Sales of goods and services	1,662	2,612	13,621	(624)	17,271
Interest revenue	780	766	896	(332)	2,110
Other revenue	1,979	4,557	1,047	(2,862)	4,721
Total revenue (excluding gains)	**110,733**	**53,867**	**16,217**	**(46,551)**	**134,266**
Expenses					
Social assistance and official development assistance	45,418	-	-	(1,236)	44,182
Personnel expenses	9,842	19,760	2,139	(41)	31,700
Other operating expenses	69,795	29,994	13,254	(43,997)	69,046
Interest expenses	2,688	220	629	(416)	3,121
Insurance expenses	3	6,752	8	-	6,763
Forecast for future new spending	4,412	-	-	-	4,412
Top-down operating expense adjustment	(4,130)	-	-	-	(4,130)
Total expenses (excluding losses)	**128,028**	**56,726**	**16,030**	**(45,690)**	**155,094**
Total gains/(losses) and other items	(338)	(2,681)	240	(219)	(2,998)
Operating balance	**(17,633)**	**(5,540)**	**427**	**(1,080)**	**(23,826)**
Expenses by functional classification					
Social security and welfare	*43,342*	*8,114*	*-*	*(1,902)*	*49,554*
Health	*27,813*	*20,836*	*-*	*(21,238)*	*27,411*
Education	*18,227*	*14,142*	*-*	*(13,352)*	*19,017*
Transport and communications	*4,834*	*5,079*	*6,877*	*(4,628)*	*12,162*
Other	*30,842*	*8,335*	*8,524*	*(4,154)*	*43,547*
Finance costs	*2,688*	*220*	*629*	*(416)*	*3,121*
Forecast for future new spending	*4,412*	*-*	*-*	*-*	*4,412*
Top-down operating expense adjustment	*(4,130)*	*-*	*-*	*-*	*(4,130)*
Total expenses (excluding losses)	***128,028***	***56,726***	***16,030***	***(45,690)***	***155,094***
Statement of Financial Position as at 30 June 2022					
Assets					
Cash and cash equivalents	12,067	3,769	2,033	(1,053)	16,816
Receivables	19,788	6,578	1,918	(2,475)	25,809
Other financial assets	104,615	55,406	31,264	(25,086)	166,199
Property, plant and equipment	54,111	126,433	42,771	-	223,315
Equity accounted investments	58,886	13,025	293	(57,120)	15,084
Intangible assets and goodwill	2,038	826	1,446	(249)	4,061
Inventory and other assets	3,259	1,708	1,098	(120)	5,945
Forecast for new capital spending	1,745	-	-	-	1,745
Top-down capital adjustment	(2,240)	-	-	-	(2,240)
Total assets	**254,269**	**207,745**	**80,823**	**(86,103)**	**456,734**
Liabilities					
Borrowings	163,809	15,431	41,420	(20,303)	200,357
Other liabilities	47,632	77,967	8,851	(10,903)	123,547
Total liabilities	**211,441**	**93,398**	**50,271**	**(31,206)**	**323,904**
Total assets less total liabilities	**42,828**	**114,347**	**30,552**	**(54,897)**	**132,830**
Net worth					
Taxpayers' funds	11,301	36,549	8,848	(61,098)	(4,400)
Reserves	31,527	77,798	15,823	6,534	131,682
Net worth attributable to minority interest	-	-	5,881	(333)	5,548
Total net worth	**42,828**	**114,347**	**30,552**	**(54,897)**	**132,830**

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	113,753	-	-	(499)	113,254
Other sovereign revenue	3,909	6,822	-	(2,138)	8,593
Revenue from core Crown funding	-	37,311	634	(37,945)	-
Sales of goods and services	1,712	2,863	14,737	(623)	18,689
Interest revenue	820	848	1,148	(375)	2,441
Other revenue	2,088	5,192	720	(3,108)	4,892
Total revenue (excluding gains)	**122,282**	**53,036**	**17,239**	**(44,688)**	**147,869**
Expenses					
Social assistance and official development assistance	39,536	-	-	(1,291)	38,245
Personnel expenses	9,329	19,730	2,062	(42)	31,079
Other operating expenses	61,581	28,119	13,543	(41,959)	61,284
Interest expenses	2,925	305	832	(496)	3,566
Insurance expenses	3	7,443	8	-	7,454
Forecast for future new spending	9,128	-	-	-	9,128
Top-down operating expense adjustment	(2,300)	-	-	-	(2,300)
Total expenses (excluding losses)	**120,202**	**55,597**	**16,445**	**(43,788)**	**148,456**
Total gains/(losses) and other items	4,301	586	(258)	(128)	4,501
Operating balance	**6,381**	**(1,975)**	**536**	**(1,028)**	**3,914**
Expenses by functional classification					
Social security and welfare	*40,011*	*8,853*	*-*	*(1,954)*	*46,910*
Health	*23,903*	*19,396*	*-*	*(20,488)*	*22,811*
Education	*17,747*	*14,038*	*-*	*(13,058)*	*18,727*
Transport and communications	*3,815*	*4,609*	*7,296*	*(3,926)*	*11,794*
Other	*24,973*	*8,396*	*8,317*	*(3,866)*	*37,820*
Finance costs	*2,925*	*305*	*832*	*(496)*	*3,566*
Forecast for future new spending	*9,128*	*-*	*-*	*-*	*9,128*
Top-down operating expense adjustment	*(2,300)*	*-*	*-*	*-*	*(2,300)*
Total expenses (excluding losses)	***120,202***	***55,597***	***16,445***	***(43,788)***	***148,456***
Statement of Financial Position as at 30 June 2023					
Assets					
Cash and cash equivalents	11,305	3,142	1,907	(965)	15,389
Receivables	20,709	6,922	2,002	(2,420)	27,213
Other financial assets	120,913	56,571	34,283	(26,016)	185,751
Property, plant and equipment	55,862	132,338	43,759	-	231,959
Equity accounted investments	64,939	13,123	298	(62,716)	15,644
Intangible assets and goodwill	2,104	825	1,561	(288)	4,202
Inventory and other assets	3,306	2,107	1,091	(118)	6,386
Forecast for new capital spending	4,254	-	-	-	4,254
Top-down capital adjustment	(3,650)	-	-	-	(3,650)
Total assets	**279,742**	**215,028**	**84,901**	**(92,523)**	**487,148**
Liabilities					
Borrowings	184,928	17,690	44,548	(20,843)	226,323
Other liabilities	45,403	80,217	9,054	(10,681)	123,993
Total liabilities	**230,331**	**97,907**	**53,602**	**(31,524)**	**350,316**
Total assets less total liabilities	**49,411**	**117,121**	**31,299**	**(60,999)**	**136,832**
Net worth					
Taxpayers' funds	17,682	39,324	9,740	(67,209)	(463)
Reserves	31,729	77,797	15,818	6,536	131,880
Net worth attributable to minority interest	-	-	5,741	(326)	5,415
Total net worth	**49,411**	**117,121**	**31,299**	**(60,999)**	**136,832**

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	120,131	-	-	(672)	119,459
Other sovereign revenue	4,465	7,286	-	(2,257)	9,494
Revenue from core Crown funding	-	37,130	658	(37,788)	-
Sales of goods and services	1,833	2,975	15,854	(630)	20,032
Interest revenue	854	872	1,316	(381)	2,661
Other revenue	2,236	5,483	808	(3,248)	5,279
Total revenue (excluding gains)	**129,519**	**53,746**	**18,636**	**(44,976)**	**156,925**
Expenses					
Social assistance and official development assistance	41,411	-	-	(1,385)	40,026
Personnel expenses	9,219	19,144	2,027	(42)	30,348
Other operating expenses	60,939	28,838	14,424	(42,387)	61,814
Interest expenses	3,393	536	916	(526)	4,319
Insurance expenses	2	8,131	9	-	8,142
Forecast for future new spending	11,270	-	-	-	11,270
Top-down operating expense adjustment	(1,475)	-	-	-	(1,475)
Total expenses (excluding losses)	**124,759**	**56,649**	**17,376**	**(44,340)**	**154,444**
Total gains/(losses) and other items	4,981	793	(398)	(156)	5,220
Operating balance	**9,741**	**(2,110)**	**862**	**(792)**	**7,701**
Expenses by functional classification					
Social security and welfare	*41,460*	*9,525*	*-*	*(2,083)*	*48,902*
Health	*23,684*	*19,322*	*-*	*(20,564)*	*22,442*
Education	*17,643*	*13,948*	*-*	*(12,947)*	*18,644*
Transport and communications	*4,193*	*4,665*	*8,061*	*(4,450)*	*12,469*
Other	*24,591*	*8,653*	*8,399*	*(3,770)*	*37,873*
Finance costs	*3,393*	*536*	*916*	*(526)*	*4,319*
Forecast for future new spending	*11,270*	*-*	*-*	*-*	*11,270*
Top-down operating expense adjustment	*(1,475)*	*-*	*-*	*-*	*(1,475)*
Total expenses (excluding losses)	***124,759***	***56,649***	***17,376***	***(44,340)***	***154,444***
Statement of Financial Position as at 30 June 2024					
Assets					
Cash and cash equivalents	10,989	3,330	2,205	(909)	15,615
Receivables	26,136	7,168	2,072	(2,572)	32,804
Other financial assets	123,906	59,683	37,563	(26,803)	194,349
Property, plant and equipment	56,640	137,486	44,957	-	239,083
Equity accounted investments	70,901	13,229	307	(68,409)	16,028
Intangible assets and goodwill	2,037	823	1,601	(330)	4,131
Inventory and other assets	3,054	2,557	1,081	(117)	6,575
Forecast for new capital spending	7,058	-	-	-	7,058
Top-down capital adjustment	(4,910)	-	-	-	(4,910)
Total assets	**295,811**	**224,276**	**89,786**	**(99,140)**	**510,733**
Liabilities					
Borrowings	191,729	20,677	47,806	(21,357)	238,855
Other liabilities	44,752	83,759	9,387	(10,817)	127,081
Total liabilities	**236,481**	**104,436**	**57,193**	**(32,174)**	**365,936**
Total assets less total liabilities	**59,330**	**119,840**	**32,593**	**(66,966)**	**144,797**
Net worth					
Taxpayers' funds	27,423	42,042	10,976	(73,176)	7,265
Reserves	31,907	77,798	15,822	6,533	132,060
Net worth attributable to minority interest	-	-	5,795	(323)	5,472
Total net worth	**59,330**	**119,840**	**32,593**	**(66,966)**	**144,797**

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	127,287	-	-	(757)	126,530
Other sovereign revenue	4,565	7,731	-	(2,320)	9,976
Revenue from core Crown funding	-	36,351	598	(36,949)	-
Sales of goods and services	1,870	3,227	16,242	(643)	20,696
Interest revenue	792	896	1,506	(383)	2,811
Other revenue	2,423	5,496	328	(2,842)	5,405
Total revenue (excluding gains)	**136,937**	**53,701**	**18,674**	**(43,894)**	**165,418**
Expenses					
Social assistance and official development assistance	43,455	-	-	(1,386)	42,069
Personnel expenses	9,129	19,153	2,017	(42)	30,257
Other operating expenses	58,953	27,794	14,653	(41,429)	59,971
Interest expenses	3,620	650	1,025	(548)	4,747
Insurance expenses	3	8,712	9	-	8,724
Forecast for future new spending	14,164	-	-	-	14,164
Top-down operating expense adjustment	(850)	-	-	-	(850)
Total expenses (excluding losses)	**128,474**	**56,309**	**17,704**	**(43,405)**	**159,082**
Total gains/(losses) and other items	5,331	936	(421)	(188)	5,658
Operating balance	**13,794**	**(1,672)**	**549**	**(677)**	**11,994**
Expenses by functional classification					
Social security and welfare	*43,405*	*10,156*	*-*	*(2,261)*	*51,300*
Health	*23,618*	*19,309*	*-*	*(20,605)*	*22,322*
Education	*17,467*	*13,785*	*-*	*(12,723)*	*18,529*
Transport and communications	*3,545*	*3,653*	*8,425*	*(3,857)*	*11,766*
Other	*23,505*	*8,756*	*8,254*	*(3,411)*	*37,104*
Finance costs	*3,620*	*650*	*1,025*	*(548)*	*4,747*
Forecast for future new spending	*14,164*	*-*	*-*	*-*	*14,164*
Top-down operating expense adjustment	*(850)*	*-*	*-*	*-*	*(850)*
Total expenses (excluding losses)	***128,474***	***56,309***	***17,704***	***(43,405)***	***159,082***
Statement of Financial Position as at 30 June 2025					
Assets					
Cash and cash equivalents	10,649	3,962	2,277	(908)	15,980
Receivables	21,180	7,457	2,322	(2,671)	28,288
Other financial assets	120,678	61,407	41,060	(26,263)	196,882
Property, plant and equipment	56,215	140,541	45,246	-	242,002
Equity accounted investments	74,807	13,366	316	(72,218)	16,271
Intangible assets and goodwill	1,954	808	1,589	(371)	3,980
Inventory and other assets	2,920	2,955	1,096	(106)	6,865
Forecast for new capital spending	10,229	-	-	-	10,229
Top-down capital adjustment	(5,670)	-	-	-	(5,670)
Total assets	**292,962**	**230,496**	**93,906**	**(102,537)**	**514,827**
Liabilities					
Borrowings	177,010	21,491	51,275	(20,644)	229,132
Other liabilities	42,663	87,516	9,507	(11,033)	128,653
Total liabilities	**219,673**	**109,007**	**60,782**	**(31,677)**	**357,785**
Total assets less total liabilities	**73,289**	**121,489**	**33,124**	**(70,860)**	**157,042**
Net worth					
Taxpayers' funds	41,217	43,695	11,432	(77,072)	19,272
Reserves	32,072	77,794	15,832	6,534	132,232
Net worth attributable to minority interest	-	-	5,860	(322)	5,538
Total net worth	**73,289**	**121,489**	**33,124**	**(70,860)**	**157,042**

Forecast Statement of Segments (continued)

	Core Crown 2026 Forecast $m	Crown entities 2026 Forecast $m	State-owned Enterprises 2026 Forecast $m	Inter-segment eliminations 2026 Forecast $m	Total Crown 2026 Forecast $m
Statement of Financial Performance for the year ended 30 June 2026					
Revenue					
Taxation revenue	134,457	-	-	(795)	133,662
Other sovereign revenue	4,658	8,227	-	(2,415)	10,470
Revenue from core Crown funding	-	36,301	575	(36,876)	-
Sales of goods and services	1,880	3,163	16,536	(654)	20,925
Interest revenue	740	867	1,793	(379)	3,021
Other revenue	2,562	5,487	360	(2,881)	5,528
Total revenue (excluding gains)	**144,297**	**54,045**	**19,264**	**(44,000)**	**173,606**
Expenses					
Social assistance and official development assistance	45,460	-	-	(1,387)	44,073
Personnel expenses	9,062	19,320	2,022	(43)	30,361
Other operating expenses	58,392	27,530	14,833	(41,528)	59,227
Interest expenses	3,564	725	1,232	(549)	4,972
Insurance expenses	2	9,246	9	-	9,257
Forecast for future new spending	17,876	-	-	-	17,876
Top-down operating expense adjustment	(750)	-	-	-	(750)
Total expenses (excluding losses)	**133,606**	**56,821**	**18,096**	**(43,507)**	**165,016**
Total gains/(losses) and other items	5,701	1,042	(433)	(195)	6,115
Operating balance	**16,392**	**(1,734)**	**735**	**(688)**	**14,705**
Expenses by functional classification					
Social security and welfare	*45,447*	*10,702*	*-*	*(2,302)*	*53,847*
Health	*23,668*	*19,296*	*-*	*(20,668)*	*22,296*
Education	*17,561*	*13,790*	*-*	*(12,721)*	*18,630*
Transport and communications	*3,550*	*3,644*	*8,660*	*(3,921)*	*11,933*
Other	*22,690*	*8,664*	*8,204*	*(3,346)*	*36,212*
Finance costs	*3,564*	*725*	*1,232*	*(549)*	*4,972*
Forecast for future new spending	*17,876*	*-*	*-*	*-*	*17,876*
Top-down operating expense adjustment	*(750)*	*-*	*-*	*-*	*(750)*
Total expenses (excluding losses)	***133,606***	***56,821***	***18,096***	***(43,507)***	***165,016***
Statement of Financial Position as at 30 June 2026					
Assets					
Cash and cash equivalents	10,174	4,154	2,617	(906)	16,039
Receivables	21,722	7,806	2,245	(2,743)	29,030
Other financial assets	117,980	63,108	44,451	(26,534)	199,005
Property, plant and equipment	55,465	142,863	46,091	-	244,419
Equity accounted investments	77,444	13,513	333	(74,855)	16,435
Intangible assets and goodwill	1,863	798	1,594	(406)	3,849
Inventory and other assets	2,978	3,310	1,110	(105)	7,293
Forecast for new capital spending	13,491	-	-	-	13,491
Top-down capital adjustment	(6,180)	-	-	-	(6,180)
Total assets	**294,937**	**235,552**	**98,441**	**(105,549)**	**523,381**
Liabilities					
Borrowings	164,315	22,258	55,028	(20,629)	220,972
Other liabilities	40,795	91,207	9,779	(11,337)	130,444
Total liabilities	**205,110**	**113,465**	**64,807**	**(31,966)**	**351,416**
Total assets less total liabilities	**89,827**	**122,087**	**33,634**	**(73,583)**	**171,965**
Net worth					
Taxpayers' funds	57,608	44,290	11,872	(79,793)	33,977
Reserves	32,219	77,797	15,835	6,530	132,381
Net worth attributable to minority interest	-	-	5,927	(320)	5,607
Total net worth	**89,827**	**122,087**	**33,634**	**(73,583)**	**171,965**

Fiscal Indicator Analysis

The purpose of the following fiscal indicator analysis is to provide a link between the Forecast Financial Statements (pages 109 to 131) based on GAAP, and the key fiscal indicators used to measure performance against the fiscal objectives set out in the *Fiscal Strategy Report* and the *Budget Policy Statement.*

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 Budget Update, the Treasury has been reviewing the appropriateness of the Government's current suite of fiscal indicators, primarily focussed on the current headline operating and debt indicator.

The recommendations from this review on changes to the current suite of fiscal indicators will be communicated as part of the He Puna Hao Pātiki: 2022 Investment Statement, with the aim for any changes to be implemented by Budget 2022.

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

for the years ending 30 June

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Operating Balance							
Total revenue	129,335	123,869	134,266	147,869	156,925	165,418	173,606
Total expenses	133,722	142,000	155,094	148,456	154,444	159,082	165,016
Total gains/(losses)	21,023	2,843	(2,901)	4,638	5,513	5,940	6,382
Net surplus from associates and joint ventures	(360)	(98)	106	87	117	146	170
Less Minority interests share of operating balance	(117)	(262)	(203)	(224)	(410)	(428)	(437)
Operating balance	**16,159**	**(15,648)**	**(23,826)**	**3,914**	**7,701**	**11,994**	**14,705**
Reconciliation Between the Operating Balance and the Operating Balance before Gains and Losses							
Operating balance	**16,159**	**(15,648)**	**(23,826)**	**3,914**	**7,701**	**11,994**	**14,705**
Less items excluded from OBEGAL:							
Net gains/(losses) on large scale asset purchases	(3,976)	(791)	(1)	-	-	-	-
Net gains/(losses) on financial instruments	18,130	3,769	3,039	4,712	5,593	6,020	6,462
Net gains/(losses) on non-financial instruments	6,869	(135)	(5,939)	(74)	(80)	(80)	(80)
Minority interests share of total gains/(losses)	56	16	(187)	20	(8)	(7)	(4)
Net surplus from associates and joint ventures	(360)	(98)	106	87	117	146	170
OBEGAL	**(4,560)**	**(18,409)**	**(20,844)**	**(831)**	**2,079**	**5,915**	**8,157**

Expenses by Functional Classification

for the years ending 30 June

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Total Crown expenses							
By functional classification[1]							
Social security and welfare	42,892	45,005	49,554	46,910	48,902	51,300	53,847
Health	22,598	24,609	27,411	22,811	22,442	22,322	22,296
Education	17,384	19,166	19,017	18,727	18,644	18,529	18,630
Core government services	5,602	5,641	6,315	5,788	5,907	5,363	5,255
Law and order	5,533	5,848	5,999	6,016	5,942	5,894	5,879
Transport and communications	10,335	11,960	12,162	11,794	12,469	11,766	11,933
Economic and industrial services	13,429	11,010	14,846	10,800	10,732	10,439	10,477
Defence	2,648	2,735	2,780	2,738	2,848	2,876	2,881
Heritage, culture and recreation	3,023	3,179	3,328	3,048	3,054	3,055	3,076
Primary services	2,398	2,439	2,589	2,185	2,068	1,985	1,983
Housing and community development	3,351	4,389	4,474	4,712	4,688	5,067	4,314
Environmental protection	1,889	1,905	2,712	2,373	2,231	2,026	1,951
GSF pension expenses	114	103	91	77	73	70	67
Other	254	214	413	83	330	329	329
Finance costs	2,272	2,351	3,121	3,566	4,319	4,747	4,972
Forecast new operating spending	-	4,221	4,412	9,128	11,270	14,164	17,876
Top-down operating expense adjustment	-	(2,775)	(4,130)	(2,300)	(1,475)	(850)	(750)
Total Crown expenses excluding losses	**133,722**	**142,000**	**155,094**	**148,456**	**154,444**	**159,082**	**165,016**

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.

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Core Crown expenses							
By functional classification[1]							
Social security and welfare	36,759	38,917	43,342	40,011	41,460	43,405	45,447
Health	22,784	25,048	27,813	23,903	23,684	23,618	23,668
Education	16,039	17,869	18,227	17,747	17,643	17,467	17,561
Core government services	5,754	5,639	6,158	5,778	5,968	5,488	5,353
Law and order	5,202	5,361	5,537	5,553	5,495	5,388	5,374
Transport and communications	5,656	4,371	4,834	3,815	4,193	3,545	3,550
Economic and industrial services	4,481	4,403	7,682	3,658	3,448	3,249	3,344
Defence	2,664	2,752	2,797	2,756	2,866	2,894	2,899
Heritage, culture and recreation	1,420	1,392	1,537	1,148	1,070	1,048	1,048
Primary services	1,015	1,063	1,195	939	857	848	824
Housing and community development	1,813	2,565	2,672	2,612	2,257	2,169	1,505
Environmental protection	1,906	1,918	2,776	2,385	2,243	2,038	1,963
GSF pension expenses	99	71	75	61	57	54	51
Other	254	214	413	83	330	329	329
Finance costs	1,918	1,688	2,688	2,925	3,393	3,620	3,564
Forecast new operating spending	-	4,221	4,412	9,128	11,270	14,164	17,876
Top-down operating expense adjustment	-	(2,775)	(4,130)	(2,300)	(1,475)	(850)	(750)
Total core Crown expenses excluding losses	**107,764**	**114,717**	**128,028**	**120,202**	**124,759**	**128,474**	**133,606**

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

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Core Crown Residual Cash							
Core Crown Cash Flows from Operations							
Tax receipts	96,551	95,986	104,033	113,677	115,384	133,048	134,808
Other sovereign receipts	2,287	1,612	2,532	2,312	2,416	2,413	2,317
Interest receipts	249	217	374	380	387	341	294
Sale of goods and services and other receipts	2,980	2,834	3,162	2,920	3,130	3,245	3,318
Transfer payments and subsidies	(36,574)	(38,492)	(45,583)	(39,730)	(41,525)	(44,617)	(45,790)
Personnel and operating costs	(63,894)	(70,364)	(74,766)	(66,986)	(64,657)	(62,823)	(62,602)
Interest payments	(2,642)	(2,082)	(2,635)	(3,005)	(3,206)	(3,496)	(3,362)
Forecast for future new operating spending	-	(4,221)	(4,412)	(9,128)	(11,270)	(14,164)	(17,876)
Top-down operating expense adjustment	-	2,775	4,130	2,300	1,475	850	750
Net core Crown operating cash flows	**(1,043)**	**(11,735)**	**(13,165)**	**2,740**	**2,134**	**14,797**	**11,857**
Core Crown Capital Cash Flows							
Net purchase of physical assets	(3,137)	(4,612)	(4,781)	(4,367)	(2,985)	(2,318)	(1,786)
Net increase in advances	(3,868)	(14,175)	(9,183)	(10,883)	2,458	10,055	9,739
Net purchase of investments	(3,599)	(6,682)	(5,046)	(6,150)	(6,056)	(3,605)	(2,669)
Contribution to NZS Fund	(2,120)	(2,420)	(2,420)	(1,984)	(1,960)	(2,004)	(1,851)
Forecast for future new capital spending	-	(2,033)	(1,745)	(2,509)	(2,804)	(3,171)	(3,262)
Top-down capital adjustment	-	2,425	2,240	1,410	1,260	760	510
Net core Crown capital cash flows	**(12,724)**	**(27,497)**	**(20,935)**	**(24,483)**	**(10,087)**	**(283)**	**681**
Residual cash (deficit)/surplus	**(13,767)**	**(39,232)**	**(34,100)**	**(21,743)**	**(7,953)**	**14,514**	**12,538**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt Programme Cash Flows							
Market:							
Issue of government bonds	48,497	31,046	19,730	18,051	17,711	17,620	9,799
Repayment of government bonds	(11,059)	-	(2,506)	(16,198)	(13,800)	(14,850)	(12,839)
Net issue/(repayment) of short-term borrowing[1]	(4,148)	(2,800)	(5,359)	(600)	-	-	-
Total market debt cash flows	33,290	28,246	11,865	1,253	3,911	2,770	(3,040)
Non-market:							
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	-	-	-	-	-	-	-
Net issue/(repayment) of short-term borrowing	-	(460)	(812)	(201)	-	-	-
Total non-market debt cash flows	-	(460)	(812)	(201)	-	-	-
Total debt programme cash flows	**33,290**	**27,786**	**11,053**	**1,052**	**3,911**	**2,770**	**(3,040)**
Other Borrowing Cash Flows							
Net (repayment)/issue of other New Zealand dollar borrowing	(30,089)	13,095	9,090	9,244	(4,154)	(11,318)	(9,678)
Net (repayment)/issue of foreign currency borrowing	608	(229)	(2,335)	(118)	304	930	(194)
Total other borrowing cash flows	**(29,481)**	**12,866**	**6,755**	**9,126**	**(3,850)**	**(10,388)**	**(9,872)**
Investing Cash Flows							
Net sale/(purchase) of marketable securities and deposits	6,042	(1,581)	16,824	11,461	7,803	(6,989)	282
Net issues/(repayments) of circulating currency	234	84	326	86	87	88	88
Decrease/(increase) in cash	3,682	77	(858)	18	2	5	4
Total investing cash flows	**9,958**	**(1,420)**	**16,292**	**11,565**	**7,892**	**(6,896)**	**374**
Residual cash deficit/(surplus) funding/(investing)	**13,767**	**39,232**	**34,100**	**21,743**	**7,953**	**(14,514)**	**(12,538)**

1. Short-term borrowing consists of Treasury Bills and may include Euro-Commercial Paper.

Debt Indicators

as at 30 June

	2021 Actual $m	2022 Previous Budget $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Net Debt:							
Gross sovereign-issued debt[1]	131,256	174,495	161,569	182,674	189,478	174,757	162,060
Less liquid financial assets (per net debt definition)	(29,176)	(21,184)	(25,264)	(24,783)	(23,980)	(24,118)	(24,130)
Net core Crown Debt	**102,080**	**153,311**	**136,305**	**157,891**	**165,498**	**150,639**	**137,930**
Analysis of financial liabilities and assets included in net debt							
Gross sovereign-issued debt:							
Core Crown borrowings[2]	133,473	177,605	163,809	184,928	191,729	177,010	164,315
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(2,217)	(3,110)	(2,240)	(2,254)	(2,251)	(2,253)	(2,255)
Gross sovereign-issued debt[1]	**131,256**	**174,495**	**161,569**	**182,674**	**189,478**	**174,757**	**162,060**
Liquid financial assets:							
Core Crown financial assets[3]	108,461	117,335	116,682	132,218	134,895	131,327	128,154
Less NZS Fund holdings of core Crown financial assets and NZS Fund financial assets	(60,557)	(61,895)	(63,894)	(69,202)	(75,269)	(81,752)	(88,495)
Less FLP advances	(3,059)	(18,720)	(11,894)	(22,000)	(18,959)	(9,420)	-
Less other advances	(15,669)	(15,536)	(15,630)	(16,233)	(16,687)	(16,037)	(15,529)
NZS Fund and advances	(79,285)	(96,151)	(91,418)	(107,435)	(110,915)	(107,209)	(104,024)
Liquid financial assets (per net debt definition)	**29,176**	**21,184**	**25,264**	**24,783**	**23,980**	**24,118**	**24,130**
Additional net debt analysis							
Net core Crown debt	102,080	153,311	136,305	157,891	165,498	150,639	137,930
Less NZS Fund and advances	(79,285)	(96,151)	(91,418)	(107,435)	(110,915)	(107,209)	(104,024)
Net core Crown debt (incl. NZS Fund and advances)	**22,795**	**57,160**	**44,887**	**50,456**	**54,583**	**43,430**	**33,906**
Net core Crown debt	102,080	153,311	136,305	157,891	165,498	150,639	137,930
less FLP advances	(3,059)	(18,720)	(11,894)	(22,000)	(18,959)	(9,420)	-
Net core Crown debt (incl. FLP advances)	**99,021**	**134,591**	**124,411**	**135,891**	**146,539**	**141,219**	**137,930**
Gross Debt:							
Gross sovereign-issued debt[1]	131,256	174,495	161,569	182,674	189,478	174,757	162,060
Less Reserve Bank settlement cash and Reserve Bank bills	(30,421)	(80,152)	(49,196)	(61,976)	(60,019)	(36,468)	(25,288)
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	**102,435**	**95,943**	**113,973**	**122,298**	**131,059**	**139,889**	**138,372**
Monetary Liabilities							
Issued currency	8,256	8,503	8,582	8,668	8,755	8,842	8,931
Settlement deposits with Reserve Bank	29,466	79,152	48,296	61,076	59,118	35,568	24,387
Total Monetary Liabilities	**37,722**	**87,655**	**56,878**	**69,744**	**67,873**	**44,410**	**33,318**

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	2021 Actual $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m
Core Crown taxation revenue...	97,983	102,561	113,753	120,131	127,287	134,457
...combined with other core Crown revenue...	6,985	8,172	8,529	9,388	9,650	9,840
...funds core Crown expenses...	(107,764)	(128,028)	(120,202)	(124,759)	(128,474)	(133,606)
...and with SOE and CE[1] results...	(1,764)	(3,549)	(2,911)	(2,681)	(2,548)	(2,534)
...this results in an operating balance before gains and losses **(OBEGAL)**...	(4,560)	(20,844)	(831)	2,079	5,915	8,157
...with gains/losses leading to **operating surplus/(deficit)...**	16,159	(23,826)	3,914	7,701	11,994	14,705
...with income in SOEs, CEs[1] and the NZS Fund retained...	(22,702)	3,693	(1,279)	(2,042)	(2,648)	(3,174)
...and some items do not impact cash	5,500	6,968	105	(3,525)	5,451	326
This leads to an operating residual cash surplus/(deficit)...	**(1,043)**	**(13,165)**	**2,740**	**2,134**	**14,797**	**11,857**
...used to make contributions to the NZS Fund...	(2,120)	(2,420)	(1,984)	(1,960)	(2,004)	(1,851)
...and to use for capital expenditure...	(3,137)	(4,781)	(4,367)	(2,985)	(2,318)	(1,786)
...and to make advances (eg, to students)	(3,868)	(9,183)	(10,883)	2,458	10,055	9,739
...and to purchase investments	(3,599)	(5,046)	(6,150)	(6,056)	(3,605)	(2,669)
Adjusting for forecast adjustments (top-down/new spending)...	-	495	(1,099)	(1,544)	(2,411)	(2,752)
...results in a **borrowing requirement (cash (deficit)/surplus)**	**(13,767)**	**(34,100)**	**(21,743)**	**(7,953)**	**14,514**	**12,538**
Opening net core Crown debt...	83,375	102,080	136,305	157,891	165,498	150,639
...when combined with the residual cash (surplus)/deficit...	13,767	34,100	21,743	7,953	(14,514)	(12,538)
...and other fair value movements in financial assets and financial liabilities...	4,938	125	(157)	(346)	(345)	(171)
...results in a closing **net core Crown debt**...	**102,080**	**136,305**	**157,891**	**165,498**	**150,639**	**137,930**
...which as a % of GDP is	**30.1%**	**37.6%**	**40.1%**	**39.9%**	**34.6%**	**30.2%**

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

5

Core Crown Expense Tables

($millions)	2017 Actual	2018 Actual	2019[1] Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Social security and welfare	25,294	25,999	28,740	44,028	36,759	43,342	40,011	41,460	43,405	45,447
Health	16,223	17,159	18,268	19,891	22,784	27,813	23,903	23,684	23,618	23,668
Education	13,281	13,629	14,293	16,322	16,039	18,227	17,747	17,643	17,467	17,561
Core government services[1]	3,957	4,670	5,166	6,083	5,754	6,158	5,778	5,968	5,488	5,353
Law and order	3,882	4,184	4,625	4,911	5,202	5,537	5,553	5,495	5,388	5,374
Transport and communications	2,176	2,559	2,889	3,179	5,656	4,834	3,815	4,193	3,545	3,550
Economic and industrial services	2,544	2,732	3,006	3,988	4,481	7,682	3,658	3,448	3,249	3,344
Defence	2,146	2,251	2,395	2,499	2,664	2,797	2,756	2,866	2,894	2,899
Heritage, culture and recreation	850	850	918	1,106	1,420	1,537	1,148	1,070	1,048	1,048
Primary services	644	807	960	961	1,015	1,195	939	857	848	824
Housing and community development	539	552	727	1,015	1,813	2,672	2,612	2,257	2,169	1,505
Environmental protection	871	1,238	1,119	1,485	1,906	2,776	2,385	2,243	2,038	1,963
GSF pension expenses[1]	217	150	66	73	99	75	61	57	54	51
Other	181	299	96	63	254	413	83	330	329	329
Finance costs[1]	3,534	3,497	3,691	3,228	1,918	2,688	2,925	3,393	3,620	3,564
Forecast new operating spending	..	..	..	..	..	4,412	9,128	11,270	14,164	17,876
Top-down operating expense adjustment	..	..	..	..	..	(4,130)	(2,300)	(1,475)	(850)	(750)
Core Crown expenses	**76,339**	**80,576**	**86,959**	**108,832**	**107,764**	**128,028**	**120,202**	**124,759**	**128,474**	**133,606**

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)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Welfare benefits (see below)	23,339	24,005	26,689	41,308	33,671	39,626	36,555	38,327	40,291	42,346
Social rehabilitation and compensation	220	241	249	260	333	358	385	411	423	440
Departmental expenses	1,417	1,593	1,784	2,062	2,424	2,727	2,616	2,400	2,412	2,410
Flexi-wage subsidy	..	..	..	..	8	149	142	..	..	..
COVID-19 Income Relief Assistance	..	..	..	15	182	..	..	..	..	..
Other non-departmental expenses[1]	318	160	18	383	141	482	313	322	279	251
Social security and welfare expenses	**25,294**	**25,999**	**28,740**	**44,028**	**36,759**	**43,342**	**40,011**	**41,460**	**43,405**	**45,447**

1. From 2020, 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)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
New Zealand Superannuation	13,043	13,699	14,562	15,521	16,569	17,794	19,342	20,745	22,050	23,593
Jobseeker Support and Emergency Benefit	1,697	1,697	1,854	2,285	3,224	3,340	3,391	3,419	3,584	3,756
Supported living payment	1,533	1,541	1,556	1,650	1,826	2,040	2,217	2,327	2,431	2,535
Sole parent support	1,159	1,117	1,115	1,231	1,455	1,698	1,803	1,836	1,858	1,893
Family Tax Credit	1,723	1,639	2,131	2,189	2,103	2,098	2,293	2,333	2,511	2,538
Other working for families tax credits	596	556	635	641	585	598	605	604	615	615
Accommodation Assistance	1,127	1,204	1,640	1,923	2,302	2,325	2,241	2,188	2,239	2,296
Income-Related Rents	815	890	974	1,071	1,202	1,304	1,399	1,495	1,497	1,497
Disability Assistance	377	379	386	395	409	414	424	434	443	452
Winter energy	..	..	441	669	812	514	518	524	535	546
Best start	..	..	48	184	271	374	413	414	417	418
Orphan's/Unsupported Child's Benefit	152	165	225	248	293	319	366	388	406	422
Hardship Assistance	353	355	300	418	479	505	548	589	638	689
Paid Parental Leave	274	288	369	422	503	610	630	660	695	725
Childcare Assistance	199	196	183	144	145	149	165	172	179	181
Veteran's Support Entitlement[1]	98	93	90	66	..	..	..	..	..	..
Veteran's Pension	175	163	153	145	139	134	131	126	121	117
Wage Subsidy Scheme			..	12,095	1,197	5,345	..	..	..	..
Other benefits[2]	18	23	27	11	157	65	69	73	72	73
Benefit expenses	**23,339**	**24,005**	**26,689**	**41,308**	**33,671**	**39,626**	**36,555**	**38,327**	**40,291**	**42,346**

1. The Veteran's support entitlement appropriation was discontinued from 2021 owing to a change in accounting treatment.
2. The '2021 Actuals' for other benefits expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Beneficiary numbers[1] (Thousands)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
New Zealand Superannuation	717	741	767	795	825	851	879	907	937	968
Jobseeker Support and Emergency Benefit	131	129	139	162	211	194	176	169	171	172
Supported living payment	97	96	95	96	97	97	98	99	100	101
Sole parent support	64	60	59	61	66	70	69	68	66	65
Accommodation Supplement	290	285	295	318	364	354	346	345	350	354

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)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Departmental outputs	192	200	210	236	298	471	410	425	373	370
Health services purchasing (see below)	14,855	15,449	16,311	18,176	19,541	20,751	20,970	20,920	20,923	20,915
Other non-departmental outputs	365	816	937	634	623	685	781	792	759	780
Health payments to ACC	697	682	782	812	1,038	1,149	1,252	1,354	1,372	1,412
COVID-19 vaccine	..	..	..	..	375	1,366	..	..	..	..
National health response to COVID-19	..	..	..	..	231	2,453	417	140	140	140
Isolation and Quarantine Management	..	..	..	..	655	880	19	..	..	..
Other expenses	114	12	28	33	23	58	54	53	51	51
Health expenses	**16,223**	**17,159**	**18,268**	**19,891**	**22,784**	**27,813**	**23,903**	**23,684**	**23,618**	**23,668**

Source: The Treasury

Table 5.4 – Health services purchasing

($millions)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Payments to DHBs[1]	13,281	13,829	14,563	15,749	16,943	18,372	18,651	18,596	18,598	18,598
National disability support services	1,188	1,256	1,358	1,599	1,659	1,830	1,826	1,826	1,826	1,826
Public health services purchasing[2]	386	364	390	828	939	549	493	498	499	491
Health services purchasing	**14,855**	**15,449**	**16,311**	**18,176**	**19,541**	**20,751**	**20,970**	**20,920**	**20,923**	**20,915**

1. From 2022, individual DHBs will be replaced by Health New Zealand and the Māori Health Authority and payments to DHBs will be replaced by payments to these new entities.
2. From 2020, 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)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Early childhood education	1,805	1,844	1,896	2,007	2,132	2,297	2,356	2,426	2,495	2,561
Primary and secondary schools (see below)	6,116	6,334	6,823	7,104	8,136	8,123	8,000	8,034	7,962	7,938
Tertiary funding (see below)	4,051	4,112	4,112	5,621	3,776	5,193	5,130	5,098	5,154	5,234
Departmental expenses	1,190	1,281	1,416	1,534	1,656	2,002	1,888	1,878	1,826	1,818
Training incentive allowance	..	..	..	..	..	27	38	38	14	1
COVID-19 apprentice support	..	..	..	..	156	253	19	..	..	..
Other education expenses	119	58	46	56	183	332	316	169	16	9
Education expenses	**13,281**	**13,629**	**14,293**	**16,322**	**16,039**	**18,227**	**17,747**	**17,643**	**17,467**	**17,561**

Source: The Treasury

Number of places provided[1]	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual[2]	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Early childhood education	211,492	217,241	221,137	221,945	223,919	228,185	233,031	237,832	243,530	249,932

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. At the time these forecasts were prepared, funding data for 2021 was only available until May 2021, therefore the 2021 Actual places is comprised of five months of actual data and seven months of forecast data.

Source: The Ministry of Education

Table 5.6 – Primary and secondary schools

($millions)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Primary	3,091	3,216	3,452	3,600	4,107	4,040	3,980	3,965	3,914	3,888
Secondary	2,336	2,407	2,606	2,683	3,043	3,046	3,029	3,068	3,067	3,066
School transport	186	195	206	208	216	224	200	200	200	200
Special needs support	410	429	447	515	641	656	645	651	649	652
Professional development	88	82	104	91	104	131	118	125	124	124
Schooling improvement	5	5	8	7	25	26	28	25	8	8
Primary and secondary education expenses	**6,116**	**6,334**	**6,823**	**7,104**	**8,136**	**8,123**	**8,000**	**8,034**	**7,962**	**7,938**

Source: The Treasury

Number of places provided[1]	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Primary	511,588	520,496	527,429	530,379	529,859	528,445	527,582	522,394	517,273	510,746
Secondary	278,428	277,734	279,904	286,511	294,216	302,145	309,579	315,561	317,382	316,715

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)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Tuition[1]	2,466	2,552	2,571	3,911	2,019	3,290	3,129	3,053	3,026	3,022
Other tertiary funding	520	561	606	637	698	755	725	743	747	743
Student allowances	465	511	583	567	590	625	688	693	743	802
Student loans	600	488	352	506	469	523	588	609	638	667
Tertiary education expenses	**4,051**	**4,112**	**4,112**	**5,621**	**3,776**	**5,193**	**5,130**	**5,098**	**5,154**	**5,234**

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' with the timing of funding returning to normal from 2022.

Source: The Treasury

Number of places provided[1]	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Actual delivered and estimated funded places	223,645	220,717	217,767	213,715	239,000	242,300	235,400	227,200	226,100	226,100

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)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Official development assistance	520	643	708	736	804	840	1,058	1,111	1,111	961
Indemnity and guarantee expenses	22	18	16	14	6	2	3	4	5	5
Departmental expenses[1]	1,835	2,119	2,199	2,249	2,271	2,836	2,353	2,248	2,246	2,222
Non-departmental expenses	511	683	961	785	905	980	1,066	993	955	1,000
Tax receivable write-down and impairments	493	616	829	1,356	882	841	841	841	841	841
Science expenses	91	94	103	113	121	118	119	119	117	117
Crown Research Institutes: COVID-19	..	..	..	45	45	..	..	..	..	..
Shovel Ready Project Funding to Otakaro	..	..	..	..	137	18	..	..	..	..
Other expenses[2,3]	485	497	350	785	583	523	338	652	213	207
Core government service expenses	**3,957**	**4,670**	**5,166**	**6,083**	**5,754**	**6,158**	**5,778**	**5,968**	**5,488**	**5,353**

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. From 2020 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)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Police	1,539	1,629	1,760	1,997	2,079	2,148	2,153	2,150	2,041	2,031
Ministry of Justice	479	502	542	591	642	684	663	654	653	652
Department of Corrections	1,145	1,301	1,417	1,527	1,641	1,665	1,717	1,702	1,707	1,707
NZ Customs Service	171	174	187	201	182	211	211	203	203	203
Other departments	121	132	111	163	178	203	184	178	178	177
Departmental expenses	**3,455**	**3,738**	**4,017**	**4,479**	**4,722**	**4,911**	**4,928**	**4,887**	**4,782**	**4,770**
Non-departmental outputs	397	445	457	419	477	617	616	607	606	604
Other expenses	30	1	151	13	3	9	9	1	..	..
Law and order expenses	**3,882**	**4,184**	**4,625**	**4,911**	**5,202**	**5,537**	**5,553**	**5,495**	**5,388**	**5,374**

Source: The Treasury

Table 5.10 – Transport and communication expenses

($millions)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
New Zealand Transport Agency	1,888	2,280	2,601	2,719	3,122	2,978	3,045	3,409	3,275	3,327
Departmental outputs	52	55	60	70	73	111	95	85	84	84
Other non-departmental expenses	168	177	158	145	169	267	176	149	161	115
Rail funding	3	3	3	3	13	404	478	530	4	4
Funding to support the Aviation and Transport Industry	..	..	..	78	570	556	..	..	..	..
Funding to support NZTA due to impact of COVID-19	..	..	..	..	322	127	..	..	..	..
Shovel Ready Project funding to Crown Infrastructure Partners	..	..	..	..	1,035	209	..	..	..	..
Other expenses[1]	65	44	67	164	352	182	21	20	21	20
Transport and communication expenses	**2,176**	**2,559**	**2,889**	**3,179**	**5,656**	**4,834**	**3,815**	**4,193**	**3,545**	**3,550**

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)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Departmental outputs	465	447	499	561	633	653	561	545	544	546
Employment initiatives	3	4	10	5	4	4	4	4	4	4
Non-departmental outputs[1,3]	1,085	1,155	1,328	1,614	1,976	1,830	1,619	1,627	1,482	1,527
KiwiSaver (includes HomeStart grant)[2]	743	897	951	893	916	977	1,026	1,074	1,123	1,171
Initial fair value write-down on the Small Business Cashflow Scheme loans	..	..	..	686	143	132	66	35	..	..
COVID-19 Resurgence Support Payments	..	..	..	..	200	3,157	..	..	..	..
Shovel Ready Funding to support energy projects	..	..	..	..	24	67	53	..	..	..
Shovel Ready Project Funding to support the regional projects	..	..	..	..	159	241	150	58	..	..
Worker Redeployment Package	..	..	..	19	50	11	..	..	..	..
Other expenses[4]	248	229	218	210	376	610	179	105	96	96
Economic and industrial services expenses	**2,544**	**2,732**	**3,006**	**3,988**	**4,481**	**7,682**	**3,658**	**3,448**	**3,249**	**3,344**

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. From 2020 other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.12 – Defence expenses

($millions)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
NZDF core expenses	2,084	2,172	2,286	2,418	2,531	2,628	2,608	2,693	2,745	2,749
Other expenses	62	79	109	81	133	169	148	173	149	150
Defence expenses	**2,146**	**2,251**	**2,395**	**2,499**	**2,664**	**2,797**	**2,756**	**2,866**	**2,894**	**2,899**

Source: The Treasury

Table 5.13 – Heritage, culture and recreation expenses

($millions)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Departmental outputs	282	302	305	326	379	452	352	348	360	360
Non-departmental outputs	512	503	538	627	884	827	684	660	629	642
Other expenses[1]	56	45	75	153	157	258	112	62	59	46
Heritage, culture and recreation expenses	**850**	**850**	**918**	**1,106**	**1,420**	**1,537**	**1,148**	**1,070**	**1,048**	**1,048**

1. The '2020 Actual' to the '2023 Forecast' for other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.14 – Primary services expenses

($millions)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Departmental expenses[1]	458	549	677	727	691	861	714	690	678	661
Non-departmental outputs	92	188	110	89	178	127	86	79	84	79
Other expenses[1,2]	94	70	173	145	146	207	139	88	86	84
Primary services expenses	**644**	**807**	**960**	**961**	**1,015**	**1,195**	**939**	**857**	**848**	**824**

1. The '2019 Actual' to the '2022 Forecast' for other expenses include costs associated with Mycoplasma bovis.
2. 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)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Housing subsidies	5	5	4	4	3	4	4	4	4	4
Community Services[1]	189	179	183	235	349	375	335	346	346	346
Departmental outputs	187	150	195	220	237	279	246	221	221	217
Other non-departmental expenses[2]	127	193	283	523	874	1,415	1,156	853	914	913
Shovel Ready Project Funding to support Housing projects	..	..	..	..	46	71	86	69	..	..
Housing Acceleration Fund	..	..	..	..	..	123	697	676	551	..
Water Infrastructure	..	..	..	..	267	262	..	..	..	..
Other expenses	31	25	62	33	37	143	88	88	133	25
Housing and community development expenses	**539**	**552**	**727**	**1,015**	**1,813**	**2,672**	**2,612**	**2,257**	**2,169**	**1,505**

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)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Emissions Trading Scheme	295	720	543	650	875	1,388	1,339	1,289	1,250	1,256
Departmental outputs	404	412	460	542	614	804	726	671	591	589
Non-departmental outputs	64	72	82	257	318	435	200	194	147	83
Clean car discount costs	..	..	..	..	..	116	104	76	37	22
Other expenses	108	34	34	36	99	33	16	13	13	13
Environmental protection expenses	**871**	**1,238**	**1,119**	**1,485**	**1,906**	**2,776**	**2,385**	**2,243**	**2,038**	**1,963**

Source: The Treasury

Table 5.17 – Finance costs

($millions)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Interest on financial liabilities	3,505	3,454	3,398	2,971	1,846	2,595	2,756	3,183	3,393	3,335
Interest unwind on provisions[1]	29	43	293	257	72	93	169	210	227	229
Finance costs expenses	**3,534**	**3,497**	**3,691**	**3,228**	**1,918**	**2,688**	**2,925**	**3,393**	**3,620**	**3,564**

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 105 to 108).

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 105 to 108.

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 2021/22 or 2022 will mean the year ended 30 June.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June years	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
$millions															
Revenue and expenses															
Core Crown tax revenue	55,081	58,651	61,563	66,636	70,445	75,644	80,224	86,468	85,102	97,983	102,561	113,753	120,131	127,287	134,457
Core Crown revenue	60,428	63,805	67,093	72,213	76,121	81,782	86,778	93,474	91,923	104,968	110,733	122,282	129,519	136,937	144,297
Core Crown expenses	68,939	69,962	71,174	72,363	73,929	76,339	80,576	86,959	108,832	107,764	128,028	120,202	124,759	128,474	133,606
Surpluses															
Total Crown OBEGAL	(9,240)	(4,414)	(2,802)	414	1,831	4,069	5,534	7,429	(23,057)	(4,560)	(20,844)	(831)	2,079	5,915	8,157
Total Crown operating balance	(14,897)	6,925	2,939	5,771	(5,369)	12,317	8,396	389	(30,040)	16,159	(23,826)	3,914	7,701	11,994	14,705
Cash position															
Core Crown residual cash	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)	(13,767)	(34,100)	(21,743)	(7,953)	14,514	12,538
Debt															
Gross debt[1]	79,635	77,984	81,956	86,125	86,928	87,141	88,053	84,449	102,257	102,435	113,973	122,298	131,059	139,889	138,372
Gross debt incl RB settlement cash and bank bills	84,168	84,286	88,468	93,156	93,283	92,620	95,437	90,930	124,145	131,256	161,569	182,674	189,478	174,757	162,060
Net core Crown debt (incl NZS Fund)[2]	33,475	34,428	34,174	30,862	32,102	23,619	19,460	14,060	36,532	41,523	72,411	88,689	90,229	68,887	49,435
Net core Crown debt[2]	50,671	55,835	59,931	60,631	61,880	59,480	57,495	57,736	83,375	102,080	136,305	157,891	165,498	150,639	137,930
Total borrowings	100,534	100,087	103,419	112,580	113,956	111,806	115,652	110,248	152,717	162,560	200,357	226,323	238,855	229,132	220,972
Net worth															
Total Crown net worth	59,780	70,011	80,697	98,236	95,521	116,472	135,637	143,339	115,943	157,193	132,830	136,832	144,797	157,042	171,965
Total net worth attributable to the Crown	59,348	68,071	75,486	86,454	89,366	110,532	129,644	136,949	110,320	151,469	127,282	131,417	139,325	151,504	166,358
Nominal expenditure GDP (revised actuals)	214,977	218,811	236,870	245,558	258,753	275,847	295,966	310,293	317,120	339,695	362,788	393,927	414,650	435,757	456,538
% GDP															
Revenue and expenses															
Core Crown tax revenue	25.6	26.8	26.0	27.1	27.2	27.4	27.1	27.9	26.8	28.8	28.3	28.9	29.0	29.2	29.5
Core Crown revenue	28.1	29.2	28.3	29.4	29.4	29.6	29.3	30.1	29.0	30.9	30.5	31.0	31.2	31.4	31.6
Core Crown expenses	32.1	32.0	30.0	29.5	28.6	27.7	27.2	28.0	34.3	31.7	35.3	30.5	30.1	29.5	29.3
Surpluses															
Total Crown OBEGAL	(4.3)	(2.0)	(1.2)	0.2	0.7	1.5	1.9	2.4	(7.3)	(1.3)	(5.7)	(0.2)	0.5	1.4	1.8
Total Crown operating balance	(6.9)	3.2	1.2	2.4	(2.1)	4.5	2.8	0.1	(9.5)	4.8	(6.6)	1.0	1.9	2.8	3.2
Cash position															
Core Crown residual cash	(5.0)	(2.6)	(1.7)	(0.7)	(0.5)	0.9	0.5	(0.2)	(7.5)	(4.1)	(9.4)	(5.5)	(1.9)	3.3	2.7
Debt															
Gross debt[1]	37.0	35.6	34.6	35.1	33.6	31.6	29.8	27.2	32.2	30.2	31.4	31.0	31.6	32.1	30.3
Gross debt incl RB settlement cash and bank bills	39.2	38.5	37.3	37.9	36.1	33.6	32.2	29.3	39.1	38.6	44.5	46.4	45.7	40.1	35.5
Net core Crown debt (incl NZS Fund)[2]	15.6	15.7	14.4	12.6	12.4	8.6	6.6	4.5	11.5	12.2	20.0	22.5	21.8	15.8	10.8
Net core Crown debt[2]	23.6	25.5	25.3	24.7	23.9	21.6	19.4	18.6	26.3	30.1	37.6	40.1	39.9	34.6	30.2
Total borrowings	46.8	45.7	43.7	45.8	44.0	40.5	39.1	35.5	48.2	47.9	55.2	57.5	57.6	52.6	48.4
Net worth															
Total Crown net worth	27.8	32.0	34.1	40.0	36.9	42.2	45.8	46.2	36.6	46.3	36.6	34.7	34.9	36.0	37.7
Total net worth attributable to the Crown	27.6	31.1	31.9	35.2	34.5	40.1	43.8	44.1	34.8	44.6	35.1	33.4	33.6	34.8	36.4

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

Economic Indicators

June Years Annual average % change	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Private consumption	3.4	2.5	3.6	3.5	4.8	6.4	4.6	4.2	-0.8	7.5	1.2	3.4	1.1	2.0	2.2
Public consumption	0.8	0.0	3.1	3.4	1.5	2.9	3.8	3.6	6.8	6.8	4.8	1.8	0.6	0.8	1.1
TOTAL CONSUMPTION	2.8	1.9	3.5	3.5	4.0	5.6	4.4	4.1	0.9	7.3	2.1	3.0	1.0	1.7	2.0
Residential investment	9.9	18.2	13.2	6.3	10.2	3.7	-0.1	3.7	-6.1	17.8	8.9	3.4	-2.1	-0.5	-1.1
Business investment	6.3	1.0	9.0	7.1	1.2	1.2	12.0	3.9	-4.5	4.5	2.9	9.8	4.0	2.6	2.1
TOTAL INVESTMENT	7.1	4.8	10.0	6.9	3.5	1.9	8.7	3.9	-4.9	7.8	4.5	8.0	2.4	1.8	1.3
Stock change (contribution to growth)	0.2	-0.3	0.5	0.0	-0.3	0.4	0.2	-0.5	-0.4	0.5	0.3	-0.3	0.0	0.0	0.0
GROSS NATIONAL EXPENDITURE	4.0	2.2	4.8	4.0	3.4	5.1	5.7	3.4	-1.0	7.9	3.1	4.2	1.3	1.7	1.8
Exports	2.1	3.0	0.3	6.4	6.2	1.1	3.9	3.4	-5.0	-11.4	2.1	7.1	6.3	5.0	4.2
Imports	4.4	2.6	9.0	6.9	1.5	6.7	8.4	2.3	-5.9	-4.2	12.2	4.9	3.0	2.7	2.5
EXPENDITURE ON GDP	3.3	2.4	2.4	4.0	4.6	3.6	4.6	3.7	-0.8	5.9	0.3	4.3	2.0	2.2	2.2
GDP (production measure)	2.7	2.3	2.8	4.1	3.8	3.5	3.7	2.9	-1.4	5.1	0.8	4.9	2.2	2.3	2.3
- annual % change	2.6	2.7	2.9	3.9	4.3	3.4	3.7	2.2	-10.2	17.4	1.6	2.4	2.2	2.3	2.3
Real GDP per capita	2.0	1.6	1.5	2.1	1.6	1.3	1.7	1.2	-3.3	3.8	0.1	4.1	1.2	1.2	1.1
Nominal GDP (expenditure basis)	4.5	1.8	8.3	3.7	5.4	6.6	7.3	4.8	2.2	7.1	6.8	8.6	5.3	5.1	4.8
GDP deflator	1.2	-0.6	5.7	-0.3	0.7	2.9	2.6	1.1	3.0	1.1	6.5	4.1	3.2	2.8	2.5
Output gap (% deviation, June year average)	-1.3	-1.6	-1.7	-0.8	-0.3	0.1	0.9	1.2	0.3	0.0	1.1	1.4	1.0	0.7	0.3
Employment	0.9	0.1	3.4	3.6	2.7	5.3	3.6	2.0	1.6	0.7	3.7	0.9	0.9	1.1	1.2
Unemployment (% June quarter s.a.)	6.4	6.0	5.3	5.5	5.1	4.8	4.6	4.0	4.1	4.0	3.2	3.3	3.6	3.8	4.1
Wages (average ordinary-time hourly, ann % change)	2.7	2.8	2.3	2.5	2.4	2.5	2.8	4.0	3.0	4.0	4.1	4.5	4.6	4.4	4.2
CPI inflation (ann % change)	1.0	0.7	1.6	0.4	0.4	1.7	1.5	1.7	1.5	3.3	5.1	3.1	2.7	2.4	2.2
Merchandise terms of trade (SNA basis)	-1.7	-3.8	16.4	-4.8	-2.7	5.0	4.6	-3.4	4.4	-0.2	0.5	0.4	-0.4	-0.4	-0.4
House prices (ann % change)	4.0	8.9	6.3	11.8	15.0	6.5	3.6	1.5	7.1	29.0	10.4	-0.2	-0.4	0.5	0.6
Current account balance - $billion	-7.8	-7.9	-5.9	-8.4	-5.4	-7.2	-10.2	-10.8	-4.7	-11.2	-20.9	-21.4	-20.1	-19.1	-18.5
Current account balance - % of GDP	-3.6	-3.6	-2.5	-3.4	-2.1	-2.6	-3.5	-3.5	-1.5	-3.3	-5.8	-5.4	-4.8	-4.4	-4.0
TWI (June quarter)	72.4	76.3	81.5	76.2	73.6	76.5	73.8	72.7	69.7	74.7	77.2	78.3	78.7	78.9	78.9
90-day bank bill rate (June quarter)	2.6	2.6	3.4	3.5	2.4	2.0	2.0	1.7	0.3	0.3	2.0	3.2	3.1	3.1	3.1
10-year bond rate (June quarter)	3.7	3.5	4.4	3.6	2.7	2.9	2.8	1.8	0.8	1.7	2.6	2.9	3.2	3.4	3.4

Data for 2022 and subsequently are forecasts. Data for 2021 and prior years are those that were available when the forecasts were finalised.